# Family businesses and generational involvement: evidence from cross-border M&As

*Received*
18th February 2019
*Revised*
2nd April 2019
*Accepted*
21st June 2019

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**Abstract**

***Purpose of the paper****: Using the socioemotional wealth perspective, this work aims to investigate the family firms' propensity to join cross-border transactions as acquirers.*

***Methodology****: This work uses the logit regression on a sample of 270 acquisitions whose acquiring firms are represented by family and non-family listed European firms.*

***Findings****: This study finds 1) that family shareholders negatively influence the propensity to make a cross-border acquisition, 2) a positive relationship between later generations and family firms' likelihood of joining a cross-border transaction as an acquirer, 3) family CEO negatively moderates the relationship sub 2).*

***Research limits:*** *The limitations are: 1) the period analysed (2015-2017), which restricts the possibility of seizing a greater number of transactions, and 2) the sample of only some European acquiring firms, that restricts the possibility of generalizing results to other countries.*

***Practical implications:*** *This study suggests that the first generations at the helm of a family firms may need external managers and directors in order to implement strategies of international growth via M&A transactions.*

***Originality of the paper:*** *This study extends previous literature by exploring the effect of the presence of a family acquirer on the likelihood of making a cross-border transaction and takes into account the roles of generational stage and family leadership.*

*Key words: Mergers and acquisitions; Family business; Socioemotional wealth; Generational stage; Family CEO*

## 1. Introduction

Although M&As represent a vastly explored theme in the management literature, scholars have paid scant attention to family firms involved in these transactions. Nevertheless, growth is crucial for continuity and transgenerational wealth creation (Stenholm *et al.*, 2016) and M&As represent one of the main strategies of external growth. In any case, over the last years, an emerging stream of literature has shed light on some aspects of family business M&As. More specifically, scholars have investigated the effects of family ownership on the likelihood of a family firm to make an M&A (Miller *et al.*, 2010), on the acquiring family firm's choice of means of payment (Caprio *et al.*, 2011), and on the reaction of the financial market at the announcement of a family business' M&A (Feito-

Ruiz and Menéndez-Requejo, 2010). Scholars have also explored the effect of family ownership on the industry-diversifying nature of acquisitions (Defrancq *et al.*, 2016), emphasizing that factors such as leverage (Aktas *et al.*, 2016) and historical performance (Gómez-Mejía *et al.*, 2015) might moderate the aforementioned effect. Family ownership also significantly affects the acquiring shareholder's returns (Ben-Amar and André, 2006). Nevertheless, cross-border M&As undertaken by family firms, which occur when a family firm acquires a firm located in a foreign country, represent an issue not yet investigated. This theme is very interesting because cross-border M&As represent an important strategy of growth for firms, especially when the domestic market is deteriorating or languishing.

To the best of our knowledge, this is the first time that a study has investigated the propensity of an acquiring family firm to make a cross-border acquisition, taking into account the family firm's generational stage.

This theme needs to be explored for several reasons. First, cross-border M&As represent relevant international growth opportunities - particularly valuable when the domestic market faces a decreasing demand - which may favour a family firm's longevity. Second, family firms may suffer from untalented staff that hinders their entry into foreign markets (Fernandez and Nieto, 2005), and cross-border M&As allow them to access complementary resources, essential to international growth, such as superior managerial and marketing skills (Chen, 2008; Nicholson and Salaber, 2013), distribution system, and potential clients (Chen and Findlay, 2003). Besides, in a time of fast changes, where the speed of growth is crucial to compete, M&As strategies permit family firms to expand more quickly than internal and organic growth (Belderbos, 2003; Gaughan, 2011).

The aim of this work is to analyze whether the presence of a family shareholder influences the acquiring firm's likelihood of making a cross-border transaction. Furthermore, the paper investigates whether the likelihood of a family acquirer to make a cross-border acquisition is influenced by the generation that controls the family firm. In fact, different generations of shareholders may show distinct interests, management approaches, and objectives (Okorafo, 1999). Lastly, the work explores the moderating effect of a family CEO on the relationship between generational stage and the acquiring family firms' propensity to make a cross-border acquisition.

The present study analyzes a sample of 270 acquisitions in the period 2015-2017 whose acquirers are constituted by family and non-family listed European firms. The main results indicate that the presence of a family block-holder negatively influences the propensity to make a cross-border acquisition, while later generations positively affect the propensity above mentioned. Lastly, the presence of a family member as CEO negatively influences the relationship between generational stage and propensity to make an acquisition.

