

# **To whom does the family sell the firm?**

## **The choice between strategic and financial buyers in acquisitions**

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### **Abstract**

We study whether and why the choice of buyer in acquisitions is associated with the founding family's involvement in the target firm. We consider two types of buyer—strategic v. financial—and three levels of family involvement—ownership, management, and the board. Using a sample of 917 majority acquisitions completed between 2006 and 2016 in the United States, we find that higher ownership by controlling family shareholders makes firms more inclined to choose a strategic buyer, as does having a family CEO/Chairman. On the other hand, having family directors makes firms more inclined to choose a financial buyer. Our results suggest that families' desire to protect their socio-emotional wealth is an important motivation behind their choice of whom to sell their firm to, but agency considerations matter too.

*Keywords:* family-controlled firms, acquisitions, divestitures, strategic buyer, private equity

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## INTRODUCTION

Over the past 20 years, the number of U.S. public corporations has declined by almost a half—from over 8,000 in 1996 to about 4,300 in 2016. Doidge et al. (2017) document that 54% of the decline is attributable to a reduction in the number of Initial Public Offerings (IPOs), while the remaining 46% is due to an increase in the number of delistings. The latter, in turn, have been driven by an increase in mergers and acquisitions (M&A) activity, with resulting increases in market concentration (Grullón et al., 2018), combined with companies going private due to regulatory changes like Sarbanes-Oxley that have altered the cost-benefit analysis of being public v. private (Engel et al., 2007). The rise of private equity as a major player in the market for corporate control (Wruck, 2008; Kaplan and Strömberg 2009; Wood and Wright, 2009) has served as an important catalyzer for both trends.

This massive shift in corporate ownership and its underlying trends are of enormous importance to strategic management, yet academic research over the same period has remained largely oblivious to it, let alone tried to analyze its causes and consequences. In this paper, we begin to fill this gap by investigating what is one of the key drivers behind this phenomenon, and arguably the most relevant for strategy: the sale of publicly listed U.S. corporations to either private equity firms (which thereby take their buyout targets private) or to other companies (strategic buyers, which thereby put an end to the existence of the target as an independent company).

Specifically, we focus on the impact that the founding family's involvement in the target firm has on the choice between a financial (private equity) buyer and a strategic buyer. Three reasons justify this focus. First, most publicly listed firms are characterized by their founding family's involvement in these firms' ownership, control, and/or management, in the United States (Villalonga and Amit, 2006, 2010) as in the rest of the world (La Porta et al., 1999; Claessens et al., 2000; Faccio and Lang, 2002; Aminadav and Papaioannou, 2016), and the family's

involvement in any of those ways is likely to change (or disappear) as a result of the sale of a controlling stake. It is therefore important to understand the role played by families in the sale of their firms.

Second, the choice of buyer on the part of the seller is closely intertwined with the choice of whether or not to sell in the first place: while it seems logical to first decide to sell the firm and later decide to whom, in many cases the availability of buyers of one type or another, or the willingness or reluctance to sell to a particular type of buyer, may be the critical factor in deciding whether or not to sell. It is therefore important to understand the drivers of both decisions. While several studies have analyzed families' decision to sell their ownership stakes in their firms (Klasa, 2007; Caprio et al., 2011), the family's choice of buyer for these stakes remains unexplored. Accordingly, we focus on the latter decision.

Third, founding families are known to have unique goals and preferences that are different from those of other owners, such as the maximization of their *socio-emotional wealth* or SEW (Gómez-Mejía et al., 2007), instead of their financial wealth, and those preferences are often reflected in their business decisions (Villalonga and Amit, 2009, 2010; Gómez-Mejía et al., 2010; Le Breton-Miller et al., 2011). In particular, the decision to sell the family firm, in part or in whole, is one that directly threatens the family's SEW preservation; thus, the drivers of this choice are more emotional than rational for founding families, for whom selling the family firm is tantamount to selling out the family (Mickelson and Worley, 2003). As a result, family firms are significantly less likely than non-family firms to engage in divestitures (Chung and Luo, 2008; Sharma and Manikutty, 2005; Zellweger and Brauer, 2013), especially when the family's ownership stake is high (Praet, 2013), when the CEO is a member of the family (Feldman et al., 2016, 2018), or when the divestiture is of a controlling stake in the firm itself (Klasa, 2007; Caprio et al., 2011). Moreover, because financial and strategic buyers shape the future of target firms in different ways

(Fidrmuc et al., 2012; Castellaneta and Gottschalg, 2016), their impact on the family's SEW is also likely to differ (as we later explain), thus making the decision of to whom to sell the firm also critical for the family. It is therefore important to understand how the family's involvement in the firm impacts this decision.

We consider the family's involvement at three different levels within the organization—ownership, top management (CEO and/or Chairman), and governance (board of directors), and develop hypotheses about the role played by the family at each of these levels in the choice between a strategic buyer (StB) and a financial buyer (FnB) for the family's controlling stake in the firm. Our hypotheses predict that both the family's controlling ownership and the presence of a family Chairman and/or CEO will be positively related to the choice of a StB. We also expect an association between the family's involvement at the board level and the choice of buyer, although the sign of the relation depends on the relative weight of the preferences of the family as a whole and the individual preferences of their representatives on the board.

We test our hypotheses on a sample of 917 majority acquisitions completed between 2006 and 2016 in the United States. In support of our first two hypotheses, we find that both family controlling ownership and family management (in the form of a family CEO and/or Chairman) are positively associated with the choice a StB. In contrast, the percentage of board seats occupied by family members shows the opposite sign, which suggests that family directors' personal motives outweigh the collective interests of the family that they are supposed to represent.

We also analyze the impact of all our measures of family involvement on the method of payment for the acquisition. Consistent with our results about the choice between a StB and a FnB, we find that, while family owners and family CEOs and/or Chairmen exhibit a preference for stock, family directors would rather have a larger fraction of the deal value paid for in cash.

## **THEORY AND HYPOTHESES**

### **Strategic buyers v. financial buyers**

Strategic buyers (StBs) are typically firms operating in the same or related industries, although they can also be unrelated acquirers seeking to diversify into what is a new business or market for them. Financial buyers (FnBs) include private equity (PE) firms and financial conglomerates such as Berkshire Hathaway, although in the United States in recent years PE firms constitute the majority of FnBs. FnBs differ from StBs in the way they select their acquisition targets as well as in the way they add value to the businesses in their portfolio (Chandler et al., 1991; Baker and Montgomery, 1994; Goold et al., 1994; Menz et al., 2013; Campbell et al., 2014; Puranam and Vanneste, 2017). Therefore, the choice to sell the firm to a StB rather than to a FnB can significantly impact the target firm's future prospects (Fidrmuc et al., 2012; Castellaneta and Gottschahlg, 2016).

FnBs usually hold their acquisition targets in their portfolio for a limited period of time, ranging from less than two years to a maximum of twelve (Kaplan and Schoar, 2005; Kaplan and Strömberg, 2009; Katz, 2009; Metrick and Yasuda, 2010; Dittmar et al., 2012), with an average of 3.9 years (Acharya et al., 2013). While most acquisitions they undertake are of controlling stakes (or complete buyouts), some FnBs also buy minority stakes, typically in family businesses, as a form of "growth capital" (Astrachan and McConaughy, 2001; Dawson, 2011; Tappeiner, 2012). In contrast, StBs tend to acquire businesses with an indefinite holding period in the horizon, even if, due to integration failures or to changing circumstances in the firm or its environment, a large fraction of strategic acquisitions also end up being divested (Porter, 1987; Kaplan and Weisbach, 1992). Even in those instances in which, *ex post*, acquisitions lead to subsequent divestitures, the difference in the *ex-ante* investment horizons of FnBs and StBs matters for their respective selection and value-adding strategies.

StBs add value to their acquired businesses through their operational know-how, their reputation in the industry, their relationships with customers and suppliers, and their corporate strategy (Porter, 1987; Gulati, 1988; Hennart, 1988; Kogut, 1988). StBs are typically multibusiness firms (or may become so as a result of the acquisition), and as such they seek to maximize performance across a portfolio of firms (Tanriverdi and Venkatraman, 2005) by sharing activities, skills, or resources across those businesses and thus exploiting synergies in sourcing, manufacturing, or distribution (Goold et al., 1994; Porter, 1987; Fidrmuc et al., 2012).

FnBs also provide their acquisition targets with skills and resources beyond the purely financial ones; they can bring to their targets managerial and governance competencies (Kaplan and Strömberg, 2009; Wood and Wright, 2009; Acharya et al., 2013), industry experience (Bottazzi et al., 2008), and a network of business contacts, especially in the financial and consulting industries (Jensen, 1989a). FnBs typically follow a decentralized resource allocation model, managing their investments independently from one another, as stand-alone units with autonomy and responsibility in formulating their own strategies and plans (Chandler, 1991; Landou and Bock, 2013); providing guidance and governance through active participation on these companies' boards (Acharya et al., 2009); selecting, appointing and developing key executives (Goold et al., 1994) but avoiding interference in day-to-day operations (Anders, 1992). This corporate parenting model, traditionally referred to as financial control (Chandler, 1991) or as stand-alone influence (Goold et al., 1994), characterizes not only private equity firms but all FnBs in general. What is more unique to PE FnBs is that their efforts to improve the efficiency or stand-alone value of the target firm (Dittmar et al., 2012) are aimed at taking the firm public or reselling it—to a StB, another FnB, or, in rare instances, to the original seller—at a price higher than the purchase price (Jensen, 1989a, 1989b, 2002). Indeed, the empirical evidence shows that private equity firms are able to enhance the competitive position of their target firms (Barney et al., 2001)

and their operating performance (Cummings et al., 2007; Kaplan and Strömberg, 2009), thereby creating positive returns for their general and limited partners (Kaplan and Schoar, 2003; Kaplan and Strömberg, 2009).

