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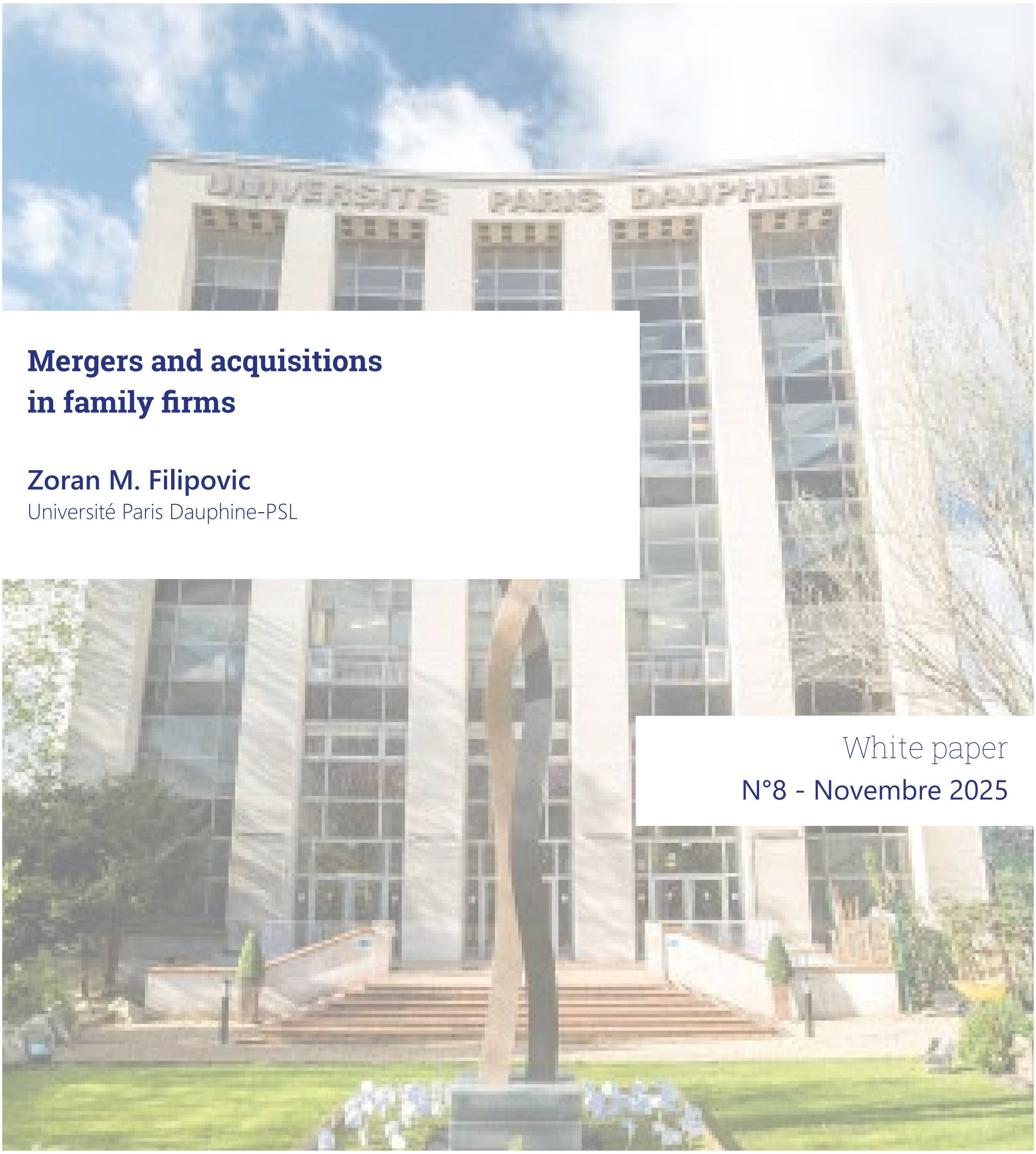

Mergers and acquisitions in family firms

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Mergers and acquisitions in family firms

Zoran M. Filipović*

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Abstract

This paper reviews the financial literature on mergers and acquisitions (M&As) involving family firms, examining how ownership and control shape acquisition behavior and outcomes. Evidence across countries shows that family firms are more selective and risk-averse acquirers, often preferring cash payments to avoid ownership dilution and preserve control. Acquirers of family-owned targets tend to pay higher premiums, reflecting control value and founder-specific human capital. When family firms engage in acquisitions, they frequently achieve superior announcement returns and long-term performance, particularly under strong family governance. Overall, the findings highlight how family ownership influences M&A strategy through a dual focus on financial value creation and the preservation of socioemotional wealth.