The paper contributes to literature in several ways. First, it fills a gap by exploring the international-diversifying nature of the acquisition made by family firms, hence extending the literature on family business M&As, which mostly investigates the family ownership effect on the number or value of acquisitions made by the acquiring firm (Miller *et al.*, 2010), on the industry-diversifying nature of the transaction (Gómez-Mejía *et al.*, 2015), and on the shareholder wealth creation (Feito-Ruiz and Menéndez-Requejo, 2010). In addition, the study provides further evidence regarding the internationalization strategies of family firms, by examining a mode of entry into foreign countries differently from the export activity and foreign direct investment (FDI), thus widening literature on family business expansion strategies into foreign markets (Calabrò and Mussolino, 2013; Calabrò *et al.*, 2013; Graves and Thomas, 2008). Furthermore, the study integrates the family business literature with the socioemotional wealth (henceforth, SEW) view, and incorporates family members' risk preferences into the framework. Therefore, this work permits to explore the topic of family firms M&As using non-financial arguments, complementing the results found in the previous studies. Finally, the study suggests that, in order to fully understand the external strategies of family firms, the generational involvement should be considered, extending the studies on generational involvement effect.

The present work is structured as follows. The next section examines a literature review on family business M&As to point out gaps in extant research. The second section contains the development of the hypotheses about the influence of the presence of an acquiring family shareholder and of later generations on the propensity to make a cross-border acquisition. Furthermore, the moderating effect of a family CEO is investigated. The third section illustrates the sample and the treatment of the variables. The fourth section illustrates and discusses the results of the empirical analysis. The last section contains the study's concluding comments.

## 2. Literature review on M&As and family business

Over the years, studies have investigated several topics concerning family business M&As, such as family firms' acquisition behaviors, the industry-diversifying nature of these transactions, and acquiring firms' return announcements. In terms of the acquisition behavior issue, one of the most explored arguments is the likelihood of family firms to make an acquisition. This topic has generally been analyzed using the agency theory and the family business theory. In the seminal works (Amihud and Lev, 1981; Berger and Ofek, 1995), scholars used the agency view to interpret the family firms' strategic behaviour on the M&A decisions. More specifically, in the agency framework, M&As are considered a means through which self-interested managers of public companies obtain private benefits at the expense of shareholders (Berger and Ofek, 1995). M&As may also be undertaken to lower the risk associated to the managers' human and financial capital held in the firms (Wright *et al.*, 2002). Under these conditions, M&A transactions may represent the means to pursue managerial objectives, rather than those of the owners.

Family owners may reduce information asymmetry between themselves and their managers and minimize the free rider problem concerning the atomistic investors because of their strict connection between family's wealth and firm's welfare (Amihud and Lev, 1981; Anderson and Reeb, 2003). They represent large shareholders and, therefore, possess both the incentive and the power to limit M&As aimed to pursue managerial objectives (Morck *et al.*, 1990). The family business literature adds a more specific argument characterizing the family business M&As: it is not the ownership concentration itself that affects family firms' acquisition behaviors, but rather *who the owners and their priorities and preferences are* (Miller *et al.*, 2010). Family members are careful to perpetuate the family dynasty and, therefore, ensure that the business is transferred on to the future generations (Palmer *et al.* 1987; Casson, 1999). Accordingly, they adopt strategies of "continuity" that favor the development of capability or loyalty in a certain market and tend to rule out acquisitions with the potential to undermine (Miller and Le Breton-Miller, 2005; Miller *et al.*, 2009). Consistently with these arguments, scholars found a negative relationship between family ownership and both the volume and the value of the acquisitions (Miller *et al.*, 2010). In any case, when performance falls under aspiration level, the negative relationship between family ownership and the likelihood of acquisition is weakened, because the threat of financial deterioration stimulates family firms principals to undertake an acquisition in order to reverse a hazardous situation (Gómez-Mejía *et al.*, 2015).

These results are partly confirmed by Caprio *et al.* (2011) in a sample of acquisitions made by 777 large continental European companies in the period 1998-2008. In particular, the authors identify a negative relationship between family ownership and the number and value of acquisitions when family ownership is lower than 20%. When family ownership lies between 20% and 50%, it is negatively related only to the acquisition value and not to the acquisition volume.

The negative effect of family ownership on the likelihood of acquisition is also explained by the family firms' unique features, such as their risk-aversion (Graves and Thomas, 2006) and attention to stability and survival (Lee, 2006). As a consequence, family firms may avoid risky investments that could compromise their status quo and the family's welfare (Schulze *et al.*, 2001). M&As actually entail risky post-acquisition performance that may jeopardize the firm's viability (Wu *et al.*, 2005).