### **Family firms' choice between strategic and financial buyers**

From a resource-based view, the choice of buyer in an acquisition is driven by the match between the resources needed by the target firm and the resources provided by the prospective buyer (Barney, 1991; Grant, 1996; Capron and Mitchell, 2012). Whatever those resources are—financial strength, operational know-how, reputation, relationships, etc.—they are sources of competitive advantage, and a critical driver of target firms' decision to sell, and to whom. For instance, the search for financial resources is a common driver of the decision to put a firm up for sale, particularly for family firms, which tend to rely predominantly on internally generated funds, thereby imposing significant constraints on their growth and operating processes (Poutziouris, 2001; Romano et al., 2001; Villalonga and Amit, 2006). The related decision of whom to sell the family firm to is likely to depend not only on who is better able to provide those financial resources but also on what the firm ultimately wants to do with them, and what complementary resources are needed to ensure the success of that strategy. For a firm that is very focused in its operations, industrially and/or geographically—as is often the case with family firms—but feels compelled to diversify or expand internationally, an StB with presence in the markets that the target firm wishes to enter may be able to add more value (and hence pay a higher acquisition price) than a FnB.

The merits of this resource-based perspective notwithstanding, when the selling firm is a family-controlled firm, the choice of the buyer is likely to go beyond the search for necessary resources. Klasa (2007) shows that the motivations behind the family firm's choice of selling its controlling stake are multiple and involve both firm characteristics (size, operating performance, business segment in which it operates) and family factors (e.g., succession issues). Indeed, the

desire to protect the family's SEW has been found to be an important motivation behind a range of strategic decisions in family firms (Gómez-Mejía et al., 2007, 2011), including diversification (Gómez-Mejía et al., 2010), internationalization (Villalonga et al., 2018), acquisitions (Miller et al., 2010); divestitures (Feldman et al., 2016), capital structure (Romano et al., 2001); and management succession (Bertrand and Schoar, 2006). SEW considerations are likely to be even more central to strategic decision-making in family firms when the decision relates to selling the family firm or a controlling stake in it, as it is the decision that most directly threatens the family's SEW preservation. (In minority acquisitions of family firms, the family often continues to be involved in the business (Howorth et al., 2004; Scholes et al., 2010), making the preservation of the firm's identity and legacy more likely than when the family exits the business completely (Birley et al., 1999; Howorth et al., 2004)).

Therefore, when choosing the buyer for their controlling stake, families face the double pressure of finding one that can provide the resources needed to ensure the firm's sustainable future while, at the same time, preserving or enhancing the family's SEW.

In addition to considering both firm factors and family factors, to get a more complete understanding of the decision of to whom to sell the firm it is important to unbundle the notion of "the firm" as a single decision-maker and to consider who within that firm is involved in making the actual decision, and what their motivations are for doing so. Specifically, three groups of individuals at different levels of a firm's organization are likely to play a role in the decision to sell a majority ownership stake in a firm, and to whom, particularly when the firm is publicly listed in a market like the United States. The first are the shareholders whose stock is up for sale, as they ultimately have to vote for or against the sale. The second are CEOs, who are usually the most influential actors in M&As as they are often the ones to seek out potential buyers and initiate talks with them, and to lead their firms until the final steps of the negotiation process (Graham et al.,

2015; Jenter and Lewellen, 2015). The third group is the board of directors which, in U.S. publicly traded firms, has significant discretion over the firm's choices (Bohinc and Bainbridge, 2001; Bainbridge, 2002). This is particularly the case when the firm is the target of an acquisition, as the board needs to approve the acquisition before shareholders do (except in the case of tender offers, in which the bidder goes directly to shareholders for their approval). Chairmen of the board are a special category of directors because, in almost 80% of publicly listed US firms, they are the same person as the CEO (Faleye, 2007; Iyengar and Zampelli, 2009). In fact, the split of these two positions is often perceived as a temporary arrangement or as a sign of weakness (Khurana, 2002). It therefore makes sense to include board Chairmen together with CEOs in the same category, which we henceforth refer to as CEO and/or Chairman.

In family firms, the family can be involved at any and all of these three levels, with different consequences for the firm's strategy and performance (Villalonga and Amit, 2006, 2010; Feldman et al., 2016, 2018). In the following subsections, we analyze how the family's involvement at each of these three levels specifically matters for the choice of buyer in acquisitions of the family's controlling stake.

### **Family ownership**

Family owners are often large shareholders and vote holders in their firms, which gives them the ability to exercise significant influence, when not outright control, over those firms (La Porta et al., 1999; Claessens et al., 2000; Faccio and Lang, 2002; Anderson and Reeb, 2003a; Villalonga and Amit, 2006). As controlling shareholders, families get to decide what businesses to enter or exit, what companies to acquire, what assets to sell, how much to invest, what officers and directors to select, how much to pay them, and how much money, if any, to distribute to themselves and minority shareholders (Villalonga, 2010). First and foremost, controlling

shareholders have the right to decide whether or not to sell their stake in the firm—the key to all those other decision rights—and to whom to “hand over” that key.

As noted above, when family owners decide to sell their controlling stake in the firm, the choice of buyer is likely to be driven not just by the resources that the buyer can bring to the firm but also by the owners’ desire to preserve the family’s SEW. The extant literature shows that founding-family owners seek to protect their firms’ operating continuity in the long-term, to keep the family “baby” alive (Howorth, 2001). Gómez-Mejía et al. (2007) show that, when family firms are in later generations, the losses in SEW weight less heavily on a family’s willingness to give up control, while financial considerations move to the forefront. However, later generations, even if perhaps less emotionally attached, share the same family pride and legacy of earlier generations (Le Breton-Miller et al., 2011), because the founder has transmitted to them the values to ensure firm longevity (Casson, 1999). Thus, even if later generations may be more open than founders to selling the firm, they are likely to seek an exit strategy that guarantees as much as possible the firm’s long-term operating continuity.

For family owners facing succession problems, a FnB may often be perceived as the only way for the target firm to remain independent (Howorth et al., 2004; Meuleman et al., 2009). The target firm’s identity and ethos are more likely to be preserved with a FnB than with a StB, who is more likely to integrate the firm’s operations into its own (Birley et al., 1999; Howorth et al., 2004). However, PE firms (which constitute the majority of FnBs in today’s market for corporate control), due to their need to exit their investments to return capital to their limited partners, are bound to resell the firm to the highest bidder—whether it is another FnB, an StB, or public investors in an IPO—in just a few years. By then, the family will no longer have a say in the choice of buyer, and in fact, its preferences with regard to that choice are likely to differ from those of the PE firm, whose mandate is to maximize financial returns for its investors. Thus, the long-term

future of the family firm and the preservation of the family legacy may in fact be more uncertain if the firm is sold to a FnB than to a StB chosen by the family at the outset of the sale process.

Moreover, the short investment horizons of PE firms relative to those of families and StBs may lead them to implement changes during their holding period that are fundamentally at odds with the family's long-held values. Of particular concern for family owners, who are prone to paternalistic attitudes toward their employees (Sraer and Thesmar, 2007; Mueller and Philippon, 2011) and local communities (Niehm et al., 2008), is that a FnB in search of quick efficiency gains may lay off a large number of loyal employees, and/or exit certain operating locations to which the family has historical ties (Achleitner et al., 2010). Indeed, Davis et al. (2014) find that private equity targets exhibit a net employment contraction and a higher likelihood of establishment closures after the buyout. Thus, families may be more inclined to sell their firm to a StB, which is more likely to ensure operating continuity for the firm and its stakeholders than a FnB.

These arguments suggest the following hypothesis:

*Hypothesis 1: When a firm's majority stake is sold, family controlling ownership is positively associated with the choice of a StB*

### **Family CEO and/or Chairman**

Beyond the family's controlling ownership, the presence of a family CEO and/or Chairman is also likely to impact the choice of buyer in sales of majority stakes, for at least two reasons. First, most family Chairmen and family CEOs are also shareholders in their firms (Villalonga and Amit, 2006), and therefore have interests that are aligned with those of other family owners. In fact, their role as managers often exacerbates their preferences and behavior as family owners: just like family firms relative to non-family firms, family CEOs relative to non-family CEOs are less likely to divest their controlling stakes in their firms (Caprio et al, 2011) or part of their firms' assets (Feldman et al., 2016), and more likely to prioritize stable employment over stable dividends

(Mullins and Schoar, 2016). The presence of a family member in the role of CEO and/or Chairman is therefore likely to further increase the chances of a StB being chosen over a FnB in sales of majority stakes.

Second, largely as a result of their families' and their own ownership stake in the firm, family CEOs are more entrenched (i.e., less likely to be replaced, especially as a result of poor performance) than non-family CEOs (Morck et al., 1988, Parrino, 1997; Pinheiro and Yung, 2015). If and when they are replaced, however, family CEOs' prospects of employment at a different firm are lower than they are for non-family CEOs given their background and/or performance record: they are less likely to (a) have attended selective undergraduate institutions—and to underperform as a result (Pérez-González, 2001); (b) have held CEO or CFO positions at other firms (Mullins and Schoar, 2016); and (c) have a generalist background (Mullins and Schoar, 2016). These lower prospects for future employment for family CEOs seem even worse if the buyer is a FnB than if it is a StB. Although target firm management turnover rates in LBOs are comparable to those for acquisitions in general,<sup>1</sup> Wulf (2003) and Hartzell et al. (2004) find that, in M&As by StBs, about half of target CEOs accept jobs as senior officers of the merged firm (including those of CEO, Chairman and Vice Chairman). Those placements are unlikely to happen at the parent company level when that parent company is a PE firm, especially for family CEOs given their background characteristics as described by Mullins and Schoar (2016). Thus, family CEOs and, by extension, family Chairmen, are more inclined to choose a StB over a FnB for personal motives (career concerns) in addition to family motives.

We therefore hypothesize:

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<sup>1</sup> Martin and McConnell (1991), Agrawal and Walkling (1994), and Hadlock et al. (1999) find that between 42% and 55% of target firm CEOs are replaced within one to two years after an acquisition is announced or becomes effective. Acharya et al. (2009), Guo et al. (2009), Gong and Wu (2011) and Cornelli and Karakas (2018) find turnover rates around LBOs that range between 37% and 52% within one year to 100 days after the LBO becomes effective.

