

**Bidders' Gains and
Family Control of Private Target Firms**

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Abstract

This paper examines the announcement returns of bidders acquiring private firms owned by families versus the returns of acquiring non-family controlled private firms. The sample consists of 203 acquisitions of private targets in the Netherlands, Belgium and Germany for the period 1997-2008. We find evidence that bidder's cumulative announcement returns (CARs) are lower when they acquire family controlled targets compared to non-family controlled targets. This evidence is consistent with the notion that the bidder has to pay a higher price in order to convince the family owners to sell in return for giving up private benefits. Moreover, we show that the announcement returns of bidders acquiring private family controlled target firms are on average higher when they pay the deal value with shares instead of using cash.

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1. Introduction

Worldwide the number of acquisitions of private firms and subsidiaries are five times higher than the number of acquisitions of public firms. The literature on acquisitions provides evidence that the announcement returns for bidders' stocks following the acquisition of private firms are statistically significantly positive and higher than those of the acquisition of public firms (Chang, 1998; Fuller et al., 2002; Moeller et al., 2004; Draper and Paual, 2006; Faccio et al., 2006; Capron and Shen, 2007, Cooney et al., 2009). Several explanations have been offered for the positive public bidders' gains from acquisitions of private target firms. These explanations focus on factors such as the size of the acquired firms, the existence of liquidity discounts, block holder effects for acquisitions financed with stock, uncertainty with respect to the valuation of the target company, and the level of investor protection in the target's country. However, research has overlooked the role type of ownership of the private firm may play in explaining public bidders' gains.

In this paper, we look at the influence of a specific type of ownership, i.e. family ownership, on the bidders' gains from acquisitions of private target firms. We argue that bidders' gains following the acquisition of a private firm may differ depending on whether or not the firm is family controlled. In particular, we stress that taking over family controlled private firms requires a higher payment in order to convince the family owners to sell in return for giving up private benefits. Thus, a public bidder has to pay a premium in order to make the family sell the firm, which results in a reduction of the bidder's value gains from such an acquisition. Looking at the type of ownership of private firms as a determinant of bidders' gains following the acquisition of such firms is a potentially important issue, since a large number of private firms in the world are family controlled, either by their founders, or by the founder's families and heirs (Burkart et al., 2003). So, in many cases public firm acquisitions of private firms will involve family controlled firms. Therefore, our paper aims

at filling a gap in the literature by addressing the effects of family ownership of private target firms on public bidders' gains.

In our empirical analysis, we focus on the value gains of public firms from acquiring private targets. In particular, we examine the bidders' announcement returns from the acquisitions of private targets that are controlled by family versus those that have no controlling family owners. The sample consists of 203 acquisitions of privately owned firms located in the Netherlands, Belgium and Germany during the period 1997-2008. Consistent with our predictions, we find that bidders acquiring family controlled private target firms have lower announcement returns compared to bidders acquiring a non-family controlled private target firms. We further find evidence for the fact that the announcement returns of bidders acquiring private family controlled target firms are on average higher when they pay the deal value with shares instead of using cash. In contrast, we show that bidders' announcement returns are unaffected when they pay the deal value with cash.

The remainder of this paper is structured as follows. Section 2 presents the theoretical foundations for this study. Section 3 then describes the data and methodology, followed by section 4, in which we present the results of the empirical investigation. Section 5 concludes the paper and discusses recommendations for further research.

2. Theoretical background and hypotheses

Bidders' returns from public versus private targets: Empirical evidence

Several papers have empirically investigated the returns to bidders from public versus private targets. The message in almost all of these papers is that on average returns are positive for private targets, whereas for public targets they appear to be close to zero or even negative. This finding has been explained in a number of ways (see, e.g., Chang (1998), Conn et al.

(2005), Fuller et al. (2002), Draper and Paudyal (2006) and Moeller et al. (2007) for more in-depth analyses of these explanations).

First, it has been argued that the take-over market for private targets is far less competitive than the market for public targets. This is based on the assumption that, whereas for public targets information is available, triggering competition for control among potential bidders and reduces returns, for private targets information is typically not or less available, leading to less competition among bidders. The fact that there is less competition for private targets (i.e. the market for this type of firms is less liquid) increases the bargaining power of a bidding firm vis-à-vis the target firm, which may contribute to paying a lower price for the target firm, creating value for the bidder.

Second, managers may want to engage in acquisitions of other firms, because this increases their private benefits in terms of prestige and power (i.e. managerial empire building; Jensen, 1986). Consequently, they may be willing to pay a higher price, which reduces the value of the firm to its shareholders. This argument may hold more for acquiring public than for private targets. Public firms are generally larger and more publicly known, so acquiring a public target adds more to the prestige and power of the manager than the acquisition of a private firm does. Thus, the negative impact of managerial incentives to acquire (large) firms for private benefit on the stock price of the bidding firm may not occur when announcing the takeover of a private firm.

