

RESEARCH ARTICLE

Family firms and the stock market performance of acquisitions and divestitures

Emilie R. Feldman¹ | Raphael Amit¹ | Belén Villalonga²

¹The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania

²Stern School of Business, New York University, New York City, New York

Correspondence

Emilie R. Feldman, The Wharton School, University of Pennsylvania, Philadelphia, PA.
Email: feldmane@wharton.upenn.edu

Research Summary: This paper explores the stock market performance of acquisitions and divestitures where both, one, or neither of the companies in the transaction are family firms. We find that acquirer shareholder returns are highest when family firms buy businesses from non-family firm divesters, especially when family chief executive officer (CEO) acquirers buy businesses from non-family CEO divesters. Additionally, divester shareholder returns are highest when family firms sell businesses to non-family firm acquirers, especially when family CEO divesters sell businesses to non-family CEO acquirers. These findings reveal that it is important to consider the characteristics of both the acquiring and divesting firms when analyzing acquisition and divestiture performance, and that the expected gains to family firm acquisitions and divestitures are driven by transactions in which the counterparties are non-family firms.

Managerial Summary: This paper explores how investors react to acquisitions and divestitures where both, one, or neither of the companies in the deal are family firms. The stock market performance of acquiring firms is highest when family firms buy businesses from non-family firms, relative to the other three possible combinations of family and non-family firm acquirers and divesters. Likewise, the stock market performance of divesting firms is highest when family firms sell businesses to non-family firms, again relative to the other three possible combinations of family and non-family acquirers and divesters. These findings suggest that investors take into consideration the identities of both the acquiring and divesting firms when evaluating acquisitions and divestitures, and that this has significant implications for the expected performance gains of these transactions.

KEYWORDS

acquisitions, corporate strategy, divestitures, family firms, shareholder returns

1 | INTRODUCTION

Family firms are a widely prevalent form of ownership, accounting for anywhere from a third to a half of public and private companies in the United States and around the world (Anderson & Reeb, 2003; Claessens, Djankov, & Lang, 2000; Faccio & Lang, 2002; La Porta, Lopez-de-Silanes, & Shleifer, 1999; Shleifer & Vishny, 1986; Villalonga & Amit, 2009, 2010). Investors often ascribe higher valuations to family firms than to non-family firms, especially when founders serve as CEOs, in part due to expectations that owner–manager agency conflicts will be mitigated by the involvement of founding families with strong incentives to monitor (Anderson & Reeb, 2003; Villalonga & Amit, 2006). These favorable expectations about family firms extend to those companies' corporate strategies, in that family firm acquisitions and divestitures have been shown to generate higher shareholder returns than non-family firm acquisitions and divestitures (André, Ben-Amar, & Saadi, 2014; Ben-Amar & André, 2006; Bouzgarrou & Navatte, 2013; Feito-Ruiz & Menéndez-Requejo, 2010; Feldman, Amit, & Villalonga, 2016). These findings impart a unilateral perspective to investors' evaluations of acquisitions and divestitures, implying that shareholders observe whether the *focal firm* that undertakes a given acquisition or divestiture is a family or a non-family firm, and adjust their expectations accordingly as to how much value that transaction will create for the *focal firm*.

With this being said, acquisitions and divestitures are (usually) bilateral transactions, in that they involve both a focal firm and a counterparty: when Company A buys a business from Company B, Company B is selling that business to Company A, and vice versa.¹ This suggests that investors may also be able to observe whether the *counterparty* to a given acquisition or divestiture is a family or a non-family firm, and that this could affect their expectations of the focal firm's returns from that transaction. Put differently, investors' expectations of how much value a given acquisition or divestiture will create for the *focal firm* may be shaped not only by whether the *focal firm* is a family or a non-family firm, but also by whether its *counterparty* is a family or a non-family firm. We investigate this possibility in the present study.

To do this, we begin by identifying the four possible pairings of family and non-family firms in any given acquisition or divestiture: (a) non-family firm acquirer and divester, (b) non-family firm acquirer and family firm divester, (c) family firm acquirer and non-family firm divester, and (d) family firm acquirer and divester. Then, drawing on agency theory and the literature on family firms, we develop hypotheses suggesting that, of the four possible pairings, acquiring firm shareholders will expect to enjoy the highest returns when family firm acquirers buy businesses from non-family firm divesters, and divesting firm shareholders will expect to enjoy the highest returns when family firm divesters sell businesses to non-family firm acquirers. We test and find support for these

¹Spinoffs are an important exception to this statement. In spinoffs, a publicly-traded company undertakes a divestiture by issuing shares in the divested business pro rata to its existing shareholders, resulting in the creation of a new, publicly-traded company. Importantly, that new company is not acquired by another firm, implying that acquisitions and divestitures are not bilateral transactions when divestitures are effectuated via spinoff.

hypotheses using a sample of transactions undertaken by U.S.-based companies between 1994 and 2010. Our results are robust to the use of Coarsened Exact Matching (CEM) models, which we implement to mitigate the possible influence of heterogeneity in the acquisitions and divestitures that family and non-family firms choose to undertake.

This study contributes to the literature on family firms by showing that although shareholders expect family firms to enjoy superior acquisition and divestiture performance in their own right (André et al., 2014; Ben-Amar & André, 2006; Bouzgarrou & Navatte, 2013; Feito-Ruiz & Menéndez-Requejo, 2010; Feldman et al., 2016), these perceived advantages are in fact driven by transactions in which they engage with non-family firms. In other words, our paper shows that the expected performance advantages of being a family firm dissipate when a company's counterparty in a given transaction is also a family firm. Our research also extends the corporate strategy literature by revealing that when evaluating the performance of a focal firm that has undertaken a given acquisition or divestiture, it is important to consider the characteristics of both the focal firm and its counterparty together, rather than the characteristics of the focal firm alone (Anand & Singh, 1997; Barkema & Schijven, 2008; Brauer, 2006; Capron, Dussauge, & Mitchell, 1998; Hoskisson, Johnson, & Moesel, 1994; Lee & Madhavan, 2010) or of the business unit that changes hands in the transaction (Capron & Shen, 2007; Cuypers, Cuypers, & Martin, 2017; Laamanen, Brauer, & Junna, 2014; Villalonga & McGahan, 2005).