*Hypothesis 2: When a firm's majority stake is sold, the presence of a family CEO and/or Chairman is positively associated with the choice of a StB.*

### **Family involvement in the board**

When the family holds a controlling ownership position, family owners can exert a significant influence on the firm's strategy not just directly but also by effectively determining the composition of a board that actively supports the goals of the family (and not just those of the firm) or that, at least, does not interfere with them (Desender et al., 2013; Villalonga et al., 2015). These goals include the pursuit of the family's SEW maximization (Le Breton-Miller et al., 2011; Miller et al., 2013). In the specific context of the decision of to whom to sell the firm, the presence or number of family directors should thus increase the likelihood of choosing a StB, since the aim of ensuring the continuity of the firm is expected to be stronger and more directly transferred onto the decision process.

On the other hand, just like CEOs, board directors are agents of family shareholders (Villalonga et al., 2015) and as such their choices can be driven not just by their principals' preferences but also by their own personal motives (Jensen and Meckling, 1986), including their desire to remain on the board after the acquisition. Unlike CEOs, however, directors are more likely to be retained as such if the acquirer is a FnB than if it is a StB. Following an acquisition, FnBs typically become active investors by taking one or more seats on the target's board (Cumming et al., 2007; Wood and Wright, 2009; Cornelli and Karakas, 2015). However, in general they also retain some prior directors, particularly if they bring valuable expertise to the board (Minardi et al., 2013). In fact, because FnBs typically do not have the same degree of industry knowledge as StBs, their lack of experience and skills in the specific business may increase the probability that family executives remain on the board after the sale of the firm (Howorth et al. 2004). In contrast, when a firm is acquired by a StB, the target's board as such disappears, so the

only option remaining for its members is to join the board of the acquirer or the merged entity, which is unlikely unless the acquisition is paid for in stock and the family becomes a significant shareholder in the merged entity.

Therefore, unlike with the relation between a family CEO and/or Chairman and the choice of a StB, where both family and personal motives point to the same hypothesis, in the relation between family directors and the choice of a StB, family and personal motives become two countervailing forces, creating an agency problem between family directors and family shareholders. Which of the two effects dominates is an empirical question. Accordingly, we propose two alternative hypotheses:

If family directors' family motives outweigh their personal motives:

*Hypothesis 3a: When a firm's majority stake is sold, the presence of family directors on the board is positively associated with the choice of a StB.*

If family directors' personal motives outweigh their family motives:

*Hypothesis 3b: When a firm's majority stake is sold, the presence of family directors on the board is negatively associated with the choice of a StB.*

## **METHODOLOGY**

### **Sample**

Our sample is extracted from Bureau van Dijk (BvD)'s Zephyr database. Our initial sample consists of 3,038 M&A deals completed in the United States between 2006 and 2016. We have chosen a U.S. sample because part of our motivation is to shed light on the reasons behind the dramatic decline in publicly listed firms in the United States over the past two decades, and because acquisitions of publicly traded companies by PE firms remain relatively rare in other countries (Wright et al., 2007).

To be included in our sample, a deal must have the following characteristics: (i) the target

is a non-financial firm (firms with two-digit SIC codes from 60 to 67 are excluded); (ii), the acquirer is either a company or a fund; (iii) the target firm is headquartered and publicly listed in the US; (iv) the deal is classified in Zephyr as a merger, acquisition, institutional buy-out (IBO), management buy-out (MBO), management buy-in (MBI), or management buy-in/buy-out (BIMBO); (v) the acquirer's stake in the target after the acquisition is a majority stake (higher than 50%). We do not require the acquiring firm to be headquartered in United States. However, 85% of the deals in our sample have a U.S. acquirer as well.

After applying these selection criteria, there are 2,332 deals remaining in the sample. Out of these, there are 1,310 deals with missing values for our key variables. We are thus left with a sample of 1,022 deals for our empirical analyses. Because our panel-data econometric models include industry and year fixed effects, additional observations are automatically dropped from our regressions due to lack of data variability. As a result, the final sample for our regressions consists of 917 deals. The descriptive statistics we report are also based on this final sample, for consistency.

Table 1 shows how the deals in our sample are split between StBs and FnBs by year of deal announcement (in Panel A) and by two-digit SIC code industry (Panel B).

*[Insert Table 1 about here]*

### **Data and variables**

Table 2 describes all the variables used in this study, along with the data source used to construct each of them.

*[Insert Table 2 about here]*

***Dependent variables.*** In our main analyses, the choice between a StB and a FnB by the target firm is captured by a dummy variable (*Strategic Buyer*) that equals 1 if the target chooses a StB, and 0 if it chooses a FnB. The type of the buyer is defined according to the deal type classification

provided by BvD's Zephyr database. Namely, the dependent variable is coded as 0 (FnB) for all acquisitions in which a PE firm takes a stake of 50% or more in the target company. These deals are classified by Zephyr as Institutional Buy-Outs (IBOs) regardless of whether it is the PE firm or a management team who initiates the buyout. We also code as having a FnB all majority acquisitions in which the acquirer is a PE firm that has undertaken a capital increase to finance the acquisition. All other acquisitions, mergers, MBOs, MBIs, and BIMBOs are classified as having a StB and hence with a value of 1 for our dependent variable. Appendix A provides further details on Zephyr's deal type classification.

As a robustness check on our main results, we also examine the impact of family involvement on the choice of payment method, given that FnBs by their nature cannot pay the target firm shareholders with stock, whereas StBs can, and thus the choice of buyer may be driven indirectly by the method(s) of payment available. Specifically, by being paid, in whole or in part, in stock in the acquiring firm (or in the merged entity resulting from a merger), family shareholders in the target firm (which typically include the family CEO and/or Chairman as well as family directors) are able to remain involved in some way in the future of their business and its stakeholders and thus, the feeling of detachment for family members after the M&A should be partially reduced. On the other hand, if the sale of the family's controlling stake is driven by short-term financial considerations, family shareholders may prefer to be paid in cash to a larger extent. We can therefore expect family shareholders to prefer payment in stock if the preservation of the family's SEW outweighs such short-term financial considerations and personal motives.

Following past literature (e.g., Martin, 1996), we use two alternative measures of the method of payment in an M&A deal, which we construct to be positively correlated with the choice of a StB so that the coefficients predicted by our hypotheses are directionally the same as in our main regressions. First, we use an ordinal variable (*Use of Stock as a Method of Payment*) with

three categories: 1 when the payment is 100% in cash, 2 when the payment is a mix of cash and stock, and 3 when the payment is 100% in stock (including also convertible bonds). Second, we use a continuous variable that ranges between 0 and 1, *Percentage of Payment in Stock*, which measures the percentage of the total deal value paid for in stock.

***Independent variables.*** Following Villalonga and Amit (2006, 2009), we use two alternative measures of family ownership: (1) *Family Controlling Ownership Percentage*—a continuous variable that can assume different percentage values; and (2) *Family-Controlled Firm Dummy*—a dummy variable that equals 1 when the family ownership percentage is higher than 0%, and 0 otherwise. Unlike Villalonga and Amit (2006, 2009), because in this paper we are interested in sales of controlling stakes in which a family has the power to influence or determine the choice of buyer, both variables only take positive values when the family is a controlling owner.<sup>2</sup> We measure controlling ownership following Franks et al. (2010), who classify firms into four categories: (i) widely held; (ii) ultimately controlled by a family owner; (iii) ultimately controlled by a non-family owner; and (iv) ultimately controlled by an unknown type of owner. Firms are considered to be ultimately controlled by an owner when there is at least one shareholder whose total ownership in the firm (including both direct and indirect ownership) have voting rights equal to 25% or more. We then apply a series of filters to assign each firm to one of the four ownership categories mentioned above, as described in Appendix B. Ownership data are taken from BvD's Orbis database on the date of the last fiscal year ending before the announcement date of the deal.

*Family CEO and/or Chairman* is a dummy variable equal to 1 if the CEO and/or the Chairman of the board is a family member, and 0 otherwise. Unlike for our family ownership

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<sup>2</sup> As a result of restricting the definition of family ownership to controlling ownership only, the fraction of family firms in our sample is much smaller (4.58%), and the average percentage of family ownership in those firms much higher (41.5%), than in studies of U.S. family firms that use broader definitions (e.g., Anderson and Reeb, 2003a; Villalonga and Amit, 2006, 2009). However, our sample statistics are consistent with those found in earlier studies under more restrictive definitions (Villalonga and Amit, 2006, 2010), and with our research question in this paper.

variables, we allow the *Family CEO and/or Chairman* indicator to take positive values in any firm in the sample, regardless of whether the family is a controlling owner or not (in which case the family is likely to own some equity, but not enough to make it qualify as a controlling owner by our definition). We do not want to impose the same requirement to our measure of family management because management itself may be a form of control. That is, even if the family is a non-controlling shareholder, a family CEO and/or Chairman may have enough power to convince shareholders and board members to vote in the direction he or she wishes (e.g. in favor of a StB over a FnB when selling a majority stake in the firm as we hypothesize in this paper).

As explained before, we include CEOs and Chairmen in the same category because in most publicly listed U.S. firms they are, in fact, the same person. Thus, having separate dummies for *Family Chairman* and *Family CEO* is challenging both theoretically (since the two roles are largely intertwined in practice) and empirically (since the two dummies would be highly correlated and introduce a multicollinearity problem). Indeed, consistent with prior evidence of this phenomenon (e.g., Khurana, 2002; Faleye, 2007; Iyengar and Zampelli, 2009), we find Chairman-CEO duality in 53% of all firms in our sample, and in 76% of all family firms. Moreover, in family firms in which the Chairman and CEO are different persons, the Chairman is sometimes the father of the CEO, which can make the separation of the two roles spurious.

