WHEN ARE FAMILY FIRMS MORE LIKELY TO MAKE ACQUISITIONS? A BEHAVIOURAL AGENCY APPROACH TO THE ROLE OF FAMILY INVOLVEMENT

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Abstract

This study aims to explore the effect of family firms' corporate governance characteristics on their acquisition propensity: as the extant literature is increasingly emphasizing the heterogeneity of family firms and is calling for further insights into the peculiarities affecting their decision-making processes, our objective lies in identifying corporate governance mechanisms that influence their acquisition attitude. Thus, building on the behavioural agency theory, we investigate the effect of family members' ownership stake, their involvement in the board of directors (BoD), the family versus non-family chief executive officer (CEO), and the generational step on the propensity to execute acquisitions. We test our framework on a sample of 207 acquisitions executed by Italian listed family firms in the 2014–2020 period. In line with our prediction, we find evidence that family members sitting on the board of directors are negatively associated with acquisitions. However, when family firms are guided by a family versus a non-family CEO, the willingness to embark on acquisitions increases. Family ownership is a non-significant driver of the propensity to acquire, which further confirms the importance of decision-making bodies. Finally, the propensity to acquire does not appear to be driven by whether the firm is still in its first versus later generations. Overall, our study contributes to the ongoing conversations on the heterogeneity of family firms and offers several implications for both theory and practice.

Keywords: Family Firms, Behavioural Agency Theory, Socio-Emotional Wealth, Family Directors, Family CEO

Authors' individual contribution: Conceptualization — I.G. and C.D.; Methodology — C.D.; Validation — C.D.; Formal Analysis — I.G.; Investigation — I.G.; Writing — Original Draft — I.G. and C.D.; Writing — Review & Editing — I.G. and C.D.

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1. INTRODUCTION

Corporate acquisitions in the context of family firms have been attracting an increasing research interest given the peculiar corporate governance mechanisms that regulate such firms relative to their non-family counterparts (Gómez-Mejía, Patel, & Zellweger, 2018; La Rosa, Bernini, & Mariani, 2018; Hussinger & Issah, 2019; Schiersted, Henn, & Lutz, 2020). Indeed, family ownership implies distinctive features that shape agency conflicts and, therefore, strategic decision-making along with corporate risk-taking. In this perspective, literature on family firms suggests that the family side is still a nascent research avenue (Gonzàlez-Cruz, Clemente-Almendros, & Puig-Denia, 2021) and indicates that decision-making processes are affected in various ways by several internal decision-makers, e.g., the chief executive officer (CEO), the board of directors (BoD), and the founder, all exercising a legitimate power in shaping the corporate direction of the firm. Under agency theory, the alignment between shareholders' and managers' interests is fundamental and has important implications in terms of risk propensity (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000; Cole, He, McCullough, & Sommer, 2011; Abinzano, Corredor, & Martinez, 2021; Ongsakul, Chatjuthamard, Jiraporn, & Jiraporn, 2021), the variety of decision-makers in family firms highlights the need for further research on the relationship between corporate governance characteristics and corporate risk-taking. This is further strengthened by the ability of active family owners to influence executives' behaviour and decision-making processes in the direction of long-term strategic orientation and socio-emotional wealth (SEW) preservation (Miller, Le Breton-Miller, & Lester, 2010; Gómez-Mejía et al., 2018).

In this context, the acquisition decision represents a particularly complex and risky corporate decision as it carries substantial implications in terms of potential SEW gains and losses (Hussinger & Issah, 2019). Extant literature has, however, provided mixed findings on the role played by family ownership and by family involvement in guiding acquisition decisions, thus offering room for further exploration. In our framework, we, therefore, investigate the role played by corporate governance characteristics of family firms in terms of family ownership and family involvement in the board in affecting their acquisition propensity. Our conceptual framework underscores the importance of family members' active participation as a key determinant of the risk profile of family firms. Furthermore, we examine if and to what extent a family firm's propensity to make acquisitions is influenced by whether the firm is guided by a family versus an external CEO (Kelleci, Lambrechts, Voordeckers, & Huybrechts, 2019) and by the generational step (Habbersohn, Nordqvist, & Zellweger, 2010; Johl, Jackling, & Joshi, 2010; Campa, Torchia, Marceselli, & Sargenti, 2020). In doing so, we offer insights into multiple factors shaping family involvement and how they inform acquisition decisions.

From a theoretical standpoint, we adopt a behavioural agency theory approach, as it represents a valuable framework to assess and interpret the risk propensity of family firms. According to the theoretical lens of behavioural agency theory, family firms are not always risk averse and their risk preferences are not necessarily constant (Wiseman & Gomez-Mejia, 1998; Chrisman & Patel, 2012), but rather depend on which between incurring or avoiding risk is more likely to preserve the non-financial and affective side of the firm (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). This theoretical framework is therefore particularly appropriate to capture the multifaceted and complex decision-making dynamics in family firms.