2 | THEORY AND HYPOTHESES

2.1 | Agency conflicts in acquisitions and divestitures

The classic, agency-based model of the modern corporation where ownership and control are separate is one in which the primary goal of managers (agents) is to maximize value for shareholders (principals) (Berle & Means, 1932). Under dispersed ownership structures, shareholders cannot directly observe managerial behavior to ensure that managers are acting in their best interests (Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976). As a result, agency problems arise in firms when self-interested managers take actions that do not necessarily maximize shareholder value (Hoskisson, Hill, & Kim, 1993; Hoskisson, Hitt, & Hill, 1993), or that maximize their own personal gains rather than shareholder value in the aggregate (Yermack, 2006). Acquisitions and divestitures are circumstances in which the potential for agency conflicts to occur is quite high, since their financial and organizational consequences may present opportunities for managers to better themselves at the expense of their shareholders.

In the case of acquisitions, empire-building managers may undertake acquisitions whose strategic rationale may not be sound, for example, because they may gain private benefits from managing larger or more diversified companies (Hoskisson & Turk, 1990; Jensen, 1986; Shleifer & Vishny, 1986). Because compensation may be positively correlated with firm scope and size, such decisions can have very favorable financial implications for managers (Jensen & Murphy, 1990). Furthermore, because managers' wealth is often tied up in the equity of the companies they oversee, acquisitions (especially unrelated acquisitions) may help managers diversify their own personal risk exposure (Amihud & Lev, 1981). Finally, acquisitions may facilitate entrenchment (Shleifer & Vishny, 1989), thereby enabling managers to invest resources less efficiently (Lamont, 1997; Ozbas & Scharfstein, 2010), to "winner pick" and "loser stick" among their businesses, (Scharfstein & Stein, 2000; Stein, 1997), or otherwise to pursue pet projects or exhibit favoritism (Jensen, 1993; Shleifer & Vishny, 1997).

In the case of divestitures, managers may avoid undertaking divestitures that do not align with their own self-interests (Buchholtz, Lubatkin, & O'Neill, 1999; Markides, 1992; Shimizu, 2007). For example, consistent with the notion of empire-building, managers may eschew divestitures, even divestitures that have a high potential for value creation, perhaps because they prefer to pursue strategies that expand rather than reduce firm scope (Jensen, 1986). Similarly, managers may not divest underperforming or declining businesses, which would require them to acknowledge that their own personal efforts to restructure those businesses were unsuccessful (Hirshleifer, 1993; Markides & Berg, 1992; Shimizu, 2007), even though such divestitures are typically very valuable for shareholders (Anand & Singh, 1997). Finally, agency conflicts could manifest themselves after divestitures have been undertaken, if managers use the cash proceeds from those deals inefficiently or to pursue personal objectives (Matsusaka & Nanda, 2002).

The foregoing discussion illustrates how agency conflicts between shareholders and managers may manifest themselves in acquisition and divestiture decision-making and implementation. With this being said, however, there may be significant variance in the intensity of these kinds of agency conflicts across companies, in large part driven by how carefully managers are monitored to ensure that they pursue shareholder value maximization as their sole and primary objective (Berle & Means, 1932; Fama & Jensen, 1983; Jensen & Meckling, 1976; Morck, Shleifer, & Vishny, 1988). Accordingly, family firms are one kind of company in which owner–manager agency conflicts may be mitigated, since the family members who are shareholders and/or large vote-holders in these companies (some of whom may also serve as managers and/or directors) have a strong incentive to monitor management to make sure that the right strategies are undertaken and implemented in a way that creates the most value for their firms (Villalonga & Amit, 2006). By the same token, in non-family firms, managers may face less oversight and consequently be able to more freely pursue objectives other than shareholder value maximization. As detailed below, these expected differences in the intensity of agency conflicts faced by family versus non-family firms may manifest themselves in their acquisition and divestiture decisions.

2.2 | Family versus non-family firm acquisitions and divestitures

Family firms are significantly less likely to undertake acquisitions than non-family firms (Caprio, Croci, & Del Giudice, 2011; Geppert, Dörrenbächer, Gammelgaard, & Taplin, 2013; Zhou, Li, & Svejnar, 2011), especially diversifying (Palmer & Barber, 2001), cross-border (Chen, Huang, & Chen, 2009), and unrelated acquisitions (Gómez-Mejía, Patel, & Zellweger, 2018). This suggests that shareholders may expect family firms to be more careful to undertake acquisitions that have a good strategic fit with and low risk to existing operations (Zahra, 2005). Shareholders may also expect family firms to implement their acquisition processes more carefully, for example, by conducting better due diligence on potential targets, bargaining harder to secure lower deal prices, or being more selective about securing external financing (Dreux, 1990; Zellweger, Kellermanns, Chrisman, & Chua, 2012). Shareholders may even expect family firms to integrate targets more thoughtfully into their operations, to avoid disrupting either their own operations or the key sources of value from their acquisitions (Capron & Pistre, 2002; Deephouse & Jaskiewicz, 2013; Gómez-Mejía, Makri, & Kintana, 2010).