Third, because public firms are on average larger than private firms, integrating the acquired public firm into the bidding firm may be much more costly than integrating a private firm. Higher integration costs may reduce the stock price of the acquiring firm.

Fourth, the mode of payment may be important. If the acquiring firm pays the owners of the target firm in stock, the impact on its stock price may differ, depending on the type of target firm. In particular, when the target is a private firm, paying the acquisition with stock

may create block holders in the acquiring firm as the owners of the target firm are typically concentrated. This results in improved monitoring of the acquirer's management. The concentration of ownership and the creation of block holders is much less likely when taking over a public target.

Fifth, if the acquiring firm uses stock to acquire a public target, it may do this, because the firm is considered to be overvalued. Consequently, the market reaction to the takeover announcement will be negative. In contrast, if acquiring firms use stock to acquire a privately held firm, this may provide positive information to the market. For example, Officer et al. (2009) show that acquirer returns are significantly higher in stock-swap acquisitions when the target is hard to value, especially when the target is a private firm. The fact that normally ownership of the private target will be concentrated and that these owners will probably have a substantial part of their wealth in the acquirer's stock after the takeover signals positive information to the market about the acquiring firm.

Finally, using cash to pay the target firm owners may have adverse repercussions for private target owners, because this has immediate adverse tax implications, whereas this is not the case when they are paid with stock. Consequently, private target owners will demand a higher price when receiving cash, reducing the value of the bidder's firm. Previous research on the mode of payment suggests that acquiring firm's value creation is highest when buying private firms with stock. The next best option is to buy a private firm with cash, then buying public firms with cash and finally buying public firms with stock. Several empirical analyses have found support for this order of value creation of acquisitions for bidding firms (see, e.g., Fuller et al., 2002; Conn et al., 2005; and Faccio et al., 2006).

The above review of the literature on the value effects of private versus public targets for acquiring firms shows that these effects may be different and that these differences are due to the fact that the two types of firms differ on a number of important characteristics. One

of these characteristics may be type of ownership. Yet, whereas some papers refer to the fact that private firms, more than public firms (e.g., Chang, 1998; Draper and Paudyal, 2006), are held by families, the consequences of this type of ownership on the value effects for acquiring firms has, to the best of our knowledge, not been studied. And yet, there may be good reasons to believe that it does make a difference whether a private firm is held by a family or not.

Family control of private targets

Family control of firms is widespread. Several studies have shown this is the case for public (La Porta et al., 1999; Faccio and Lang, 2002) as well as private firms (Burkart et al., 2003; Franks et al., 2012). Recent research has shown that family control is an important determinant of firm decisions. For example, Croci et al. (2011) show that it influences corporate finance and investment decisions. Consistent with the idea that a family may fear the loss of family control, these authors show that family-controlled firms (compared to non-family firms) have a preference for debt financing and that they invest less in high-risk R&D projects. Bennedsen et al. (2007) discuss the impact of family control on CEO succession decisions and find that family successions are significantly negatively correlated with firm performance around CEO successions.

One recent study by Caprio et al. (2011) evaluates the impact of family control of listed firms on being involved in acquisition decisions, either actively (i.e. as the acquirer) or passively (i.e. as the acquired party). They find that listed family-owned firms are less likely to be involved in making acquisitions, especially when the family members do not own a share large enough to make sure the family will keep having control over the firm after the acquisition. Moreover, and related to our study, they show that family control reduces the

probability of being taken over by another firm, which again is related to the family's fear of losing control and having to give up private benefits attached to controlling the firm.

To overcome the resistance of family owners against selling the firm to a non-related outsider, the bidding firm may need to pay a premium to the family shareholders. In other words, the bidder may have to pay a higher price in order to convince the family to give up their share in the firm. The family owners of the firm thus have a strong negotiation position vis-à-vis the bidding firm in the acquisition process. A non-family owned target lacks this negotiation power, which means that the bidder can purchase a non-family owned firm at a lower price as compared to the situation in which the firm would have been family-controlled.

In our study, we focus on acquisitions of private firms {instead of on listed firms as Caprio et al. (2011) do in their study} and compare the value increases for the bidding firm when acquiring a family-owned firm as compared to when it buys a non-family owned private firm. We argue that in case of acquiring a family-owned private firm, the family requires to be paid a higher price compared to when there are no family members controlling the firm. The higher price should compensate the controlling family for accepting an acquisition proposal because by selling the firm they give up private benefits. In such a case, a bidder has to pay a premium in order to convince the family to sell the firm, which in turn reduces the value increase the bidder gains from such an acquisition. Thus, we hypothesize that:

H1: The bidder's announcement returns from acquisitions of family-controlled private targets are lower than the bidder's announcement returns from acquisitions of non-family-owned private targets

