THE ROLE OF FAMILIES IN ACQUISITION DECISIONS: EVIDENCE FROM LARGE EUROPEAN COMPANIES

Lorenzo Caprio[a]
Università Cattolica - Milano

Ettore Croci[b,*]
Università degli Studi di Milano - Bicocca

Alfonso Del Giudice[c]
Università Cattolica - Milano

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Abstract

We investigate how the controlling shareholder's identity influences the firm's incentive to take part to an M&A deal, both as an acquirer and as a target. We study a comprehensive sample of 777 large Continental European companies in the period 1998-2002. These firms launched 1,398 acquisitions in 12 Continental Europe countries. More than half of these firms (405) made at least one acquisition, and 206 firms changed owner or were taken private by their controlling shareholders. Family firms are indeed less likely to make acquisitions, even controlling for the size effect. However, they do not outperform non-family firms when they acquire other firms. Contrary to our expectation, we also document that widely held firms, not family firms, are the least likely to be acquired. Thus, families are not an obstacle to the transfer of control, but diffuse ownership is. Finally, we find an inverse listing effect: abnormal returns are higher when the target is public.

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*Corresponding author

[a] Università Cattolica, Via Necchi, 5, 20122 Milan, Italy, e-mail: lorenzo.caprio@unicatt.it
[b]Università degli Studi di Milano-Bicocca, Facoltà di Economia, Dipartimento di Scienze Economico-Aziendali, P.zza Ateneo Nuovo, 1 ed. U6, 20126 Milan, Italy. Phone: +39 02 6448 3152, e-mail: ettore.croci@unimib.it
[c] Università Cattolica, Via Necchi, 5, 20122 Milan, Italy, e-mail: alfonso.delgiudice@unicatt.it

1. Introduction

As widely known, several motivations exist to explain acquisitions: synergies, managerial empire building, managerial hubris or overconfidence, bidder's stock overvaluation, just to name a few. A recent strand of literature emphasizes that ownership structure affects firm's performance and behavior (Anderson and Reeb, 2003; Ang et al., 2000; Barontini and Caprio, 2006; Bennedsen et al., 2007; Cronqvist and Nilsson, 2003; Maury, 2006; Miller et al., 2007; Villalonga and Amit, 2006). In this paper, we investigate whether ownership structure, in particular the role of families as controlling shareholders, affects the incentives to participate in an acquisition (either playing the role of bidder or target) and the acquisition performance.

Studies investigating the relationship between family ownership and firm value obtain mixed results. Part of the literature shows that the overall effect of family control on firm performance is positive (Anderson and Reeb, 2003; Villalonga and Amit, 2006), even though family firms often take value-reducing decisions, such as making extensive use of control-enhancing devices like multiple share classes, pyramids, and voting agreements, which substantially reduce their valuation premiums (Villalonga and Amit, 2007, and Barontini and Caprio, 2006) or appointing a member of the family as CEO in case of succession (Perez-Gonzales, 2006). Conversely, Claessens et al. (2002), Cronqvist and Nilsson, (2003), Maury (2006), and Bennedsen et al. (2007), find that family ownership, especially when the heirs run the firms, negatively affects firm performance. This negative effect is also consistent with Bertrand and Schoar (2006), who document that families maximize their utility as opposed to firm value maximization. Miller et al. (2007) find that the superior performance of family firms is limited to the cases where a lone founder runs the firm. When other family members participate in the company's life serving as owners or managers, family firms do not outperform.

The decision to make acquisitions (or to accept a takeover offer) is certainly affected by the decision maker's incentives. For example, the empire building argument is far more relevant for a widely held firm, where managers do not use their money to pay for the acquisition, than in

family firms where the managers usually own a sizeable stake in the company. Moreover, the decision to make an acquisition may have implication at ownership structure level, diluting the stake held by the controlling shareholder when the deal is stock financed.

While mergers and acquisitions have been deeply examined, the role played by the ownership structure and the type of controlling shareholder, especially family, has been partially neglected, with the exception of Sraer and Thesmar (2007) and Ben-Amar and Andre' (2006), who document that family firms started more profitable acquisitions than non-family firms in France and Canada, respectively. Ben-Amar and Andre' (2006) also show that there is a non-monotonic relationship between ownership level and acquiring firm abnormal returns. They argue that this is consistent with the fact that large shareholders are more risk adverse when they have more wealth at stake in the company. Holderness and Sheehan (1988) compare the likelihood of a control change between firms majority-owned by families and those majority-owned by corporations. They find that firms where the majority shareholder was an individual investor (or family) were less likely to be acquired. Klasa (2007) finds only 84 observations for the sale of the family's controlling stake in the US over a long period (1984-1998), and this certainly casts some doubts about the willingness of families to sell their firms.

This paper investigates how the identity of the controlling shareholder influences the M&A decision by studying a comprehensive sample of large Continental European companies in the period 1998-2002. Our sample consists of 777 non-financial firms with total assets above US$250m at the end of 1997. More than half of these firms (405) made at least one acquisition and, overall, they launched 1,398 acquisitions. Differently from previous papers, we also consider deals executed using a (non-listed) subsidiary, which permits to include in our sample deals previously ignored because not executed directly but that impacted the shareholders' wealth. By the end of the sample period, 206 firms changed owner or were taken private by their controlling shareholders. Family firms are as likely as non-family firms to experience an ownership change, but the number of going private transactions is higher for family firms.

Our main result is that family firms are indeed less likely to make acquisitions, even when we control for the size effect. However, family firms do not outperform non-family firms when they acquire other firms: less quantity does not translate into higher quality. While the event study analysis presents results that corroborate the hypothesis that family firms make better acquisitions than non family firms, the multivariate analysis shows that this differential return is due to target firms' and deals' characteristics, not to the type of controlling shareholder. Contrary to our expectation, we also document that widely held firms, not family firms, are the least likely to be acquired during the period investigated. Thus, it appears that, at least in large European companies, families are not an obstacle to the transfer of control, but diffuse ownership is. Finally, our results do not support the previous findings of a listing effect, i.e. bidders earn positive abnormal returns when they acquire private companies, but negative (or zero) when they buy public firms. In fact, we find an inverse listing effect: abnormal returns are higher when the target is public.

The contributions of the paper are several. First, the paper examines the role of families in acquisition decisions and compares them to other types of controlling shareholders (Holderness and Sheehan, 1988). Second, it also investigates differences in the propensity to acquire other firms between family firms run by founders and heirs, a characteristic that the literature found to be important (Miller et al. (2007), Morck et al. (2000), Morck et al. (1988), and Palia e Ravid (2002)). Finally, we study and find that the propensity of being acquired is affected by the identity of the controlling shareholders. However, our finding goes against the common wisdom: widely held firm are the least likely target firms.

The paper is structured as follows. We develop the hypotheses in Section 2. In Section 3 we describe the sample and present some descriptive statistics. We examine the propensity to acquire and the acquisition performance in Section 4, and the choice of the method of payment in Section 5. We investigate which firms are more likely to be acquired in Section 6. We present our conclusion in Section 7.

2. Hypotheses and Predictions Derived from the Prior Literature

2.1 Hypotheses about the effect of having a family as largest (ultimate) shareholder

Much of the debate over corporate governance problems is about the role of families. In fact, families may be the large shareholders that can help mitigating the agency conflicts between management and shareholders. Differently from professional managers, families usually put their money at stake when they make an acquisition. Therefore, families can be seen as a sort of rich investors à la Gorton and Kahl (2005): firms controlled by families are free from the agency costs caused by the separation of ownership and control. Since a bad acquisition destroys value, the family, the largest shareholder in the bidding firm, bears the largest cost. This cost is increasing in the stake held by the controlling shareholders. At the same time, however, family business groups have serious governance problems. As Morck and Yeung (2003) argue, the agency problem in family firms is that managers act solely for one shareholder, the family, and neglect the others.

Another point to consider is that families are not particularly prone to relinquish their control and to dilute their stakes, especially when another large shareholder could emerge. In fact, families are known to be reluctant to sell their firms. Klasa (2007) finds a very low number of families who sold their firms in the US. Holderness and Sheehan (1988) explain the lower frequency of corporate control transactions among firm with a majority individual shareholder with the fact that some benefits of control cannot be transferred, like the pride of running the company he or a family member founded. Therefore, we expect a negative relationship between family and the probability of acquiring, especially if this implies diluting control. To put it differently, we expect that families are more conservative than other shareholders in making acquisitions, in particular when they do not own very large stake of the company's equity.

H1: Family firms make fewer acquisitions than other firms to avoid putting their money at risk.

While the conflict between management and ownership is mitigated in firms with a controlling shareholder, a conflict between controlling shareholders and minority shareholders exists in these companies. Controlling shareholders, in particular families can make acquisitions to expropriate minority shareholders or to achieve private benefits. Given the nature of this conflict, we expect that a low controlling stake increases the probability that an acquisition will take place.