JEL Classification: G34, L25, G30

Keywords: Family firms, M&A, Mergers and acquisitions

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1 Introduction

Mergers and acquisitions (M&As) are among the most transformative strategic decisions firms undertake, with profound implications for growth, governance, and shareholder value. Although the motivations and outcomes of M&As have been extensively studied in the corporate finance literature, much less attention has been devoted to understanding how family ownership influences these transactions. Family firms are a common type of businesses globally (see, e.g., La Porta et al., 1999; Faccio and Lang, 2002; Anderson and Reeb, 2003a; Villalonga and Amit, 2006), accounting for nearly two-thirds of all businesses and more than 70% of global GDP (De Massis et al., 2018). According to the 2025 Boston Consulting Group study, family-controlled companies collectively generate approximately eight trillion U.S. dollars in annual revenues.[1] At the same time, mergers and acquisitions (M&As) represent one of the most important forms of corporate investment and restructuring, with global M&A activity peaking at 6.1 trillion U.S. dollars in 2021 (Global M&A 2025 Report by Bain Capital).[2]

Considering the central role of M&As in shaping corporate strategy and the widespread prevalence of family-controlled businesses, understanding how family ownership influences M&A behavior is of critical importance. This paper reviews and synthesizes the existing financial literature[3] on mergers and acquisitions involving family firms, highlighting how their ownership structures, governance models, and long-term objectives affect acquisition decisions and outcomes. The analysis focuses on several key dimensions that have traditionally been studied in the field of finance, namely, *deal performance, deal propensity, payment method, acquisition premium, diversification strategy*, and *CEO incentives*.

The term *family firm* is, however, inherently broad and encompasses organizations

[1] https://www.bcg.com/publications/2025/family-offices-private-principal-investors-face-new-reality

[2] https://www.bain.com/globalassets/noindex/2025/bain_report_global_m_and_a_report_2025.pdf

[3] Although most of the reviewed papers are published in finance journals, the literature on acquisitions by family firms is also well developed in the management and entrepreneurship fields.

that differ widely in both family-related and firm-level characteristics.[4] As highlighted by De Massis et al. (2018) and Chua et al. (2012), this universe is highly heterogeneous, including differences in ownership concentration, control mechanisms, generational succession, and managerial involvement, as well as variations in firm size, industry, age, public listing status, etc. Empirical studies, for example, capture a wide range of family ownership, from as little as 5% to full ownership (Schierstedt et al., 2020). While much of the empirical evidence to date has focused on large, listed firms such as those in the S&P 500 (see, e.g., Bauguess and Stegemoller, 2008; Hussinger and Issah, 2019) or the Fortune 1000 (Miller et al., 2010), research on smaller, private companies has begun to emerge but remains relatively scarce (Cruz et al., 2010; Gonenc et al., 2013). Consequently, the empirical findings in the M&A literature are not always consistent across samples and contexts. Nevertheless, the overall evidence strongly supports the view that family firms differ systematically from non-family firms in their M&A activity.

Family firms' distinctive ownership and governance structures shape their incentives, risk preferences, and strategic goals, which in turn influence their approach to acquisitions. The ownership structure of a firm affects managerial decision-making by altering the incentives and constraints faced by key decision-makers (Caprio et al., 2011). Family firms often exhibit reluctance toward acquisitions due to concerns over ownership dilution and loss of control (Basu et al., 2009), destruction of socioemotional wealth (Gomez-Mejia et al., 2011), or perceived threats to the family's long-term legacy. At the same time, M&As may serve as an effective means of achieving strategic objectives, such as business expansion (Shim and Okamuro, 2011), diversification (Miller et al., 2010; Gomez-Mejia et al., 2018), succession planning, or even inheritance tax optimization (Tsoutsoura, 2015; Shin, 2020). In certain contexts, family firms may also view M&As as a viable exit strategy (Meier and Schier, 2014).