In a similar vein, family firms are more selective in their divestitures than non-family firms (Zellweger & Brauer, 2013; Chung & Luo, 2008; Sharma & Manikuttu, 2005), especially as the ownership stake that is held by the founding family increases (Praet, 2013) and when the chief executive officer (CEO) is a member of the family (Feldman et al., 2016). This suggests that shareholders may expect family firms to more carefully select whether and when to undertake divestitures, as well as

which businesses to divest and at what price to sell them. Shareholders may also expect family firms to implement their divestiture processes more judiciously, for example, by avoiding disruptions to existing routines and to tacit interdependencies within the remaining organization (Feldman, 2014; Natividad & Rawley, 2016) and by carefully overseeing the complex separation processes that divestitures inherently necessitate (Alaix, 2014; Moschieri, 2011; Wiedner & Mantere, 2018).

Together, the above arguments suggest that investors infer that agency conflicts exert less of an impact on the decision-making and implementation of acquisitions and divestitures in family firms than in non-family firms. As a result, shareholder returns are expected to be higher in family firm acquisitions and family firm divestitures than in non-family firm acquisitions (André et al., 2014; Ben-Amar & André, 2006; Bouzgarrou & Navatte, 2013; Feito-Ruiz & Menéndez-Requejo, 2010) and non-family firm divestitures (Feldman et al., 2016). Accordingly, the prevailing view within the existing literature is that whether *the focal firm* in a given acquisition or divestiture is a family or a non-family firm influences the shareholder returns of *the focal firm* that undertakes that transaction.

It is important to recognize, however, that acquisitions and divestitures are bilateral transactions (except in the case of spinoffs): when one company buys a business from another company, the latter is selling that business to the former. Thus, not only do investors in an acquiring firm know whether the (focal) acquiring company is a family or a non-family firm, but they can also observe whether the (counterparty) divesting company is a family or a non-family firm. Similarly, not only do investors in a divesting firm know whether the (focal) divesting company is a family or a non-family firm, but they can also observe whether the (counterparty) acquiring company is a family or a non-family firm. As a result, investors may be able to infer the intensity of agency conflicts both within the focal firm that is undertaking a given acquisition or divestiture, and also within its counterparty to that transaction. This raises the possibility that whether *the counterparty* to a given acquisition or divestiture is a family or a non-family firm could also influence the shareholder returns of *the focal firm* that undertakes that transaction. We investigate this possibility in the next subsection of the paper.

2.3 | Shareholder returns and the bilateral nature of acquisitions and divestitures

To explore the implications for shareholder returns of *both the focal firm and its counterparty* in a given transaction being family versus non-family firms, we take the following approach. First, we lay out all possible combinations of family and non-family firm acquirers and divesters that could be involved in any given transaction. Second, we describe the parameters that determine how much value the acquiring and divesting firm shareholders expect any given acquisition or divestiture to create. Third, we explain how these parameters might vary depending on which combination of family and non-family acquirers and divesters is involved in the transaction.

With regard to the first issue, in any acquisition or divestiture, there are four possible pairings of family and non-family firms: (a) non-family firm acquirer (“NFF Acquirer”) and non-family firm divester (“NFF Divester”), (b) Non-family Firm (NFF) Acquirer and family firm divester (“FF Divester”), (c) family firm acquirer (“FF Acquirer”) and NFF Divester, and (d) Family Firm (FF) Acquirer and FF Divester.

With regard to the second issue, we denote the price at which shareholders expect a given transaction to be effectuated as $P_{X,Y}$, where X reflects whether the divester is a family or a non-family firm and Y reflects whether the acquirer is a family or a non-family firm. Agency theory's implication that divesting firm shareholders will expect that family firm divesters will make sounder divestiture decisions than non-family firm divesters suggests that $P_{F,Y} > P_{NF,Y}$ (putting aside for the time being whether the acquirer, Y , is a family or a non-family firm). We also denote the expected future stream of profits that an acquisition will produce for the acquiring firm as V_Y , where Y again reflects

whether the acquirer is a family or a non-family firm. The earlier discussion of agency theory and its implications that acquiring firm shareholders expect that family firm acquirers will make better acquisition decisions and implement acquisitions more carefully than non-family firm acquirers suggests that $V_F > V_{NF}$.

Now, having laid out the full range of possible combinations of family and non-family firm acquirers and divesters, and having explained what parameters determine how much value the acquiring and divesting firm shareholders expect any given acquisition or divestiture to create for their companies, we turn to the third issue that lies at the heart of this study: exploring the implications for shareholder returns of *both the focal firm and its counterparty* in a given transaction being family versus non-family firms.

2.3.1 | Acquiring firms

The present value of a future stream of profits is defined as the value of that stream of profits divided by the expected rate of return, denoted V/r . In an efficient market, the present value of an expected future stream of profits produced by an acquisition on the day of its completion should be equal to the price that is paid for that acquisition, implying that $V_Y/r = P_{X_Y}$. Thus, the present value of the expected future stream of profits that acquiring firm shareholders expect an acquisition will produce for the acquirer can be defined as V_Y/P_{X_Y} (equal to the acquiring firm shareholder's expected return from that acquisition, r). However, while V_Y is determined *only* by whether the acquirer is a family or a non-family firm, P_{X_Y} is instead determined by whether *both* the acquiring and divesting firms are family or non-family firms.

The earlier discussion of agency theory implies that acquiring firm shareholders expect family firm acquirers to undertake more valuable acquisitions ($V_F > V_{NF}$) and to bargain more intensively to pay a lower price for any acquisitions they undertake ($P_{X_F} < P_{X_NF}$) than non-family firm acquirers. But, at the same time, acquiring firm shareholders also expect family firm divesters to bargain more intensively than non-family firm divesters to get a higher price for any divestitures they undertake ($P_{F_Y} > P_{NF_Y}$). This reveals how the intensity of agency conflicts within both the acquiring and divesting firms, as reflected by whether they are family or non-family firms, might influence the returns that acquiring firm shareholders expect to earn from acquisitions.