We further argue that the payment method may have an impact on the value increases of acquiring either a family-controlled or a non-family controlled private target. In particular, if the bidder acquires a family-controlled firm by making use of a stock swap (i.e. it pays the owners with shares), this may reduce the family owners' reluctance against selling the firm. By receiving shares in the acquiring firm, the shareholders of the target firm retain the possibility to stay in control, especially if the size of the shares received in total shares outstanding is large enough to become a block holder. For family owners this option may be particularly important, because this allows them to influence firm decisions. This, in turn, may ease the negotiation process and hence reduce the premium which the family requires when selling the firm. In addition, if family owners accept the bidder's equity, this conveys information to the market about the quality of the acquisition, leading to positive value effects for the bidding firm. This is why we expect that there is a positive interaction (or a moderating) effect between the family firm variable and the share payment method, i.e. we hypothesize that:

H2: The negative effect of acquiring a family-controlled private target on the bidder's announcement returns from acquisitions is moderated positively if the acquisition is paid for by shares in the acquiring firm

In contrast, when the bidding firm pays with cash the impact on its firm value is unclear. On the one hand, as has been argued, paying with cash has immediate adverse tax implications and this holds equally for family and non-family owners. As the private targets owners will want to be compensated for these tax costs, the announcement returns will be lower. Based on this argumentation, we expect that paying with cash will negatively

influence the impact family ownership has on the bidder firm's announcement returns of acquiring a private target, i.e. we hypothesize that:

H3: The negative effect of acquiring a family-controlled private target on the bidder's announcement returns from acquisitions is moderated negatively if the acquisition is paid for by cash

3. Data and Methodology

3.1 Data

We collect data from *Orbis* database (published by *Bureau van Dijk*) on acquisitions of privately owned target firms. This is a database on acquisitions that also provides ownership data for private firms. We collect information on all completed acquisitions of private targets in Belgium, The Netherlands and Germany for the period 1997-2008 with a deal value of € 1,000,000 or more. We restrict the sample to acquiring firms located within Europe. Moreover, we demand that the bidding firm's stake in the acquired firm was below 10 per cent before the acquisition and is above 50 per cent after the acquisition. These selection criteria provide us with an initial set of 429 acquisitions. Next, we collect data on stock returns and other financial variables from *Datastream*. We are able to collect data on 37 deals for Belgium, 171 for Germany, and 123 for Netherlands, leading to a total of 331 acquisition deals of privately owned firms.

Next, we collect information (from *Orbis*) on the ownership status of these firms to separate between family and non-family owned private firms. We define family-owned firms as those firms for a person has a stake of 20 per cent or more of total shares outstanding. This measure is in line with common practice in academic research (La Porta et al., 1999; Claessens et al., 2000). If family ownership is less than 20 per cent, the share of the family is

considered to be too small to enable its members to influence decision making that would support family interests. After deleting all deals for which ownership information is not available, we are left with 203 acquisition deals of which 90 are classified as family-owned private firms and 113 as non-family owned private firms.

Table 1 presents the distribution of our sample according to the home country of the bidder as well as the year the acquisition took place for family, non-family and all target firms. Several interesting observations can be made. First, the majority of private firms in our sample come from Germany with 119 of 203, followed by The Netherlands with 66; the number of Belgian firms in our final sample is relatively small (18). In the German sub-sample, the majority of the firms is family-owned (52 per cent), whereas in the Dutch and Belgian sub-sample non-family firms are dominant (only 35 and 28 per cent, respectively, are family-owned).

<Insert Table 1 about here>

Second, a very large percentage of all bidding firms (40 per cent) come from the UK. This may be due to the fact that this country has the largest stock market in Europe with a large number of listed companies. The next two most important locations of bidding firms are The Netherlands and France (both 9 per cent of all acquisitions in the sample). UK bidding firms are most active in Germany: half of the acquisitions of German private targets are from bidding firms that reside in the UK. The number of family and non-family owned private targets these UK firms acquire are almost similar (i.e. 31 versus 28). In The Netherlands, UK firms account for almost one third of the acquisitions in our sample. Next to UK bidders an important share of all Dutch acquisitions has a domestic origin: a little bit more than 20 per

cent of these acquisitions involve a Dutch bidder. This domestic bias is not apparent for the acquisitions in the German and Belgian sub-samples.

Third, the distribution of acquisitions according to the year of completion shows that acquiring firms were most active during the years 2000 and 2002. In these two years together almost 30 per cent of all acquisitions took place. The high number of acquisitions in 2000 coincides with what has been observed in terms of trends of acquisitions worldwide, but the high number for 2002 seems a bit odd, because worldwide acquisitions were at a relatively low level due to the dotcom crisis that hit the corporate world the year before. In Germany, acquisition activity was relatively high during 2005 and 2007; together, these two years account for 28 per cent of all acquisitions in the German sub-sample.