Building on a sample of 207 acquisitions executed by 93 Italian listed family firms in the 2014–2020 period, our results provide evidence that family ownership is not a significant predictor of family firms' acquisition decisions. In opposition, family involvement in the board of directors hurts the firm's propensity to acquire. Such findings are totally in line with the literature suggesting that acquisitions are perceived as risk-taking growth strategies for family firms and, thus, family members on the board may direct resource allocation decisions towards investment projects that may more likely preserve their socio-emotional endowment (Rajverma, Misra, Mohapatra, & Chandra, 2019; Abinzano et al., 2021). Our study also provides evidence that when family firms have a family CEO, they tend to be more likely to execute acquisitions, which are hence regarded as opportunities to maximize the firm's wealth rather than risky corporate growth modes. Contrary to our expectations, the generational step is a non-significant predictor of acquisition propensity, thus suggesting that risk preferences in terms of corporate acquisitions do not necessarily vary across the controlling generations. Overall, our paper contributes to the ongoing academic debate on corporate risk-taking in family firms by investigating the role played by corporate governance characteristics in shaping the firm's risk propensity, regarded in terms of acquisition completion.

Furthermore, despite most of the previous studies focusing on family versus non-family firms (La Rosa et al., 2018), we follow a nascent research path and argue that the category of family firms is intrinsically heterogeneous, as different socio-emotional approaches may affect the decision-making process. Indeed, over the last decades, behavioural agency theory has been mostly used to distinguish the decision-making of family firms from that of publicly, non-family-owned firms, providing contributions to the comparisons between family versus non-family ownership along multiple decision-making dynamics and performance consequences. However, given the differences in SEW perceptions and priorities between family firms and their members, we believe that investigating the participation of family members in family firms' corporate governance may deepen our understanding of their acquisition decisions.

The structure of the article is as follows. In Section 2 we provide a review of the literature, based on which we develop our conceptual model and hypotheses. In Section 3 we provide methodological details in terms of both sample selection and sample distribution, and the variables and measures used in our study. In Section 4 we present our results. Finally, in Section 5 we discuss our empirical findings; and provide in Section 6 conclusions that also clarify the main contributions of our study.

2. LITERATURE REVIEW

2.1. The effect of family ownership

The involvement of family members in the business directly affects decision-making at multiple levels (Zahra, 2005). Family firms tend to take actions aimed at preserving family ownership and control (Anderson & Reeb, 2003; Worek, De Massis, Wright, & Veider, 2018) and prefer long-term investments relative to short-term opportunities to their transgenerational outlook (Gómez-Mejía et al., 2007). These peculiar characteristics are, however, associated with contrasting effects in terms of risk propensity versus aversion (Berrone, Cruz, & Gomez-Mejia, 2012; Alessandri, Cerrato, & Eddleston, 2018). On the one hand, literature has found a positive association between family ownership and risk-taking (Zahra, 2005; Geeta & Prasanna, 2016; Lee, Chae, & Lee, 2018). For instance, Nguyen (2011) describes a positive impact of family ownership on firms' risk-taking due to the greater ability of family owners to address the business towards riskier but more value-creating investment decisions. This positive effect has been explained by the fact that the aim of protecting the family's wealth and creating value for heirs may prompt family owners to embark on risky projects (Nguyen, 2011) to enhance the firm's value and competitive advantage (Zahra, 2005).

On the other hand, family owners are more likely to adopt conservative strategies that preserve their socio-emotional endowment (Abinzano et al., 2021). Accordingly, several studies have reported a negative association between family ownership and firms' risk levels. For instance, Rajverma et al. (2019) argue that family ownership, as well as family control, negatively affect corporate risk-taking. Furthermore, Gadhoum and Ayadi (2003), and Paligorova (2010) provide evidence that at increasing ownership stakes, family firms face lower risk levels, consistently with Kim and Cho's (2021) findings.

Building on this, we hypothesize the following:

H1: Family ownership stake is negatively associated with the propensity of a family firm to execute acquisitions.

2.2. The effect of family involvement on the board

Prior studies have acknowledged the significant role played by the family involvement in the BoD, for instance as a driver of the efficiency of working capital management (Franzoi, 2021). The family owners in the BoD can influence managers' actions as well, by aligning them with their preferences (Sullivan & Spong, 1998; Stein, Gallego, & Cuadrado, 2013). Thus, the board composition can be regarded as a proxy for what happens inside the boardroom, with family involvement acting as a double-edged sword. On the one hand, family members' participation in business management is reported to be beneficial, as it helps reduce classical agency costs (González-Cruz & Cruz-Ros, 2016). On the other hand, improper family involvement may lead to family agency costs (Schulze, Lubatkin, Dino, & Buchholtz, 2001; Gonzàlez-Cruz et al., 2021).

In this regard, extant literature suggests that the family component among board members is a characterizing feature relative to other nonfamily board members (Wilson, Wright, & Scholes, 2013). Nevertheless, the effect of the board composition on firm decision-making and performance, although largely investigated in the context of family firms, has provided mixed findings (Arosa, Iturralde, & Maseda, 2010; Basco & Voordeckers, 2015; Klein, Shapiro, & Young, 2005; Schulze et al., 2001) and provides extensive room for further exploration (Nordqvist, Marzano, Brenes, Jiménez, & Fonseca-Parades, 2011).