A large body of empirical research supports the notion that family firms are gen-

[4]The definition of family firms is a longstanding topic in the literature (see, e.g., Chua et al., 1999; Astrachan et al., 2002; Klein et al., 2005; Bennedsen et al., 2025), but it is not examined in detail in this paper.

erally more selective and risk-averse in their deal-making than non-family firms. Studies consistently show that family ownership is associated with a lower likelihood of undertaking acquisitions or divestitures (e.g., Caprio et al., 2011; La Rosa et al., 2018; Cuevas-Rodríguez et al., 2023). Nevertheless, when family firms do engage in acquisitions, evidence often points to favorable market reactions and superior long-term performance. Research by Fahlenbrach (2009), Feldman et al. (2019), and others documents that family acquirers frequently outperform their non-family counterparts, although results vary across institutional settings. Family acquirers also display a strong preference for cash payments to avoid ownership dilution (Ben-Amar and André, 2006; Teti et al., 2022), and acquirers of family-owned targets tend to pay higher acquisition premiums to compensate owners for surrendering control and private benefits (Gonenc et al., 2013; Tao-Schuchardt et al., 2023; Xie, 2024). Finally, acquisitions increase CEO pay and reduce turnover risk in non-family firms, but these effects are largely absent in family firms (De Cesari et al., 2016).

Differences in M&A decisions and outcomes between family and non-family firms can be understood through the lens of agency theory. In family firms, the traditional agency problem between dispersed shareholders and managers is typically mitigated by the presence of a dominant controlling family that closely monitors management. However, this concentrated control introduces another type of agency conflict—between the controlling family and minority shareholders—wherein family owners may extract private benefits at the expense of other investors.[5] Consequently, family firms may prioritize control preservation and non-financial goals, even at the cost of short-term financial performance.

The remainder of this paper is organized as follows. Section 2 reviews the evidence on the post-acquisition performance of family firm acquirers and targets. Section 3 examines the propensity of family firms to undertake acquisitions and divestitures. Section 4

[5]It should be noted, however, that such conflicts are more prevalent in listed family firms, where minority shareholders are more common, and tend to be less relevant in private firms, where ownership is typically more concentrated.

discusses the choice of payment method and acquisition premiums. Section 5 explores the role of diversification in family firm M&As. Section 6 analyzes the influence of CEO incentives and governance structures. Finally, Section 7 concludes with a synthesis of the main findings and implications for future research.

2 Performance

2.1 Family firm acquirers

Family firms differ fundamentally from nonfamily firms in their approach to acquisitions. Publicly listed, nonfamily-controlled acquirers tend to prioritize the stock market's reaction to acquisition announcements, treating it as a key signal of M&A quality. By contrast, family firms often attach equal or greater importance to goals such as succession planning, preserving family employment, and maintaining governance control (see Anderson and Reeb, 2003a; Chua et al., 2018). An acquisition may therefore be deemed successful by family owners even when market reactions are unfavorable, whereas nonfamily shareholders would likely view the same deal as value-destroying. It is thus unsurprising that the literature remains divided on whether family firm acquisitions create or destroy value.

Several studies report positive market reactions to acquisitions by family firms. Fahlenbrach (2009), analyzing U.S. founder-CEO firms from 1993–2002, find overall favorable stock price responses, particularly for all-cash transactions (measured by five-day CARs). They also note that founder-CEOs lead roughly 11% of the largest U.S. public firms. Similarly, Feldman et al. (2019) document positive two-day CARs for family firm acquirers, with stronger reactions compared to nonfamily firms. Their results show that returns are highest when family firms acquire businesses from nonfamily divesters, especially when the deal involves a family CEO acquiring from a nonfamily CEO. Basu et al. (2009) focus on acquisitions of publicly traded targets by newly listed U.S. family firms. They find that acquirers with lower family ownership earn significantly smaller two-day CARs compared to those with higher ownership stakes. These findings suggest that concentrated ownership aligns family and minority shareholder interests, whereas dispersed ownership may encourage entrenchment.