Since the managers of family firms do not have the incentive to build empires and waste corporate resources like their counterparts at the helm of widely held firms, we also expect that their acquisitions are on average more profitable. Kahl et al. (2005) provide another rationale to acquire for firms controlled by an incumbent management who values control: the desire of not being taken over. Since bidders tend to be generally larger than targets, increasing the size of the company through acquisitions is an effective defense against potential acquirers, especially for firms that are not too small to start with. Since these acquisitions are merely driven by the desire to remain independent, they may be unprofitable. We expect that widely held firms suffer from this problem more than firms with a concentrated ownership, which cannot be taken over with a hostile offer.[1]

H2: Acquisitions made by family firms are more profitable than those made by widely-held firms.

Regarding the method of payment, families will limit the use of equity in acquisitions, effectively preventing them to make large acquisitions, to avoid the possibility that a new large shareholder is created. In fact, as Faccio and Masulis (2005) notice, controlling shareholders may be reluctant to dilute their share in the company's equity and

[1] However, when a family does not hold an ownership stake that prevents hostile acquisitions, they may also adopt this strategy.

to risk losing control. Thus, these firms are likely to use cash in acquisitions, which might decrease the probability to make acquisitions. This incentive is stronger for firms where the family has a relatively small stake. This leads to the following hypothesis:

H3: Family firms make fewer equity-financed acquisitions because they do not want to dilute their stakes in the company. The lower the stakes held by the family, the lower the probability that a family will make equity financed transactions.

Among family firms, different generations of owners may have different incentives in carrying out acquisitions. Founders are likely to be more attached to the firms they founded and so, more likely to avoid acquisitions in which they may have to relinquish, even partially, control than heirs. Founders may also be less likely to take risks buying other firms if this means putting their legacies at risk. Differently from founders, heirs may also have a higher propensity to acquire other companies because they want to prove their ability in running the firm. Morck et al. (2000) and Miller et al. (2007) document that family firms perform better when the founder is present. This leads to the following hypothesis:

H5: Among family firms, firms run by the founder make less and better acquisitions than firms run by heirs.

Finally, our last hypothesis is about the likelihood that the firm is taken over during our sample period. Given their attachment to control and the private benefits, pecuniary and non pecuniary (Holderness and Sheehan, 1988), they enjoy controlling the company, we expect that family firms are the least likely to being taken over. Moreover, we also expect, on the basis of the

agency theory, that widely held firms are the most likely target because incumbent managers often do not maximize shareholder value, leaving room for improvement for potential bidders.

H6: Family firms are the least likely target firms, while the probability of being taken over is higher for widely held firms.

2.2 Other type of ultimate owners and other variables

While our main aim is to examine how being family-controlled affects M&A decisions, we cannot neglect factors that previous analyses have found to influence the propensity to make acquisitions and to be taken over.

The ownership structure is a key variable in the decision to become a bidder. While we primarily focus on family firms and their behavior compared to non-family firms, we acknowledge that non-family firms are a very heterogeneous group, including firms as different as widely held and state-owned firms. To overcome this problem, we classify non-family firms into seven categories. The first group, widely held firms, is characterized by the lack of shareholders owning at least 10% of the company's voting rights. Financial firms are considered a group on their own, given their particular incentives and their special role in the economic and financial system. Four groups are defined on the basis of their controlling shareholder: widely-held firm, state, employees, foundations. Finally, we have a residual category (miscellaneous). The identity of the ultimate largest shareholder (based on a ten percent cutoff point) and the size of its cash-flow and voting rights are detected according to the now well-known methodology developed by La Porta *et al*. (1999), and used by Claessens *et al*. (2000), Faccio and Lang (2002), Claessens *et al*. (2002), and Barontini and Caprio (2006), among others.

European firms are often part of a business group. Group-affiliation may also serve as a mean to provide financing to temporarily constrained companies, therefore reducing their financial needs. However, Vihj (2006) shows that in the U.S. a parent-subsidiary structure do not

enhance financing flexibility. Since in our sample both parent companies and subsidiaries can be present, we include control dummies for these firms to take into account their different incentives and discretionary power.

In addition to ownership structure variables, we control for other variables that are known to affect both the propensity to acquire and the acquisition performance. Large firms are more likely to make acquisitions, especially if the target is relatively small compared to the bidders. Harford (1999), Ang and Cheng (2006), and Faccio and Masulis (2005) find that large firms makes more acquisitions**.** Thus, we expect to find a positive relationship between the size of firm and the probability of being an acquirer.

From a theoretical point of view, internal and external growth can be seen as substitute: a firm with strong internal growth is less likely to seek external opportunities to growth. Thus, we should expect firms with a high growth in sales to make fewer bids than firms with low growth rate. However, Harford (1999) found that a strong sales growth increases the probability of being a bidder. Similarly, Faccio and Masulis (2006) find that growth (measured as asset growth) is positively associated to the likelihood of being a bidder. Finally, we expect a positive relationship between profitability and the probability of acquiring a company. In fact, firms that are doing well generate more cash flows that may put to use in acquisitions. Collateral may affect the propensity to acquire. In fact, collateral increases debt capacity, they are likely to finance their acquisitions more easily. So, collateral is expected to increase the likelihood of being an acquirer. Faccio and Masulis (2005) find evidence consistent with this view.

We also control for financial variables. According to Jensen (1986), cash-rich firms are more likely to waste resources in bad acquisitions than other firms. So, under the free cash flow hypothesis, we expect a positive relationship between acquisitions and liquidity (Cash holding). However, cash can be accumulated because of market imperfections (Myers and Majluf, 1984). In this case, the link between liquidity and acquisitions is not clear. Harford (1999) finds that excess cash increases the likelihood of being a bidder, especially when there is a low insider

ownership. Faccio and Masulis (2005) confirm that cash has a positive impact on the probability of being a bidder, but only for U.K. and Irish bidders.

Leverage has competing effects on the propensity to acquire. First, a high debt level may reduce the ability to acquire because the firms cannot raise more capital issuing new debt. On the other hand, leverage can increase the likelihood of being a bidder because the firm may look for cash-cow firms in order to pay down its debt. We also know that a high debt level may induce firms to take on risky investments. Acquisitions can be seen as a sort of risky investment. Faccio and Masulis (2005) document that leverage is positively related to the probability of making acquisitions, but that a high debt level decreases this probability. Conversely, Harford (1999) finds that leverage is not significant.

The market-driven acquisition theory of Shleifer and Vishny (2003) predicts that firms make more acquisitions when their stock price is overvalued. When the firm is overvalued, stock is likely to be the currency in the transaction. Ang and Cheng (2006) show that overvaluation increases the probability of becoming acquirers in the U.S., as predicted by Shleifer and Vishny (2003). Both Harford (1999) and Faccio and Masulis (2005) include market-to-book in their models. However, market-to-book is positive and significant only in Faccio and Masulis (2006). They also find that firms that have larger one-year pre-announcement returns (*Stock Price Performance*) are more likely to become bidders, a result also found by Harford (1999) and Ang and Chen (2006). Thus, managers are more prone to make acquisitions after a good stock price performance.

3. Data and Descriptive Statistics

We analyze the M&A behavior of all the non-financial companies listed on Worldscope in Continental European countries whose total assets exceeded US $ 250,000 (Worldscope item WC07230) at the end of 1997. This sample is composed of 777 firms from the following 12

countries: Belgium (24), Denmark (38), Finland (37), France (161), Germany (144), Italy (72), Luxembourg (2), Netherlands (77), Norway (40), Spain (46), Sweden (64), and Switzerland (72).[2]

The initial sample of acquisitions includes all deals announcements reported in Thomson Financial Securities Data's SDC, Worldwide Mergers & Acquisitions Database over the five years between January 1998 and December 2002. All mergers and acquisitions must satisfy a series of screening criteria. First of all, the bidder, or at least the bidder's parent company, must be listed on a Stock Exchange and does not operate in the financial sector or in regulated utilities. The deal is completed and its value must be at least US$1 million. The bidder's ownership must increase from less than 30% of the target's equity capital to at least 50%. We use SDC to collect information about the two M&A parties' identity and ultimate owner, country, listing status, and industry, the deal's initial announcement date, dollar value, and method of payment. After matching the two samples, we find that the 777 firms (or their subsidiaries) made 1,398 acquisitions in the period 1998-2002.[3] The listing status of the target firms in these acquisitions is as follows: 306 public firms, 382 private firms, and 710 subsidiaries or joint-ventures. Among the sample firms, 405 made at least an acquisition whose deal value was greater than $1 million.[4] Thus, more than half of the sample firms (52.12%) acquired other firms during the period investigated. Table 1 Panel A breakdowns the acquisitions made by our sample firms according to the type of controlling shareholder.