As with family ownership, we measure the family's involvement at the board level using two alternative variables that have been used in prior literature (Anderson and Reeb, 2004; Villalonga and Amit, 2006, 2009): (1) *Family Directors Percentage*—the ratio of the number of family members serving as directors on the firm's board over the total number of directors; and (2) *Family Directors Dummy*—a dummy variable that equals 1 if there is at least one family member serving as board director, and 0 otherwise. As with the *Family CEO and/or Chairman* indicator, we do not require that the family is a controlling owner for either of our *Family Directors*

measures to take positive values. As with family management, the rationale for not imposing this restriction is because boards have an important say in strategic decisions in U.S. publicly listed firms, particularly regarding acquisitions in which the firm is the target. Thus, even if the family does not have control as a shareholder, it may still influence significantly the decision of to whom to sell the firm through its representatives on the board.

To identify family CEOs, Chairmen, and directors, we use four different data sources: (i) firm annual reports from the last fiscal year ending before the announcement date of the deal; (ii) firm websites and related internet searches; (iii) Bloomberg Executive Profile & Biography; and (iv) LinkedIn.

***Control variables.*** In addition to the family involvement variables predicted by our hypotheses to influence the choice of buyer, we include as control variables several characteristics of the target firm and of the deal that may also impact that choice (Klasa, 2007; Fidrmuc et al., 2012).

First, we want to control for resources that the target firm may need or want to obtain through the acquisition. The Resource-Based View (RBV) literature distinguishes among four types of valuable resources: (i) physical, (ii) financial, (iii) organizational, and (iv) human (Barney, 1991; Grant, 1991; Kraaijenbrink et al., 2010; etc.). Identifying and measuring valuable resources has long been recognized as a problematic task (Lockett et al. 2009), especially when using archival data rather than primary data from interviews or surveys (Newbert, 2007). However, the existing literature provides some useful hints (Maksimovic and Phillips, 2001; Villalonga, 2004; George, 2005). To operationalize the target firm's need for physical resources, we use *Firm Size*, measured by natural logarithm of total assets (Brauer, 2006), together with the degree of tangibility of those assets, which we measure as net property, plant, and equipment (PPE) scaled by total assets (*Asset Tangibility*). To measure the firm's need for financial resources, we use firm profitability, measured as net income over total assets (*ROA*), which prior studies show is an

important factor in the decision to sell stock in the firm (Dreux, 1990; Dawson, 2001). We also use financial *Leverage*, computed as interest-bearing debt (both long and short-term) scaled by the book value of equity. To capture the firm's need for organizational resources, we use *Firm Growth*, measured as the percentage change in revenues over the past year. As firms evolve with age, they often need to renew their capabilities or build new ones (George, 2005); therefore, we also include the age of the target firm (*Firm Age*), measured as the natural logarithm of one plus the number of years between the year of incorporation and the year of the deal. Finally, to proxy for the need for human resources, we use the total number of board members (*Board Size*), since larger boards should be able to provide more managerial and advisory expertise. We also control for Chairman-CEO duality using a dummy variable that equals 1 if the same person is the Chairman and the CEO, and 0 otherwise (*CEO-Chairman Duality*).

All financial data used to construct our control variables are taken from the last annual report available before the deal announcement date. All continuous variables are winsorized at the 1% level to account for outliers.

Following Villalonga and McGahan (2005), we also control for certain characteristics of the deal, and of the relationship between the acquirer and the target. First, we include the dollar value of the deal (*Deal Value*) to capture any systematic differences between StBs and FnBs in their selection strategy regarding the size of their targets and to control for the fact that StBs are generally able to pay higher control premiums than FnBs due to the synergies they—but not FnBs—are able to realize (Villalonga, 2010). Second, we include a dummy indicating whether the buyer was a previous minority shareholder in the target or not (*Buyer had Prior Minority Stake*) because, in order to integrate their targets' operations into their own and realize synergies, StBs typically need to acquire control; as a result, they are less likely than FnBs to engage in minority acquisitions (Villalonga, 2010). Third, we also include a dummy variable indicating whether the

target received other offers from a different type of buyer (*Offer from other Buyer Type*) prior to completing the focal deal. These data are available from Zephyr, which provides, when publicly known, information about M&A rumors and announcements of deals that were never completed.<sup>3</sup> It is important to note, however, that the absence of a formal offer from a different type of buyer does not necessarily imply a lack of choice on the part of the seller between the two buyer types.

We also consider controlling for whether the deal is a hostile takeover, which seems important given our focus on the role played by family shareholders, managers, and directors on the choice of buyer in sales on controlling stakes in U.S. publicly listed companies. To that end, we use the sub-deal types classification provided by Zephyr (see Appendix A) and consider as hostile takeovers those classified in Zephyr as “Hostile bid” or “Recommended initially became hostile.” However, we find that in our sample only two deals are sub-classified as hostile takeovers and thus it is not worth including a hostile takeover indicator as a control variable. Our results remain practically unchanged if we exclude these two deals from our sample.

## Methods

In our main analyses, we test our hypotheses about the association between the choice of buyer type in acquisitions and the founding family’s involvement in the selling firm using binary logistic regression models, with year ( $\mu_y$ ) and two-digit SIC code industry ( $\gamma_i$ ) fixed effects:

$$P[StB] = \beta_0 + \beta_1 \text{Family Ownership} + \beta_2 \text{Family CEO/Chairman} \\ + \beta_3 \text{Family Directors} + \sum_j \beta_j \text{Controls}_j + \gamma_i + \mu_y + \varepsilon,$$

where all variables have already been defined.

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<sup>3</sup> 80% of rumors are subsequently converted into official announcements by the potential buyers, so the data about them are reliable.

As a robustness check, we also test our hypotheses by examining the impact of the family's involvement in the selling firm on the method of payment agreed for the sale, using a similar model to the one above but using one of two alternative dependent variables: *Use of Stock as a Method of Payment* and *Percentage of Payment in Stock*. When we use the former, which is an ordinal variable, the model is estimated as an ordered logit. When we use the latter, which is a continuous variable bounded between 0 and 1, the model is estimated as a fractional logit model, as is appropriate when using proportions data in the [0, 1] interval (Papke and Wooldrige, 1996).

In all three regression models, according to our Hypotheses 1 and 2, we expect to see positive and significant coefficient estimates for both  $\beta_1$  and  $\beta_2$ , respectively. According to our third hypothesis, the  $\beta_3$  coefficient estimate may be either positive (Hypothesis 3a) or negative (Hypothesis 3b).

## **RESULTS**

### **Descriptive statistics and correlations**

Table 3 shows descriptive statistics. The mean of *Strategic Buyer* is 0.803, indicating that more than 80% of the acquisitions in our sample are made by a StB. The *Family-Controlled Firm* dummy indicates that 4.5% of our sample firms are ultimately controlled by a family owner. Those owners own an average equity stake of 41.5% in their firms (not reported), which leads to a mean *Family Controlling Ownership Percentage* of 1.9% for the whole sample. The latter includes non-family-controlled firms, for which that percentage has been coded in as zero even when a family owns some equity, but not enough to make it a controlling owner with the power to decide to whom to sell the firm to. The fact that more firms in the overall sample have a *Family CEO and/or Chairman* (23.8%) and/or *Family Director(s)* on the board (30.9%) than a controlling family owner indicates that the fraction of firms in the sample with non-controlling family ownership stakes is much higher than 4.5%, consistent with earlier studies of family firms in the United States

(Anderson and Reeb, 2003a; Villalonga and Amit, 2006, 2009, 2010). Indeed, among the firms in our sample in which the family is a non-controlling owner, 202 have a *Family CEO and/or Chairman* and 265 have one or more *Family Directors*.

Among the family-controlled firms in our sample, 42.8% have a *Family CEO and/or Chairman* and 7.7% have one or more *Family Directors* (not reported on Table 3).

[Insert Table 3 about here]

Table 4 presents the correlation matrix. The first column, in particular, shows the correlations between the *StB* dummy and all other variables, and can be interpreted as preliminary evidence—although not formal tests—bearing on our hypothesized relationships. Consistent with Hypotheses 1 and 2, *StB* is positively correlated with *Family Controlling Ownership Percentage*, the *Family-Controlled Firm* dummy, and the *Family CEO and/or Chairman* dummy. Consistent with Hypothesis 3b, *StB* is negatively correlated with the *Family Directors* dummy. However, the correlation between *StB* and *Family Directors Percentage* is zero.

[Insert Table 4 about here]

*StB* is also positively correlated with the target firm's *Age* and sales *Growth*, with the *Deal Value*, and with the extent to which the acquisition was paid for with stock rather than cash (*Method of Payment* dummy and *Percentage of Payment in Stock*). On the other hand, *StB* is negatively correlated with the target's profitability (*ROA*), *Asset Tangibility* and *Size*, and with the dummies indicating whether the *Buyer had a Minority Stake Prior* to the transaction and whether the target received other offers from a different type of buyer (*Offer from other Buyer Type*) prior to completing the focal deal.

### **Multivariate analyses of the probability of choosing a strategic buyer**

Table 5 reports the results from the estimation of the logit models with year and industry fixed effects. The model in Column (1) uses the percentage measures of both *Family Controlling*

*Ownership and Family Directors*, while the model in Column (2) uses the dummy versions of both variables. Both models include the *Family CEO and/or Chairman* dummy. In both regression models, the family's controlling ownership shows a positive and significant association with StB (Column (1): log-odds= 2.739 p-value= 0.067; Column (2): log-odds= 1.119 p-value= 0.056). These results indicate that, as predicted by Hypothesis 1, family owners prefer to sell their controlling stake to a StB, and that the probability of selling to a StB linearly increase with their ownership percentage. As predicted by Hypothesis 2, the presence of a family CEO and/or Chairman is also positively and significantly associated to the probability of selling the firm to a StB (Column (1): log-odds= 0.899 p-value= 0.020; Column (2): log-odds= 1.042 p-value= 0.005). In contrast, the presence of one or more family directors on the target firm's board exhibits the opposite sign, and the coefficients are statistically significant (Column (1): log-odds= -3.891 p-value= 0.025; Column (2): log-odds= -0.918 p-value= 0.007). These findings indicate that Hypothesis 3b prevails over its alternative Hypothesis 3a.