Evidence from non-U.S. settings also supports positive short-term effects. Examining Canadian deals from 1998–2002, Ben-Amar and André (2006) show that family ownership is associated with higher announcement returns: a 2.2% increase in three-day CARs overall, and a 3.2% increase when a family member serves as CEO. Similarly, André et al. (2014) find that Canadian high-tech M&As between 1997–2006 yield a 2.65% higher three-day CAR when family ownership is present, with founder-CEO-led acquisitions outperforming those led by descendants or professionals.

Consistent patterns emerge in Europe. Boeckhaus and Calabrò (2025), surveying German firms on M&A outcomes between 2010–2020, also find that family firm deals are perceived as more successful than those of nonfamily firms. Feito-Ruiz and Menéndez-Requejo (2010) study 124 M&As by European-listed acquirers from 2002–2004 and find that family ownership significantly improves shareholder valuations of announcements: event-window CARs are 2.17% for family firms versus statistically insignificant for nonfamily firms. Likewise, Caprio et al. (2011), analyzing 777 large continental European firms (1990–2008), find that family firm acquisitions outperform nonfamily firms by 1.55% in CAR(-30,+30), although differences in the narrower (-2,+2) window are not significant.

Further evidence is provided by Defrancq et al. (2016), who study M&As by listed companies in Continental Europe during 2005–2013. They report an average acquirer CAR of 1.16% over the (-1,+1) event window for family-controlled acquirers, compared with 0.93% for nonfamily-controlled firms. The study also shows that industry-diversifying M&As are generally associated with lower 3-day abnormal returns for acquirer shareholders, a negative effect that is fully reversed under family ownership. The authors therefore conclude that while unrelated M&As may still represent a potential conflict of interest with minority investors, they do not, on average, destroy shareholder value when undertaken by family firms.

Long-run analyses point in the same direction. Adhikari and Sutton (2016) show that U.S. family acquirers significantly outperform nonfamily counterparts over three years post-acquisition, with style-adjusted and market-adjusted buy-and-hold abnormal returns 17% and 15% higher, respectively. They argue this reflects more severe agency problems in nonfamily firms compared to family firms. Similarly, Hussinger and Issah (2019) find that family firms achieve superior long-term performance based on Tobin's Q, though results using ROA are weaker.

Yet not all evidence is positive. Bauguess and Stegemoller (2008) report that U.S. family firms with founding family involvement earn announcement returns 0.35–0.89% lower than nonfamily firms, consistent with agency-cost explanations. Shim and Okamuro (2011), studying Japanese firms over the period 1955–1973, also find underperformance by family firms in terms of ROA, Tobin's Q, sales growth, and employment growth.

Other research finds no clear performance effect. For instance, Miller et al. (2010) report no impact of family ownership on Tobin's Q around acquisitions. Likewise, La Rosa et al. (2018), examining 141 Italian firms from 2005 to 2011, find no significant differences between family and nonfamily acquirers in either three-year CAR changes or sales-to-assets ratios.

2.2 Family firm targets

Gonenc et al. (2013) examine 391 acquisitions of private targets in seven continental European countries during 1997–2008 and find that the cumulative announcement returns (CAR) of bidders are lower when the target is family-controlled compared to non-family-controlled firms. Their evidence suggests that bidders must pay a premium to persuade family owners to sell, compensating them for relinquishing private benefits. In contrast, Gleason et al. (2014) analyze 307 acquisitions of family-owned targets in the US between 1984 and 2000. They find that bidders earn positive abnormal returns at the announcement of such acquisitions, with a three-day CAR of 0.98%. The authors conclude that acquiring a family-owned firm generates short-term wealth for bidders. However, their results also show that, in the long run, acquirers of family-owned targets experience significantly negative BHARs. Similarly, Feldman et al. (2019) report that shareholder returns for divesting firms are maximized when family-owned businesses are sold to non-family acquirers, particularly when the divesting CEO is from a family firm and the acquiring CEO is not. However, Basu et al. (2009) argue that value creation depends on the level of family ownership in the target firm, finding that acquisitions of targets with lower family ownership are associated with greater value creation.