This initial evidence suggests that family firms are more reluctant to acquire than non-family firms. In fact, 206 out of 434 family firms (as of the end of 1997) made acquisitions in the following five-year period (47.47%). Non-family firms exhibit a stronger propensity to buy other firms: 58.02% of non-family firms made acquisitions. The difference is statistically significant at the 1% level. The result is even stronger using data at firm-year level made: the frequencies of

[2] No firm from Austria and Portugal survives our screening criteria.
[3] Removing the deal value criterion results in a sample of 4,061 acquisitions. There are no important differences in our empirical analysis if we use this larger acquisition sample.
[4] The number of firms that made acquisitions including those whose value is not reported by Thomson One Banker is 522 out of 777.

acquisitions for the two groups are 18.40% and 29.41%, respectively.[5] The decomposition of non-family firms show that this higher propensity to acquire is driven by widely held firms and financial firms, which are usually the largest firms by size. Companies controlled by widely held firms are even less acquisitive than family firms.

[Please insert Table 1 about here]

During the 1998-2002 period, many of the firms examined were taken over or private. In fact, 195 firms ceased to exist as independent entities by the end of 2002 because of either takeovers by third parties (129) or by their largest shareholders (i.e. going private transactions, 66). Nine firms experienced a change of their controlling shareholders without a takeover and two firms went bankrupt. Table 1 Panel B documents the control changes and bankruptcies in our sample firms according to the type of controlling shareholder. The table suggests that both family and non-family firms are taken over with a similar frequency. However, some of these takeovers are initiated by the company's largest shareholder in order to take it private. We define going private transactions as deals where the largest shareholder takes the company private. In these particular deals, the owner remains the same. Thus, non-families firms change owner more often than families firms during the five-year period (20.99% vs. 15.67%), when going private deals are not included. Conversely, families show a higher propensity to take their companies private than other types of shareholders.

[Please insert Table 2 about here]

[5] The p-value of the test for difference is 0.000. We have 2011 firm-years for family firms and 1499 firm-years for non-family firms.

Table 2 reports some descriptive statistics about the sample firms. The analysis in the table is at firm-year level, but descriptive statistics as of December 1997, the month immediately preceding the start of our sample period, describe a similar picture. The first three rows in each panel are statistics about the ownership structure of the sample firms: the cash-flow rights of the ultimate shareholders, the wedge (i.e. the difference between voting rights and cash flows rights for the ultimate shareholders), and the voting stake held by the second largest shareholder in the company. These variables describe a well-known situation: a large stake held by the controlling shareholder (on average 30%), an important divergence from the one-share-one-vote principle in many sample firms (the median is 0, but the average wedge is 10.67%), and blockholders who do not have enough voting power to challenge the controlling shareholder (average 6.55%). The firms included in the sample are large and do not use much debt. The median market-to-book is well above one (1.72).

Panel B offers a comparison of the same statistics between family firm-years and non-family firms-years. Ownership variables are significantly different: families own a larger stakes in their firms than other types of controlling shareholders (35.57% vs. 22.66%), and as found by Barontini and Caprio (2006), they use more control enhancing devices to create a positive wedge.[6] The stake held by the second largest shareholder is similar between family and non-family firms. As expected, family firms are smaller than non-family firms (median market cap US $557m vs. US $790m). Family firms also hold more cash than non-family firms, probably to avoid issuing new equity to finance new investments, but also because they are less sensitive to the free cash-flow problem than other firms.

Panel C shows descriptive statistics for acquiring firms and non-acquiring firms. Non-acquiring firms have controlling shareholders with more cash flows rights, and a marginally higher wedge. Acquiring firms are much larger than firms that do not make acquisitions.

[6] This result is true even if we remove widely held firms from the non-family firm groups. The stake held by families is still significantly larger than that owned by other type of shareholders (29.15%). The p-value of the difference is 0.000.

Acquiring firms have also a higher market-to-book ratio, suggesting that overvaluation may indeed be an important determinant of the propensity to acquire. Acquiring firms outperform on average firm that did not acquire in the calendar year before the acquisition.

4. Propensity to make acquisitions

The first step of our empirical analysis is to determine which type of firm has the greatest incentive to make acquisitions. Table 3 reports the estimates of a series of logit models where the dependent variable takes the value 1 if firm *i* makes at least one acquisition in year *t*. We perform the analysis at firm-year level to fully exploit the information contained in our database. In fact, we have data about the annual changes in the firm's ownership structure as well as accounting and market data. The accounting, market, and ownership variable are for the year *t-1*.[7] The variables used in the empirical analysis are defined in the Appendix.

[Please insert Table 3 about here]

The table shows family firms are less likely to make acquisitions. In fact the coefficient for family firms is negative and significant in Column I, our baseline regression model. Not surprisingly, the cash-flow rights held by the largest shareholder have a negative impact on the probability of making at least one acquisition. This is consistent with the view that the larger the cost of the acquisition directly borne by the largest shareholder, the less likely is the deal. The wedge, i.e. the difference between the voting rights and the cash flow rights held by the largest shareholder, is not significant. The stake held by the second largest blockholder is not significant as well, indicating that blockholders' monitoring role is not particularly relevant when it comes to the acquisition decisions. Among the firm characteristics, size has the expected positive impact. Leverage has a positive and significant coefficient, as in Faccio and Masulis (2005). This is a bit

[7] This observation is true for all the regressions reported in the paper.

surprising since highly leveraged firms usually do not have enough cash flows to acquire other companies. However, it is well-known that leverage can induce managers (and shareholders) to take on risky investments. Moreover, as in Faccio and Masulis (2005), the coefficient of the squared leverage is negative and significant when included in the regression (not reported), indicating that too much debt is an obstacle to make acquisitions. Firms with a good stock price performance, operating performance (ROA), and growth opportunities (sales growth) in the last fiscal year are more likely to buy other firms.

In Column II, the dummies for the different types of non-family firms are added to the regression. We drop the dummy for widely held firms to avoid multicollinearity. Results are similar to those in Column I. Family firms exhibit a lower probability to acquire than widely held firms. State-owned firms are also less likely to start acquisition projects, probably because they often operate in regulated industries. The coefficient for firms controlled by widely held firms is negative and significant as well. Overall, the evidence indicates that firms with a large shareholder are less likely to make acquisition than widely held firms, supporting the view that managers are more likely to engage themselves in empire building when they are not monitored.[8]

In Columns III and IV, we include in the regression model a dummy for group affiliation. We have two dummies: one for parent companies (Parent) and one for firms belonging to the business group (Group). The results in Column III show that group affiliation does not drive the family effect we have found before. The coefficient for family firms is still negative and significant. While being the parent company in a business group does not affect the propensity to acquire, firms in lower levels of a pyramid exhibit a lower tendency to acquire other companies. This result generalizes the previous finding that firm controlled by widely held firm (and so part of a business group by definition) have a negative coefficient. Once we control for group affiliation, no type of controlling shareholder is significant in Column IV.

[8] We would obtain similar results if, instead of the dummy for acquisition in year t, the dependent variable were the sum of the deals' value in year t.

We examine the different types of family firms in Columns V and VI. We subdivide family firms into five groups according to the role of the founder and the heirs. The first group is composed by firms where the founder is the CEO (or chairman) of the company; the second group is still characterized by the presence of the founder in the board of directors but without being CEO or chairman; the third group is made up by firms where the founder is no longer present but an heir is CEO (or chairman); the fourth group has at least an heir in the board of director but without being a top executive. Finally, no family member is either a top executive or a board member in the last group of firms.

In Column V, where we use the full sample of family and non-family firm-years, we find that the coefficient is negative for all five types of family firms, but it is significant different from zero only for firms where a heir sits in the board of directors but she does not hold any executive position. When we restrict the sample to just family firm-years, the coefficients for the different types are not statistically significant.

In unreported regressions, we include control for the firm's country and industry. Including these control variables does not alter the results shown in Table 3 and the reduction in the probability of making an acquisition due to the family firm effect is even stronger. In fact, the coefficient for family firms is always negative and significant. We also interact the stake held by the ultimate shareholder with the family dummy to control whether the propensity to acquire is related to the stake held by a family. While the coefficient of the family dummy remains negative and significant, we find that the coefficient of the interaction variables is not significant. Thus, family firms reduce the likelihood of an acquisition no matter the stake they held. We also estimate the model using a panel data approach with random effect. Results are similar to those shown in Table 3, especially when we include the square of leverage.[9]

[9] We also include in the regressions the company's age controlling whether mature firms make more acquisitions. The age coefficient is not significant in the logit model.