[Insert Table 5 about here]

Some of the control variables are statistically significant, although overall, resource-based considerations appear to play a less important role in the decision of to whom to sell the firm to than the founding family's involvement in the target firm. The negative coefficients of the target *Firm Size* and profitability (*ROA*) and the positive coefficient of the target firm's *Growth* indicate that larger and better performing firms are more willing to choose FnBs whereas growing firms are more inclined to sell to a StB, who can provide them with the strategic resources they need to keep growing their business successfully. *Deal Value* is positively associated with *StB*, indicating that StBs are generally willing and able to pay higher prices for their targets (holding that target size constant as we effectively do by including *Firm Size* as another control variable). The negative sign of *Buyer had Prior Minority Stake* indicates that FnBs are more likely than StBs to have

bought a minority stake in the target firm prior to acquiring control of it, as expected. Nevertheless, FnBs are more likely to face competition from other bidders—StBs, specifically—for their acquisition targets, as indicated by the negative sign of the *Offer from different Buyer Type* coefficient.

To highlight the economic significance of the multivariate coefficients shown in Table 5, in Figure 1 we provide a graphical representation of the marginal effects of our estimates (Williams, 2012). Specifically, we show the probabilities of the acquirer being a StB that are predicted by (1) the *Family-Controlled Firm* dummy at representative values of *Family Directors Percentage* (Panel A, left); (2) the *Family Directors* dummy at representative values of *Family Controlling Ownership Percentage* (Panel A, right); (3) the presence of a *Family CEO and/or Chairman* at representative values of *Family Directors Percentage* (Panel B, left); and (4) the presence of a *Family CEO and/or Chairman* at representative values of *Family Controlling Ownership Percentage* (Panel B, right).

[Insert Figure 1 about here]

The figure on the left side of Panel A shows that the probability of choosing a StB is higher for family-controlled firms than for their non-family controlled counterparts, but decreases as the percentage of family directors on the board increases. Conversely, the figure on the right side of Panel A shows that the probability of choosing a StB is lower when there is one or more family members serving as board directors, but increases with the percentage of family controlling ownership.

Panel B on the left side shows that the probability of choosing a StB is higher when a family member serves as CEO and/or Chairman, but decreases as the percentage of family directors on the board increases. Panel B on the right side shows the probability of choosing a StB is higher

when there is a family CEO and/or Chairman, and increases with the percentage of family controlling ownership.

### **Multivariate analyses of the method of payment**

Table 6 reports the results of our analyses of the impact of the family's involvement in the target firm on the method of payment used for the acquisition. Column (1) shows the results of the ordinal logistic regression in which the dependent variable captures the *Use of Stock as a Method of Payment*. Column (2) shows the results of a fractional logit model in which the dependent variable is the *Percentage of Payment in Stock*. Both regressions as reported on Table 6 use the percentage measures of both family controlling ownership and family directors. Although not reported, the coefficient estimates when using the dummy variable versions of both measures are similar in sign and significance.

As Table 6 shows, the *Family Controlling Ownership Percentage* is not statistically significant in either of these regressions. However, the two other measures of family involvement are significant, and show signs that are consistent with those reported on Table 5 for the regressions of the probability of choosing a StB. Namely, the coefficient of *Family CEO and/or Chairman* is significant and positive, reflecting these individuals' preference for receiving (for themselves and their fellow family shareholders) a greater fraction of the payment in stock of the acquiring or merged company). In contrast, *Family Directors Percentage* has a negative and significant coefficient, reflecting the opposite preference on the part of family directors.

### **DISCUSSION AND CONCLUSION**

Overall, our results show that the founding family's involvement in the target firm has a significant impact on the choice between a StB and a FnB in majority acquisitions of U.S. publicly listed firms. The sense in which the family influences that choice however varies depending on the

role played by the family within the firm—as controlling shareholders, top managers (CEO and/or Chairman), or board directors.

As predicted by our first hypothesis, we find that the family’s controlling ownership in the target firm is positively associated with the choice of a StB. This finding suggests that family owners, moved by their desire to protect their SEW, prefer to renounce to their firm’s future independence, which a FnB is more likely to ensure (Meuleman et al., 2009), in favor of a more stable future for its employees and other stakeholders such as the local communities that are impacted by the firm. Even though with a StB as a new controlling owner there is a high risk that the target firm will lose its original identity (Birley et al., 1999; Howorth et al., 2004), StBs can ensure a more stable operating continuity because they have a strong industry knowledge and a longer-term perspective when doing M&As. Our results are also consistent with the notion that family owners are generally skeptical toward FnBs because they view FnBs as prone to exploiting their business instead of taking care of it (Achleitner et al., 2010), which is contrary to their SEW preservation goals.

The results about the relation between family management and the choice of buyer type support our second hypothesis: the presence of a family CEO and/or Chairman is positively associated with the choice of a StB. This finding suggests that family CEOs and/or Chairmen’s interests are aligned with those of family shareholders, partly because they share their goal of protecting the family’s legacy and SEW and may in fact be the primary defenders of that goal (e.g., because they are often the firm founders and/or largest shareholders), and partly because it serves their personal interest in preserving their jobs. Consistent with their preference for selling to a StB, family CEOs and/or Chairmen also prefer being paid in stock in the acquiring firm or merged entity rather (or to a greater extent) than in cash, as this method of payment allows them to continue

to have a say in the future of the firm and thus to protect their SEW and their stakeholders, and also provides them with greater job security for themselves.

In contrast to the preferences exhibited by family controlling shareholders and top managers, our results show that family directors are more inclined to choose a FnB over a StB for the majority stake that is up for sale in their firms. This finding suggests that family directors' personal goals outweigh their desire to preserve the family's collective SEW, as predicted by Hypothesis 3b. The implication is that the event of the sale of a controlling stake in the firm brings to surface the underlying agency problem between family directors and family shareholders. One possible reason why this agency behavior may surface in this context is that a larger number of family directors is likely correlated with a larger and more diverse family, with multiple and even conflicting interests that are translated to the board. Such larger size and diversity of both the family as a whole and its representatives on the board are typical of business families in later generations (Gersick et al., 1997), and in those families the fear of SEW losses weigh less heavily on the family's willingness to give up control than personal or financial motivations (Gómez-Mejía et al., 2007). The latter may include a greater need or want for liquidity (Villalonga, 2011), which is also consistent with our finding that family directors favor cash over stock as a method of payment in sales of majority stakes in their firms.

Our study contributes to several streams of literature at the intersection of family business, strategy, and finance. First, we contribute to the growing literature on family business strategy. Most of this literature has used SEW theory (Gómez-Mejía et al., 2007) to explain why family firms make systematically different decisions from those of non-family firms regarding, for instance, corporate diversification (Gómez-Mejía et al., 2010) or acquisitions (Miller et al., 2010). Other studies show that the different agency problems faced by family firms relative to non-family firms (Burkart et al., 2003; Villalonga and Amit, 2006; Villalonga et al., 2015) can also explain

differences in their strategies such as internationalization (Villalonga et al., 2018), divestitures (Feldman et al., 2016), or again, diversification (Anderson and Reeb, 2003b) and acquisitions (Feldman et al., 2018). Building on Villalonga and Amit's (2006) distinction between family ownership, control and management, and their differential impact on family firms' performance, our paper shows that the interplay between SEW and agency considerations differs across these levels of family involvement. Therefore, to get a complete understanding of strategic decision-making in family and non-family firms it is important to unbundle the notion of the firm as a single decision-maker into the different individuals or groups within the organization that have a say in the specific decision under study and analyze their motivations and preferences separately.

Second, we contribute to the literatures on corporate acquisitions and divestitures by deepening our understanding of the seller's motives in acquisitions of publicly traded companies. Hundreds of studies have looked at buyers' motives in acquisitions (see Kaplan and Strömberg (2009) and Yaghoubi et al. (2016a, 2016b) for reviews of the LBO and M&As literatures, respectively). Included among them are a number of studies about the role of family firms as acquirers (Ben-Amar and André, 2006; Bauguess and Stagemoller, 2008; Basu et al., 2009; Feito-Ruiz and Menéndez-Requejo, 2010; Miller et al., 2010; Caprio et al., 2011; Franks et al., 2012; Bouzgarrou and Navatte, 2013; Worek, 2017; Gómez-Mejía et al., 2018). There is also a large number of studies that have looked at sellers' motives in divestitures (see Brauer (2006) for a review), including several about the role of families as divesters (Chung and Luo, 2008; Sharma and Manikutty, 2005; Praet, 2013; Zellweger and Brauer, 2013; Feldman et al., 2016).

However, very few studies have taken a sell-side perspective on acquisitions or buyouts. In that sense, our paper builds on Feldman et al.'s (2018) notion that, because acquisitions and divestitures are bi-directional, it is important to focus not only on the characteristics of the focal firm (i.e., the acquirer in acquisitions and the divester in divestitures), as most prior studies have

done, but also on the characteristics of the counterparty (i.e., the acquirer in divestitures and the divester in acquisitions). Like Feldman et al. (2018), the characteristic of the focal firm that we are interested in is the founding family's involvement in it. However, we focus on a different characteristic of the counterparty: whether it is a strategic or financial acquirer. We also complement their study by focusing on a different type of transaction: while Feldman et al. focus on transactions where a divester sells only part of its business to the acquirer, here we focus on transactions where the entire divester (or a controlling equity stake in it) is sold to the acquirer.