Although several authors describe a positive impact of family members' involvement in the BoD because of the greater balance between family and business goals, and due to their ability to hinder executives' opportunism (Schulze et al., 2001), concerns arise when considering some peculiar family firms features, namely intra-family conflicts, the possible lack of expertise of family directors, and SEW matters.

First, emotion-based agency conflicts may arise between family members, especially when family complexity increases, thus hindering the interest-convergence mechanism which is believed to act within family businesses, leading in turn to less commitment and higher divergence in personal goals (Corten, Steijvers, & Lybaert, 2017). Second, the lack of expertise and knowledge of family members is found to weaken the advisory role of the BoD at increasing family directors' proportion (Sarkar & Selarka, 2021). This affects the ability to adopt adequate corporate strategies, especially in contexts characterized by a generally low level of investor protection, such as the Italian one (Di Pietra, Grambovas, Raonic, & Riccaboni, 2008; Scafarto, Ricci, Della Corte, & De Luca, 2017).

Third, the extant literature reports that different family members may have different SEW perceptions and priorities, depending on their characteristics, life stages and generational step (Lussier & Sonfield, 2010), which in turn affect their risk propensity and the decision-making process.

In this scenario, the behavioural agency theory provides a valuable conceptual framework to configure the risk-taking vs. risk-aversion implications of family involvement on the board (Gómez-Mejía et al., 2007). Specifically, because family directors may show different degrees of risk propensity, depending on their different perceptions of SEW priorities, we hypothesize that greater involvement of family members sitting on the board will be associated with greater levels of intra-family conflicts in strategic decision-making, resulting in lower levels of risk-taking. In addition, the lack of expertise of family directors could lead to missing valuable investment opportunities.

In turn, we suggest that due to the potential heterogeneity of family members' expertise and SEW perceptions and the consequent increase in intra-family conflicts, a greater presence of family directors will reduce the likelihood that the firm will execute risky investment projects such as corporate acquisitions. We thus posit that:

H2: An increasing family involvement in the board is negatively associated with the propensity of a family firm to execute acquisitions.

2.3. The effect of family versus non-family CEO

Several scholars have suggested that the risks and performance of family firms are affected by the leadership behaviour of their CEOs (Hambrick, 2007; Fayyaz, Jalal, Antonucci, & Venditti, 2021), as they represent key decision makers taking decisions on behalf of their firms and address resources, power and responsibilities allocation (Sanders, 2001; Devers, McNamara, Wiseman, & Arrfelt, 2008; Larraza-Kintana, Wiseman, Gomez-Mejia, & Welbourne, 2007). The CEO's propensity to commit resources, exploit opportunities, and engage in corporate investments with uncertain outcomes is therefore a particularly important dimension shaping the overall risk profile of the firm (Ren, 2016; Martino, Rigolini, & D'Onza, 2020). Extant studies have provided mixed evidence on how family vs. non-family CEOs affect decision-making and firm performance (Kelleci et al., 2019). Such mixed findings suggest that CEOs may have heterogeneous risk preferences based on their perception of wealth increase vs decrease (Wiseman & Gomez-Mejia, 1998; Martin, Gomez-Mejia, & Wiseman, 2013). Thus, we argue that family CEOs may be willing to take greater risks than non-family CEOs to prevent possible wealth losses (Larraza-Kintana et al., 2007; Wiseman & Gomez-Mejia, 1998). Family CEOs have a strong preference for control and tend to concentrate on decision-making, thus implementing a less democratic and participatory leadership style. Scholars have reported that family members appointed to the BoD are more likely to be grey directors who side with executives' preferences (Sarkar & Selarka, 2021): family firms tend to have low levels of formal control and outside monitoring, which provides family CEOs with high authority and discretion in decision-making. Thus, their decisions are relatively less constrained if compared to their non-family counterparts. This decision-making authority is beneficial to the firm, as it fosters organizational flexibility and strategic agility (Gedajlovic, Lubatkin, & Schulze, 2004), and increases the ability to streamline the decision-making process to exploit investment opportunities (Lee & Chu, 2017), while at the same time circumventing the potential for other family board members conflicting opinions.

In addition, literature has underscored that family CEOs tend to identify with their firms (Schein, 1995) and to be both financially and psychologically deeply invested (Cannella & Schen, 2001). This results in a long-term orientation in their decision-making that enables them to commit to investment projects that may require longer time horizons before yielding the expected results (Miller & Le Breton-Miller, 2006). In this sense, we believe that corporate acquisitions may be perceived by family CEOs more as an investment opportunity that can maximize their firm's wealth for the next generation. Thus, the potential risks associated with corporate acquisitions may take second place if compared to the future wealth prospects connected with corporate deals.