3.2 Methodology

In order to calculate abnormal returns, we apply two methods as described by MacKinlay (1997) and Brown and Warner (1985), respectively. The first method calculates the so-called *market adjusted abnormal returns* and can be expressed as follows:

$$AR_{i,t} = R_{i,t} - R_{m,t}$$

$AR_{i,t}$ denotes the market adjusted abnormal returns of stock i at time t , $R_{i,t}$ is the return of stock i at time t , and $R_{m,t}$ is the return on the local market index m at time t .

The second method is the so-called *market model*, which calculates the market and risk adjusted abnormal returns as follows.

$$AR_{i,t} = R_{i,t} - \hat{\alpha}_i - \hat{\beta}_i R_{m,t}$$

$\hat{\alpha}_i$ and $\hat{\beta}_i$ are the regression parameters estimated over the 250 days prior to the event of the acquisition announcement (i.e. -255, -5). This method captures the correlation between the share price changes and changes in the overall stock market.

Cumulative abnormal returns then are calculated as the sum of AR for three days surrounding the announcement date (i.e. -1, +1).

$$CAR_i = \sum_{t=-1}^{t=1} AR_{i,t}$$

Central to this paper is the question whether ownership of private targets is related to the bidders' gains from acquisitions and, moreover, whether the mode of payment (i.e. stock versus cash) moderates this relationship as expressed in hypotheses 1 to 3. In order to investigate these issues we develop an empirical model in which the CAR of public bidder i is explained by variables expressing the type of ownership of the private target j they have acquired, the mode of payment used for the acquisition, the interaction between the type of ownership and the mode of payment, and a vector of variables representing various acquisition characteristics and characteristics of the acquiring firm; these variables have been used in previous studies on explaining CARs following the announcement of acquisitions. We use Ordinary Least Square Regression (OLS) analysis to test our hypotheses. The empirical model can be denoted as follows:

$$CAR_i = \alpha_0 + \beta_1 Family_j + \beta_2 Shares_{i,j} + \beta_3 Cash_{i,j} + \beta_4 Family_j * Shares_{i,j} + \beta_5 Family_j * Cash_{i,j} + \sum(\beta_i X_i) + \sum(\beta_{i,j} Y_{i,j}) + \epsilon_{i,j}$$

CAR_i is the cumulative abnormal returns of firm i over the time period $[-1,+1]$; $Family_j$ is a dummy variable that gets the value 1 if the private target j has a family owner who has more than 20 per cent of total shares outstanding, and zero otherwise; $Shares_{i,j}$ is a dummy variable that obtains the value one if the acquisition of private target j made by firm i is financed by using shares only, and zero otherwise; $Cash_{i,j}$ is a dummy variable that obtains the value one if the acquisition of private target j made by firm i is financed by using cash only, and zero otherwise; X_i is a vector of control variables measuring different characteristics of the acquiring firm (i.e. the size and Tobin's Q of the firm); and $Y_{i,j}$ is a vector of control variables including different characteristics of the acquisition of target firm j by acquiring firm i (i.e. the relative size of the acquisition, whether or not it is a cross-border acquisition, whether or not it is an acquisition in the same industry, analyst coverage), as well as country and year dummies. The exact definitions of all variables used in the regression model are provided in table 2.

<Insert Table 2 about here>

4. Empirical results

4.1 Descriptive statistics

Table 3 presents the mean and median values of the characteristics of the bidders (CAR_i and X_i) and the characteristics of the acquisitions ($Shares_{i,j}$, $Cash_{i,j}$ and $Y_{i,j}$) for the full sample of acquisitions, as well as for the acquisitions of family and non-family owned targets. The first two rows in the table report the descriptive statistics of the CARs calculated using the different two methods. Bidders' CARs calculated using the market adjusted model are on average positive. For the full sample of acquisitions the mean value of the bidders' CARs is 1.5 per cent (with a median of 1.1 per cent). The table also shows that for the sample of

family-owned targets the mean value of CARs is lower than the average for the total sample at 0.8 per cent (median 0.0 per cent). This is substantially lower than the mean value of the CARs for the sample of non-family owned targets, which is 2.0 per cent (median 1.8 per cent). Since the difference between the means (and medians) of these two sub-samples is statistically significant, we conclude that acquisitions of family-owned targets generates lower, close to zero, bidder announcement returns compared to deals with non-family owned targets. Investigating the means and median CAR values based on the market model indicates that the two methods produce similar results. Since the literature mostly uses the market adjusted return method, we choose to use the market adjusted returns method as our method of calculating CARs and use these CARs when estimating the empirical model discussed in the previous section. The results of estimating the empirical model are discussed in section 4.2.