Since families may be reluctant to dilute or even put their control at risk paying with stock, the negative impact of the family dummy in the previous table can be limited to equity deals. In an unreported analysis, we estimate the same logit model with a dummy for cash (or stock) deals in the year as dependent variable.[10] If the conjecture that the negative impact of family is specific to equity deals were true, we should have an insignificant coefficient for family in these regressions. However, we find that the coefficient is negative and significant even in cash deals. Thus, the negative effect of family on acquisition is not related to the method of payment.[11]

Overall, the evidence in this Section confirms the intuition that family firms are less acquisitive than non-family firms suggested by the descriptive statistics. The lower frequency of acquisition of family firms does not depend on other firm's characteristics, which are not considered in the univariate analysis of the previous section. Now, we have to determine if this lower propensity to acquire means that family firms make less mistakes (i.e. bad acquisitions) than non-family firms. Put it differently, we have to examine whether the reduction in quantity goes with an increase in the quality of acquisitions.

5. Acquisition Performance

We measure the acquisition performance using the short-term price reaction around the time of the acquisition announcement. We use a standard market model to compute the expected returns.[12] Table 4 presents the results.

[Please insert Table 4 about here]

[10] We define cash (stock) deal a transaction whose price was paid at least 80% in cash (stock).
[11] The coefficient is also negative and significant when we estimate the probability of making and stock-financed acquisition.
[12] The market-adjusted approach gives similar results.

The abnormal return is the full sample is positive and significant (0.90%) in the event window [-2, +2].[13] However, results differ from previous literature. In fact, previous papers (Moeller et al., 2004, Faccio et al. 2006, Fuller et al., 2002) find a listing effect, i.e. a positive return for acquisitions of private firms and a negative one for the acquisitions of public firms. Conversely, Panel A documents an inverse listing effect. In our sample bidder firms report a positive abnormal return when they acquire listed targets, but they earn an insignificant abnormal return when the target is a private company. One partial explanation is that we subdivide non-listed firms into private firms and subsidiaries (including joint-ventures). Since subsidiaries are usually firms that belong to the bidder's business group, we believe that these acquisitions are different from those involving independent entity as target. In fact, in these cases, bidders have a much larger set of information about the true value of the target firms. Consistent with this hypothesis, abnormal returns for acquisitions of subsidiaries are positive and significant.

Panel B shows that family firms outperform non-family firms when they acquire. In fact, in the event window [-2, +2], family firms earn a significant 1.36% while non-family firms realize a positive and significant 0.62%. The difference (0.74%) is statistically significant at the 5% level (p-value 0.0218). The difference of 2.41% in the event window [-30, +30] is also significant at the 5% level (p-value 0.0219). Thus, preliminary evidence suggests that family firms are indeed better than other types of firms at making acquisitions. In particular, in the event window [-2, +2], family firms outperform non-family firms when they buy public targets (2.19% vs. 0.51%) and the difference is statistically significant at 10% level. Conversely, in the event window [-30, +30], the advantage of family firms is greater when they buy non-listed companies.

Panel C shows that results do not depend on the inclusion of acquisitions not directly carried out by the sample firms, i.e. acquisition where the bidder is a subsidiary or a special investment vehicle created for the acquisition. In fact, when we restrict our sample to direct

[13] The event window [-2, 2] is commonly used in the literature. See, for example, Fuller et al. (2002) and Faccio et al. (2006).

acquisitions, family firms still outperforms non family firms, and the inverse listing effect is still present.

Panel D subdivides non-family firms according to the type of their controlling shareholder, if any. Around the acquisition announcement [-2, +2], returns are generally positive and significant with the only exception of firms controlled by a widely-held company. In the longer event window [-30, +30], many of the positive results disappear and widely held firms earn a significantly negative abnormal return of -1.62%.

Founder-led firms outperform other types of family firms where the founder is not in charge of running the firm. Surprisingly, the largest differential (0.71%) in the event window [-2, +2] is in between firms where the founder is the CEO (or chairman) and those where the founder is still in the board but he does not hold the position of CEO/Chairman. While not statistically significant, the difference may be due to the fact that the founder keeps interfering with the firm's management well past the point he is useful. Firms run by the founder have an extremely large abnormal performance in [-30, +30], 11.05%, and in this case the difference with firms where the founder merely sits in the board is statistically significant. Contrary to what expected from previous literature (Morck et al., 2000), heir-led firms have positive and significant performance in the event window [-2, +2]. When they are only directors, heirs do not have the founder's disruptive effect. The performance of family firms run at arm's length distance by professional managers still easily beat that of non-family firms, in particular in the event window [-2, +2].

To sum up this initial evidence, family firms seem to outperform non-family firms when they make acquisitions. Among family firms, firms where the founder relinquished the top executive position to heirs (or professional managers) but still sits in the board of directors are those that have the worse performance. However, the event study is not enough since we cannot take into account all the factors known to affect the abnormal returns around the acquisition announcements.

Table 5 presents the results of multivariate regressions where the dependent variable is the abnormal returns in the event window [-2, +2]. The method of payment is not included as control variable in the table because it reduces the sample by half. We also run the regression model including the percentage of cash used in the transactions, and the results are similar to those shown in the table. We omit for sake of brevity the results of the regression models that include country variables. Results are also in this case remarkably similar to those in Table 5.

[Please insert Table 5 about here]

As it is clear from the table, the family firm effect disappears once we include control variables. The coefficient for family firms is not significant in any regression. The stock price performance before the deal is highly significant and negative, meaning the firms that are performing well make poor acquisitions. Consistent with this result, the coefficient of sales growth is negative, indicating that the market believes that these firms with internal growth opportunities should avoid making acquisition. As expected by the hypothesis that managers waste shareholder's money if they have discretion over its allocation, cash-rich firms make poor acquisitions. Bidding firms obtain better performance when they buy larger targets (relative size). The cash flow rights of the largest shareholder have a positive effect on abnormal returns. This can be explained by the fact that the controlling shareholder is more careful in making the acquisition when it has a lot at stake in the transaction. Contrary to what found by Moeller et al. (2004), the coefficient for size is not significant in the CAR regression. Thus, we do not find evidence supporting the size effect.

Column II and IV shows that state-owned firms and firms controlled by widely held companies are particularly bad at making acquisitions. While state-owned firms' acquisitions may be driven by considerations that are not based on economic efficiency, the case of firms controlled by widely held firms is less clear. We have shown before that these firms make

relatively few acquisitions, suggesting that managers in these firms do not have a lot of discretion. However, results here indicate that the market reacts negatively to the few acquisitions they make. This result cannot be explained by expropriation-based story because in this case the parent company has no controlling shareholder, i.e. it is a widely held firm.

Families may have a significant portion of their wealth invested in the company and diversifying acquisitions may be a way to reduce the risk of their portfolio. While managers of widely-held firms have the same incentive to diversify to make the firms' cash-flows less risky and thus, reducing the probability of a bankruptcy, other types of controlling shareholders are not likely to share these incentives. However, in unreported analysis, we do not find that families are more likely to invest outside their industry. We also fail to find evidence that diversification affects the announcement returns.

6. Do family firms finance their acquisitions with cash?

Faccio and Masulis (2006) show that the method of payment in an M&A transaction is affected by the ownership structure. Table 6 reports the results of the estimation of a Tobit model for the percentage of cash and stock used in acquisitions. Faccio and Masulis (2005) also use a Tobit model to examine the method of payment in European acquisitions.

The table shows family firms are neither more likely to use cash nor less likely to use equity than non-family firms. In unreported regressions including the types of controlling shareholders, we find that the type of controlling shareholder does not affect the choice of method of payment. The relative size of the target respect to the bidder is negatively associated to the percentage of cash used, but positively associated to the percentage of equity in the deal. Consistent with overvaluation theories that argue that M&A are financed with stock when stock is overvalued, the use of stock as a method of payment is positively related to the market-to-book ratio. Conversely, the market-to-book ratio is negatively related to the percentage of cash used. The affiliation to a business group also increase the percentage of equity used in the deal.

[Please insert Table 6 about here]

7. The probability to be acquired

Holderness and Sheehan (1988) documents that in the US, firms whose majority owner was an individual investor were less likely to be sold to other parties. On the other hand, descriptive statistics shown in Table 1 seem to indicate that the percentage of family firms taken over in our sample period is similar to that of non family firms. However, as we already noticed, family firms are often taken private by their controlling shareholders. In this section, we take a closer look at the effect of the type of owner on the likelihood of being taken over. Table 7 presents the estimates of a hazard rate model for the event of a control change.[14] The control change can take the form of a takeover by a third party, a going private transaction, or a change in the largest shareholders without a mandatory public offer.[15]

Hazard rate models are increasingly used to model factors affecting the probability of being taken over (Holmen and Nivorozhkin, 2007) or the probability of becoming widely held (Helwege et al., 2007). This survival analysis approach is particularly appropriate for this kind of empirical analysis because it takes into account for the sequential nature of the data, and is able to handle censoring and incorporate time-varying covariates (Holmen and Nivorozhkin, 2007). The hazard function estimates show how the explanatory variables impact the probability of a control changing event in a given year, conditional on the firm not having already being taken over (or private) the previous year. Following Helwege et al. (2007), we use the Cox proportional hazards model, a semi parametric approach that estimates the covariates that shift a baseline hazard function up or down.

