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Ownership structure and acquirers performance: Family vs. non-family firms

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ABSTRACT

This paper investigates the impact of family control on French acquirers' performance. We consider a sample of 239 acquisitions undertaken by French listed companies between January 1997 and December 2006. Comparing both, short-term and long-term performance, we find that family-controlled firms outperform non-family firms. We find that the relationship depends on the control level. The higher operating performance of family firms is statistically significant for an intermediate level of control. Around the announcement date, family firms with a high level of control outperform non-family firms. Using the calendar time approach, we find that long-term stock performance of family firms is positive and statistically significant. Robustness tests show that our findings seem to not be driven by the endogeneity problem. Finally, we find that family wedge, due to the use of the pyramidal structure and the double voting rules, has no statistical significant effect.
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1. Introduction

Family-controlled firms are one of the most developed forms of concentrated ownership around the world. La Porta, Lopez-de-Silanes, and Shleifer (1999), Claessens, Djankov, and Lang (2000), and Faccio and Lang (2002) show that the image of a publicly traded company with dispersed ownership structure, classic owner-manager conflicts, and a free-rider problem is not an appropriate image for most countries. These authors indicate that concentrated ownership is typical for Western Europe and for Asia. However, Holderness (2009) finds that the ownership of U.S. firms is similar to the ownership of firms of other countries. Villalonga and Amit (2009) highlight the high level of family controlled firms in the U.S.

Faccio and Lang (2002) find that only 14% of French firms are widely held and that 64.82% are controlled by a single family. Sraer and Thesmar (2007) also show a high presence of family firms in the French stock market. They find that two thirds of firms are family controlled. However, in the U.S. market only 40% of firms are considered as family firms (Villalonga & Amit, 2009). According to Bach (2010), more than one out of five employees working in significant French companies are under the management of a relative of the founder. Most of research studies consider U.S. family firms that operate in a developed financial market environment characterized by a strong investor protection. By contrast, French family firms, less frequently studied, operate in legal and institutional environments characterized by a weak investor protection and giving greater importance to banks than to the stock market (Franks, Mayer, Volpin, & Wagner, 2012). The French market is also characterized by a high level of wedge due to the pyramidal structure and the double voting rule. It represents a favorable context to study family firms.

Several studies analyze the impact of family ownership on firm value. Anderson and Reeb (2003) and Barontini and Caprio (2006) find that family firms outperform non-family firms. Andres (2008) highlights the importance of distinguishing between different types of blockholders when analyzing firm value (financial, managerial, family, employees, government) because of their different goals and policies.

This paper analyzes the impact of family control on firm performance following an acquisition. Mergers and acquisitions represent an interesting framework to analyze investment policy. The research on this subject has listed several motivations that explain the occurrence of mergers and acquisitions. Examples include synergies (Healy, Palepu, & Ruback, 1992), empire building (Jensen, 1986), and protection of private benefits (Gorton, Kahl, & Rosen, 2009). The ownership structure plays an important role in defining the operation motivations, since blockholders influence the acquisition decision and are able to prevent any non-value enhancing proposals made by managers. Numerous studies analyze the impact of blockholders on acquisition performance without giving importance to owner type (Yen & André, 2007); however, a few recent studies focus on family ownership and find not entirely conclusive results. Ben-Amar and André (2006) and Basu, Dimitrova,

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and Paeglis (2009) find that family firms outperform non-family firms, in Canada and the U.S, respectively. Bauguess and Stegemoller (2008) find a negative relation between family ownership and U.S acquirers' performance. Caprio, Croci, and Del Giudice (2011) study Continental European companies and do not find evidence that family-controlled firms destroy wealth when they acquire other companies.

Our analysis contributes to the literature by shedding light on this lack of studies on family acquirers and France may be a good framework since there are many family controlled firms. All papers cited above are interested in the performance around the announcement date. Solely Shim and Okamuro (2011) investigate the impact of family control on long-term performance of the acquirers.

To the best of our knowledge, this is the first paper that analyses simultaneously the short-term, long-term and accounting performance of French acquirer family firms. Our paper contributes to the acquisitions literature by using three different measures of family firm's performance. Cosh, Guest, and Hughes (2006) and Carline, Linn, and Yadav (2009) check the impact of ownership structure on announcement date performance, long-term stock performance and operating performance, however, they focused on board ownership. We also examine the nonlinearity between performances and voting rights. In our opinion, this is the first paper that analyzes the role of family control on French acquirers' performance, even though the French market is considered as a concentrated stock ownership market with high level of listed family firms.