Analyzing U.S. companies from 1994 to 2010, Feldman et al. (2016) show that business unit divestitures undertaken by family firms, particularly those led by family CEOs, are associated with stronger post-divestiture performance than those of non-family firms, as measured by Tobin's Q and 3-day CAR. The stock market also reacts more favorably to divestiture announcements from family firms, with CARs about 0.4% higher than for non-family firms. These results suggest that family firms may not always fully exploit available economic opportunities, potentially because they pursue goals that extend beyond maximizing shareholder value.

In summary, the evidence suggests that family firms generally outperform nonfamily firms in acquisitions. Although some studies report neutral or negative effects, the majority find that family firms, especially when accompanied by strong governance or founder involvement, create value for shareholders. In addition, acquisitions of family-owned targets tend to create value for acquirers.

3 Deal propensity

Understanding acquisition propensity is essential for analyzing the strategic behavior of family firms. Unlike non-family firms, which frequently rely on acquisitions as a primary path to growth, family firms are generally more selective and risk-averse, a pattern that has been documented across different countries and institutional settings. Similarly, driven by their unique family-specific priorities, family firms may also display distinct preferences compared to non-family firms when it comes to undertaking divestitures.

3.1 Acquisitions

Bauguess and Stegemoller (2008) show that family firms are both less likely to initiate acquisitions and less likely to be acquisition targets, being 52% less likely to be acquired than non-family firms. Consistently, Miller et al. (2010) document a negative association between family ownership and both the frequency and aggregate value of acquisitions. Along similar lines, Caprio et al. (2011) find that the probability of engaging in acquisitions decreases as the voting rights of the largest shareholder increase, and that family firms are generally less acquisitive than non-family firms, particularly when their equity stake does not guarantee long-term control. Shim and Okamuro (2011) report that, in Japan, family firms are less inclined to merge than their non-family counterparts.

In a sample of listed Italian firms, La Rosa et al. (2018) observe that family involvement in ownership and executive committees reduces firms' propensity to acquire. Using data from Spanish public companies between 2010 and 2015, Cuevas-Rodríguez et al. (2023) also find that family firms are more reluctant than non-family firms to pursue acquisitions, a behavior attributed to the preservation of socioemotional wealth. Examining acquisition events among Standard & Poor's 1500 manufacturing firms (SIC codes 20–39) between 1997 and 2011, Gomez-Mejia et al. (2018) show that family control is associated with an overall reluctance to acquire, and when acquisitions do occur, with a stronger preference for related targets. Consistent with previous results, analyzing Brazilian publicly traded firms from 1997 to 2010, de Castro et al. (2025) find that family-controlled firms, on average, are significantly less likely to engage in M&A transactions compared to their non-family counterparts, suggesting that the potential threats to control, identity, and long-term family influence weigh heavily in their strategic calculus.

Bettinazzi et al. (2018) shows that when undertaking M&As, family firms tend to favor family-owned counterparts. For acquirers, this preference may stem from smoother interactions arising from shared logics and objectives. For targets, family owners may be more willing to sell to another family firm, perceiving them as more likely to preserve the firm's legacy and socioemotional goals.

3.2 Divestitures

Feldman et al. (2016) show that family firms are less likely than non-family firms to divest business units, particularly when managed by family rather than non-family CEOs. They report that, in any given year, family firms are 2.1% less likely to undertake divestitures compared to their non-family counterparts. Considering that approximately 15% of firms in their sample engage in divestitures, this effect is economically significant. Moreover, they report that family firms led by family CEOs are 1.5% less likely to divest than those managed by non-family CEOs. Similarly, Zellweger and Brauer (2013) find that family block ownership reduces the likelihood of divestitures, as such transactions threaten the socioemotional wealth of family owners. In line with this, Praet (2013) report that stronger ownership and governance control is associated with a lower propensity to divest.

Overall, family firms are more cautious and selective in both acquisitions and divestitures compared to non-family firms, prioritizing control and socioemotional wealth, which consistently reduces both the likelihood and frequency of deals.