[14] We also estimate the model using a logit. Results of the hazard rate model are similar to those of the logit model.
[15] Results are similar when we include country dummies.

[Please insert Table 7 about here]

The first and third columns of Table 7 confirm that family firms are not more likely to experience a control change than non-family firms. The cash flow rights held by the controlling shareholder have a negative impact on the probability of being targeted, but only if the group variables are not included. This can be explained by the fact that, during the period examined, many acquisitions were friendly. In friendly deals, having to deal with a large shareholder may be even easier than convincing a multitude of small shareholders. As expected, size is an effective defense against takeovers. A high leverage weakens the probability that a firm will be taken over. This is consistent with the view that firms do not want (or can) take over firm with high level of debt because they cannot raise additional debt to finance the acquisition. Conversely, if the firm owns many tangible assets, the probability of being taken over increases. In fact, these tangible assets can be used as collateral to increase debt. A high market-to-book ratio decreases the probability of being involved in a control change. This can be interpreted as evidence that a strong performance is a good defense against takeovers, but also that bidders avoid overvalued targets. Sample firms are also more likely to be bought or taken private after an increase in their stock prices. Finally, firms belonging to a business group (but that are not the parent company) are more likely to be acquired. This result is not simply due to the fact that group reorganizations make listed subsidiaries an obvious target candidate. In fact, when the dependent variable is a dummy for takeover by third party (unreported), the variable is still positive and significant. Thus, it seems that firms not in the top layer of a group pyramids are considered more expendable and controlling shareholders are less interested to fight for them.

Columns II and IV presents the results when the other types of controlling shareholders are included in the regressions. Dummies for the different types of controlling shareholders are all positive and significant with employees (negative and significant) and foundations (not

significant) being the only exceptions in Column II. This result indicates that widely held firms are the least likely to be acquired, all other thing equals.[17] This finding is at first counterintuitive. In fact, the literature usually identifies widely held firms as the more likely to be acquired due to the lack of a controlling shareholder, who is supposed to defend its private benefits of control. The coefficient for the cash flow rights variable is negative and significant, indicating that the higher the stake held by the controlling shareholder, the lower the probability of a takeover. Market-to-book and size are still negative and significant. Firms belonging to a group are still positively associated to the likelihood of being taken over.

The results in Columns V and VI document an interesting result: firms are less likely to be taken over when heir is CEO or chairman. The effect of having an heir as CEO is even larger than that of having the actual founder as CEO (coefficient not significant). Since heirs are usually found to be value-destroyers in the literature (Morck et al., 2000), this finding may be driven by entrenchment. It can also be due to the fact that the heir has no particular skills and running the family firm can be his only possibility to gain fame and prestige. There could also be a generational motivation: founders may be older than heirs and they may be forced to sell the firms if there is no another member of the family in the business. However, these intriguing findings need further examination. When the family is not involved in the business (neither the CEO nor board members are part of the family), the coefficient is positive and significant. This indicates that the lack of involvement in the business by a family can be seen as a first step toward the sale of the company. Column VI confirms these results.

The control changes discussed above include both takeovers by third parties and going private transactions where the largest shareholder decides to get rid of minority investors. These are clearly events with very different implications for the ownership structure of the firm: in the first case, a new owner will take control of the firm; in the second, the old owner will strengthen

[17] The coefficient for widely held firms is negative and significant when we include it in the regressions and drop the other ownership dummies.

his control. To take this different into account, in unreported analyses we rerun the regressions in Table 5 for both takeovers by third parties and going private transactions.

Results when the dependent variable is takeovers by third parties are partly similar to those shown in Table 5. The family dummy is never significant. The main differences are that leverage is no longer significant and the ultimate owner's cash flow rights are not significant when the group variables are included. In the regressions with the types of owner, family is not significant, but other types (state, financial institutions, miscellaneous, and controlled by widely held) are positive and significant. Results are weaker when group affiliations dummies are included. The dummy for family firms without family involvement is no longer significant.

Regressions for going private transactions do not include widely held firms, because by definition these firms cannot be taken over by their largest shareholder. The family dummy is still not significant in these regressions. But a particularly interesting result emerges when we focus our attention on the types of family firms: firms where family members are neither CEOs nor board members are more likely to going private. This may be explained by the desire of the family to regain full control over the firm, without having to deal with minority investors. Among family firms, they are less likely to be taken private when the founder is not at the helm of the company as its CEO.

Finally, a few words about the relationship between taking over and being taken over. When we include in the regression model a dummy for acquisitions made in the previous calendar year, we find that this variable is negative and significant. Thus, making acquisitions reduce the probability of being taken over. Since we control for size measured at the end of the year in which the takeovers took place, the positive relationship cannot be purely explained by a size effect. A possible explanation is that potential bidders do not like to buy firms that are dealing with significant organizational changes due to previous M&A activity.

6. Conclusion

We present a comprehensive analysis of the role of families in shaping the M&A strategy in a sample of large Continental European firms. Several results deserve to be mentioned. First of all, we show that families are reluctant acquirers. In fact, firms controlled by families are less likely to buy other companies, perhaps because they do not want to put their control at risk, even after we control for size. Despite the quantity of acquisitions is less, our evidence does not support the view that the quality of family firms' acquisitions is higher: family firms do not outperform non-family when effects known to impact abnormal returns are taken into account. Finally, families are as likely as non family firms to be targeted in control events. Thus, while families are quite conservatives when taking investment decisions, they do not seem to oppose takeovers more than non family firms.

While the focus of our analysis is on family firms, we also obtain other interesting results. Indeed, we document an inverse listing effect, that is bidders earn larger (positive) abnormal returns when they buy public companies than when they acquire private firms. Another finding to be mentioned is that diffuse ownership seems to be an effective defense against takeovers. In fact, in our sample, widely held firms are the least likely to be taken over. This counterintuitive result indicates that it is easier, and probably cost effective, for bidders to negotiate with a large shareholders than to convince a disperse ownership.

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Appendix: Variable Definitions

Variable	*Definition*
VR UO	The ultimate owner's voting rights in the firm.
CFR UO	The ultimate owner's cash-flow rights in the firm.
Wedge	the difference between cash-flow and voting rights held by the ultimate owner
VR 2nd LS	Voting rights held by the second largest shareholder in the company
Size	Log of the firm's market value of equity (Worldscope Item WC07210).
Relative Size	Ratio between the deal value and the acquirer's size.
Sales Growth	Growth rate in total sales in the previous year (WC07240).
Collateral	Ratio of tangible assets to total assets (WC02501/WC02999).
ROA	Return on assets (WC08326).
Cash Holding	Ratio of cash plus tradable securities over total assets (WC02001/WC02999).
Leverage	Ratio of book value of financial debt as a percentage of the book value of total assets (WC03251/WC02999).
M/B	Ratio of market value of equity in US$ (WC07210) divided by common equity in US$ (WC07220).
Stock Price Performance	Stock price performance over the year before the deal (WC05070).
Cash	Dummy variable that takes value 1 if the method of payment in the deal is cash (at least 80% of the deal value).
Cash Percentage	Percentage of cash used to finance the transaction.
Family	Dummy variable taking value 1 when the controlling shareholder is a family.
State	Dummy variable taking value 1 when the controlling shareholder is the state.
Financial	Dummy variable taking value 1 when the controlling shareholder is a financial institution.
Cont. by WH	dummy variable taking value 1 when the controlling shareholder is a widely held firm
Miscellaneous	Dummy variable taking value 1 when a controlling shareholder exists but it does not belong to any other type of controlling shareholders. It is a residual category.
WH	dummy variable taking value 1 when the firm is a widely held firm (no controlling shareholder)
Foundations	Dummy variable taking value 1 when the controlling shareholder is a foundation.
Employees	Dummy variable taking value 1 when the controlling shareholders are the company's employees.
Parent	Dummy variable taking value 1 when the sample firm is the parent company of a business group.
Group	Dummy variable taking value 1 when the sample firm belongs to a business group and it is not the parent company.
No Founder/Heir	Dummy variable taking value 1 when neither the founder nor an heir is a board member (or the CEO/Chairman) in a family firm.
Heirs Board	Dummy variable taking value 1 when heirs are board members in a family firm, but they are neither CEO nor Chairman.
Heirs CEO	Dummy variable taking value 1 when heirs are CEO in a family firm.
Founder Board	Dummy variable taking value 1 when the founder is only a board member in a family firm, but he or she is neither CEO nor Chairman.
Founder CEO	Dummy variable taking value 1 when the founder is the CEO (or Chairman) in a family firm.
Direct Acq.	Dummy taking value 1 when the acquisition is directly executed by the sample firm.
Owned Before	Percentage of the target firm's equity held by the bidder before the transaction.