Although family CEOs may also be motivated by selfish factors such as the personal achievement of results (Ahmed, Eramudugoda, & Wagstaff, 2022), we believe that because they build their reputation through their family firm more than non-family CEOs do, they may be better able to see the potential benefits that their company may accrue in the long term from corporate acquisitions in terms of company empire building, market power, and resource redeployment. In light of the above, we argue that risky but value-enhancing projects such as corporate acquisitions are more likely to be undertaken when the family firm is guided by a family CEO rather than a non-family CEO: the propensity of family CEOs to execute acquisitions may thus be particularly strong in the context of family firms. We, therefore, formulate the following hypothesis:

H3: A family CEO is positively associated with the propensity of a family firm to execute acquisitions.

2.4. The effect of the firm's first versus later generation

The ability to create value across generations in terms of both financial results and strategic continuity is a primary concern in family firms (Habbersohn et al., 2010; Johl et al., 2010; Campa et al., 2020). Thus, another element that may shape the willingness of a family firm to commit substantial resources to risky projects such as acquisitions is the transgenerational outlook that uniquely characterizes family-controlled firms.

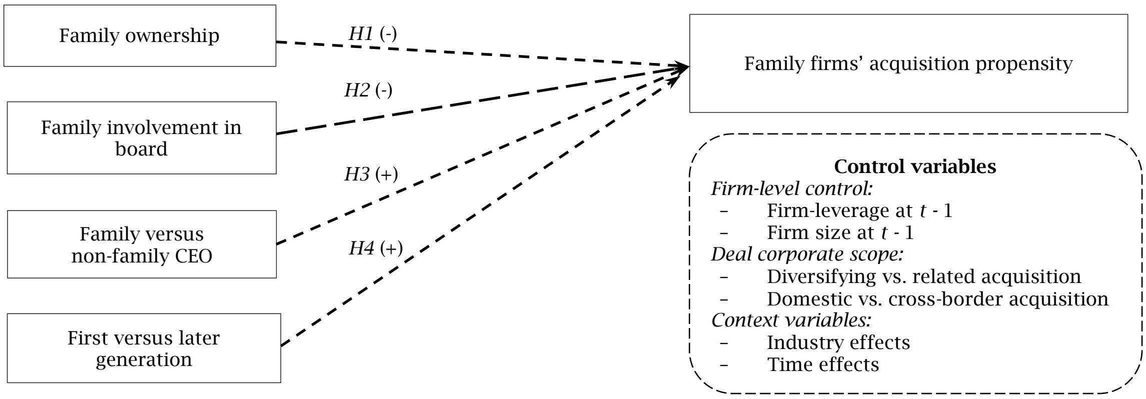
Such ability is however jeopardized by several factors including nepotism, altruism, adverse selection, and family conflicts (Anderson & Reeb, 2003; Carney, 2005; Le Breton-Miller et al., 2004). The transgenerational outlook, therefore, implies a vision of family control and influence that goes beyond the founding generation (Chua, Chrisman, & Sharma, 1999). Following this line of inquiry, several studies have examined the role played by generations on transgenerational entrepreneurship in terms of how a family develops an entrepreneurial mindset and influences the ways in which new value is created across generations (Gartner, 2001).

Several studies have highlighted that, when ownership is transferred to the next generation, there is an increase in the number of family members acting in their interests (Miller & Le Breton-Miller, 2006). In addition, when moving to later generations, family ties tend to weaken, thus diminishing the affective attachment both to the firm (Salvato & Melin, 2008) and among family members (Pieper, Klein, & Jaskiewicz, 2008). Indeed, several studies have provided evidence that with the transfer of the firm to subsequent generations, the risk of conflicts increases both among family members and between family and non-family shareholders (Villalonga & Amit, 2006). The diminishing attachment of family members to the firm in later generations also implies a greater likelihood of improper family involvement (Gonzàlez-Cruz et al., 2021), while at the same time fostering a greater involvement of external managers. In later generations, family members play a more passive role in the management of their company, thus opening vacant positions for external managers (Lussier & Sonfield, 2010). Consequently, whether the family firm is still in its founding generation substantially affects decision-making (Feudjo, Kakti, & Zogning, 2021), as first generations are characterized by greater family members' attachment and, hence, a lower involvement of external professionals. In our framework, this, in turn, may reduce the propensity of the firm to embark on risky investment projects such as corporate acquisitions. We thus hypothesize the following:

H4: The first generation (relative to later generations) is negatively associated with the propensity of a family firm to execute acquisitions.

The conceptual model and hypotheses are shown in Figure 1.