Another relevant stream of research investigated is represented by the studies on the industry-diversifying nature of family firms' M&A strategies (Miller *et al.*, 2010; Gómez-Mejía *et al.*, 2010; 2015; Defrancq *et al.*, 2016). Miller *et al.* (2010) find a negative effect of family ownership on the fraction of acquisitions made within the firm's core industry. The authors point out that this result is consistent with the portfolio theory literature: while single investors may reduce their portfolio risk through the diversification of their investment, family members invest their wealth on the family business in order not to dilute their control position (James, 2006; Landes, 2006; Ward, 2004). In order to reduce their investment portfolio risk, family members diversify the business itself (Miller *et al.*, 2010). Accordingly, if family firms decide to make an acquisition, they choose to direct the transaction outside their firm's core industry. This result is to some extent confirmed by the study of Defrancq *et al.* (2016).

By all means, the authors find that family firms are less inclined to make an unrelated acquisition than lone founders and other types of non-family firms. In any case, when family ownership rises up, family firms are more prone to make industry-diversifying M&As.

The attitude of family firms towards diversifying M&As is also investigated by the study of Aktas *et al.* (2016). Their work highlights that family firms are less prone to making diversifying acquisitions and that family firms with a high degree of leverage are more inclined to make cross-industry diversifying deals. This result is interpreted as the attempt of family owners to finance diversifying acquisitions through debt or cash in order to avoid the issue of new stock that increases the risk of them losing control in the future (Harris and Raviv, 1988; Stulz, 1988).

Gómez-Mejía *et al.* (2015) point out that family ownership positively affects the propensity to make related acquisitions and that family members are less prone to undertaking related diversification when family firm shows declining ROA. The authors interpret this behaviour as the family members' willingness to make unrelated acquisitions in order to take advantages of the benefits connected to this kind of transaction, such as a reduced portfolio risk, when the acquiring family firms' economic performance is declining.

However, to the best of our knowledge, scholars have not yet analysed the M&As strategies that family firms adopt to expand into foreign countries, such as cross-border M&As. This study attempts to fill this research gap.

## 3. Hypotheses development

The framework used in this work to shed light on the effect of family ownership and generational stage on the family firms' likelihood of undertaking a cross-border M&A is the socioemotional wealth. Socioemotional wealth refers to *the family owner's stock of affect vested in the firm* (Gómez-Mejía *et al.*, 2007) and represents a reference point that suggests to family firms if a managerial choice is good or bad. The family members' control over strategic decisions, their identification with the firm, their social ties within and beyond the firm, their emotional attachment to the firm, and their sense of dynasty, represent the five main dimensions of SEW (Berrone *et al.*, 2012). According to Gómez-Mejía (2007): "*for family firms a key criterion, or at least one that has greater priority, is whether their socioemotional endowment will be preserved*". The preservation of this wealth constitutes an end in itself and it is connected at a deep psychological level among family owners whose identity is inseparably linked to the organization.

When family businesses' M&As are analyzed under the SEW perspective, it is useful to consider the risks connected to an M&A transaction. More specifically, the post-M&A integration is the major challenge faced by most acquiring and target top managers (Shimizu *et al.*, 2004), overall in cross-border M&As because the high degree of cultural distance may jeopardize the success of the transaction (Brouthers and Brouthers, 2000).

Accordingly, the risk of unsuccessful integration is higher in cross-border acquisitions than domestic acquisitions because they entail double-layered acculturation (Barkema *et al.*, 1996), whereby the differences in national cultures add to the differences in organizational cultures.

It is even more relevant in the family firms' context because family business cultures incorporate both family values and the ethnic heritage of the family (Pistrui *et al.*, 2001), while regional cultures and historical experiences shape the family business culture (Davis *et al.*, 2000). In addition, national and regional traditions produce a unique influence on key family business processes (Sharma and Rao, 2000; Howorth and Ali, 2001; Zahra *et al.*, 2004).

The difference between the organizational cultures of the two firms joining an M&A may produce administrative conflicts following the transaction (Sales and Mirvis, 1984) and a sense of aversion in the post-acquisition phases (Buono *et al.*, 1985).

From a SEW perspective, when a family firm joins an M&A, conflicts between the two organizations participating in the transaction could jeopardize the family image and reputation (Sharma and Manikuti, 2005). Because of the strong identification between family and firm (Berrone *et al.*, 2010, 2012), conflicts between acquiring and target members may be emotionally ruining for family members. Family members actually pay more attention to the image they transfer to both external and internal stakeholders (Micelotta and Raynard, 2011). A high level of conflict in the post-M&A integration phase may undermine the sense of pride and "*the preservation of the family's good name for future generations*" (Ket de Vries, 1993), generating a loss of non-economic endowment.

