FAMILY OWNERSHIP AND M&AS: A SYSTEMATIC REVIEW OF THE LAST TWO DECADES

Ilaria Galavotti *

* Department of Economic and Social Sciences, Università Cattolica del Sacro Cuore, Piacenza, Italy

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Abstract

Strategic decision-making in family firms tends to prioritize the maintenance of family control and long-term investments relative to short-term opportunities. At the same time, however, family firms usually demonstrate a low appetite for risk. In view of its multifaceted and contradictory value as a means for corporate growth and as a driver of corporate risk, mergers and acquisitions (M&As) have been at the core of multiple scholarly conversations on family firms. This study offers a systematic literature review of the last two decades of academic studies on M&As in the context of family firms.

1. INTRODUCTION

The peculiar characteristics of family firms in terms of socio-emotional wealth preservation and maintenance of family control (Worek, De Massis, Wright, & Veider, 2018) have implications on corporate expansion decisions such as mergers and acquisitions. Extensive academic contributions have been produced on acquisition choices and performance in family firms, with a resulting fragmentation of extant literature. This research, therefore, aims at systematizing our knowledge on corporate acquisitions by family firms.

ABI/Inform Complete and Science Direct/Scopus were used as sources for the selection of articles. Articles were selected based on
the following keywords in either the title or the abstract: “family business”, “family firm”, “family own*” and “family enterprise”, combined with “M&A”, “acquisition”, “merger and acquisition”. Only journal papers were selected, thus excluding books, book chapters, and conference papers. Articles for which the full text was not available were excluded. By carefully scrutinizing the abstracts, a final sample of 30 journal papers published in the 2000–2021 period was analyzed.

2. THEMATIC ANALYSIS

In terms of acquisition propensity, empirical findings seem to agree that family businesses are less likely to engage in M&A activity compared to non-family firms, mainly for their different growth preferences (Caprio, Croci, & Del Giudice, 2011). Results on the role played by family ownership on M&A performance are contradictory and range from positive (André, Ben-Amar, & Saadi, 2014; Basu, Dimitrova, & Paeglis, 2009), negative (Gleason, Pennathur, & Wiggenhorn, 2014; Bauguess & Stagemoller, 2008), and non-significant effects (Miller, Le Breton-Miller, & Lester, 2010). In terms of theoretical frameworks, the selected studies base their analysis on four main theories, namely agency theory, stewardship theory, resource-based view, and socio-emotional wealth.

Regarding the analytical approach, the majority of the studies (86%) use a quantitative method, while only few studies employ a qualitative methodology, based on the analysis of single case studies (Mickelson & Worly, 2003). Finally, one paper is of conceptual nature (Lind & Lattuch, 2021).

3. AVENUES FOR FUTURE RESEARCH AND CONCLUDING REMARKS

This systematic review highlights several research lines that may be examined in the future to further contribute to the ongoing conversations on M&A in family firms. Specifically, three main research avenues may be identified.

First, while most literature has taken a comparative perspective that confronts family vs. non-family firms (Anderson & Reeb, 2003), an increasing interest is emerging on the heterogeneity of family firms (Schmid, Ampenberger, Kaserer, & Achleitner, 2015), as a number of contingency factors may drive the family’s risk preferences. Second, with a huge volume of contributions being of quantitative nature, more qualitative research is needed to offer an in-depth analysis of soft aspects involved in acquisition decision-making and the acquisition process.

The role played by the involvement of family owners in the business seems particularly elusive: family owners tend to favor more conservative strategies to limit the risk of firm failure; however, family owners may also be willing to exploit entrepreneurial opportunities and embark on riskier projects to increase the firm’s value and competitive advantage (Nguyen, 2011). Thus, future studies may explore the role
played by family involvement in determining the firm’s risk propensity. As the legal environment is an important factor affecting shareholders’ protection and, consequently, both investment decisions and performance, more studies are needed on the role played by the legal system of the country (André et al., 2014).

Overall, this review offers some preliminary efforts in terms of systematizing our knowledge on M&A decisions in the specific context of family firms.