Using a sample of French acquisitions in the period 1997–2006, we show that family firms outperform non-family firms. Around the announcement date, family firms realize higher abnormal returns than non-family firms. After taking acquirer and acquisition characteristics into account, a multivariate analysis confirms this finding. Using the three-year return on assets following the acquisition as a measure of performance, we also find that family firms are more efficient. We show that the relation between family control and operating performance is nonlinear. Regarding the long-term stock performance, the calendar time approach indicates better performance of family firms compared to non-family firms. We find that the family wedge is not significantly related to the performance. Finally, we perform some robustness checks that indicate that our findings do not seem to be affected by the endogeneity problem, neither by family firm definition.

The remainder of the paper is organized as follows. In Section 2 we present the related literature on family ownership. Section 3 describes our sample selection process, our variables, and methodologies used to measure acquirer performance. The results are presented in Section 4. Section 5 deals with robustness of the results. Section 6 concludes the paper.

2. Literature review

In this section we provide an overview of the existing literature on family firms' characteristics and value.

2.1. Family-controlled firms

Family firms are common among large, publicly traded firms and an effective organizational form. Families usually invest most of their private wealth in the company and their investments are not well diversified. Consequently, they have strong economic incentives to monitor managers and decrease agency costs. They are considered as a unique group of active, long-term owners, holding sustainable equity positions in their firms. The objective of most families is the intergenerational transfer of managerial control (Stein, 1988, 1989). Agency problems between managers and large shareholders can be reduced or even eliminated in family firms, because family members are often present on the board or insure the management. In consequence, the incentive alignment effect dominates in family firms and managers follow efficient policies.

Franks et al. (2012) show that different legal and institutional environments make family control more value efficient in Europe. Authors conclude that in Continental European insider-dominated systems, family ownership is a powerful and persistent arrangement. Burkart, Panunzi, and Shleifer (2003) formalize the argument that family control may be a substitute for weak formal investor protection. In these “insider countries”, characterized by low legal protection of investors and the greater importance of banks compared to that of the stock market, Franks et al. (2012) suggest that family firms profit from “developed relationship banking” that provides access to external financing. Anderson, Mansi, and Reeb (2003) find that founding family ownership is related to a lower cost of debt financing. Authors conclude that founding family firms have incentive structures that result in fewer agency conflicts between equity and debt claimants. Avoiding debt financing thanks to its corporate governance role is less frequent in family firms, specifically in those managed by a family member. Pindado, Requejo, and de la Torre (2011) confirm that European family firms do not appear to be subject to external financing constraints and that they can raise considerable amounts of debt.

Compared to non-family firms, family firms tend to adopt conservative management policies. Caprio et al. (2011) find that family listed firms can engage in significantly less frequent acquisitions than non-family firms without negatively affecting their growth. Family firms are less likely to make acquisitions especially when the stake held by the family is not large enough to assure the persistence of the control. These findings are in line with those of Franks et al. (2012) that find that family firms should be concentrated in industries with a lower volume of mergers and acquisitions activity as selling family equity stakes is a source of dilution of family control. Bauguess and Stegemoller (2008) also show that family firms make fewer acquisitions than non-family firms do. Given their undiversified investments, family firms are more risk adverse than other firms (Bianco, Golinelli, & Parigi, 2009; Faccio, Marchica, & Mura, 2011). Even during crises, family firms follow conservative policies (Zhou, Li, & Svejnar, 2011). Their cautious acquisition strategy tends to create economic value while at the same time avoiding dilution of control.

It is important to note that some authors suggest that in family firms, agency conflicts between controlling shareholders and minority shareholders are dominant due to the separation between ownership and control. Morck and Yeung (2003) find that managers may act for the controlling family, but not for shareholders in general. Faccio, Lang, and Young (2001) explain that the probability of minority shareholder expropriation is particularly high if large investors hold voting rights greater than cash-flow rights. Dyck and Zingales (2004) find that higher benefits are associated with a less developed capital market and concentrated ownership. Chen (2005) shows that an increase in managerial ownership generally reflects the strengthening of family control or the entrenchment of the controlling owner's private profits. Moreover, Bertrand and Schoar (2006) argue that family values can create efficiency distortions if they introduce non-monetary objectives into the founder's utility maximization that run counter to the optimal decisions for the business (e.g. nepotism, legacy).

Villalonga and Amit (2006) consider that the family firm definition plays an important role when studying their performance. They show that one must distinguish among three fundamental elements in the definition of family firms, namely, ownership, control, and management. Miller, Le Breton-Miller, Lester, and Canella (2007) also discuss the role of the definition used, and when they define a family firm, they take into account a number of variations: the level of ownership and voting control, the managerial role played by family members, and the family generation of key family members. Burkart et al. (2003) argue that the separation between ownership and management depends on the legal environment.

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