4 Deal consideration

4.1 Payment method

Cash, as a means of payment, offers the advantage of being accepted at face value by both acquirers and targets, thereby facilitating transparent deal valuation. Basu et al. (2009) find that acquirers with low levels of family ownership are more likely to use cash as the medium of exchange, thereby avoiding ownership dilution and safeguarding their control benefits. Similarly, Ben-Amar and André (2006) report that family firms more frequently rely on cash to finance transactions. Analyzing 269 M&A transactions by Italian listed bidders between 2008 and 2015, Teti et al. (2022) show that family firms display a stronger preference for cash payments precisely to prevent dilution. These findings highlight that maintaining control is especially valuable for family firms compared to other types of firms. In line with this, Gleason et al. (2014) also find that most family-owned targets are acquired through cash deals.

4.2 Acquisition premium

Another key aspect of any acquisition is the valuation of the target firm and whether it is purchased at a premium or a discount.

In private company transactions, it is common to observe substantial acquisition premiums relative to estimated firm values. These premiums often reflect the so-called value of control (Damodaran, 2012). In the context of family firms, price expectations are frequently higher due to the emotional attachment of owners to their business (e.g., Astrachan and Jaskiewicz, 2008; Zellweger and Astrachan, 2008). To overcome the reluctance of family owners to sell their firm to outsiders and relinquish control, acquirers may need to offer a premium to family shareholders. In other words, the bidding firm may have to pay a higher price to convince the family to give up ownership and control.

Empirical research supports this perspective. Gonenc et al. (2013) argue that acquisition premiums can be attributed to the strong bargaining position of family owners and the need to compensate them for surrendering private benefits and control. Similarly, based on a sample of 486 acquisitions conducted in France, Germany, Italy, and Spain between 2011 and 2019, Tao-Schuchardt et al. (2023) find that acquirers tend to purchase family firms at higher valuations than non-family firms. Using U.S. data from 1992 to 2013, Xie (2024) shows that founding-family targets—especially those where founders remain active or involved after the acquisition—command higher acquisition premiums than non-family or non-founder targets. The author concludes that these price premiums are not overpayments, but rather reflect the underlying value associated with founder involvement. Along similar lines, Kumar et al. (2021) suggest that acquirers are willing to pay a premium for founder-specific human capital and the distinctive organizational structures these individuals have built over time.[6]

Conversely, some studies present a different view. Granata and Chirico (2010) argue that acquiring firms often perceive family businesses as less professional and less efficient, which can negatively affect their valuation relative to non-family targets. Using a matched-pairs methodology and valuation multiples, the authors find that acquirers tend to pay lower prices, effectively acquiring at a discount, for family firm targets compared to non-family firms.

In sum, family firms show a strong preference for cash payments in M&A transactions, primarily to avoid ownership dilution and preserve control. Regarding acquisition premiums, acquirers often pay higher prices for family firms, reflecting control value, emotional attachment, and founder-specific skills.

[6] More broadly, evidence shows that firms led by founder-CEOs tend to enjoy higher valuations and command premiums compared to firms managed by professional CEOs (Fahlenbrach, 2009; Adams et al., 2009).

5 Diversification

One of the important topics in the literature on family firms is industry diversification through mergers and acquisitions. Empirical evidence, however, is mixed regarding whether family firms are more likely to pursue related or unrelated targets and whether diversyfing acqusitions create or destroy value.

5.1 Propensity

Using a sample of Fortune 1000 firms from 1996–2000, Miller et al. (2010) find that the likelihood of undertaking diversifying acquisitions increases with family ownership. They argue that expanding beyond the core business allows families to reduce investment risk. Similarly, drawing on a hand-collected dataset of 404 strategic acquisitions by 211 German family firms between 2010 and 2016, Schierstedt et al. (2020) report that higher family ownership is associated with a greater probability of diversifying acquisitions. This effect, however, is weakened when family management involvement is high and is particularly pronounced among first-generation family firms. In later generations, family-dominated top management teams are less inclined toward diversification.