Applying this logic to the four possible pairings of family and non-family firm acquirers and divesters allows us to generate Figure 1, in which we lay out the expected returns that acquiring firm shareholders believe they will receive depending on whether the acquirer is a family or a non-family firm *and* on whether the divester is a family or a non-family firm.

The foregoing discussion implies the following three inequalities regarding the pairings of family and non-family firm acquirers and divesters that are involved in a given acquisition:

		Divesting Firm	
		Non-Family	Family
Acquiring Firm	Non-Family	I: V_{NF}/P_{NF_NF}	II: V_{NF}/P_{F_NF}
	Family	IV: V_F/P_{NF_F}	III: V_F/P_{F_F}

Hypothesis 1: Acquirer CAR in Quadrant IV > Acquirer CAR in Quadrants I, II, and III

FIGURE 1 Expected returns to acquiring firm shareholders

1. $V_F/P_{NF_F} > V_F/P_{F_F}$
2. $V_F/P_{NF_F} > V_{NF}/P_{F_NF}$
3. $V_F/P_{NF_F} > V_{NF}/P_{NF_NF}$

The critical implication that is immediately apparent from these three inequalities is that acquiring firm shareholders expect acquisitions in which FF Acquirers buy businesses from NFF Divesters (Quadrant IV in Figure 1) to generate the highest shareholder returns relative to acquisitions involving the other three pairings of family and non-family firm acquirers and divesters (Quadrants I, II, and III in Figure 1). In the FF Acquirer-NFF Divester pairing, acquiring firm shareholders expect that the stronger governance in family firm acquirers will lead those companies to undertake more valuable acquisitions and to bargain more effectively for lower prices in those deals. Acquiring firm shareholders also expect that the weaker governance in non-family firm divesters will lead those companies to negotiate less effectively in those deals. By comparison, acquiring firm shareholders will perceive the three other pairings of family and non-family firm acquirers and divesters less favorably. Acquiring firm shareholders may expect the weaker governance in non-family firm acquirers to lead them to undertake less valuable acquisitions and to bargain less effectively (i.e., pay higher prices) than family firm acquirers. Acquiring firm shareholders may also expect the stronger governance in family firm divesters to lead them to bargain more effectively (i.e., demand higher prices) than non-family firm divesters. Together, these points imply our first hypothesis:

Hypothesis 1 *Acquiring firm shareholders will expect to earn higher returns in the FF Acquirer-NFF Divester pairing than in the other three possible pairings.*

2.3.2 | Divesting firms

The value that divesting firm shareholders expect their company to receive from a given divestiture is the price of that deal, P_{X_Y} . Importantly, P_{X_Y} is already in present value terms, since it reflects the value that divesting firm shareholders expect their company to receive for the divested assets on the day of the divestiture's completion. Once again, P_{X_Y} is determined not only by whether the divester (X) is a family or a non-family firm, but also by whether the acquirer that is the counterparty to that transaction (Y) is a family or a non-family firm.

The earlier discussion of agency theory implies that divesting firm shareholders may expect family firm divesters to bargain more intensively than non-family firm divesters to get a higher price for any divestitures they undertake ($P_{F_Y} > P_{NF_Y}$). But, at the same time, that discussion also implies that divesting firm shareholders may expect that bargaining against a family firm acquirer will be more difficult and result in a lower price than bargaining against a non-family firm acquirer ($P_{X_F} < P_{X_NF}$). Together, these points show how the intensity of agency conflicts within both the acquiring and divesting firms, as reflected by whether they are family or non-family firms, is likely to influence the returns that divesting firm shareholders expect to earn from divestitures.

Applying this logic to the four possible pairings of family and non-family firm acquirers and divesters allows us to generate Figure 2, in which we lay out the expected returns that divesting firm shareholders believe they will receive depending on whether the divester is a family or a non-family firm *and* on whether the acquirer is a family or a non-family firm.

The foregoing discussion implies the following three inequalities regarding the pairings of family and non-family firm acquirers and divesters that are involved in a given divestiture:

		Divesting Firm	
		Non-Family	Family
Acquiring Firm	Non-Family	I: P_{NF_NF}	II: P_{F_NF}
	Family	IV: P_{NF_F}	III: P_{F_F}

Hypothesis 2. Divester CAR in Quadrant II > Divester CAR in Quadrants I, III, and IV

FIGURE 2 Expected returns to divesting firm shareholders

1. $P_{F_NF} > P_{F_F}$
2. $P_{F_NF} > P_{NF_F}$
3. $P_{F_NF} > P_{NF_NF}$

The critical implication that is apparent from these inequalities is that divesting firm shareholders expect divestitures in which FF Divesters sell businesses to NFF Acquirers (Quadrant II in Figure 2) to generate the highest shareholder returns relative to divestitures involving the other three pairings of family and non-family firm acquirers and divesters (Quadrants I, III, and IV in Figure 2). In the NFF Acquirer-FF Divester pairing, divesting firm shareholders expect that the stronger governance in family firm divesters will lead those companies to bargain more effectively for higher prices in those deals. Divesting firm shareholders also expect that the weaker governance in non-family firm acquirers will lead those companies to negotiate less effectively in those deals. By comparison, divesting firm shareholders will perceive the three other pairings of family and non-family firm acquirers and divesters less favorably. Divesting firm shareholders may expect the weaker governance in non-family firm divesters to lead them to bargain less effectively (i.e., demand lower prices) than family firm divesters. Divesting firm shareholders may also expect the stronger governance in family firm acquirers to lead them to bargain more effectively (i.e., pay lower prices) than non-family firm acquirers. Together, these points imply our second hypothesis:

Hypothesis 2 *Divesting firm shareholders will expect to earn higher returns in the NFF Acquirer-FF Divester pairing than in the other three possible pairings.*

3 | METHODS

3.1 | Definition of family firms

Consistent with prior research (Anderson & Reeb, 2003; Villalonga & Amit, 2006, 2009, 2010), we define family firms as companies in which the founder or a member of his/her family by blood or marriage is an officer, director, or blockholder, either individually or as a group. This broad definition reflects the reality that founding families can be involved in and exert an influence on their companies in several nonmutually exclusive ways, allowing us to include in our empirical analyses as many companies as possible in which the founding family somehow plays a role (Villalonga & Amit, 2006, 2009).