Figure 1. Conceptual model and hypotheses

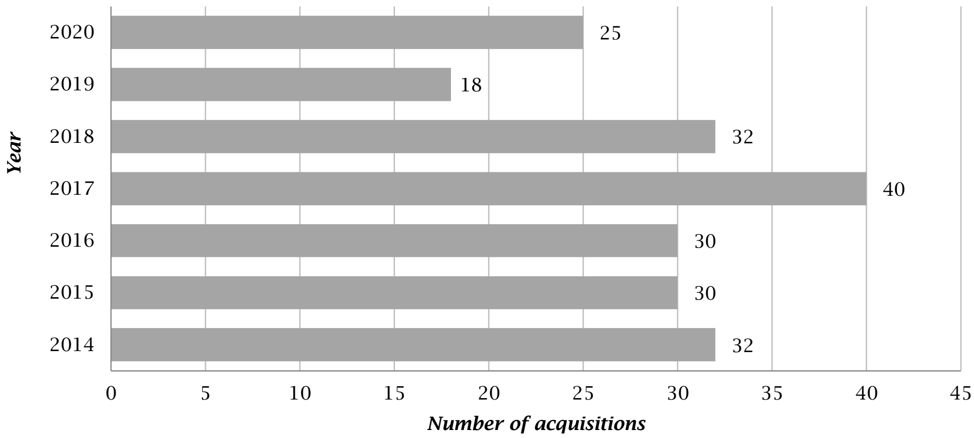


3. RESEARCH METHODOLOGY

3.1. Sample

Our hypotheses are tested on a sample of 207 acquisitions executed by 93 Italian family-listed companies from 2014 to 2020. Data on the deals were collected from Zephyr, a comprehensive database on mergers and acquisitions (M&A) produced by Bureau Van Dijk. Figure 2 provides the distribution of our sample by year of deal completion.

Figure 2. Distribution of acquisitions by year (N = 207)



In terms of sample selection, we relied on several eligibility criteria. First, we selected only acquisitions executed by Italian listed family firms: this homogeneity in terms of acquiring firms' national context is in line with several studies acknowledging Italy as interesting research setting to explore the impact of various corporate governance dimensions on firm decision-making and performance (Bruno & Iacovelli, 2020; Sicoli, Bronzetti, Ippolito, & Leonetti, 2020; Lagasio, 2021). We considered firms listed on the Italian Stock Exchange and excluded financial companies. Family ownership was identified for those firms having at least 30% of shares owned by a family (Minichilli, Corbetta, & MacMillan, 2010).

Consistent with prior literature (Galavotti, Cerrato, & Depperu, 2017), we selected only completed transactions (thus excluding all cases of announcements, rumours, and demergers) and excluded deals having either individual or unknown investors. As long as the deal type is concerned, we included both acquisitions for a capital increase, i.e., where the acquirer already owned prior stakes in the target company, and pure acquisitions, where, on the contrary, the acquirer does not own any prior stake in the target firm.

Furthermore, looking at the geographic scope of the acquisitions, we included both domestic acquisitions, i.e., deals occurring within national borders (in our sample, this means an Italian company purchasing another Italian company), and cross-border acquisitions, i.e., deals occurring across national borders (in our sample, this means an Italian company acquiring a foreign firm). The distribution of our sample along the deal type and scope is shown in Table 1. It is worth noticing that pure acquisitions are more than double the acquisitions for capital increase (144 acquisitions — 69.6% of our sample — where the acquirers did not own prior stakes, against 63 acquisitions — 30.4% of our sample — where the acquirers increased their ownership stake). In terms of geographic scope, domestic acquisitions prevail (135 domestic acquisitions vs. 72 cross-border acquisitions), especially in the case of acquisitions for capital increase (89%), showing Italian family firms' preference for domestic growth strategies.

Table 1. Distribution of acquisitions by deal type and geographic scope (N = 207)

Acquisition type and scope	*Acquisitions for capital increase*	*Pure acquisitions*	*Total*
Domestic acquisitions	56	79	135
International acquisitions	7	65	72
Total observations	63	144	207

3.2. Variables and measures

The dependent variable of our study is the family firm's *Acquisition propensity.* This variable captures the extent to which the family firm is willing to execute corporate acquisitions. Thus, it is operationalized as the number of acquisitions undertaken by the family firm over the sampled period (La Rosa et al., 2018).

Family ownership. Following Eugster (2015) and Miller et al. (2010), family ownership was measured based on the percentage of corporate capital belonging to the family, i.e., the effective share of family ownership.

Family involvement in BoD. To build this measure, we hand-collected data on board compositions and scrutinized each board member. This variable was operationalized as the percentage of family members within the board of directors in the year before the focal acquisition (Minichilli et al., 2010).

Family CEO. Similarly, *Family CEO* was built based on the scrutiny of each firm's BoD. We thus developed a dichotomous variable taking value 1 in case the CEO is a family member and value 0 if, on the contrary, the CEO is an outsider, i.e., a person not belonging to the family.

Finally, the variable capturing the *First vs. later generation* was manually built on a one-by-one approach and was operationalized as a dichotomous variable that takes value 1 in case the firm is in its founding generation, and value 0 in case it is in a later generation.

In terms of control variables, we included several variables at the firm-, the deal-, and the context level. At the firm level, we included a variable capturing the acquiring firm's *Leverage*, as it can increase the propensity to acquire by encouraging firms to undertake risky investments; on the other hand, an excessive debt level may limit the propensity to be a bidder by exhausting new debt-issuing capacity (Caprio, Croci, & Del Giudice, 2011). This variable was measured as the ratio between the firm's long-term debt on total assets one year before the focal acquisition.