By contrast, several studies suggest that family firms favor related acquisitions. Analyzing European M&A transactions between 1990 and 2013, Aktas et al. (2016) show that cross-industry acquisitions are primarily concentrated among highly leveraged family firms and that, on average, family firms engage in fewer diversifying acquisitions than their non-family counterparts. In a similar vein, Gomez-Mejia et al. (2018) find that family-controlled firms exhibit a marked preference for related targets.[7] Moreover, the authors highlight that heightened vulnerability can shift families toward prioritizing financial considerations over socioemotional wealth, thereby increasing the likelihood of unrelated

[7]More broadly, Anderson and Reeb (2003b) and Gomez-Mejia et al. (2010) examine sales across 4-digit SIC industries and conclude that family firms generally avoid diversification altogether.

acquisitions.

The study of Continental European family firms by Defrancq et al. (2016) reconciles earlier findings and shows that acquirers with a family as the largest shareholder (holding a stake of 50% or less) are less likely to acquire unrelated target firms compared to lone-founder or other non-family firms. However, as the family's ownership stake grows, family firms become increasingly inclined to pursue an industry-diversifying M&A strategy.

5.2 Deal performance

The study by Defrancq et al. (2016) finds that industry-diversifying acquisitions are generally associated with lower three-day abnormal returns for acquirer shareholders, but this negative effect is fully offset under family ownership. The authors conclude that while unrelated M&As may still create potential conflicts of interest with minority shareholders, they do not, on average, destroy shareholder value when executed by family firms. Similarly, Adhikari and Sutton (2016), using one- and three-year style-adjusted and market-adjusted buy-and-hold returns (BHAR), find consistent evidence. Contrary to the view that founding family members pursue value-destroying diversifying acquisitions to reduce their personal portfolio risk, their results suggest that family firms do not lose value in such transactions.

In sum, evidence on family firms' diversification via acquisitions is mixed. Higher family ownership can encourage unrelated acquisitions to reduce risk, yet many family firms, especially later-generation ones, tend to favor related targets, reflecting a balance between financial and socioemotional priorities.

6 CEOs

The literature on CEOs is already well established. In general, target CEOs are typically rewarded generously for selling their firms (see, e.g., Hartzell et al., 2004), whereas acquiring CEOs benefit from leading larger firms and often receive higher compensation (see, e.g., Datta et al., 2001; Harford and Li, 2007; Yim, 2013; Fich et al., 2014). However, they also face greater career risks if the deal performs poorly (see, e.g., Weisbach, 1995; Lehn and Zhao, 2006). An important question is whether these dynamics differ in the context of family firms.

De Cesari et al. (2016) examine the impact of corporate acquisitions on CEO compensation and turnover in family firms using a sample of Continental European non-financial firms from 2001 to 2008. Overall, they find that acquisitions significantly increase both CEO cash and total compensation across the sample. However, the effects differ between family and non-family firms. In non-family firms, acquisitions are positively and significantly associated with CEO compensation, whereas CEOs in family firms experience no post-acquisition increase in pay. Moreover, acquisitions in non-family firms are linked to a lower likelihood of CEO turnover, suggesting that acquiring CEOs not only secure higher compensation but also reduced dismissal risk. In contrast, acquisitions have no significant effect on CEO turnover in family firms.

In short, acquisitions increase CEO pay and reduce turnover risk in non-family firms, but these effects are largely absent in family firms, reflecting the primacy of family governance over individual managerial incentives.

7 Conclusion

Overall, family firms' approach to M&As reflects their dual pursuit of financial and socioemotional objectives. As Kachaner et al. (2012) emphasize, family businesses often prioritize resilience over short-term performance, forgoing excess returns in favorable periods to ensure stability and survival during downturns. Their leaders typically operate with a multigenerational horizon, focusing on long-term continuity and stewardship rather than immediate financial optimization. Consequently, family firms' M&A strategies are shaped as much by considerations of legacy and control as by traditional value-maximization motives, leading to systematically different acquisition behavior compared with non-family firms.