Third, our study sheds light on the evolution of corporate ownership within firms, and specifically on the exit process of founders and their families.<sup>4</sup> A number of papers provide evidence about the early stages of this process from by focusing on sales of founders' equity by (a) privately held firms to either venture capitalists (Hellmann and Puri, 2002) or at the IPO (Brennan and Franks, 1997; Mikkelson et al., 1997), or (b) by newly public firms (Mikkelson et al., 1997; Field and Sheehan, 2004; Hochberg, 2011). Only a few studies examine sales of founding families' equity that occur later in the firm's life cycle. Dawson (2011) and Tappeiner et al. (2012) focus on sales of families' minority stakes to private equity firms. Klasa (2007) and Caprio et al. (2011) investigate the final stage of entrepreneurs' exit process by selling their controlling ownership stake in publicly listed firms. We extend this literature by providing evidence on the complementary decision of to whom to sell the firm. We provide evidence that this decision is driven not only by characteristics of the buying and selling firms (such as the resources or capabilities that are exchanged), but also by the family-related and personal motives of owners, managers, and directors.

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<sup>4</sup> Helwege et al. (2007) examine the gradual diffusion of insider ownership (by officers and directors) over the 30 years following an IPO. Foley and Greenwood (2010) focus on the post-IPO evolution of the aggregate holdings of a disparate group of blockholders that include institutions, corporations, investment firms, the state, families, and employee associations. Except for founding families, however, none of these insiders or blockholders are shareholders since the firm's inception.

Finally, our study also contributes to the scant empirical evidence about family firms' survival or lack thereof. 28 of the 114 studies of family business succession reviewed by Stamm and Lubinski (2011) mention the “empirical fact” that only 30% of family businesses survive into the second generation and less than 10–15% make it to the third generation. References to these same statistics outside academic studies count themselves in the thousands. However, Stamm and Lubinski find that none of the studies they review substantiate these statistics with their own empirical analysis. Moreover, they trace the listed references (when any) for the alleged survival rate of family businesses and find that they are only supported by one empirical study—John Ward's (1987) analysis of 200 regionally-focused manufacturing companies. The sale of the firm or a controlling stake in it is one of the main ways in which a family firm stops being a family firm, and the one that families are most likely to have to make voluntary decisions about (unlike bankruptcy or liquidation, which are more likely to be forced upon them). By investigating the drivers of one of these key decisions—to whom to sell the firm—ours is therefore one of the very few empirical studies (together with Klasa (2007) and Caprio et al. (2010)) to shed light on the reasons behind family firms' mortality.

## APPENDICES

### Appendix A. Zephyr Bureau van Dijk database deal type classification

#### *Acquisition*

Any deal where the Acquirer ends up with 50% or more of the equity of the Target is coded as an Acquisition, as the Acquirer now has control of the Target, even if the acquired stake is very small.

Acquisitions listed on Zephyr include any of the following scenarios:

Acquisition X%: A controlling stake (X%) in the Target has been acquired (i.e. 50% or over).

Acquisition majority stake: The exact stake acquired has not been disclosed but the resulting stake is known to be 50% or more.

Acquisition remaining X%: The Bidder has acquired the X% of the Target's shares that it does not already own, bringing its total stake to 100%.

Acquisition stake increased from X% to Y%: The Bidder has increased its stake from X% to Y%, where Y is equal to or greater than 50%.

Acquisition stake increased to X%: The Bidder has increased its stake in the Target from an unknown figure to X%, where X is over 50%.

#### *Merger*

A true Merger in reality is actually quite rare, and many acquisitions are incorrectly described as “mergers” in the press. In a true Merger, there is a one-for-one share swap for shares in the new company and the deal involves a “merging of equals.” If the swap is not on equal terms, the deal would be coded as an Acquisition. However, in a true Merger, the original companies are entered into the deal record as the Acquirer and the Target (in no particular order). In the case of a three- (or more) way merger, multiple companies can be entered in both the Acquirer and Target fields. Where a Newco has been used, the Newco is added as the Acquirer and the newly merged company as the Target. The newly merged company name would be added to the comments. Mergers do often occur as ‘partnerships’ and are most typically carried out by organizations such as law firms and accountancy firms.

#### *Institutional Buy-Out (IBO)*

Acquisition where a Private Equity firm has taken a 50% stake or more in the Target company, or is the parent of the Acquirer. The acquisition often takes place through a ‘new company’ (Newco) or an acquisition vehicle. Often the Target company’s management will take a small stake (if the buy-out is for less than 100% of the Target company, the deal is coded as IBO X%). Many deals described in the media as MBOs are coded on Zephyr as IBOs due to the fact that the management team does not take a majority stake in the Target. There are very few occasions when Venture Capital may be inserted instead of Private Equity into as the financing method. This would only occur when an early-stage company raises development capital funding and the investors achieve a majority stake.

#### *Management Buy-Out (MBO)*

All or some of the existing management of the company buy at least 50% of the company from its existing owners. A private equity company is often brought in to aid the purchase through provision of equity funding. A ‘new company’ (newco) is normally formed by the management team specifically to purchase the Target. The Acquirer company would also show ‘MBO Team’ unless the name of the newco is known. If the name of the newco has been released, this company would be entered as the Acquirer. If the Private Equity firm backing the deal takes a majority stake in the Target, the deal is not defined as an MBO and would be coded as an IBO.

#### *Management Buy-In (MBI)*

The Target company is sold to an external team of managers, with the new management team taking a majority stake. This often happens with family firms with no-one to pass the company on to and so the company is sold to a management team. The out-going owners sometimes retain a small stake. The management team often includes a Private Equity firm. However, if the Private Equity firm takes a majority stake, then the deal is coded as an IBO rather than an MBI.

#### *Management Buy-In/Buy-Out (BIMBO)*

The target company is sold to a combination of existing management and incoming management. The management team often includes a Private Equity firm. However, if the Private Equity firm takes a majority stake then the deal is coded as an IBO rather than a BIMBO.

In addition to these deal types, we have also used *Capital Increases* to identify possible M&A deals, as it is not unusual for M&As to be accompanied by capital increases. To identify if the company that has carried out a capital increase

is a Private Equity firm, we read the deal description provided by Zephyr and supplement this information with web searches.

Sub-deal types are further levels of classifications relating to the structure of a deal and are populated when determined. A deal can have any number of sub-deal types based upon the data in the public domain.

#### *Hostile bid*

This would be added as a sub-deal type when a public takeover bid is classified as hostile because the management board of the target company does *not* recommend the bid to the company's shareholders. The offer only becomes hostile when the board rejects it and advises the shareholders to reject it too; the offer will be classified as an *unsolicited bid* until that point. This financing method is only to be used in a public takeover deal. Researchers would also refer to Public takeover, Recommended bid, Unsolicited bid and Contested bid.

#### *Recommended initially became hostile*

This would be added as a sub-deal type when a public takeover bid was originally recommended by the management board of the target company to the company's shareholders but the board has since decided to withdraw its recommendation for the offer. This can happen when the terms of a takeover change or a more attractive offer is made. Researchers would remove *recommended bid* from the *financing method* section and replace it with *recommended initially became hostile*. This financing method is only to be used in a public takeover deal. Researchers would also refer to *public takeover*, *recommended bid*, and *hostile bid*.

## Appendix B. Family controlling ownership measurement

We use Franks et al. (2012) latest unpublished version (dated October 27, 2010) *Appendix D* to identify whether a firm has a family as ultimate owner (this is the last version of their (2012) paper to contain such detailed appendix). We use Bureau van Dijk's Orbis database instead of Bureau van Dijk's Amadeus database as in Franks et al. (2010) because the Amadeus database covers only European firms, while Orbis covers firms worldwide. However, the variable definitions in both databases are the same.

Orbis traces controlling ownership positions as follows. First, it focuses on voting rights, not cash-flow rights. Second, it refers to entities as the ultimate owners of a firm if the entity controls the firm directly at a defined threshold or via a control chain whose links all exceed that threshold. The threshold can be configured to be 25 or 50%. We set it to 25% which is more consistent with the thresholds used to identify family owners of U.S. corporations (Anderson and Reeb, 2003a; Villalonga and Amit, 2006). Third, a company that is known to have no ultimate owner is referred to as widely held (*pag. 13*).

Firms are then classified into four categories: (i) widely held (ii) ultimately controlled by a family (iii) ultimately controlled by a non-family owner (iv) ultimately controlled by an unknown type of shareholders (*pag. 13*). To classify firms, we rely on seven Orbis data items:

*Independence Indicator*: Classifies the degree of independence of the firm. Ranges from A+ (highest independence) to D (lowest independence), also takes the value U (unknown independence).

*Shareholder type*: Classifies shareholder types. Types include, but are not limited to, "Bank", "Financial company", "Insurance company", "Industrial company", "Public authorities", "One or more known individuals or families", "Employees/managers/directors", and "Self ownership".

*Direct Ownership*: Percentage of voting rights held by the shareholder directly.

*Total Ownership*: Percentage of total voting rights held by the shareholder where the path through which ownership is held may be direct *and* indirect.

*Ultimate Owner type*: Classifies the entity identified as the ultimate owner of a firm. Types include, but are not limited to, "Bank", "Financial company", "Insurance company", "Industrial company", "Public authorities", "One or more known individuals or families", "Employees/managers/directors".

*Ultimate Owner Direct Ownership*: Percentage of voting rights held by the ultimate owner directly.

*Ultimate Owner Total Ownership*: Percentage of total voting rights held by the ultimate owner where the path through which ownership is held may be direct *and* indirect.

*Ultimate Owner BvD number*: Unique identifier of the ultimate owner

We proceed by cleaning the raw data in several steps: *Independence Indicators* are grouped into five categories, A, B, C, D, U, eliminating subcategories A+, A-, etc. Next, special cases of *Direct Ownership* and *Total Ownership* are translated into numeric values. Examples of this are: "wholly owned" is translated into 100% ownership, "majority owned" is translated into 51% ownership. Then, for both *Ultimate Owner* and for *Shareholder*, we aggregate the reported stakes by using the *Total Ownership* stake and replacing it with the *Direct Ownership* stake if *Total Ownership* is missing. Next, we remove blocks of unaffiliated shareholders that for reporting purposes have been grouped together by Orbis in categories such as "Public", "Small shareholders", "Unnamed private shareholders", etc.