With this being said, involvement of the founding family in management may more directly mitigate agency conflicts than family ownership or a family member serving on the board of directors, since a family manager has both the incentive and the power to directly influence the selection and implementation of any transactions that their companies undertake (Feldman et al., 2016; Villalonga & Amit, 2006). In fact, agency conflicts may disappear altogether in these firms due to the greater alignment of interest between the principal and the agent, since the owner and the manager are the same (the family). This point suggests that our hypothesized relationships may be especially pronounced in companies where a member of the founding family is the CEO of that company.² To reflect this possibility, we define family CEO firms as companies whose CEO is the founder or a member of the founding family.

In our empirical work, we test our hypotheses using both the broader definition of family versus non-family firms and the narrower definition of family CEO versus non-family CEO firms.

3.2 | Sample and data

The transactions analyzed in this study derive from Feldman et al.'s (2016) sample of 7,743 divestitures undertaken by 2,110 divesting firms from 1994 to 2010. The data on these divestitures were collected from SDC Platinum, Mergers & Acquisitions Magazine, the CCH Capital Changes Reporter, and the Federal Trade Commission Statistical Report on Mergers. These data consisted of information on the announcement and effective dates of each divestiture, the mode of divestiture (sell-off or spinoff), the dollar value of each transaction, a description of each divested business, and the name of the entity that acquired each of the divested businesses. For each of the divesting firms in their sample, Feldman et al. (2016) had collected data on whether those companies were family firms and whether they were managed by family CEOs in the year in which each divestiture had taken place. The family firm and family CEO data were manually gathered from proxy statements filed with the Securities and Exchange Commission (SEC), corporate histories extracted from Hoover's, company websites, and Internet searches.

Importantly, and distinctively for the purposes of the present paper, we used the same data collection processes and definitions as in Feldman et al. (2016) to manually collect data on whether or not the entities that *acquired* the divested businesses were family firms, and whether or not they were run by family CEOs. Testing the hypotheses put forth in this study requires us to have information on whether *both* the acquiring and divesting firms in any given transaction are family or non-family firms. Accordingly, we dropped the transactions in which (a) no information was available about whether the acquirers were family or non-family firms, and (b) the divestitures were effectuated via spinoff. This resulted in a final, usable sample of 6,504 transactions undertaken by 1,105 unique divesting firms (of which 473 were family firms and 632 were non-family firms) and 1,235 unique acquiring firms (of which 467 were family firms and 768 were non-family firms) between 1994 and 2010.

Panel A of Table 1 presents some summary data on the number of transactions in which family versus non-family acquirers transact with family versus non-family divesters. Consistent with the earlier discussion, the number of transactions in which family firms transact with other family firms is

²One potential offsetting effect to this agency-based logic is the argument that nepotism may be at play when firms choose a family CEO over a non-family CEO, meaning that these companies may be forgoing the possibility of selecting a more effective CEO from the larger pool of candidates in the broader labor market—a tradeoff modeled by Burkart, Panunzi, and Shleifer (2003). However, because agency conflicts may be more likely to manifest themselves in acquisitions and divestitures relative to other investments or strategic decisions that companies might make, the positive effect of family CEOs keeping governance tight and reducing agency problems in these situations should outweigh the negative effect of founding family members being less effective CEOs than other candidates.

TABLE 1 Transition matrices of acquiring and divesting family versus non-family firms/CEOs

Panel A		Divesting firm	
		Non-family	Family
Acquiring firm	Non-family	2776	1569
	Family	1362	797
Panel B		Divesting CEO	
		Non-family	Family
Acquiring CEO	Non-family	3164	1835
	Family	974	531

the lowest of the four possible combinations. Transactions in which a family firm (acquirer or divester) engages with a non-family firm (acquirer or divester) occur somewhat more frequently, and at a more similar volume. Finally, transactions in which non-family firms engage with other non-family firms are the most common of the four pairings. Panel B of Table 1 presents a similar pattern of activity for companies that are run by family versus non-family CEOs.

3.3 | Variables

3.3.1 | Dependent variables

We run event studies to calculate cumulative abnormal returns (CAR), our measure of the shareholder returns to the acquisitions and divestitures that the acquiring and divesting firms undertake (Brown & Warner, 1985; McWilliams & Siegel, 1997). Using the announcement dates identified by SDC Platinum for all of the transactions in our sample, we collected from the Center for Research in Securities Pricing the daily stock returns of both the acquiring and divesting firms within 250-day estimation windows $[-800, -551]$ before these announcement dates (Anand & Singh, 1997; Feldman, 2014). From there, we predicted these firms' normal returns from their daily stock returns and the stock market's returns, and then their abnormal returns within 2-day event windows $[-1, 0]$ surrounding the announcement dates. The CAR is the sum of these abnormal returns over this event window.³

Following this methodology, we are able to measure the shareholder returns to both the acquiring and divesting firms from the transactions that they undertake, Acquirer CAR and Divester CAR.⁴ Similarly to Jensen and Ruback (1983) and Mulherin and Boone (2000), we also calculate a composite measure of the shareholder returns to both the acquiring and divesting firms together by taking a value-weighted average of Acquirer CAR and Divester CAR.⁵ As will be discussed in the Results section, we use Value-Weighted CAR to confirm that the transactions in our sample create value in the aggregate for both counterparties to those transactions, before considering the relative distributions of shareholder value predicted in our hypotheses.