<Insert Table 3 about here>

Table 3 shows that in almost three quarters of the cases, acquisitions are paid by using cash, making this by far the most important way of financing acquisitions. Although the use of cash as mode of payment is somewhat higher for acquisitions of non-family owned targets (0.76 versus 0.71), the difference with acquisitions of family-owned targets is not statistically significant. Using shares is much less common for the acquisitions in our sample. On average, in only 11 per cent of the deals this mode of payment is used and there is no statistically significant difference between acquisitions of family-owned and non-family owned targets. Other modes of payment and/or combinations of different modes (not shown in the table) account for the remaining 15 per cent of the cases in our sample.

The table also shows significant differences with respect to some of the bidders- and acquisition-specific variables between the sub-samples of acquisitions of family-owned and non-family owned targets. First, the bidders of non-family owned targets appear to be larger than the ones acquiring family-owned targets. Yet, the relative size of the acquisition relative to the size of the bidder is larger for bidders of non-family owned targets as well. Second, bidders of non-family owned targets have a statistically significant higher leverage ratio (although the difference is small in absolute terms, i.e. 0.225 versus 0.259). Third, the share of acquisitions that can be classified as domestic (i.e. bidder and target are from the same country) is significantly higher for acquisitions of non-family owned targets as compared to acquisitions of family-owned targets (14 per cent versus 7 per cent). Finally, bidders of family-owned targets have higher analyst coverage than their counterparts bidding for non-family owned targets (0.089 versus 0.027).

4.2 Regression analysis

Table 4 presents the results of the multivariate regression analysis explaining the levels of the CAR for the bidding firms in the sample. We use the specific-to-general approach (Brooks, 2008) to test the robustness of our results regarding the impact of target firm ownership on the announcement returns of acquiring firms. We start with a model that includes the ownership dummy, as well as two variables related to the size of the acquiring firm and the size of the acquisition it is making; the latter two are found to be potentially important variables explaining bidders' gains from acquisitions in earlier studies (column [1]). This model is our baseline regression model. In subsequent regression models we add variables related to the mode of payment (columns [2]-[4]). Next, as a further robustness check we use the same procedure as described above, but add a set of control variables to each of the

regression models presented in columns [2]-[4] (see columns [5]-[8] for the results of these extended regression models). All regressions include bidder's country and year fixed effects.

<Insert Table 4 about here>

The regression results presented in column [1] clearly show that the CARs of bidders acquiring a family-owned private target are significantly lower than when bidders acquire a non-family owned private target. This result supports hypothesis 1. In column [2] we present the results when we add two dummy variables representing payment with cash and shares only. The results show that the ownership variable remains negative and significant, whereas none of the payment variables is significant. In columns [3] and [4] we add interaction terms between the ownership variable and the two modes of payment. By adding these interaction terms we explicitly test hypotheses 2 and 3. Whereas the interaction term between family ownership and cash payment is statistically insignificant (column [3]), the interaction term between family ownership and share payment is positive and statistically significant (column [4]). We interpret these results as supporting evidence for hypothesis 2, but not for hypothesis 3. Thus, whereas the negative effect of acquiring a family-controlled private target on the bidder's announcement returns from acquisitions does not seem to be affected by the fact that the acquisition is paid with cash (i.e. hypothesis 3 is not supported), the negative effect of acquiring a family-controlled private target on the bidder's announcement returns from acquisitions seems to be moderated positively by the fact that the acquisition is paid for by shares in the acquiring firm (i.e. hypothesis 2 is supported). In all the above regression models, the size of the bidding firm is negatively associated with the announcement returns, which is in line with what has been found previously in other studies. The relative size of the deal (i.e. the size of the target firm relative to the size of the bidding firm) is never

statistically significant. The results reported in columns [1] to [4] remain the same when we add the set of control variables representing bidding firm and acquisition-specific characteristics. None of these characteristics appear to be significant in our regression models.

As a final robustness check we analyse whether the moderating effect of the model of payment on the relationship between family ownership and bidders' returns remains at work if we control for the fact that the mode of payment may also influence announcement returns depending on the level of information asymmetry regarding the value of the targeted firm. As discussed in section 2, an important issue in studies on explaining the announcement returns of acquiring public versus private targets relates to the fact that information asymmetry regarding the value of private target to be acquired is generally more difficult to establish. Paying the acquisition of a privately held firm with shares may reduce the information problem, because this may provide positive information to the market. Officer et al. (2009) show that acquirer returns are significantly higher in stock-swap acquisitions when the target is hard to value, especially when the target is a private firm. The fact that ownership of the private target is concentrated and that these owners will probably have a substantial part of their wealth in the acquirer's stock after the takeover signals positive information to the market about the acquiring firm. So, the higher the level of information asymmetry, the stronger the positive effect of paying the acquisition with shares will be on the announcement returns of the bidder.