After this initial cleaning, we apply seven filters to assign each firm to one of the previously described four ownership categories:

1. Classify a firm as being widely held if the firm is known not have any shareholder with a stake larger than 25 percent, i.e. a firm that is classified as independent.
2. Classify a firm as ultimately controlled by a family if it is reported to have a family as its ultimate owner.
3. Classify a firm as ultimately controlled by a non-family owner if the firm's ultimate controlling shareholder is a firm that itself is widely held, i.e. does not have an ultimate controlling shareholder.
4. If information about the type of the ultimate owner is missing, but the firm is not widely held, classify the firm as having a family as ultimate owner if there are shareholders listed that are classified as "Individual(s) or family member" and one shareholder owns at least 5% and all family type shareholders together own at least 25 percent.
5. If the firm is reported to have an ultimate controlling shareholder that is a bank, an insurance company, another type of financial company, a foundation, or an industrial company, classify the firm as having a family as its ultimate controlling shareholder if there are family-type shareholders of the firm that hold at least a 5% stake. If

the firm has no family-type shareholder who owns at least a 5% stake, classify the firm as having a non-family ultimate controlling shareholder.

6. If the ownership status of the firm is unknown and the independence of the firm is unknown according to Orbis, classify the firm as having an unknown ownership status.
7. If the firm is known to have a shareholder that holds at least a 25% stake but the type of the ultimate controlling shareholder is unknown, classify the firm as family-controlled if there are family-type shareholders reported that own at least a 25% stake. If there is no family-type shareholder reported that owns at least a 25% stake, but there are other types of shareholders with stakes of 25% or higher, classify the firm as controlled by a non-family ultimate shareholder. If there are no shareholders with stakes of at least 25%, classify the firm as having an unknown ownership status.

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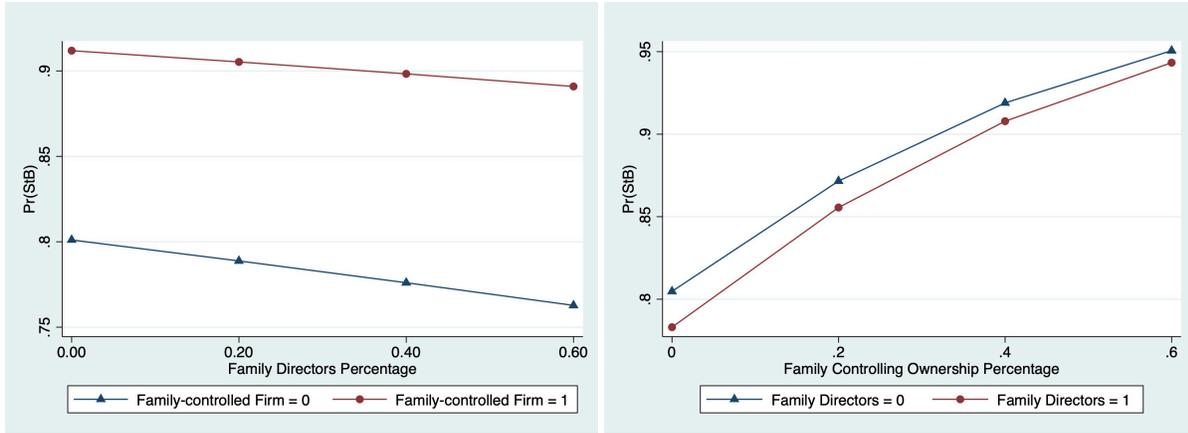
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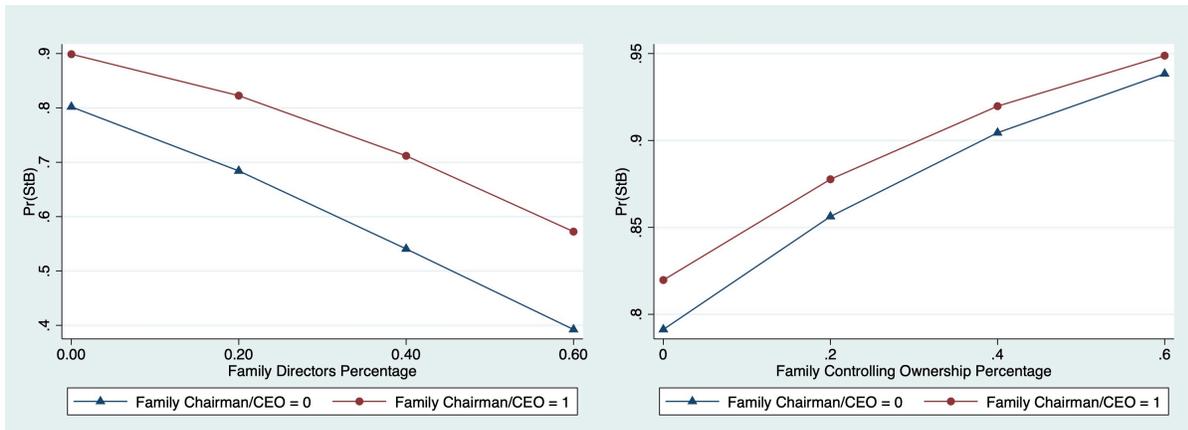
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**Figure 1. Probabilities of choosing a strategic buyer in sales of majority stakes in target firms predicted by family ownership, management, and board control**

**Panel A:**



**Panel B:**



Probabilities of the acquirer being a strategic buyer in acquisitions of majority stakes in target firms predicted by (1) the family firm dummy at representative values of the family directors percentage (Panel A, left); (2) the family board dummy at representative values of the family controlling ownership percentage (Panel A, right); (3) the presence of a family CEO and/or Chairman at representative values of the family directors percentage (Panel B, left); and (4) the presence of a family CEO and/or Chairman at representative values of the family controlling ownership percentage (Panel B, right).

**Table 1. Frequency of Strategic v. Financial Buyers**

<b>Year / Industry</b>	<b>Strategic Buyer</b>	<b>Financial Buyer</b>	<b>Total Deals</b>	<b>% of All 917 Deals</b>	
<i>A. By Year</i>					
2005	25	7	32	3.49%	
2006	70	18	88	9.60%	
2007	66	22	88	9.60%	
2008	47	4	51	5.56%	
2009	22	8	30	3.27%	
2010	82	24	106	11.56%	
2011	75	17	92	10.03%	
2012	78	11	89	9.71%	
2013	67	25	92	10.03%	
2014	71	10	81	8.83%	
2015	84	14	98	10.69%	
2016	50	20	70	7.63%	
<i>B. By 2-Digit SIC Code Industry</i>					
SIC	Industry				
16	Heavy Construction other than Building Construction Contractors	1	1	2	0.22%
20	Food and Kindred Products	17	1	18	1.96%
23	Apparel & other Finished Products made from Fabrics & Similar Mat	7	2	9	0.98%
26	Paper and Allied Products	10	1	11	1.20%
27	Printing, Publishing, and Allied Industries	10	2	12	1.31%
28	Chemicals and Allied Products	73	3	76	8.29%
33	Primary Metal Industries	8	1	9	0.98%
35	Industrial and Commercial Machinery and Computer Equipment	35	6	41	4.47%
36	Electronic & Electrical Equipmt & Components, except Computer Eq	85	15	100	10.91%
37	Transportation Equipment	9	4	13	1.42%
38	Measuring Instruments	66	8	74	8.07%
39	Miscellaneous Manufacturing Industries	8	1	9	0.98%
40	Railroad Transportation	2	1	3	0.33%
42	Motor Freight Transportation and Warehousing	4	2	6	0.65%
44	Water Transportation	1	1	2	0.22%
45	Transportation by Air	5	1	6	0.65%
47	Transportation Services	5	3	8	0.87%
48	Communications	45	7	52	5.67%
49	Electric, Gas, and Sanitary Services	30	5	35	3.82%
50	Wholesale Trade-Durable Goods	10	4	14	1.53%
51	Wholesale Trade-Nondurable Goods	6	3	9	0.98%
54	Food Stores	3	2	5	0.55%
56	Apparel and Accessory Stores	6	1	7	0.76%
57	Home Furniture, Furnishings, and Equipment Stores	1	1	2	0.22%
58	Eating and Drinking Places	9	6	15	1.64%
59	Miscellaneous Retail	7	6	13	1.42%
70	Hotels, Rooming Houses, Camps, and other Lodging Places	2	5	7	0.76%
72	Personal Services	2	1	3	0.33%
73	Business Services	164	59	223	24.32%
79	Amusement and Recreation Services	3	3	6	0.65%
80	Health Services	20	11	31	3.38%
83	Social Services	2	1	3	0.33%
87	Engineering, Accounting, Research, Management & Related Services	74	10	84	9.16%
89	Miscellaneous Services	7	2	9	0.98%
All Years and Industries		737	180	917	100%

Number of deals with a strategic or financial buyer in a sample of 917 completed acquisitions involving US publicly listed firms as targets over the period between January 1, 2006 and December 31, 2016.