Table 1 – Acquisitions and Takeovers by Sample firms

Panel A breakdowns the acquisitions made by our sample firms according to the type of controlling shareholders during the 1998-2002 period. Panel B documents the control changes and bankruptcies in our sample firms according to the type of controlling shareholders.

Panel A: Acquisitions made by Sample Firms

	# of Firms	# of Acquiring Firms	% of Acquiring Firms	All Acquisitions	Public Firms	Private Firms	Subs & JVs
Family	434	206	47.47%	525	96	161	268
Non Family	343	199	58.02%	873	210	221	442
Controlled by WH	35	13	37.14%	64	24	11	29
State	78	40	51.28%	126	28	23	75
Financial	112	71	63.39%	241	46	70	125
Miscellaneous	5	3	60.00%	3	0	1	2
Foundation	29	13	44.83%	43	12	13	18
Widely Held	82	57	69.51%	392	99	103	190
Employees	2	2	100.00%	4	1	0	3
Total	777	405	52.12%	1398	306	382	710

Panel B: Control Changes in Sample Firms

	# of Firms	Independent 2002	% Firms with control changes	Takeovers	Going Private	Control Changes without Takeovers	Bankruptcies
Family	434	318	26.73%	62	48	5	1
Non Family	343	253	26.24%	67	18	4	1
Controlled by WH	35	22	37.14%	8	5	0	0
State	78	52	33.33%	18	7	0	1
Financial	112	82	26.79%	26	3	1	0
Miscellaneous	5	0	100.00%	3	2	0	0
Foundation	29	24	17.24%	2	1	2	0
Widely Held	82	71	13.41%	10	0	1	0
Employees	2	2	0.00%	0	0	0	0
Total	777	571	26.51%	129	66	9	2

Table 2. Accounting and Market-based Statistics

The table presents accounting and market-based statistics. The variables are defined in the Appendix.

Panel A : Full Sample

	Mean	Median	N.Obs
CF Ult. Owner	30.06	26.19	3510
Wedge	10.67	0.00	3510
VR 2nd LS	6.55	5.00	3491
Size	4496.747	639.246	3469
Collateral	0.3191	0.2885	3487
Cash holding	0.1061	0.0761	3485
Leverage	0.1593	0.1332	3486
M/B	2.5620	1.7233	3455
Stock Price Perf.	0.1156	0.0471	3452
ROA	5.4616	5.1500	3475
Sales Growth	6.4494	0.0145	3452

Panel B : Family vs. Non-Family Firms

	Family			Non-Family		
	Mean	Median	N.Obs	Mean	Median	N.Obs
CF Ult. Owner	35.57	34.00	2011	22.66	14.30	1499
Wedge	15.34	11.40	2011	4.41	0.00	1499
VR 2nd LS	6.64	4.30	2001	6.43	5.26	1490
Size	2702.761	556.794	1987	6902.043	790.428	1482
Collateral	0.3109	0.2728	1995	0.3301	0.3177	1492
Cash holding	0.1187	0.0868	1995	0.0892	0.0607	1490
Leverage	0.1636	0.1359	1995	0.1536	0.1289	1491
M/B	2.4668	1.6937	1986	2.6908	1.7742	1469
Stock Price Perf.	0.1213	0.0499	1976	0.1079	0.0433	1476
ROA	5.5669	5.0300	1989	5.3206	5.3200	1486
Sales Growth	11.2051	0.0181	1979	0.0600	0.0087	1473

Panel C : Acquiring Firms vs. Non-Acquiring Firms

	Acquiring Firms			Non-Acquiring firms		
	Mean	Median	N.Obs	Mean	Median	N.Obs
CF Ult. Owner	32.20	29.82	2699	22.92	15.40	811
Wedge	10.92	1.26	2699	9.85	0.00	811
VR 2nd LS	6.58	4.99	2686	6.45	5.12	805
Size	2379.640	490.230	2665	11500.000	2301.949	804
Collateral	0.3256	0.2955	2678	0.2975	0.2728	809
Cash holding	0.1059	0.0744	2676	0.1067	0.0795	809
Leverage	0.1591	0.1289	2675	0.1599	0.1417	811
M/B	2.2953	1.5988	2652	3.4428	2.1738	803
Stock Price Perf.	0.0854	0.0211	2660	0.2168	0.1174	792
ROA	5.0895	4.9200	2668	6.6918	5.8900	807
Sales Growth	8.3524	0.0070	2647	0.1919	0.0312	805

Table 3. Logit Regressions

The table presents the results of logit regressions in which the dependent variable is a dummy variable for acquisitions made by firm i in year t. The variables are defined in the Appendix. Robust standard errors are in parenthesis. The symbols *, **, *** denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	I	II	III	IV	V	VI
Constant	-3.8984***	-3.8834***	-3.7287***	-3.7984***	-3.9206***	-4.0874***
	[0.2766]	[0.2980]	[0.2786]	[0.2988]	[0.2800]	[0.3911]
CFR Ult. Own	-0.0132***	-0.0102***	-0.0160***	-0.0145***	-0.0133***	-0.0118***
	[0.0024]	[0.0028]	[0.0026]	[0.0030]	[0.0025]	[0.0035]
Wedge UO	-0.0047	-0.0028	-0.0014	-0.0008	-0.0055*	-0.0033
	[0.0034]	[0.0034]	[0.0033]	[0.0033]	[0.0032]	[0.0040]
VR 2nd LS	0.0072	0.0092	0.0068	0.0074	0.0077	0.0207***
	[0.0057]	[0.0058]	[0.0057]	[0.0059]	[0.0056]	[0.0069]
Size	0.4750***	0.4828***	0.4734***	0.4803***	0.4792***	0.4623***
	[0.0324]	[0.0328]	[0.0329]	[0.0332]	[0.0328]	[0.0444]
Collateral	-1.1322***	-1.0958***	-1.1621***	-1.1361***	-1.1148***	-0.9815**
	[0.2677]	[0.2702]	[0.2709]	[0.2719]	[0.2709]	[0.3815]
Cash Holding	-0.8389	-0.8078	-0.9130*	-0.8805*	-0.9104*	-0.9226
	[0.5192]	[0.5201]	[0.5218]	[0.5227]	[0.5229]	[0.7096]
Leverage	0.9956***	0.9294**	0.9020**	0.8955**	0.9370**	0.4801
	[0.3609]	[0.3651]	[0.3620]	[0.3642]	[0.3675]	[0.5288]
M/B	-0.0019	-0.002	-0.0016	-0.0017	-0.0016	0.0049
	[0.0035]	[0.0035]	[0.0035]	[0.0035]	[0.0036]	[0.0046]
Stock Price P.	0.1842**	0.1903**	0.1997**	0.1990**	0.1829**	-0.0227
	[0.0841]	[0.0839]	[0.0836]	[0.0835]	[0.0846]	[0.1090]
ROA	0.0190***	0.0177**	0.0184**	0.0178**	0.0193***	0.0088
	[0.0073]	[0.0074]	[0.0074]	[0.0074]	[0.0073]	[0.0105]
Sales Growth	0.0788**	0.0761**	0.0860**	0.0830**	0.0766**	0.1086**
	[0.0331]	[0.0328]	[0.0386]	[0.0378]	[0.0308]	[0.0525]
Family	-0.2629**	-0.4717***	-0.2167**	-0.2729		
	[0.1078]	[0.1713]	[0.1091]	[0.1773]		
State		-0.4495**		-0.2162		
		[0.2128]		[0.2251]		
Financial Inst.		-0.0172		0.09		
		[0.1668]		[0.1692]		
Misc.		-0.3188		-0.1077		
		[0.6460]		[0.6476]		
Foundations		-0.2105		-0.0838		
		[0.2857]		[0.2862]		
Cont. by WH		-0.4933*		-0.1185		
		[0.2712]		[0.2812]		
Employees		-0.3831		-0.3239		
		[0.8287]		[0.8272]		
Parent			-0.0291	-0.0233		
			[0.1320]	[0.1327]		
Group			-0.5465***	-0.5063***		
			[0.1328]	[0.1428]		
No Founder/Heir					-0.2144	
					[0.1522]	
Heirs Board					-0.3507***	-0.1411
					[0.1355]	[0.1743]
Heirs CEO					-0.2576	-0.0386
					[0.1739]	[0.2032]
Founder Board					-0.0069	0.232
					[0.1901]	[0.2153]
Founder CEO					-0.2771	0.0244
					[0.2343]	[0.2638]
Pseudo R2	0.1493	0.1514	0.1545	0.1553	0.1501	0.1119
Observations	3363	3363	3363	3363	3363	1937

Table 4. Event Study Results

Panel A presents the event study results for the full sample of acquisitions made by the 777 sample firms in the period 1998-2002, and the acquisition performance partitioned according to the target firm's listing status. Panel B presents results for family and non-family firms. Panel C documents the abnormal performance of the subsample of direct acquisitions, i.e. acquisitions where the direct bidder is one of the 777 sample firms. Panel D presents the results for non-family according the type of controlling shareholders. Panel E presents the results for family firms according to the founder/heirs involvement in running the firm.