The difficulties of post-M&A integration could be exacerbated by the strong sense of identity of family and non-family employees of the family business. Certainly, kinship ties generate a closed network (Cruz and Nordqvist, 2012), relational trust (Coleman, 1990), and feelings of closeness (Uzzi, 1997). The family firm's sense of belonging is also often perceived by non-family employees, generating a sense of stability (Miller and Le Breton-Miller, 2005; Berrone *et al.*, 2012). Moreover, applicants of family firms are selected depending on whether they are deemed to share the family's values and culture (Cruz *et al.*, 2010), which may be different from the other firm joining an M&A transaction, making the post-M&A integration even more difficult.

The potential risk of a failed transaction, which may jeopardize the family business' survival, can be considered a main disincentive for family firms that are inclined to expand into foreign markets through external growth strategies, such as M&As (Gomez-Mejia *et al.*, 2015). Family members strongly recognize themselves with their business (Dyer and Whetten, 2006), and derive a sense of self and identity from it (Kepner, 1983). For family owners, the firm constitutes an essential part of their lives, whereas for non-family shareholders the bind is more transitory, superficial and opportunistic (Lubatkin *et al.*, 2005). Accordingly, unsuccessful acquisition may generate a loss of socioemotional wealth, which the family wants to avoid.

Lastly, family members are deeply embedded in their communities and build enduring relationships with a wide set of constituencies (Miller *et al.*, 2009; Berrone *et al.*, 2010, 2012) in order to generate social capital and reserves of goodwill (Carney, 2005). In addition, these relationships represent a form of social insurance, which preserve the firm's assets in times of crisis (Godfrey, 2005), with the effect that if damage emerges, constituencies are more inclined to offer the firm the benefit of the doubt (Gómez-Mejía *et al.*, 2011). Cross-border acquisitions necessitate that pre-existing social ties become less relevant because new relationships with unfamiliar and foreign stakeholders, such as distributors and clients, have to be guaranteed (Hitt *et al.*, 2001; Gomez-Mejia *et al.*, 2015), producing, therefore, a loss in terms of socioemotional endowment.

According to the above discussion, the following hypothesis is proposed:

*HP1: Acquiring family firms are less likely to make a cross-border acquisition than their acquiring non-family counterparts*

Each generation of leadership may identify new strategic directions basing on underlying, long-held competencies developed for earlier strategies (Ward, 1998). In addition, members of different generations show differences concerning both the stage of development of their firms and their capabilities to affect the firm's strategic orientation (Greiner, 1972; Cruz and Nordqvist, 2012).

Within the literature regarding internationalization strategies, Fernandez and Nieto (2005) point out that the second generation affects positively the likelihood of exporting, while the first exerts a negative influence. Entrepreneurship studies emphasize that the generational stage influences the relationship between internal and external factors and entrepreneurial orientation (Cruz and Norqvist, 2012). More recently, Muñoz-Bullón *et al.* (2017) highlight that the later generations will diversify the business more than the first-generation ones.

From a SEW perspective, the emotional attachment to the business may depend on the generational stage. More specifically, as the firm moves beyond the first generation, emotional endowment becomes less relevant relative to financial objectives. Indeed, as later generations become more involved in the family firm, the degree of family identification, control and personal investment in the business varies (Gersick *et al.*, 1997; Aronoff and Ward, 1994). Particularly, the emerging family branches lead to the surfacing of goals and priorities intrinsic to the distinct branches, entailing diluted family bonds (Gersick *et al.*, 1997; Ensley and Pearson, 2005). This means that family principals feel themselves as family nurturers of their own branch, reducing the centrality of family identity as one of the main dimensions of socioemotional wealth (Sciascia *et al.*, 2014; Drago *et al.*, 2018).

The de-emphasis of SEW priorities across subsequent generations produces several implications on the acquiring family firms' likelihood of making a cross-border transaction. First, at the earlier stages, family members tend to have a strong emotional attachment to the firm and, therefore, pose much relevance to the control over strategic decisions (Berrone *et al.*, 2012; Bacci *et al.*, 2018). Accordingly, it is expected that first generation family members are less prone to recruit external managers and experts because of family fear to dilute its control over firm. The lower control over the firm's strategic decision would represent a socioemotional wealth loss. Nevertheless, the lack of managerial skills represents an obstacle to the adoption of external growth strategies, such as cross-border M&As, that require professional managers in order to handle effectively these complex transactions (Gómez-Mejía *et al.*, 2015). As the generational stage increases, SEW preservation becomes less central compared to financial priorities.

Therefore, later generations are expected to attribute less importance to the loss of control following the recruitment of non-family external managers and to prefer expanding the business they have inherited (Cruz and Nordqvist, 2012). In fact, growth strategies enable family members to preserve the long-term survival of the healthy business and to transfer it to the future generations (Handler, 1992; Gómez-Mejía *et al.*, 2011; Muñoz-Bullón *et al.*, 2017). Under these conditions, external human resources may confer new skills, capabilities and know-how needed to face complex transactions and allow the family to adopt M&As strategies, achieve the business growth and to move beyond the legacy of the past generation.

