PERFORMANCE DIFFERENCES BETWEEN FAMILY-FIRMS AND NON-FAMILY-FIRMS ENGAGING IN M&A TRANSACTIONS AS BIDDERS (SUMMARY)

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SUMMARY

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Principal Topic

A growing body of researchers has turned their attention to the roles and issues of family-businesses (FB) involved in M&A transactions. However, literature has so far been very limited to the perspective of the FB being the target of an acquisition or concerned with an adequate exit strategy, e.g., in form of a sale. The lack of empirical evidence on FBs' inorganic growth strategies is surprising for two reasons. First, the continued influence of families among firms and corporations, also in developed markets, has been well documented and second, other frequently cited differences between FBs and non-family-businesses (NFB) may be the source of a significantly altered strategic posture and performance of FBs: Family-affiliated firm owners are argued to be investors with usually poorly diversified portfolios. They are said to be long-term oriented (over multiple generations), often control senior management positions, and frequently continue to hold significant equity stakes after retirement when they relinquish active control to agents.

These unique characteristics may significantly affect the M&A performance of FBs. The research question focused upon in this study is twofold: (1) Are those acquisitions, where FBs are bidders, value enhancing from a bidding firm’s shareholder perspective and (2) are FBs regarded as better performers than NFBs?

Method

This paper investigates the relation between family-influence and share price performance in M&A transactions for a comprehensive sample of German public firms during 1994-2004. It provides evidence on the market reaction to the announcement of a proposed M&A transaction for FBs vs. NFBs, when both are acting as bidders. This paper applies the established event study methodology and tests results in a multivariate setting, controlling for potentially confounding variables.

Results and Implications

When controlling for family influence, significant positive abnormal returns for those firms with a strong family-influence are observed. For firms with a relatively low or zero family-influence abnormal returns are statistically not significant. Results indicate that, contrary to hypothesized agency conflicts between block-holding family and minority shareholders, all shareholders benefit from increased family-influence in a firm. Results are robust against structural differences of FBs vs. NFBs, as well as a variety of different FB-definitions.

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