We also controlled for the *Firm size*, operationalized as the natural logarithm of the firm's total assets in the year prior to the deal (Nogueira & Kabbach de Castro, 2020). It is worth noticing that both firm-level control variables are lagged, i.e., have been collected at t - 1 relative to the year in which the focal acquisition was carried out. This helps to rule out potential endogeneity issues associated with firm-level factors.

At the deal-level, we included a set of control variables aimed at capturing the scope of the acquisition, in terms of both product diversification and internationalization, as entering new product markets and/or new geographic markets entails additional challenges than consolidating the firm's product/market position. In particular, we included the variable *Diversification,* measured as a dichotomous variable based on the acquiring and target firms' industry NAICS (North American Industrial Classification) codes. Specifically, it takes value 1 in case the two firms operate in different industries, i.e., industry codes do not match at the 2-digit level, and 0 if otherwise. The *Domestic acquisition* is a dichotomous variable based on the countries' ISO codes and captures whether the Italian acquirer is expanding within (value 1, i.e., domestic acquisitions) or outside of Italy (value 0, i.e., cross-border acquisition).

Finally, since investment opportunities are both industry- and time-variant (Klasa & Stegemoeller 2007), two control variables capturing the industry of the acquisition and the year of deal completion were also included. Specifically, a dichotomous variable was built that takes value 1 in case the firm operates in the manufacturing industry, 0 if otherwise; and a dichotomous variable for each year of observation, with 2014 as a baseline year. Following a consolidated practice in the literature, a proper inference of causality was ensured by lagging the independent variables in our models relative to the year of the focal acquisition (Lee & Lieberman, 2010; Galavotti et al., 2017): the likelihood of a family firm executing an acquisition at time t is measured as a function of several firm-, deal-, and context variables at time t - 1.

Variables and measures are reported in Table 2.

Table 2. Variables and measures

Variable	*Operationalization*
Acquisition propensity	Number of acquisitions made by the acquiring firm in the focal year
Family ownership	Percentage of capital held by the family
Family involvement in BoD	Percentage of board members who are family members
Family CEO	Dichotomous variable: 1 = if the company has a CEO who is a member of the family 0 = if otherwise
First generation	Dichotomous variable: 1 = if the firm is in the first generation 0 = if the firm is in later generations
Leverage	Long-term debt/total assets at t - 1
Firm size	Total assets at t - 1 (log-transformed)
Diversification	Dichotomous variable: 1 = if the firm made at least one acquisition for diversification in the year 0 = if otherwise.
Domestic acquisition	Dichotomous variable: 1 = if the acquisition is made in Italy 0 = if the acquisition has been made in a oreign country
Manufacturing industry	1 = if the industry is manufacturing, 0 = all the others
Year	Dichotomous variable for each year (2014 used as baseline)

3.3. Model

In terms of model specification, based on the continuous nature of our dependent variable *Acquisition propensity*, we relied on a linear regression model. In particular, to test the hypotheses of this study, the following model was run:

$$Acqusition\ propensity = \alpha_0 + \alpha_1 Family\ ownership + \alpha_2 Family\ involvement\ in\ BoD + \alpha_3\ Family\ CEO + \alpha_4 First\ generation + \alpha_5 Leverage + \alpha_6 Firm\ size + \alpha_7 Diversification + \alpha_8 Domestic\ acquisition + \alpha_9 Manufacturing\ industry + \alpha_{10} year 2015 + \alpha_{11} year\ 2016 + \alpha_{12} year\ 2017 + \alpha_{13} year\ 2018 + \alpha_{14} year\ 2019 + \alpha_{15} year\ 2020 + \alpha_{16} year\ 2021 \quad (1)$$

4. RESULTS

4.1. Research results

Table 3 reports the descriptive statistics of our variables, while the correlations are reported in Table 4. The low correlation coefficients suggest that multicollinearity did not bias our results. To further rule out multicollinearity issues, we examined the variance inflation factors (VIFs) and they were all well below the commonly suggested threshold of 10, thus confirming that our results were not affected by multicollinearity.

Table 3. Descriptive statistics

Variable	*Min.*	*Max.*	*Mean*	*St. dev.*
Acquisition propensity	0.00	5.00	0.32	0.70
Family ownership	0.10	0.90	0.57	0.12
Family involvement in BoD	0.00	0.60	0.26	0.13
Family CEO	0.00	1.00	0.58	0.49
First generation	0.00	1.00	0.01	0.10
Leverage	0.00	0.86	0.16	0.13
Firm size	16.11	25.18	20.11	1.63
Diversification	0.00	1.00	0.16	0.37
Domestic acquisition	0.00	1.00	0.16	0.36
Manufacturing industry	0.00	1.00	0.68	0.47