We use the extent to which the bidding firm is covered by analysts as a measure of the extent of information asymmetry. The higher the analyst coverage, the more information there will be regarding the activities of the firm, including its acquisition activities. The variable *Uncovered* takes the value one if the bidding firm is not followed by any analyst, and zero otherwise. To test whether it is true that the higher the level of information asymmetry,

the stronger the positive effect of paying the acquisition with shares will be on the announcement returns of the bidder, we include an interaction term between *Uncovered* and *Shares* to the empirical model presented in columns [6] (i.e. the model including the ownership variable, the mode of payment variables, and all remaining control variables) and [8] of table 4 (i.e. the full model including the ownership variable, the mode of payment variables, the interaction variables between ownership and mode of payment, and all remaining control variables).

Table 5 provides the results of the analysis in which we include the interaction variable between analyst coverage and mode of payment of the acquisition. Including this interaction variable allows us to test the alternative interpretation regarding the mode of payment and its influence on the announcement returns depending given the level of information asymmetry about the value of the targeted firm. The results in the table show that, indeed, the information asymmetry argument does hold, i.e. at higher levels of asymmetric information regarding the bidding firm (including its acquisition transactions) paying the deal with shares has a statistically significantly positive impact on bidders' returns. Most importantly, however, the ownership variable remains to be negative and significant. In addition, the interaction effect between the ownership variable and the share dummy remains to be positive and significant as well. These two results lend further support to our main two hypotheses (i.e. hypotheses 1 and 2) about the negative relationship between ownership and bidders' returns from acquiring private targets, and the moderating positive effect paying with shares has on this relationship.

5. Conclusions

This paper examines whether announcement returns of bidders acquiring a private target are related to whether or not the target firm is family-controlled. We argue that the influence of

family ownership on bidders' returns is related to the impact family owners have during the acquisition negotiations. Family owners may be more reluctant to sell the firm, because they are enjoying the benefits of concentrated ownership and have no reason to give it up. In this case, the owner may block acquisition deals. To overcome the resistance of large family shareholders, potential bidders may need to be paying a premium to the shareholders of the private target, which is reflected in lower bidders' cumulative abnormal announcement returns.

We examine the relationship between bidders' announcement returns and family ownership of the target using a sample of 203 acquisitions of private targets in Germany, The Netherlands and Belgium for the period 1997-2008. We find evidence that bidder CARs are significantly lower when they acquire a family-controlled private firm as compared to acquiring a non-family owned firm. This provides evidence for the view that bidders are expected to pay a premium in case the target firm is family owned. A non-family owned target has less negotiation power and is therefore less successful in negotiations to obtain a premium. We also find evidence for a positive interaction effect between acquiring family owned targets and financing the deal with shares. We interpret this as evidence that when the family owners accept the bidder's equity this conveys information to the market about the quality of the acquisition, leading to positive value effects for the bidding firm.

Several papers have been investigating the announcement returns for bidders' stocks following the acquisition of private firms, looking at important determinants such as the size of the acquired firms, the existence of liquidity discounts, block holder effects for acquisitions financed with stock, uncertainty with respect to the valuation of the target company, and the level of investor protection in the target's country. However, research has overlooked the role type of ownership of the private firm may play in explaining bidders' gains. This is where our paper adds to the existing literature. We feel that the issue of type of

ownership, and in particular the role played by family ownership, is of great importance for understanding the differences in gains from private target acquisitions, because the number of acquisitions of private firms is far greater than that of public firms and family control of firms is widespread, especially among privately owned firms.

We do acknowledge, however, that our research can be improved in a number of ways. To begin with, we would like to extend the analysis by including data on private targets from more than three European countries. Moreover, we would like to extend the data by having more detailed data on the ownership structure of firms, allowing us to vary the level of family ownership and see whether the size of the family stake makes a difference. Finally, we would like to extend the data by including deals with bidding firms outside the European continent. Yet, obtaining data on private firms is very time-consuming, so we propose to leave these extensions of the data set for further research. For the moment, on the basis of the data we have, we nonetheless have found clear indications for the important role family-controlled ownership may play in explaining bidders' returns on acquiring private targets. This makes us confident that further research into this topic will be of interest to anyone involved in the topic of the value consequences of acquisitions in general.

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Table 1: Geographic and periodical distributions of acquisitions by target's ownership status