In addition, the identification between family and business (Dyer and Whetten, 2006) is very strong for earlier generations and becomes less strong for the later ones. From a SEW perspective, for the former, the potential failure of the M&A transaction would generate both a financial and an emotional loss, because the negative event would also jeopardize the reputation, the image and the identity of the family (Kepner, 1983), entailing a socioemotional wealth loss.

As the generational stage increases, the potential risk of a failed transaction continues to generate negative effects on financial wealth but would influence to a lesser extent the emotional endowment. The reduced emphasis on non-financial wealth - at the later generations - would stimulate family members to adopt risky transactions, such as M&A strategies. Furthermore, when the generational stage increases, ownership dispersion increases and family members have a diversified portfolio and therefore they are more inclined to bear risk (Schulze *et al.*, 2003).

The generational involvement influences the family firms' propensity to make an acquisition also for a further reason. Second and subsequent generations are considered to be more qualified, to possess more information and to be better prepared to face international context (Fernandez and Nieto, 2005; Sonfield and Lussier, 2004). They are more likely to adopt a professional style of management, that entails the inclusion, and sometimes the predominance, of non-family managers in the firm (McConaughy and Phillips, 1999). These factors favour the choice to undertake cross-border M&As.

According to the above discussion, the following hypothesis is proposed:

*HP2: Later generations will be more likely to make a cross-border acquisition than earlier generations*

The presence of a family member at the helm of the family firm Top Management Team (TMT) produces a strong family firm identity (Cirillo *et al.*, 2017; Gersick *et al.*, 1999; Zellweger *et al.*, 2010). The strong identification with organization in family firms is strengthened by kinship, a shared family name, common history, and familiarity (Sundaramurthy and Kreiner, 2008).

The family's personification with the business makes family members more aware of the fact that their actions produce relevant repercussions on the family's image and reputation (Binz *et al.*, 2013; Drago *et al.*, 2018).

Besides, family members tend to consider the family firm as an extension of themselves and, therefore, they make the effort to sustain a positive organizational identity (Dyer, 2006). The overlap between family and organization provides family members with a strong incentive to project a positive image to internal and external stakeholders (Craig *et al.*, 2008; Micelotta and Raynard, 2011), trying not to adopt actions that could harm the family's reputation (Dyer and Whetten, 2006).

These arguments entail that firms with a family member as a CEO would avoid risky strategies that may damage their image and reputation.

In addition, a family CEO is likely to pursue SEW objectives *by perpetuating the family dynasty, ensuring that the business is handed down to future generations* (Naldi *et al.*, 2013).

Family owners do not actually consider family businesses akin to any other financial investment, but rather as an asset that can be transferred to future generations (Casson, 1999; Berrone *et al.*, 2012). This objective may lead to nominate family members into managerial positions, instead of more qualified external candidates (Cruz and Nordqvist, 2012). As a result, family firms may suffer from their use of unqualified staff (Fernandez and Nieto, 2006), that does not possess international experience to effectively leverage firm-specific assets and to adopt successful strategies of international growth (Graves and Thomas, 2006; Chen *et al.*, 2014).

Therefore, the presence of a family member as a CEO will make relevant affective endowment and place more emphasis on the SEW preservation objective (Naldi *et al.*, 2013), discouraging strategies potentially undermining the family firm's image and survival, such as cross-border M&As.

*HP3: The relationship between generational stage and the propensity to make a cross-border acquisition is negatively moderated by the family CEO*

Figure 1 sums up the key hypotheses.

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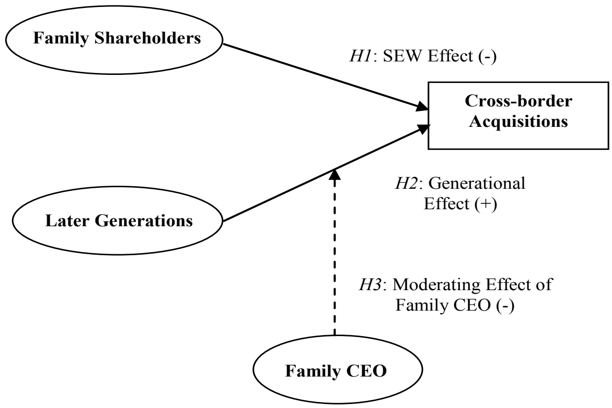
italian journal of management
Vol. 38, Issue 1, 2020