Future research should continue to explore the contextual factors that shape these dynamics, such as generational transitions, institutional environments, and varying definitions of family control, to better understand when and how family ownership enhances or constrains the value-creation potential of M&As. A deeper integration of corporate finance, behavioral, and family business perspectives could provide new insights into one of the most economically important yet complex intersections in modern finance: the role of family ownership in shaping corporate acquisitions.

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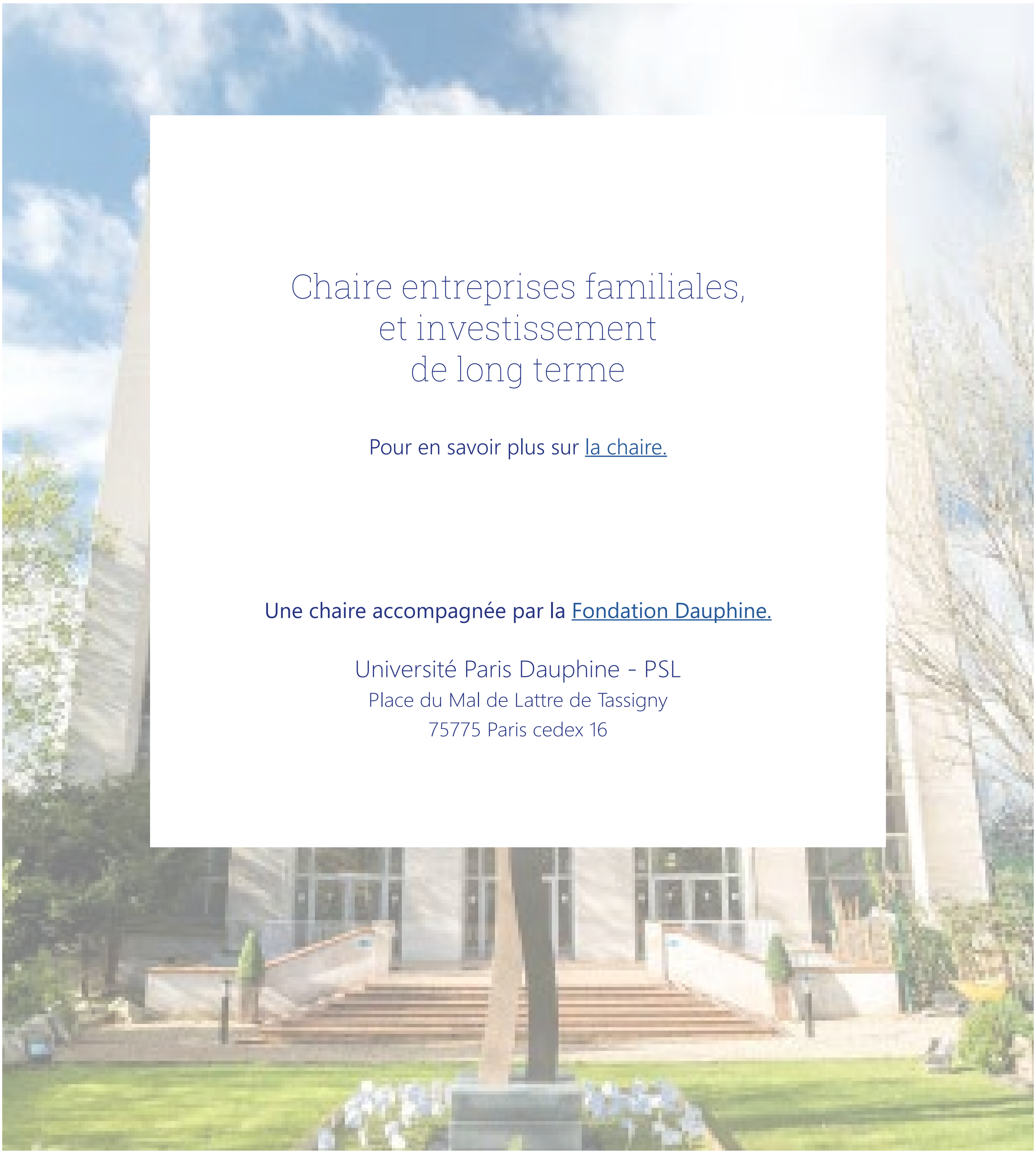

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