³Our results will be presented on the basis of these estimation $[-800, -551]$ and event $[-1, 0]$ windows, though they are robust to the use of an alternate estimation window $[-515, -366]$, and to the use of several other event windows ($[0, +1]$, $[-1, +1]$, $[-2, +2]$, and $[-3, +3]$) with both estimation windows.

⁴Of the total number of transactions in our sample, Divester CAR was available for all 6,504 of them (since Feldman et al.'s (2016) sample consisted only of publicly-traded divesting firms). However, Acquirer CAR was only available for the 2,178 transactions in which the acquiring firms were also publicly-traded.

⁵Value-Weighted CAR = $[\text{Acquirer Market Cap}/(\text{Acquirer Market Cap} + \text{Divester Market Cap})] \times \text{Acquirer CAR} + [\text{Divester Market Cap}/(\text{Acquirer Market Cap} + \text{Divester Market Cap})] \times \text{Divester CAR}$

3.3.2 | Key independent variables

We define two sets of independent variables to test our hypotheses. First, we define the following four indicator variables representing whether the acquiring and divesting firms in a given transaction are family or non-family firms. Specifically, NFF Acquirer-NFF Divester takes the value one when both the acquiring and divesting firms are non-family firms (and zero otherwise). NFF Acquirer-FF Divester takes the value one when the acquiring firm is a non-family firm and the divesting firm is a family firm (and zero otherwise). FF Acquirer-NFF Divester takes the value one when the acquiring firm is a family firm and the divesting firm is a non-family firm (and zero otherwise). Finally, FF Acquirer-FF Divester takes the value one when both the acquiring and divesting firms are family firms (and zero otherwise).

Second, we define the following four indicator variables representing whether the acquiring and divesting firms in a given transaction are managed by family or non-family CEOs. Non-family CEO (NFC) Acquirer-NFC Divester takes the value one when both the acquiring and divesting firms are managed by non-family CEOs (and zero otherwise). NFC Acquirer-FC Divester takes the value one when the acquiring firm is managed by a non-family CEO and the divesting firm is managed by a family CEO (and zero otherwise). Family CEO (FC) Acquirer-NFC Divester takes the value one when the acquiring firm is managed by a family CEO and the divesting firm is managed by a non-family CEO (and zero otherwise). Finally, FC Acquirer-FC Divester takes the value one when both the acquiring and divesting firms are managed by family CEOs (and zero otherwise).

To test Hypothesis 1, with Acquirer CAR as the dependent variable, we include FF Acquirer-FF Divester, NFF Acquirer-FF Divester, and NFF Acquirer-NFF Divester as independent variables in the regressions, therefore treating FF Acquirer-NFF Divester as the omitted category. To the extent that Hypothesis 1 is supported, we expect the coefficients on FF Acquirer-FF Divester, NFF Acquirer-FF Divester, and NFF Acquirer-NFF Divester all to be negative (since they are all measured relative to the omitted category of FF Acquirer-NFF Divester). This would imply that acquiring firm shareholders expect acquisitions involving these pairings of family and non-family firms all to have lower Acquirer CARs than acquisitions involving family firm acquirers and non-family firm divesters. Equivalently, this would mean that acquiring firm shareholders expect the FF Acquirer-NFF Divester pairing to have higher Acquirer CARs than the remaining three pairings, thereby providing support for Hypothesis 1's prediction.

To test Hypothesis 2, with Divester CAR as the dependent variable, we include FF Acquirer-FF Divester, FF Acquirer-NFF Divester, and NFF Acquirer-NFF Divester as independent variables in the regressions, therefore treating NFF Acquirer-FF Divester as the omitted category. To the extent that Hypothesis 2 is supported, we expect the coefficients on FF Acquirer-FF Divester, FF Acquirer-NFF Divester, and NFF Acquirer-NFF Divester all to be negative (since they are all measured relative to the omitted category of NFF Acquirer-FF Divester). This would imply that divesting firm shareholders expect divestitures involving these pairings of family and non-family firms all to have lower Divester CARs than divestitures involving non-family firm acquirers and family firm divesters. Equivalently, this would mean that divesting firm shareholders expect the NFF Acquirer-FF Divester pairing to have higher Divester CARs than the remaining three pairings, thereby providing support for Hypothesis 2's prediction.

We follow a similar approach in using family versus non-family CEO acquirers and divesters (rather than family vs. non-family firm acquirers and divesters) to test Hypotheses 1 and 2. For Hypothesis 1, we include FC Acquirer-FC Divester, NFC Acquirer-FC Divester, and NFC Acquirer-NFC Divester as independent variables in the regressions (treating FC Acquirer-NFC Divester as the omitted category), and we therefore expect negative coefficients on these three independent variables.

For Hypothesis 2, we include FC Acquirer-FC Divester, FC Acquirer-NFC Divester, and NFC Acquirer-NFC Divester as independent variables in the regressions (treating NFC Acquirer-FC Divester as the omitted category), and we therefore expect negative coefficients on these three independent variables.