*Fig. 1: Summary of hypotheses*




Source: Questo schema è stato elaborato dall'autore

## 4. Method

### *4.1 Sample*

The full sample for this study consisted of acquisitions made by family and non-family listed European companies in the period 2015-2017. The choice of these three years is dictated by the necessity to identify a period out of the financial crisis in which the market for corporate control was active. From the initial sample, firms operating in financial sectors and transactions, whose information was not available, were excluded. The final sample is composed of 270 acquisitions. Out of these transactions, 3 acquiring firms were domiciled (based) in Austria, 6 in Belgium, 8 in Denmark, 7 in Finland, 54 in France, 17 in Germany, 67 in Italy, 5 in Luxembourg, 11 in the Netherlands, 16 in Norway, 4 in Portugal, 31 in Spain, 22 in Sweden and 19 in Switzerland. Seventy-four acquisitions were undertaken in 2015, 102 in 2016 and 94 in 2017. The sample represents the universe of M&As made by European acquiring firms. The sample does not contain UK acquiring firms because the ownership structure and governance mechanisms in the Anglo-Saxon capitalism are different from the non-UK European capitalism.

This study also uses a sub-sample that is represented by the acquisitions whose acquiring firm is a family firm. Starting from the full sample and eliminating non-family firms, the sub-sample consisted of 98 acquisitions.

The accounting data (including leverage and size) and market-to-book asset ratio are extracted from the Datastream Thomson Reuters Database. Datastream is a global financial and macroeconomic data platform providing data on equities, stock market indices, currencies, company fundamentals, fixed income securities and key economic indicators for 175 countries and 60 markets. It provides current and historical financial information on firms representing over 99% of the global market capitalization

Data on acquisitions, firms' ownership and age, and boards of directors are drawn from the Eikon Thomson Reuters Database. Eikon Database provides information on deals, company events, ownership structure, private equity, corporate governance and board connections.

### *4.2 Variables and their treatment*

The dependent variable of logit regressions is the *Cross-border acquisition,* a binary variable that takes the value one if a company acquires a target that is based in a foreign country, and zero if the acquiring target is based in the same country as the target firm.

The independent variable *Family firm* is a dummy variable that equals one if the firm is considered family, and 0 otherwise. In order to identify a family firm, two criteria were used: the family ownership and the presence of family members on the board of directors (Prencipe *et al.*, 2014). We identify a family firm when the two criteria are simultaneously satisfied. Following previous studies on the European listed firms (Caprio *et al.*, 2011; Andres, 2008; Sraer and Thesmar, 2007), the first criterion is satisfied when one or more members of the family hold at least 20% of the voting rights. The second one is satisfied when one or more members of the family are involved in the board of directors. The independent variable *Family ownership* represents the number of shares held by a family divided by the total shares outstanding. The numerator is obtained from the sum of family personal ownership and family listed and unlisted business shareholding. The independent variable *Generational stage* was measured as the generation owning and managing the business, namely, the first generation, the second generation, the third generation and so on.

The moderating variable *Family CEO* was a dummy variable that equals one if the CEO was a family member (linked through blood or marriage), and 0 otherwise.

A series of control variables has been included to control the effect of family ownership on the likelihood of making a cross-border M&A. *Leverage* is represented by the ratio of the book value of debt to total assets and has two alternative effects on the likelihood of acquiring. Leverage can increase the propensity to make an acquisition by encouraging firms to undertake risky investments, while, on the other hand, an excessive debt level may limit the propensity to be a bidder by exhausting new debt-issuing capacity (Caprio *et al.*, 2011). Size is measured by the natural logarithm of annual net sales and increases the potential acquisition magnitude. *Market-to-book asset ratio* represents the ratio of the company's closing price to its book value per share. Managers of acquirers with a high market-to-book asset ratio are more likely to be affected by hubris (Roll, 1986) and may be encouraged to expand into foreign markets. *Intangibles* is a variable calculated as the ratio of intangible assets - excluding goodwill - divided to total assets and is expected to capture the presence and size of intangible assets in the acquiring firm that may be combined with the assets of the target firm. The acquisition of firms operating in foreign markets allows the acquiring firms to distribute the fixed costs of innovation among an increasing number of outputs (Rogers, 2004). ROA is represented by

EBITDA over total assets. Firms with a high ROA are more profitable and produce more cash flows that may be employed to undertake acquisitions.

## 5. Results and discussion

Table 1 shows the descriptive statistics and Pearson correlations. On average, cross-border M&As represent 55% of the entire sample and 35% of family firms.