Table 4. Correlation matrix

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
***(1)** Acquisition propensity*	1.00									
(2) Family ownership	-0.01	1.00								
***(3)** Family involvement in BoD*	-0.12**	0.13**	1.00							
***(4)** Family CEO*	-0.04	0.02	0.37**	1.00						
***(5)** First generation*	0.00	0.03	-0.01	0.03	1.00					
***(6)** Leverage*	0.15**	-0.04	-0.13**	-0.23**	0.02	1.00				
***(7)** Firm size*	0.18**	-0.06	-0.24**	-0.21**	-0.06	0.29**	1.00			
***(8)** Diversification*	0.73**	-0.03	0.07	-0.06	0.00	0.10**	0.15**	1.00		
***(9)** Domestic acquisition*	0.74**	0.06	0.06	-0.02	0.00	0.06	0.10**	0.66**	1.00	
***(10)** Manufacturing industry*	-0.01	0.12**	0.27**	0.10**	-0.09**	-0.05	-0.12**	0.00	-0.02	1.00

*Note: ** p-value < 0.05.*

Table 5. Regression results

Parameter	*Model 1: Only controls*	*Model 2: Full model*
Independent variables		
Family ownership		0.18 (0.22)
Family involvement in BoD		-0.32**(0.40)
Family CEO		0.08***(0.04)
First generation		-0.01(0.78)
Leverage	0.26**(0.06)	0.25**(0.11)
Firm size	0.13**(0.01)	0.01**(0.47)
Diversification	1.38**(0.05)	1.15**(0.00)
Domestic acquisition	-0.63**(0.07)	-0.83**(0.04)
Manufacturing industry	0.01(0.04)	-0.01(0.75)
Year dummies	Included	Included
Number of obs.	207	207
R^2	0.59	0.60

Note: standard errors are reported in brackets.
*Significance codes: *p-value < 0.1, **p-value < 0.05, ***p-value < 0.01.*
Dependent variable: Acquisition propensity.

The results of our analysis are shown in Table 5. The Model 1 shows results for our control variables only, while Model 2 is the full model including our independent variables, i.e., *Family ownership* (*H1*), *Family involvement in BoD* (*H2*), *Family CEO* (*H3*), and *First vs. later generation* (*H4*). The R^2 shows a good fit of the models and a relatively improved explanatory power from Model 1 ($R^2 = 0.59$) to Model 2 ($R^2 = 0.60$).

Before delving into the results of our hypotheses, we discuss the findings of our control variables. The results of the variable capturing the acquiring firm's *Leverage* are consistent with the literature suggesting that firms with high leverage are encouraged to make acquisitions ($\beta = 0.25$, p-value < 0.05) (Caprio et al., 2011). Similarly, the *Firm size* is positively related to the likelihood of executing acquisitions ($\beta = 0.01$, p-value < 0.05), as it is associated with greater resources, both managerial and financial, that can be allocated to the acquisition process (Laamanen & Keil, 2008). Finally, looking at the corporate scope, our findings indicate that family firms that execute acquisitions are more likely to extend their business portfolio (*Diversification* $\beta = 1.15$, p-value < 0.05) and enter new markets (*Domestic acquisition* $\beta = -0.83$, p-value < 0.05). These results are particularly interesting, as they seem to suggest that the propensity of family firms to execute acquisitions is directly associated with the firm-level growth at the corporate level, i.e., that acquisitions represent the mode through which family firms extend their corporate scope along both the product and the geographic dimension (La Rosa et al., 2018).

Our findings indicate that the percentage of family ownership does not influence the acquisition behaviour; hence, our *H1* is not supported. In line with our *H2*, we expected that the involvement of family members in the BoD would hurt acquisition propensity. This hypothesis is supported ($\beta = -0.32$, p-value < 0.05) and confirms that the higher the family involvement in decision-making, the lower likelihood of executing acquisitions. In *H3*, we posited that, given the specificities of strategic decision-making associated with family versus non-family CEOs, family CEOs would be more prone to complete acquisitions to create value in the long term. This hypothesis on the positive effect of a family CEO on the propensity to acquire is also supported ($\beta = 0.08$, p-value < 0.01). Finally, our results do not provide support for our *H4* exploring the role played by the family generation: the variable capturing the generational step is not significant; however, it is worth noticing that the sign of the coefficient has the expected direction.

4.2. Discussion of the results

Our findings offer intriguing interpretations. First, the lack of significance in our first hypothesis (*H1*) suggests that while family ownership may be an important predictor of corporate decisions in family vs. non-family firms when focusing on family firms only, the extent of family ownership may be a less intense driver of the firm's corporate risk-taking. Indeed, although family firms differ in terms of the percentage of family ownership, they all share the common condition of being owned by a family. Thus, corporate acquisition decisions in family firms may be guided by corporate governance characteristics of the management bodies rather than by family ownership per se.