3.3.3 | Control variables

We incorporate a host of control variables in our regression analyses. First, we control for a series of firm-level financial characteristics that are likely to affect the shareholder returns of companies that undertake acquisitions or divestitures. $\ln(\text{Total Assets})$ is a measure of firm size (Mulherin & Boone, 2000), and Market-to-Book Ratio, the market value of a firm's assets divided by their book value, is a measure of investors' expectations of a firm's growth prospects (Berger & Ofek, 1999; Lang, Stulz, & Walkling, 1989). EBITDA/Sales represent a firm's profitability, and Capex/PPE is a measure of a firm's capital intensity (Harrigan, 1981). Debt/Equity, the ratio of a firm's total debt to its market capitalization, reflects its relative indebtedness (Matsusaka & Nanda, 2002; Schlingemann, Stulz, & Walkling, 2002). # Segments is a count of the number of business segments in which a firm operates in a given year, reflecting the breadth of its operations (Markides, 1992; Meyer, Milgrom, & Roberts, 1992; Porter, 1987). Firm Experience is a count of the number of prior transactions (acquisitions or divestitures) in which a firm has engaged over the sample period (Haleblian & Finkelstein, 1999; Vidal & Mitchell, 2015). In our regressions, we include these financial control variables for the focal firm that is undertaking a given acquisition or divestiture.

We also include a set of firm-level control variables measuring the quality of corporate governance. Percent Outside Directors is the proportion of independent directors on a company's board, reflecting the quality and intensity of monitoring (Jensen & Meckling, 1976; Johnson, Hoskisson, & Hitt, 1993; Kosnik, 1987). Dual Class is an indicator variable taking the value one if a company has a dual class share structure in place (Feldman & Montgomery, 2015; Villalonga & Amit, 2009). Finally, we include the G-Index (Gompers, Ishii, & Metrick, 2003), a measure of the strength of a company's shareholder rights. In Gompers et al. (2003), higher values of the G-Index reflect weaker shareholder rights. Given that our theoretical arguments in this paper center on the relative quality of governance and management in both the acquiring and the divesting firms that are involved in any given transaction, we include these governance variables for both the focal firm and its counterparty.

Next, we control for a series of CEO-level characteristics that could also influence the shareholder returns of companies that undertake acquisitions or divestitures. CEO Experience is a count of the number of prior transactions (acquisitions or divestitures) in which the CEO of a company has engaged over the sample period. CEO Share Ownership is the percentage of a firm's total shares outstanding owned by its CEO, representing the strength of that individual's incentives within that company (Morck et al., 1988). CEO Duality is an indicator variable taking the value one if a company's CEO is also its board chair (and zero otherwise), representing the potential entrenchment of the CEO (Boyd, 1995; Finkelstein & D'Aveni, 1994). Finally, CEO Turnover is an indicator variable taking the value one if the CEO of a firm changed in the year prior to an acquisition or a divestiture (and zero otherwise), included to measure whether a newly-appointed CEO undertook that transaction (Feldman, 2014; Wiersema & Bantel, 1992). Again, because our theory is about the quality of governance and management in both the acquiring and the divesting firms that are involved in any given transaction, we include these CEO variables for both the focal firm and its counterparty to that transaction.

Finally, we include two controls for deal-level characteristics.⁶ First, we define Relatedness as an indicator variable taking the value one if the acquiring/divesting firm shares a three-digit SIC code

with the acquired/divested business. For acquisitions, this variable represents the notion of strategic fit or synergies between the acquiring firm and the acquired business (Hill, Hitt, & Hoskisson, 1992; Hill & Hoskisson, 1987; Rumelt, 1974), and for divestitures, it represents dis-synergies or lack of fit between the divesting firm and the divested business (John & Ofek, 1995). Second, Deal Value is defined as the dollar value that was paid for each acquisition/divestiture that was undertaken by the companies in our sample, and so is a proxy for deal price (Barney, 1988; Capron & Pistre, 2002).⁷

Summary statistics and correlation matrices (one for the acquiring firms and one for the divesting firms) for all of the variables described in this subsection appear in the online appendices.

3.4 | Methods

Our primary empirical approach in this study is ordinary least squares (OLS) regressions. Because event studies measure investors' immediate reactions to announcements of acquisitions and divestitures, any differences in the investor response to these transactions should not be driven by underlying differences in these firms' characteristics, since these are all technically accounted for in the calculation of these firms' "normal" stock market returns.

Nevertheless, several studies have shown that family and non-family firms exhibit distinct financial and performance characteristics and follow systematically different strategies (Anderson & Reeb, 2003; Villalonga & Amit, 2006). This raises the possibility that, even if our event study implicitly accounts for the underlying differences between family and non-family firms, it could still be the case that family and non-family firms choose to engage in systematically different deals (acquisitions or divestitures). To mitigate this possibility, we use a CEM model to construct comparable acquisitions undertaken by family and non-family firms, as well as comparable divestitures undertaken by family and non-family firms.

CEM models match treated (for us, acquisitions or divestitures undertaken by family firms) and control (for us, acquisitions or divestitures undertaken by non-family firms) observations along "coarsened" values of a vector of observable characteristics in a first-stage model. By matching the transactions that comprise the treated and control groups on their *ex ante* characteristics, this first-stage of the CEM model soaks up some of the differences between the family and non-family firms that undertake these deals. This mitigates the effects of nonrandom selection on which acquisitions and divestitures are undertaken by family versus non-family firms. Having taken the *ex ante* differences between the treated and control observations into consideration, a second-stage model then measures any differences between the shareholder returns of matched observations within the treated and control groups (Blackwell, Iacus, King, & Porro, 2009).

We match acquisitions and divestitures undertaken by family versus non-family firms along the following vector of coarsened variables: total assets, market capitalization, total debt, capital expenditures, net income, number of business segments, and the relatedness of the acquired/divested business to the acquiring/divesting firm. All of the financial variables in this list are coarsened into octiles based on their distributions; the number of business segments is coarsened into six subgroups

⁶While it would of course be desirable to include more control variables for deal-level or target-specific characteristics, such data are scarce and difficult to come by. However, this underscores the empirical as well as theoretical importance of examining how the characteristics of the counterparty to an acquisition or a divestiture influence the performance of the focal firm that undertakes it, since those characteristics have the potential to shed light on investors' expectations of the counterparty's likely motivations for and implementation of that transaction.