Table 2 contains the results of the logit regression analysis. Model 1 represents the regression model to test hypothesis 1, therefore, to test whether acquiring family firms are less likely to make a cross-border acquisition than acquiring non-family firms. The regression results demonstrate that the variable *Family firm* is negative and significant ($b = -0.63$; $p < 0.05$). Therefore, the result supports hypothesis 1, which proposes that acquiring family firms negatively influence the likelihood of making a cross-border acquisition. Model 1 also reports a statistically significant association between the propensity of cross-border acquisition and some control variables. As predicted Size ($b = 0.22$; $p < 0.01$) positively affects the dependent variable because it represents the acquisition potential that acquiring can undertake. *Market-to-book asset ratio* ($b = 0.04$; $p < 0.10$) positively affects the likelihood to of making a cross-border acquisition, because with a high ratio of the company's closing price to its book value per share, managers may be overconfident and particularly stimulated to expand into other countries through external growth strategy. The propensity to make a cross border acquisition is positively influenced by *Intangibles* ($b = 2.46$; $p < 0.10$), that may be widespread for a greater number of outputs after the transaction. Lastly, the coefficients relative to *Leverage* and *ROA* are positive but not significant.

Model 2 represents the regression model to test hypothesis 2 and, therefore, to test whether acquiring family firms at later generational stages are more likely to make a cross-border acquisition. The regression results demonstrate that the variable *Generational stage* is positive and significant ($b = 0.36$; $p < 0.05$). Therefore, the result supports hypothesis 2, which proposes that later generations positively influence the family firms' likelihood of making a cross-border acquisition. Model 2 also reports a statistically significant association between the propensity of cross-border acquisition and some control variables. ROA ($b = 0.17$; $p < 0.01$) positively affects the likelihood of making a cross-border acquisition because of the firm's greater profitability and the firm's greater financial endowment to make cross-border acquisitions. *Family ownership* is positive and significant ($b = 0.03$; $p < 0.10$) and shows that within the sub-sample of family firms, as family shareholding increases, the acquiring family firms' likelihood of making cross-border acquisitions rises up. As in Model 1, Model 2 reports statistically significant and positive relationships between the propensity to make a cross-border acquisition and *Intangibles* ($b = 5.38$; $p < 0.10$), that may be interpreted as the acquiring effort to distribute fixed costs on the output of the firms joining to the transaction, and *Market-to-book asset ratio* ($b = -0.09$; $p < 0.10$), that explains the acquisition acquiring behavior driven by managers that suffer from hubris.

The first two empirical results highlight that, although acquiring family businesses are reluctant to undertake cross-border acquisitions, later generations stimulate their own business to adopt strategies of external growth. From a SEW view, the effect of the generational stage may be generated by the fact that, as the firm moves beyond the first generation, a de-emphasis on non-financial wealth may occur.

Model 3 represents the regression model to test hypothesis 3 and, therefore, to test whether the presence of a family member as a CEO negatively moderates the relationship between the generational stage and the acquiring family firm's propensity to make a cross-border acquisition. The regression results demonstrate that the interaction of *Generational stage* and *Family CEO* is negative and significant ($b = -0.81$; $p < 0.10$). Therefore, the result supports hypothesis 3, which proposes that the family CEO negatively influences the later generations' likelihood of making a cross-border acquisition. In other words, the results point out that the positive relationship between the generational stage and the propensity to make a cross-border acquisition becomes weaker when the CEO is represented by a member of family.

Model 3 also reports a statistically significant association between the propensity of cross-border acquisition and the following control variables: *Intangibles* ($b = 6.71$; $p < 0.05$), *Generational stage* ($b = 0.83$; $p < 0.05$), *Market-to-book asset ratio* ($b = -0.13$; $p < 0.10$), *Family ownership* ($b = 0.34$; $p < 0.10$) and *ROA* ($b = 0.18$; $p < 0.01$).

The variable Family CEO is positive but not significant.

## 6. Concluding comments

Although the seminal contribution on M&As dates back to the first quarter of XX century (Dewing, 1921), and scholars have investigated several aspects of this kind of transaction, whether organizational (Shrivastava, 1986; Pablo, 1994), strategic (Trautwein, 1990; Walter and Barney, 1990), or financial (Manne, 1965; Jensen and Ruback, 1983), few studies have concentrated on M&As involving family firms (Astrachan, 2010). These transactions are relevant because they permit acquiring firms to pursue growth, representing a rapid mode of entry into a foreign country and simultaneously providing easy access to strategic resources such as brands and specific technologies (Buckley *et al.*, 2012). Crucially, when M&As are investigated in the context of family firms, several aspects must be taken into account. On one hand, it is important to acknowledge that family firms are oriented towards the long-term horizon (James, 2006; Miller *et al.*, 2010) and, as a consequence, M&As represent an interesting growth opportunity. On the other hand, M&A transactions represent risky strategies and may undermine the family firm's survival. Literature has investigated several aspect of family business M&As, such as the propensity of family firms to acquire a target firm, the diversifying nature of these transactions and the reaction of the financial markets at the announcement of a family firm's acquisition. However, previous literature has not yet investigated yet family firms involved in cross-border M&A.