	CAR	*t-stat*	*CAR*	*t-stat*	*CAR*	*t-stat*	*CAR*	*t-stat*
	Panel A: All Acquisition & Target Listing Status							
	All		**Public**		**Private**		**Subs & JV**	
(-30, -3)	-0.34%	-1.0334	-0.03%	-0.0393	-1.37%	-2.1400	0.07%	0.1578
(-30, 30)	-0.01%	-0.0153	0.63%	0.5633	-2.25%	-2.2196	0.92%	1.2545
(-2, 2)	0.90%	6.7662	1.04%	3.6889	0.33%	1.2708	1.15%	6.1575
N. Obs.	1398		306		382		710	
	Panel B: Family vs. Non Family							
	Family		**Non Family**		**Family Public**		**Non-Family Public**	
(-30, -3)	0.82%	1.4127	-1.04%	-2.5823	0.11%	0.0851	-0.09%	-0.1115
(-30, 30)	1.50%	1.6438	-0.91%	-1.4378	0.23%	0.1113	0.81%	0.6178
(-2, 2)	1.36%	5.8942	0.62%	3.8528	2.19%	4.1151	0.51%	1.5516
N. Obs.	525		873		96		210	
	Family Private		**Non-family private**		**Family Subs JV**		**Non-family Subs JV**	
(-30, -3)	-0.63%	-0.6040	-1.91%	-2.3612	1.93%	2.3689	-1.05%	-1.878
(-30, 30)	-0.72%	-0.4412	-3.36%	-2.6217	3.29%	2.5504	-0.51%	-0.576
(-2, 2)	0.57%	1.3682	0.15%	0.4630	1.55%	4.7255	0.91%	4.043
N. Obs.	161		221		268		442	
	Panel C: Direct acquisitions							
	All		**Public**		**Private**			
(-30, -3)	0.06%	0.1447	0.47%	0.5647	-0.70%	-0.8538		
(-30, 30)	0.87%	1.318	1.91%	1.4492	-0.58%	-0.4476		
(-2, 2)	1.18%	7.008	1.39%	4.1767	0.62%	1.8900		
N. Obs.	894		216		240			
	Subs JVs		**Family**		**Non Family**			
(-30, -3)	0.28%	0.4623	1.46%	2.1408	-0.92%	-1.7450		
(-30, 30)	1.16%	1.2245	2.71%	2.5187	-0.42%	-0.5047		
(-2, 2)	1.37%	5.7160	1.53%	5.6110	0.93%	4.3736		
N. Obs.	438		369		525			

Table 4. Event Study Results - Continued

	CAR	*t-stat*	*CAR*	*t-stat*	*CAR*	*t-stat*	*CAR*	*t-stat*
Panel D: Groups of non-family								
	Controlled by WH		State		Financials		Miscellaneous	
(-30, -3)	-1.31%	-0.8746	-0.58%	-0.4902	-0.76%	-0.9976	20.80%	3.5349
(-30, 30)	-1.95%	-0.8233	-0.59%	-0.3113	-0.73%	-0.6037	30.23%	3.2552
(-2, 2)	-0.55%	-0.9087	0.22%	0.4664	0.78%	2.5627	7.31%	3.1099
N. Obs.	64		130		237		3	
	Foundations		Widely Held		Employees			
(-30, -3)	-0.69%	-0.3888	-1.46%	-2.5204	-7.57%	-1.422		
(-30, 30)	3.12%	1.1141	-1.62%	-1.7775	-3.64%	-0.434		
(-2, 2)	2.95%	4.1612	0.46%	1.9993	8.37%	3.919		
N. Obs.	43		392		4			
Panel E: Types of Family Firms								
	Heir Board		Heir CEO		Founder Board		Found CEO	
(-30, -3)	0.51%	0.5238	0.90%	0.6349	-0.90%	-0.6366	6.84%	3.8245
(-30, 30)	1.44%	0.9374	0.54%	0.2430	-1.46%	-0.6535	11.05%	3.9073
(-2, 2)	1.37%	3.5075	1.73%	3.0569	1.06%	1.8671	1.82%	2.5309
N. Obs.	172		85		90		59	
	No Founder No Heir							
(-30, -3)	-0.48%	-0.3876						
(-30, 30)	-0.22%	-0.1117						
(-2, 2)	1.11%	2.2056						
N. Obs.	119							

Table 5. CAR Regressions

The table presents the results of OLS regressions in which the dependent variable is the CAR around the acquisition announcement (event window [-2, 2]). The variables are defined in the Appendix. Robust standard errors are in parenthesis. The symbols *, **, *** denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	I	II	III	IV	V	VI
Constant	0.0156	0.0186	0.0163	0.0185	0.0163	0.002
	[0.0113]	[0.0121]	[0.0115]	[0.0121]	[0.0116]	[0.0227]
CFR Ult. Own.	0.0002*	0.0002**	0.0001	0.0002*	0.0001	0.0004**
	[0.0001]	[0.0001]	[0.0001]	[0.0001]	[0.0001]	[0.0002]
Wedge UO	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
	[0.0001]	[0.0001]	[0.0001]	[0.0001]	[0.0001]	[0.0002]
VR 2nd LS	0.0003	0.0004*	0.0003	0.0004*	0.0003	0.0009**
	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0004]
Relative Size	0.0177*	0.0179*	0.0179*	0.0180*	0.0179*	0.0246
	[0.0096]	[0.0094]	[0.0097]	[0.0094]	[0.0098]	[0.0151]
Size	-0.0012	-0.001	-0.0011	-0.001	-0.0011	-0.0003
	[0.0011]	[0.0011]	[0.0011]	[0.0011]	[0.0011]	[0.0023]
Collateral	0.0042	0.0025	0.0035	0.0023	0.004	-0.0144
	[0.0104]	[0.0105]	[0.0105]	[0.0105]	[0.0106]	[0.0199]
Cash Holding	-0.0346*	-0.0356*	-0.0343*	-0.0355*	-0.0358*	-0.0753***
	[0.0199]	[0.0198]	[0.0200]	[0.0199]	[0.0199]	[0.0263]
Leverage	-0.0217	-0.0244	-0.0216	-0.0243	-0.0231	0.0086
	[0.0167]	[0.0168]	[0.0167]	[0.0168]	[0.0171]	[0.0290]
M/B	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0003
	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0011]
Stock Price P.	-0.0103***	-0.0098***	-0.0102***	-0.0098***	-0.0103***	-0.0076
	[0.0032]	[0.0032]	[0.0032]	[0.0032]	[0.0032]	[0.0053]
ROA	0.0001	0	0.0001	0	0.0001	0.0002
	[0.0004]	[0.0004]	[0.0004]	[0.0004]	[0.0004]	[0.0009]
Sales Growth	-0.0008**	-0.0008**	-0.0008**	-0.0007**	-0.0009***	-0.0009***
	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]
Public	0.0006	0.0004	0.0004	0.0004	0.0003	0.009
	[0.0046]	[0.0047]	[0.0046]	[0.0047]	[0.0046]	[0.0085]
Owned before	0.0002	0.0003	0.0002	0.0003	0.0002	-0.0006
	[0.0004]	[0.0004]	[0.0004]	[0.0004]	[0.0004]	[0.0007]
Direct Acq.	0.0036	0.0035	0.0038	0.0035	0.0039	0.0041
	[0.0032]	[0.0032]	[0.0032]	[0.0032]	[0.0032]	[0.0055]
Family	0.003	-0.0036	0.004	-0.003		
	[0.0041]	[0.0059]	[0.0042]	[0.0061]		
State		-0.0134*		-0.0129*		
		[0.0074]		[0.0076]		
Financial Inst.		-0.0084		-0.0083		
		[0.0054]		[0.0054]		
Misc.		0.0371		0.0375		
		[0.0387]		[0.0386]		
Foundations		0.0054		0.0058		
		[0.0126]		[0.0126]		
Control. WH		-0.0154*		-0.0148*		
		[0.0080]		[0.0084]		
Employees		0.0652***		0.0652***		
		[0.0153]		[0.0154]		

Parent			-0.0012	-0.0009	-0.0015	0.0057
			[0.0039]	[0.0039]	[0.0039]	[0.0102]
Group			-0.005	-0.0014	-0.0047	0.0078
			[0.0048]	[0.0052]	[0.0049]	[0.0070]
No Founder/Heirs					0.0005	-0.0021
					[0.0070]	[0.0099]
Heirs Board					0.0027	-0.0027
					[0.0052]	[0.0082]
Heirs CEO					0.0074	0.0028
					[0.0081]	[0.0100]
Founder Board					0.0066	0
					[0.0075]	[0.0000]
Founder CEO					0.007	-0.0007
					[0.0092]	[0.0108]
Adjusted R2	0.0325	0.0396	0.0318	0.0382	0.0296	0.0212
Observations	1353	1353	1353	1353	1353	506