This also confirms that the exploration of the heterogeneity of family firms may shed light on peculiar decision-making dynamics that may be different from those that have traditionally emerged in the investigation of the family versus non-family contexts. In particular, the involvement of family members in governance bodies, rather than mere ownership, may play a role in determining the acquisition behaviour of family firms. Since decision-making takes place in the firm's management bodies, the family involvement in the board and the family CEO are stronger drivers of the family firm's propensity to embark on risky projects such as corporate acquisitions.

It is also interesting that these two variables have opposite effects on the family firm's acquisition propensity. Indeed, the family involvement in the board intensifies the firm's risk aversion, which confirms the typical socio-emotional wealth expectations that a greater number of family members sitting on the board will be associated with greater levels of intra-family conflicts in terms of socio-emotional preferences. This has implications in terms of strategic decision-making, as it will be associated with lower levels of risk-taking and, hence, a lower likelihood of acquisitions. Interestingly, the presence of a family CEO points in the opposite direction. This is consistent with our conceptual framework and, from a theoretical standpoint, with the behavioural agency perspective. The long-term orientation typical of family CEOs encourages the commitment of resources to investment projects that require longer time horizons before providing the firm with the expected results (Le Breton-Miller et al., 2006). Relative to non-family CEOs, who tend to be more short-term oriented and interested in extracting the greatest benefits in the immediate, family CEOs may hence be more willing to embark on investment opportunities that may create value at a later stage. This suggests that family CEOs may be better able to reconcile the firm's performance objectives with the family SEW priorities (González-Cruz & Cruz-Ros, 2016).

Finally, although our results do not show the significance of the variable capturing the firm's generation, we believe that the investigation of the role played by the firm's generation may shed more light on the specificities of strategic decision-making. Indeed, the literature has suggested that with the generational ownership transfer, self-interest may prevail among family members (Miller & Le Breton-Miller, 2006), and the attachment both to the firm (Salvato & Melin, 2008) and among family members (Pieper et al., 2008) reduces, thus increasing the risk of internal conflicts (Villalonga & Amit, 2006). In contrast, our findings seem to indicate that the transgenerational outlook characterizing family firms contributes to aligning the family members in terms of firm-level growth strategy through acquisitions. Given the mixed findings on the role played by a family firm's generational step in determining its acquisition behaviour, we encourage further studies on this aspect.

5. CONCLUSION

Our study has several implications. From a theoretical standpoint, it contributes to the existing literature in multiple ways. First, we join the nascent research stream on the heterogeneity of family firms. Indeed, while research on family business has produced huge and valuable contributions aimed at depicting the specific features of family firms relative to their non-family counterparts (La Rosa et al., 2018), there is an emergent need to deepen our understanding of the heterogeneity of family firms. Second, our study contributes to the ongoing academic conversations on the role played by corporate governance characteristics as drivers of family firms' corporate strategy (Nordqvist, et al. 2011; Basco & Voordeckers 2015). Lastly, to the best of our knowledge, this is the first study to incorporate the role played by generational control in affecting corporate acquisitions by family firms, this being acknowledged as a key aspect affecting decision-making in a family firm context (Habbersohn et al., 2010; Johl et al., 2010; Campa et al., 2020; Feudjo et al., 2021).

From a managerial point of view, our findings suggest that family CEOs may be less risk averse than expected (Defrancq, Huyghebaert, & Luypaert, 2016) and are better able to guide family members towards common objectives aimed at enhancing both the family's socio-emotional wealth and the firm's financial performance, by embarking on investment projects that may yield their benefits to later generations. This, in turn, also adds to the current debate on the effect of family members' involvement in the BoD, stating that family owners should be aware of the need to appoint professional directors to provide executives with appropriate advisory functions.

In this perspective, the family board members and family CEOs' conflicting propensity towards acquisitions provides a dual implication at the managerial level. First, it suggests the need to carefully consider the composition of governance bodies, especially when trying to anticipate future competitive dynamics: when competing with family firms, managers should be cautious and consider the heterogeneity of family competitors as a driver of corporate strategy decisions. Second, family firms should attentively balance the appointment of external professionals with benefits arising from a family CEO, whose knowledge of the firm and long-term orientation may support the firm's growth consistent with the family's SEW priorities.

This study has some limitations, which could however offer intriguing avenues for future research. First, this is a single country study, focused on Italy which is commonly characterized by a peculiar legal environment (Lagasio, 2021) and a low level of investor protection (Di Pietra et al., 2008; Scafarto et al., 2017). While the focus on single countries is consistent with current research on corporate governance (Bruno & Iacovelli, 2020; Sicoli et al., 2020; Lagasio, 2021), additional research could explore family firms' acquisition propensity in countries characterized by different legal and institutional environments. This could offer interesting interpretations, especially in a comparative approach. Second, due to a lack of data, we did not include family directors' expertise and professional skills in our analysis: this could provide further insights into the role played by both family directors and family CEOs in strategic decision-making. Despite these limitations, our study contributes to the ongoing academic conversations on the relationship between corporate governance and family firms' risk-taking behaviour by focusing on the propensity to execute acquisitions. In doing so, we deepen our understanding of the role played by family members' involvement in decision-making on the acquisition decisions of family firms.

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