Target's Country	All Sample			Germany			Netherlands			Belgium		
Bidders' Country	Total	Family	Non-Family	Total	Family	Non-Family	Total	Family	Non-Family	Total	Family	Non-Family
Austria	7	2	5	4	2	2	3		3			
Belgium	10	6	4	4	3	1	2	1	1	4	2	2
Denmark	5	3	2	4	3	1	1		1			
Finland	9	3	6	6	3	3	3		3			
France	18	3	15	7	1	6	9	1	8	2	1	1
Germany	6	2	4	4	1	3	2	1	1			
Greece	1	1		1	1							
Ireland-Republic	7	5	2	3	3		4	2	2			
Italy	6	4	2	4	3	1				2	1	1
Netherlands	18	5	13	2	2		14	3	11	2		2
Norway	2	1	1	2	1	1						
Spain	6	2	4	3	1	2	2	1	1	1		1
Sweden	12	6	6	7	4	3	3	2	1	2		2
Switzerland	13	3	10	9	3	6	3		3	1		1
United Kingdom	83	44	39	59	31	28	20	12	8	4	1	3
Acquisition Year												
1997	9	5	4	5	3	2	3	2	1	1		
1998	9	5	4	8	4	4	1	1				1
1999	11	5	6	8	4	4	2		2	1	1	
2000	30	11	19	12	5	7	15	6	9	3		3
2001	12	3	9	6	3	3	4		4	2		2
2002	28	10	18	16	7	9	9	2	7	3	1	2
2003	18	6	12	10	6	4	6		6	2		2
2004	20	12	8	12	8	4	8	4	4			
2005	21	10	11	18	9	9	2		2	1	1	
2006	15	7	8	4	2	2	9	4	5	2	1	1
2007	22	11	11	15	8	7	5	3	2	2		2
2008	8	5	3	5	3	2	2	1	1	1	1	
Total	203	90	113	119	62	57	66	23	43	18	5	13

Table 2: Definitions of variables

<i>Deal or company characteristic</i>	<i>Unit of measurement</i>	<i>Description</i>
CAR (Market adjusted) CAR (Market model)	Cumulative Abnormal Return	Bidder's announcement returns
Family	Dummy variable	1 if the target firm is owned by a family and 0 otherwise
Shares	Dummy variable	1 if the deal contains a stock only payment and 0 otherwise
Cash	Dummy variable	1 if deal is paid by cash and 0 otherwise
Size	Natural logarithm	Market capitalization of the bidder
Relative Size	Ratio	The ratio of the value of the transaction divided by the market value of equity of the acquiring firm
Tobin's q	Ratio	The q ratio of the acquirer is calculated as the ratio of book value of total assets minus market value of equity to book value of total assets
Leverage	Ratio	The ratio of book value total debt to book value of total assets
Cross border deal	Dummy variable	1 if the deal is between two companies from two different countries
Same industry	Dummy variable	1 if the acquirer is active in the same industry as the target, by 2 digit SIC code and 0 otherwise
# of Analyst	Number	Total number of analysts providing earning forecast for the bidder's future earnings
% of uncovered firms	Ratio	Percentage of bidders that are not followed by any analysts
Country	Dummy variables	For each country there is a specific dummy variable added which has the value 1 for that specific country and 0 otherwise
Year	Dummy variable	For each sample year there is a specific dummy variable added which has the value 1 for that specific year and 0 otherwise

Table 3: Summary statistics for the financial characteristics of bidders

This table reports the mean and median values of variables for all acquisitions sample, bidders of family and non-family targets. Definitions of the variables are given in Table 2. Stars indicate significant differences in mean and median values of characteristics of bidders acquiring family owned private targets and bidders acquiring non-family owned private targets. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Variables	All Sample			Bidders of Family Targets			Bidders of Non-Family Targets			Family – Non-Family	
	N	Mean	Median	N	Mean	Median	N	Mean	Median	Mean	Median
CAR (Market adjusted)	203	0.015	0.011	90	0.008	0.000	113	0.020	0.018	-0.012**	-0.018**
CAR (Market model)	203	0.012	0.007	90	0.007	0.002	113	0.016	0.013	-0.010**	-0.011**
Cash_Dummy	203	0.739	1.000	90	0.711	1.000	113	0.761	1.000	-0.050	0.000
Share_Dummy	203	0.108	0.000	90	0.111	0.000	113	0.106	0.000	0.005	0.000
Size	203	13.954	13.907	90	13.706	13.723	113	14.152	13.983	-0.445*	-0.260
RelativeSize	203	0.146	0.050	90	0.098	0.032	113	0.185	0.064	-0.087***	-0.032***
Tobin's Q	203	1.637	1.212	90	1.657	1.193	113	1.621	1.269	0.036	-0.076*
Leverage	203	0.244	0.262	90	0.225	0.238	113	0.259	0.278	-0.034*	-0.040*
Focused	203	0.458	0.000	90	0.478	0.000	113	0.442	0.000	0.035	0.000
Domestic	203	0.108	0.000	90	0.067	0.000	113	0.142	0.000	-0.075*	0.000
# of Analyst	203	11.857	10.000	90	9.789	8.000	113	13.504	12.000	-3.716***	-4.000***
% of uncovered firms	203	0.054	0.000	90	0.089	0.000	113	0.027	0.000	0.062***	0.000