**Table 2. Variable descriptions**

<b>Variable</b>	<b>Description</b>	<b>Source</b>
<i>Dependent variables:</i>		
Strategic Buyer	Dummy variable that equals 1 if the acquirer in sales of majority stakes in target firms is a non-financial company, and 0 if it is a financial buyer (i.e., a private equity or LBO firm)	Zephyr
Use Stock as a Method of Payment	Ordinal variable that equals 1 when the method of payment in acquisitions of majority stakes in target firms is 100% cash, 2 when it is a mix of cash and stock, and 3 when it is 100% stock.	Zephyr
Percentage of Payment in Stock	Continuous variable that ranges between 0 and 1 and indicates the percentage of the total deal value paid for in stock.	Zephyr
<i>Independent Variables:</i>		
Family Controlling Ownership Percentage	Total (direct and indirect) percentage amount of voting stock held by members of the founding family in the target firm.	Orbis
Family-Controlled Firm Dummy	Dummy variable that equals 1 if the family ownership percentage (defined as above) is higher than 0%, and 0 otherwise.	Orbis
Family CEO and/or Chairman	Dummy variable that equals 1 if the CEO and/or Chairman of the target firm is a member of the founding family, and 0 otherwise	Hand-collected from annual report, Bloomberg Executive Profile & Biography, and LinkedIn
Family Directors Percentage	Percentage of board directors that are members of the founding family members	Hand-collected from annual report, Bloomberg Executive Profile & Biography, and LinkedIn
Family Directors Dummy	Dummy variable that equals 1 if there is at least one family member serving as board director, and 0 otherwise	Hand-collected from annual report, Bloomberg Executive Profile & Biography, and LinkedIn
<i>Control Variables:</i>		
Chairman-CEO Duality	Dummy variable that equals 1 if firm's Chairman and CEO is the same person, and 0 otherwise.	Hand-collected from annual report
Board Size	Total number of directors on the board.	Hand-collected from annual report
Firm Age	Natural logarithm of (firm age (in years) + 1)	Orbis
Firm Size	Natural logarithm of firm total assets	Datastream
ROA	Ratio of net income to total assets	Datastream
Growth	Percentage change in sales relative to prior year	Datastream
Leverage	Ratio of interest-bearing debt (both long and short term) to the book value of equity	Datastream
Asset Tangibility	Ratio of net plant, property and equipment to total assets	Datastream
Deal Value	Deal value in U.S. dollars	Datastream
Offers from Other Buyer Type	Dummy variable that equals 1 if the firm received at least another offer from a different type of buyer from the actual acquirer's (i.e., from a strategic buyer if the acquirer is financial, and <i>vice versa</i> ), and 0 otherwise	Zephyr
Buyer had Prior Minority Stake	Dummy variable that equals 1 if the buyer owns a minority stake before the deal, and 0 otherwise. At last ending fiscal year before the deal announcement date	Zephyr

All deal-level variables are measured at the deal announcement date. All firm-level variables are measured at the end of the last fiscal year prior to the deal's announcement.

**Table 3. Descriptive statistics**

	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>
Strategic Buyer	0.803	1.000	0.397
Use of Stock as a Method of Payment	1.233	1.000	0.509
Percentage of Payment in Stock	0.079	0.000	0.246
Family Controlling Ownership Percentage	0.019	0.000	0.095
Family-Controlled Firm Dummy	0.045	0.000	0.209
Family CEO and/or Chairman	0.238	0.000	0.426
Family Directors Percentage	0.053	0.000	0.091
Family Directors Dummy	0.309	0.000	0.462
Chairman-CEO Duality	0.536	1.000	0.498
Board Size	7.853	8.000	2.084
Firm age (log)	3.036	3.044	0.577
Firm Size (Total Assets)	19.462	19.442	1.907
ROA	-0.097	0.017	0.529
Firm Growth	0.176	0.063	0.766
Leverage	0.596	0.180	4.120
Asset Tangibility	0.182	0.103	0.197
Deal Value	2.200	4.700	5.030
Offers from other Buyer Type	0.068	0.000	0.253
Buyer had Prior Minority Stake	0.055	0.000	0.229

Mean, median, and standard deviation of all variables used in the analyses, estimated on the same sample as the regressions (917 completed acquisitions involving US publicly listed firms as targets over the period between January 1, 2006 and December 31, 2016). All variables are defined in Table 2.

**Table 4. Correlation matrix**

	Strat Buyer	Stock as Payment Method	% Payment in Stock	Family Ctrlng Owner-ship %	Family-Ctrled Firm Dummy	Family CEO/Chairman	Family Board %	Family Board Dummy	Chairman-CEO Duality	Board Size	Firm age	Firm Size (Total Assets)	ROA	Growth	Leverage	Asset Tangibility	Deal Value	Offers fr Other Buyer Type	Buyer Prior Min Stake
Strategic Buyer	1.00																		
Stock as Payment Method	0.20	1.00																	
% of Payment in Stock	0.16	0.94	1.00																
Family Ctrl Ownership %	0.04	0.01	0.01	1.00															
Family-Ctrled Firm Dum	0.04	0.00	-0.01	0.91	1.00														
Family CEO/Chairman	0.01	0.00	-0.02	0.11	0.10	1.00													
Family Directors %	0.00	-0.04	-0.05	0.07	0.06	0.80	1.00												
Family Directors Dummy	-0.02	-0.02	-0.05	0.09	0.08	0.84	0.88	1.00											
Chairman-CEO Duality	-0.01	0.01	0.00	-0.04	-0.04	0.06	0.06	0.06	1.00										
Board Size	-0.05	0.01	-0.00	-0.05	-0.03	0.02	-0.03	0.06	-0.07	1.00									
Firm age	0.03	-0.01	-0.00	-0.02	-0.06	-0.08	-0.09	-0.11	0.01	0.07	1.00								
Firm Size (Total Assets)	-0.08	0.06	0.00	-0.05	-0.03	0.02	-0.04	0.01	0.10	0.56	0.04	1.00							
ROA	-0.08	-0.17	-0.16	0.02	0.03	0.03	0.00	0.00	0.08	0.13	0.11	0.36	1.00						
Growth	0.07	0.07	0.10	0.00	0.00	0.08	0.13	0.09	-0.05	-0.03	-0.07	-0.07	-0.13	1.00					
Leverage	-0.02	0.05	0.06	0.00	0.00	0.03	0.01	0.02	0.05	0.06	-0.04	0.13	0.03	0.02	1.00				
Asset Tangibility	-0.08	0.02	0.02	0.03	0.03	-0.02	-0.05	-0.06	0.00	0.10	0.09	0.19	0.07	-0.05	0.05	1.00			
Deal Value	0.04	0.14	0.09	-0.03	-0.03	-0.01	-0.03	0.00	0.10	0.38	0.06	0.60	0.10	-0.03	0.07	0.08	1.00		
Offers fr Other buyer type	-0.27	-0.06	-0.05	-0.02	-0.02	0.00	-0.03	0.00	0.02	0.03	-0.01	0.07	0.04	-0.04	-0.01	0.02	0.02	1.00	
Buyer Prior Minority Stake	-0.07	-0.05	-0.03	-0.01	-0.01	0.05	0.06	0.03	-0.00	-0.07	-0.05	-0.03	-0.00	0.04	-0.02	0.12	-0.09	0.05	1.00

Correlation coefficients between each pair of variables used in the analyses. All variables are defined in Table 2.

**Table 5. Impact of family ownership, management, and board control on the probability of choosing a strategic buyer in sales of majority stakes in target firms**

	(1) Prob[Strategic Buyer]	(2) Prob[Strategic Buyer]
Family Controlling Ownership Percentage	2.739* (0.067)	
Family-Controlled Firm Dummy		1.119* (0.056)
Family CEO and/or Chairman	0.899** (0.020)	1.042*** (0.005)
Family Directors Percentage	-3.891** (0.025)	
Family Directors Dummy		-0.918*** (0.007)
CEO-Chairman Duality	-0.099 (0.618)	-0.094 (0.637)
Board Size	-0.079 (0.170)	-0.059 (0.315)
Firm Age (log)	0.276 (0.116)	0.266 (0.135)
Firm Size (Total Assets)	-0.144* (0.090)	-0.143* (0.093)
ROA	-1.546** (0.014)	-1.548** (0.015)
Growth	1.107*** (0.008)	1.162*** (0.006)
Leverage	-0.031 (0.180)	-0.029 (0.212)
Asset Tangibility	-0.224 (0.719)	-0.237 (0.703)
Deal Value	0.000** (0.034)	0.000** (0.034)
Offers from Other Buyer Type	-2.056*** (0.000)	-2.021*** (0.000)
Buyer had Prior Minority Stake	-0.907** (0.028)	-0.910** (0.027)
Number of Observations	917	917
Industry Fixed Effects	YES	YES
Year Fixed Effects	YES	YES
McFadden Pseudo- $R^2$	0.211	0.213

Log-odd estimates from binary logistic regressions in which the dependent variable is the probability of the acquirer being a strategic buyer in acquisitions of majority stakes in target firms. The independent variables are different measures of family involvement in the target firm's ownership, management, and board control, as well as other target firm and deal characteristics. All variables are defined in Table 2. All model specifications include 2-digit SIC code industry and year fixed effects. Robust  $p$ -values are shown in parentheses. The symbols \*\*\*, \*\*, and \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.

**Table 6. Impact of family ownership, management, and board control on the use of stock as a method of payment in sales of majority stakes in target firms**

	(1) Use of Stock as a Method of Payment	(2) Percentage of Payment in Stock
Family Controlling Ownership	0.516 (0.590)	0.732 (0.386)
Family CEO and/or Chairman	1.054*** (0.009)	1.362** (0.025)
Family Directors Percentage	-5.737*** (0.008)	-9.022*** (0.009)
/cut1	4.415*** (0.012)	
/cut2	6.433*** (0.000)	
N	900	820
Controls	YES	YES
Industry FE	YES	YES
Year FE	YES	YES
McFadden Pseudo- $R^2$	0.145	0.188

Column (1) shows selected coefficients from an ordinal logistic regression in which the dependent variable is an ordinal variable that equals 1 when the method of payment in acquisitions of majority stakes in target firms is 100% cash, 2 when it is a mix of cash and stock, and 3 when it is 100% stock. Column (2) shows selected coefficients from a fractional logit regression in which the dependent variable is a continuous variable that ranges between 0 and 1 and indicates the percentage of the total deal value paid for in stock. The independent variables in both regressions are different measures of family involvement in the target firm's ownership, management, and board control, as well the same target firm and deal characteristics included in Table 5 and defined in Table 2. All model specifications include 2-digit SIC code industry and year fixed effects. Robust  $p$ -values are shown in parentheses. The symbols \*\*\*, \*\*, and \* denote statistical significance at the 1%, 5%, and 10% levels, respectively.