This work makes several contributions. First, in order to fill the research gap, this study extends previous literature by exploring the effect of the presence of an acquiring family block-holder on the likelihood of making a cross-border acquisition. Furthermore, using the socioemotional wealth point of view, this work offers a wider analysis of the causes underlying the choices of family firms concerning M&As. More specifically, this work emphasizes that financial motives are not the only determinants of the propensity of acquiring family firms to make a cross-border transaction and that two socioemotional factors - the control over strategic decisions and family identification - may also influence cross-border M&A decisions. Lastly, the study highlights that the cross-border acquisitions of family firms are influenced by both the generational involvement and the presence of a family member at the helm of management. From this perspective, the work complements the results pointed out by the previous studies on family business M&As.

The results suggest some implications that can be beneficial for family business owners, managers and advisors in supporting cross-border M&As. On one hand, if family members consider M&A as the optimal mode of entry into a certain foreign market, family firms should take into account a broader pool from which managers are chosen in order to recruit more talented staff, who are able to face international M&As. On the other hand, non-family managers should consider emotional aspects of family business avoiding to be driven only by economic goals. Therefore, it is essential to identify processes and means in order to strengthen the communication between family and non-family managers and to build confidence of the latter. Besides, because of the possibility that an excessive proportion of non-family managers may challenge family values, family firms should balance family managers and non-family managers (Binacci *et al.*, 2016).

This work is not free from limitations. The first limitation is represented by the period analysed (2015-2017), which restricts the possibility of seizing a greater number of transactions. Second, the sample is constituted of European acquiring firms, thus generating a potential bias pertaining to the family ownership and generational stage effect on the acquisition behaviour of family firms, consequently restricting the possibility of generalizing results to other countries.

*Tab. 1: Descriptive statistics and correlations*

| Variables | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|---|
| 1.Family firm | 0.35 | 0.48 | | | | | | | |
| 2.Family CEO | 0.19 | 0.39 | -0.22* | | | | | | |
| 3.Generational stage | 1.46 | 1.64 | 0.16 | -0.19 | | | | | |
| 4.Leverage | 0.26 | 0.17 | -0.20* | -0.27** | 0.10 | | | | |
| 5.Market to book asset ratio | 3.59 | 7.62 | 0.25* | 0.15 | 0.22* | 0.13 | | | |
| 6.ROA | 2.86 | 1.52 | 0.37** | -0.23 | 0.27** | -0.90 | 0.38** | | |
| 7.Size | 2.10 | 2.49 | -0.23* | -0.11 | 0.23* | 0.03 | -0.02 | 0.13 | |
| 8.Intangibles | 1.08 | 1.14 | -0.10 | -0.03 | 0.16 | -0.05 | -0.12 | 0.03 | 0.16 |

N=270; *, ** statistically significant at the 0.05 and 0.01 level.

Source: Self-elaboration on Thomson Reuters data

*Tab. 2: Logit regression (Cross-border Acquisition = 1)*

| Variables | Model 1 (full sample) | Model 2 (family firms) | Model 3 (family firms) |
|---|---|---|---|
| Constant | -4.99*** (1.28) | -7.76** (3.28) | -7.14** (3.56) |
| Family firm | -0.63** (0.29) | | |
| Family ownership | 0.03* (0.02) | 0.34* (0.18) | |
| Market-to-book asset ratio | 0.04* (0.03) | -0.09* (0.11) | -0.13* (0.12) |
| Leverage | 0.28 (0.86) | 1.40 (1.75) | 0.57 (1.84) |
| Size | 0.22*** (0.06) | 0.16 (0.14) | 0.09 (0.14) |
| Intangibles | 2.46* (1.33) | 5.38* (3.64) | 6.71** (3.86) |
| ROA | 0.01 (0.01) | 0.17*** (0.07) | 0.18*** (0.07) |
| Generational stage | | 0.36** (0.21) | 0.83** (0.34) |
| Family CEO | | | 0.53 (1.03) |
| Generational stage x Family CEO | | | -0.81* (0.46) |
| Years dummy | Yes | Yes | Yes |
| Industry dummy | Yes | Yes | Yes |
| Chi-square | 36.21 | 32.49 | 37.23 |
| Nagelkerke R square | 0.17 | 0.38 | 0.43 |

N=270; *, **, *** statistically significant at the 0.1, 0.05 and 0.01 level

Source: Self-elaboration on Thomson Reuters data

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italian journal of management

ISSN 0393-5108
DOI 10.7433/s111.2020.09
pp. 139-159

FONDAZIONE CUEIM

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