Table 4: Regression results

This table reports the estimates of the OLS regressions for bidder's announcement returns (CAR). All regressions include bidder's country and year fixed effects. T statistics calculated based on robust standard errors are in brackets. Definitions of variables are given in Table 2. The symbols ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>Dependent variable= bidder's CAR</i>								
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
<i>Constant</i>	0.081*** [2.80]	0.084*** [2.94]	0.082*** [2.81]	0.092*** [3.28]	0.083*** [2.77]	0.084*** [2.78]	0.083*** [2.64]	0.093*** [3.09]
<i>Family</i>	-0.015** [-2.48]	-0.015** [-2.46]	-0.012 [-1.00]	-0.030*** [-2.68]	-0.014** [-2.26]	-0.014** [-2.28]	-0.011 [-0.93]	-0.030** [-2.59]
<i>Cash_Dummy</i>		-0.006 [-0.88]	-0.004 [-0.37]	-0.013 [-1.21]		-0.006 [-0.81]	-0.004 [-0.33]	-0.013 [-1.18]
<i>Share_Dummy</i>		-0.017 [-1.30]	-0.017 [-1.29]	-0.038* [-1.87]		-0.016 [-1.20]	-0.016 [-1.19]	-0.038* [-1.82]
<i>Family* Cash_Dummy</i>			-0.004 [-0.29]	0.014 [1.08]			-0.004 [-0.29]	0.015 [1.12]
<i>Family* Share_Dummy</i>				0.044* [1.77]				0.047* [1.83]
<i>RelativeSize</i>	-0.005 [-0.33]	-0.003 [-0.19]	-0.002 [-0.17]	-0.002 [-0.12]	-0.003 [-0.19]	0.000 [0.02]	0.001 [0.05]	0.001 [0.09]
<i>Size</i>	-0.004** [-2.17]	-0.004** [-2.01]	-0.004** [-2.03]	-0.004** [-2.15]	-0.004** [-2.07]	-0.004* [-1.88]	-0.004* [-1.90]	-0.004** [-2.08]
<i>Tobin's Q</i>					0.002 [0.86]	0.002 [0.95]	0.002 [0.97]	0.003 [1.08]
<i>Leverage</i>					-0.002 [-0.10]	-0.007 [-0.31]	-0.007 [-0.31]	-0.005 [-0.25]
<i>Focused</i>					-0.009 [-1.48]	-0.007 [-1.17]	-0.007 [-1.14]	-0.008 [-1.20]
<i>Domestic</i>					0.004 [0.47]	0.003 [0.34]	0.003 [0.34]	0.004 [0.48]
<i>Adjusted R-sq</i>	0.048	0.05	0.045	0.059	0.046	0.046	0.041	0.057
<i>Observations</i>	203	203	203	203	203	203	203	203

Table 5: Information asymmetry and method of payment

This table reports the estimates of the OLS regressions for bidder's announcement returns (CAR). All regressions include bidder's country and year fixed effects. T statistics calculated based on robust standard errors are in brackets. Definitions of variables are given in Table 2. The symbols ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>Dependent variable= bidder's CAR</i>				
	[1]	[2]	[3]	[4]
<i>Constant</i>	0.076** [2.33]	0.075** [2.31]	0.082** [2.59]	0.079** [2.58]
<i>Family</i>	-0.015** [-2.38]	-0.012* [-1.86]	-0.033*** [-2.74]	-0.030** [-2.47]
<i>Cash_Dummy</i>	-0.006 [-0.84]	-0.006 [-0.82]	-0.014 [-1.26]	-0.013 [-1.18]
<i>Share_Dummy</i>	-0.017 [-1.25]	-0.025* [-1.80]	-0.042** [-2.11]	-0.058*** [-2.88]
<i>Family* Cash_Dummy</i>			0.017 [1.21]	0.016 [1.11]
<i>Family* Share_Dummy</i>			0.052** [2.15]	0.066*** [2.67]
<i>Uncovered</i>	0.014 [0.91]	-0.006 [-0.46]	0.02 [1.26]	0.006 [0.49]
<i>Uncovered* Cash_Dummy</i>		0.001 [0.04]		-0.009 [-0.54]
<i>Uncovered* Share_Dummy</i>		0.092*** [5.21]		0.107*** [5.34]
<i>RelativeSize</i>	-0.002 [-0.13]	0.002 [0.17]	-0.002 [-0.12]	0.005 [0.34]
<i>Size</i>	-0.003 [-1.50]	-0.004 [-1.62]	-0.003 [-1.56]	-0.003* [-1.75]
<i>Tobin's Q</i>	0.003 [0.99]	0.003 [1.15]	0.003 [1.17]	0.004 [1.46]
<i>Leverage</i>	-0.007 [-0.31]	0.000 [0.02]	-0.005 [-0.24]	0.005 [0.22]
<i>Focused</i>	-0.007 [-1.11]	-0.006 [-1.00]	-0.007 [-1.12]	-0.006 [-0.94]
<i>Domestic</i>	0.004 [0.47]	0.004 [0.44]	0.006 [0.69]	0.007 [0.71]
<i>Adjusted R-sq</i>	0.046	0.072	0.062	0.106
<i>Observations</i>	203	203	203	203