Table 6. Regressions for the Method of Payment

The table presents the estimate of a Tobit model in which the dependent variable is the percentage of cash (Columns I to III) and stock (Columns IV to VI) used in the M&A deals. Standard errors are in parenthesis. The symbols *, **, *** denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Percentage of Cash			Percentage of Stock		
	I	II	III	IV	V	VI
Constant	311.7604***	324.0960***	314.5700***	-433.4416***	-469.8508***	-447.2079***
	[68.4480]	[69.1157]	[69.4156]	[130.7613]	[133.1174]	[132.4438]
CFR Ult. Own.	0.235	0.0834	0.0324	0.2539	0.4612	0.3221
	[0.5129]	[0.5240]	[0.5448]	[0.8872]	[0.9055]	[0.9408]
Wedge UO	0.0753	0.4089	0.4339	-0.8266	-1.8155	-1.8547
	[0.8216]	[0.8632]	[0.8681]	[1.5554]	[1.7456]	[1.7880]
VR 2nd LS	-0.5333	-0.5087	-0.3012	-0.4884	-0.712	-0.3621
	[1.5433]	[1.5451]	[1.5731]	[2.7544]	[2.7678]	[2.8275]
Relative Size	-72.5055***	-72.8032***	7.277	91.6984***	92.3649***	-54.3875
	[18.8460]	[18.8065]	[23.4313]	[32.3067]	[32.1558]	[44.3605]
Size	-7.5166	-8.6744	-8.0148	4.7791	10.5439	10.1366
	[6.0024]	[6.2497]	[6.3016]	[10.6748]	[11.1595]	[11.2269]
Collateral	-64.7312	-70.9632	-68.6874	131.5181	140.5993	137.7885
	[55.1749]	[55.1932]	[55.2813]	[97.1538]	[96.8746]	[97.2872]
Cash Holding	155.3095	156.6972	165.1274	-149.474	-164.064	-241.544
	[118.5258]	[118.4414]	[119.5303]	[217.7522]	[218.0006]	[224.4118]
Leverage	-166.1935*	-160.3877*	-155.1502*	151.5004	131.2097	97.9767
	[85.0292]	[84.9431]	[84.9872]	[151.0514]	[150.2203]	[150.5148]
M/B	-4.8839*	-4.8246*	-4.5534*	12.7490***	12.4327***	11.6065**
	[2.6164]	[2.6247]	[2.6383]	[4.5533]	[4.5416]	[4.5266]
Stock Price P.	-0.8406	-0.1162	-1.9188	18.0699	16.09	21.9146
	[13.9546]	[13.9322]	[14.0302]	[23.2885]	[23.1050]	[23.3348]
ROA	-1.9396	-2.0562	-2.0931	-1.5466	-1.4262	-1.1181
	[1.3750]	[1.3840]	[1.3855]	[2.5248]	[2.5106]	[2.4876]
Sales Growth	-0.8288	-1.335	-4.6315	14.7824	18.245	15.5088
	[14.8330]	[14.8341]	[15.6706]	[24.3497]	[24.3598]	[26.1352]
Public	21.0904	20.9999	19.956	46.5828	47.3456	48.0285
	[18.9247]	[18.8670]	[18.8896]	[33.8062]	[33.5858]	[33.6136]
Owned before	-1.5693	-1.5088	-1.4549	2.4306	2.303	2.277
	[1.7358]	[1.7328]	[1.7341]	[2.8699]	[2.8520]	[2.8701]
Direct Acq.	-24.2836	-22.219	-20.9998	34.5996	27.2432	23.5009
	[20.6861]	[20.6745]	[20.8188]	[37.8738]	[37.6175]	[37.7465]
Family	23.558	29.3102		-48.8157	-55.1667	
	[25.1261]	[25.4065]		[45.4448]	[45.5785]	
Parent		6.914	-47.9303		-51.7807	99.0948*
		[23.4052]	[30.5755]		[44.2827]	[55.2837]
Group		-49.228	-71.8519***		108.4947**	91.2860***
		[30.2207]	[18.7718]		[54.7746]	[32.0375]
No Foun./Heirs			49.1829			-142.15
			[43.6532]			[89.6888]
Heirs Board			11.1904			-40.5072
			[32.6828]			[59.8641]
Heirs CEO			33.2082			-76.9005
			[45.3953]			[87.4927]
Founder Board			16.9306			42.3515
			[43.1319]			[73.0528]
Founder CEO			66.8229			-92.8373
			[50.0172]			[90.5537]
Adjusted R2	0.0216	0.023	0.0237	0.0333	0.0385	0.0416
Observations	665	665	665	665	665	665

Table 7. Probability to be acquired

Estimates of the coefficients of a hazard rate model for a control changing event, where a firm experiences a control changing event if it is taken over, taken private, or has a new controlling shareholder. Variables are defined in the Appendix. Robust standard errors are in parenthesis. The symbols *, **, *** denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	I	II	III	IV	V	VI
CFR Ult. Own	-0.0070*	-0.0144***	-0.0025	-0.0084*	-0.0006	-0.007
	[0.0042]	[0.0047]	[0.0040]	[0.0050]	[0.0039]	[0.0060]
Wedge UO	0.0019	-0.0026	-0.0051	-0.0068	0.0064	-0.0044
	[0.0043]	[0.0047]	[0.0052]	[0.0053]	[0.0041]	[0.0055]
VR 2nd LS	0.0039	-0.0027	0.0066	0.0016	0.003	-0.003
	[0.0108]	[0.0113]	[0.0105]	[0.0112]	[0.0113]	[0.0157]
Size	-0.1644***	-0.1664***	-0.1750***	-0.1768***	-0.1529***	-0.1017
	[0.0452]	[0.0471]	[0.0462]	[0.0472]	[0.0450]	[0.0642]
Collateral	1.2912***	1.1531***	1.3477***	1.2392***	1.1436***	1.7292***
	[0.4292]	[0.4346]	[0.4319]	[0.4404]	[0.4300]	[0.5081]
Cash Holding	-0.7984	-0.8014	-0.6336	-0.6611	-0.5395	-0.8557
	[0.8701]	[0.8788]	[0.8488]	[0.8619]	[0.8380]	[1.0083]
Leverage	-1.8974***	-1.5452**	-1.5841**	-1.4107**	-1.5142**	-1.7348**
	[0.6909]	[0.6849]	[0.6792]	[0.6769]	[0.6848]	[0.8484]
M/B	-0.0080***	-0.0076***	-0.0088***	-0.0083***	-0.0088***	-0.0105***
	[0.0015]	[0.0015]	[0.0015]	[0.0016]	[0.0015]	[0.0023]
Stock Price P.	0.3497***	0.3465***	0.3592***	0.3546***	0.3574***	0.2227
	[0.1203]	[0.1231]	[0.1202]	[0.1230]	[0.1223]	[0.1845]
ROA	-0.0013	0.0012	0.0017	0.0027	0.0019	0.0111
	[0.0056]	[0.0059]	[0.0051]	[0.0056]	[0.0064]	[0.0156]
Sales Growth	-0.0837	-0.0966	-0.1016	-0.1009	-0.0882	-0.0119
	[0.1640]	[0.1802]	[0.1649]	[0.1701]	[0.1543]	[0.0734]
Family	0.0462	1.0521***	0.0278	0.7733*		
	[0.1857]	[0.3842]	[0.1785]	[0.4014]		
State		1.4874***		1.1128**		
		[0.4247]		[0.4445]		
Financial Inst.		0.7827**		0.5786		
		[0.3832]		[0.3963]		
Misc.		1.5253**		1.3342*		
		[0.7038]		[0.6904]		
Foundations		0.6185		0.4418		
		[0.5813]		[0.5871]		
Cont. by WH		1.6758***		1.0729**		
		[0.4688]		[0.5445]		
Employees		-30.4590***				
		[0.5286]				
Parent			0.2227	0.209		
			[0.2578]	[0.2587]		
Group			0.9349***	0.7408***		
			[0.1714]	[0.1987]		
No Founder/Heir					0.5307***	
					[0.1952]	
Heirs Board					-0.4277*	-1.0758***
					[0.2277]	[0.2435]
Heirs CEO					-1.0169***	-1.5018***
					[0.3655]	[0.3790]
Founder Board					-0.3226	-0.9075***
					[0.3170]	[0.3289]
Founder CEO					-0.4253	-0.9752**
					[0.4173]	[0.4350]
Observations	3363	3363	3363	3363	3363	1937
Number of events	184	184	184	184	184	107
Number of obs.	3363	3363	3363	3363	3363	1937
Log lik.	-1360.000	-1350.000	-1340.000	-1340.000	-1340.000	-702.489
Chi-squared	70.1463	6693.4953	104.2912	112.5834	108.3375	398.3873