**Table 1. Overview of some representative empirical studies (Part 1)**

| Study                          | Thematic focus                        | Sample                                                                 | Main findings                                                                                      |
|-------------------------------|---------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| Bauguess and Stegemoller (2008) | Acquisition performance and propensity | 4266 firm-year observations of S&P 500 firms between 1994 and 2005   | Family firms destroy value when they acquire. However, firms with large boards and more insiders are more likely to acquire and create value. |
| Basu et al. (2009)            | Acquisition performance               | 103 acquirers and 118 targets between 1993–2000                     | Acquirers with low levels of family ownership get lower returns than those with high levels of ownership. |
| Miller et al. (2010)          | Acquisition performance and propensity | Fortune 1000 firms between 1996–2000                                | Family ownership is negatively associated with the number of acquisitions. The propensity to make diversifying acquisitions increases with the level of family ownership. |
| Caprio et al. (2011)          | Acquisition performance and propensity | 777 large Continental European companies in the period 1998–2008     | Family ownership is negatively associated with the likelihood of executing acquisitions, especially when the stake held by the family is not large enough to ensure the persistence of family control. No evidence has been found on the effect of the acquisition on the performance of the family firms. |
| André et al. (2014)           | Acquisition performance               | 215 by Canadian high-tech companies between 1997–2006               | There is a positive relationship between family ownership and abnormal returns around the announcement. Founder CEO undertake better high-tech acquisitions than descendant or hired CEOs. |
| Pazzaglia, Mengoli, and Sapienza (2013) | Acquisition performance | 1,254 observations over the period 1995 to 2008 | Firms acquired by families through market transactions have lower earnings quality due to lower identification of family owners relative to firms still owned by the founding families. |
| La Rosa, Bernini, and Mariani (2018) | Acquisition propensity     | 41 Italian listed companies during 2005–2011                       | Listed family firms have lower acquisition propensity than non-family firms because of family involvement in ownership and executive committees. Diversifying strategies are less pursued by family firms, and this is underpinned when family ownership increases. |
| Study                               | Thematic focus | Sample                                      | Main findings                                                                                                                                 |
|-------------------------------------|----------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Gleason et al. (2014)               | Acquisition performance | 307 acquisitions of family-owned firms over the period 1984–2000 | Acquiring companies’ returns are negatively affected by acquisitions of public family firms.                                                   |
| Gomez-Mejia, Patel, and Zellweger (2018) | Acquisition propensity | 8,485 firm-year observations by 692 firms between 1997 and 2011 | Family firms are less likely to acquire and when they do so, they prefer related targets.                                                   |
| Aktas, Centineo, and Croci (2016)   | Acquisition propensity | 10,031 European firms making acquisitions in the 1990–2013 period | Family firms with high leverage make more cross-industry acquisitions. Family firms that prioritize control tend not to diversify at the expense of minority shareholders. |
| De Cesari, Gonenc, and Ozkan (2016) | Acquisition propensity | 3,219 firm-year observations over the period 2001–2008 | There is a positive relationship between acquisitions and the CEO’s compensation in non-family firms relative to family firms.             |
| Defrancq, Huyghebaert, and Luypaert (2016) | Acquisition propensity | 3,485 in Continental Europe announced in the period 2005–2013 | Family-controlled acquirers are less likely to pursue industry-diversifying acquisitions.                                                      |
| Adhikari and Sutton (2016)          | Acquisition performance | 213 acquisitions in the period 1993–2006 | Post-merger performance of family firms is significantly better than that of non-family firms. Family firms have not been found to lose value in diversified acquisitions. |
| Bettinazzi, Miller, Amore, and Corbetta (2018) | Acquisition propensity | 172 deals by Italian firms between 2002–2012 | When executing M&As, family firms tend to choose another family-controlled company, thus a firm with similar characteristics.          |
| Ossorio (2019)                      | Acquisition propensity | 270 acquisitions by European family and nonfamily firms in the period 2015–2017 | Family firms are less likely to make cross-border acquisitions than non-family firms. In order to pursue external growth strategies, family firms need to hire external managers that are more economically driven than family managers. |
| Schierstedt, Henn, and Lutz (2020)  | Acquisition propensity | 404 acquisitions made by 211 German family firms between 2010 and 2016 | Family ownership positively impacts the likelihood of diversified acquisitions, but this relationship is weaker in firms with high involvement of family in the management. This effect tends to decrease with the generational transfer through the years. |
| Issah (2021)                        | Acquisition performance | 4,130 observations from 203 firms in the period 1980–2010 | Family firms are better able to utilize acquired resources than non-family firms. Targets acquired during the recovery of a merger wave are more valuable to family firms and associated with more innovation. |
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