⁷Companies do not always disclose information on the value of the transactions that they undertake, so including this variable in our regressions constrains our sample size considerably. Nevertheless, we feel that it is an important control variable to include in our models, especially given the paucity of deal-level data. Our results are unchanged when we exclude this variable from our regressions and instead run them on the full sample of transactions.

(single-business firms, firms with two or three segments, firms with four or five segments, firms with six or seven segments, firms with eight or nine segments, and firms with 10 segments); and relatedness is coarsened into binary subgroups (zero and one). Our results are robust to different coarsening schemes (e.g., quartiles through deciles in the financial variables, different groupings of segments, etc.). We then re-estimate our OLS regressions using only the matched samples that are predicted by our CEM analysis. To the extent that our CEM results are similar to our OLS results, it suggests that any *observable* underlying differences between acquisitions and divestitures that are undertaken by family and non-family firms are not systematically driving the shareholder returns to those transactions.

4 | RESULTS

4.1 | Univariate *t* tests

Table 2 provides preliminary evidence consistent with our hypotheses. In Panel A, the four possible pairings of family and non-family firms are presented, along with univariate *t* tests comparing the Acquirer CAR and Divester CAR for each of those pairings. Similarly, in Panel B, the four possible pairings of family and non-family CEOs are presented, along with univariate *t* tests comparing Acquirer CAR and Divester CAR for each of those pairings. Consistent with Hypothesis 1, the only pairings for which Acquirer CAR exceeds Divester CAR ($p < 0.05$) are FF Acquirer-NFF Divester and FC Acquirer-NFC Divester. Consistent with Hypothesis 2, the only pairings for which Divester CAR exceeds Acquirer CAR ($p < 0.05$) are NFF Acquirer-FF Divester and NFC Acquirer-FC Divester.

As a supplemental point, the Value-Weighted CARs of all four of the combinations of family and non-family acquirers and divesters are positive and greater than zero ($p < 0.05$) in both panels of Table 2. This suggests that whether firms or CEOs are family or non-family does not differentially affect the aggregate *value creation* from a given deal, but rather manifests itself in the *distribution* of that value across the two counterparties to that transaction. This reinforces our claim that it is the pairing of family and non-family acquirers and divesters (not the transactions' inherent characteristics) that drives the differences in the distribution of shareholder returns.

TABLE 2 *t* tests of CARs to pairings of acquiring and divesting family versus non-family firms/CEOs

Panel A. Firm Pairing	Acquirer CAR	Divester CAR	<i>t</i> test	Value-Weighted CAR	<i>t</i> test
NFF Acquirer-NFF Divester	0.79%	0.72%	0.33	0.33%	3.43
NFF Acquirer-FF Divester	0.30%	1.03%	-1.97	0.41%	2.12
FF Acquirer-NFF Divester	1.44%	0.38%	3.49	0.37%	2.68
FF Acquirer-FF Divester	0.58%	1.07%	-0.79	0.35%	1.75
Panel B. CEO Pairing	Acquirer CAR	Divester CAR	<i>t</i> test	Value-Weighted CAR	<i>t</i> test
NFC Acquirer-NFC Divester	0.86%	0.67%	0.92	0.31%	3.40
NFC Acquirer-FC Divester	0.30%	1.27%	-2.33	0.31%	1.95
FC Acquirer-NFC Divester	1.56%	0.36%	3.24	0.48%	2.84
FC Acquirer-FC Divester	0.79%	0.33%	0.94	0.63%	1.75

Note. Value-Weighted CAR = [Acquirer Market Cap/(Acquirer Market Cap + Divester Market Cap)] × Acquirer CAR + [Divester Market Cap/(Acquirer Market Cap + Divester Market Cap)] × Divester CAR.

4.2 | Acquiring firms

Tables 3 and 4 display the results of multivariate regressions testing our hypotheses; in both tables, Panel A presents OLS regressions with no matching of family and non-family firms/CEOs, while Panel B presents regressions of observations that were matched using our CEM model. In Table 3, the omitted categories are FF Acquirer-NFF Divester and FC Acquirer-NFC Divester, and we expect to find negative coefficients on the remaining three pairings (because they are measured relative to FF Acquirer-NFF Divester and FC Acquirer-NFC Divester). Similarly, in Table 4, the omitted categories are NFF Acquirer-FF Divester and NFC Acquirer-FC Divester, and we again expect to find negative coefficients on the remaining three pairings (because they are measured relative to NFF Acquirer-FF Divester and NFC Acquirer-FC Divester).

In Table 3, the coefficients on NFF Acquirer-NFF Divester, NFF Acquirer-FF Divester, and FF Acquirer-FF Divester are all negative ($p < 0.05$) in the odd-numbered regressions. In terms of effect sizes, the coefficient estimate on NFF Acquirer-NFF Divester in Regression [1] indicates that the CARs of acquisitions in which family firm acquirers buy businesses from non-family firm divesters are 1.6% higher than the CARs of acquisitions in which non-family firm acquirers buy businesses from non-family firm divesters. Similarly, the coefficient estimate on NFF Acquirer-FF Divester indicates that the CARs of acquisitions in which family firm acquirers buy businesses from non-family firm divesters are 1.7% higher than the CARs of acquisitions in which non-family firm acquirers buy businesses from family firm divesters. Finally, the coefficient estimate on FF Acquirer-FF Divester indicates that the CARs of acquisitions in which family firm acquirers buy businesses from non-family firm divesters are 2.1% higher than the CARs of acquisitions in which family firm acquirers buy businesses from family firm divesters.

The coefficients on NFC Acquirer-NFC Divester, NFC Acquirer-FC Divester, and FC Acquirer-FC Divester are also negative ($p < 0.05$) in the even-numbered regressions in Table 3. In terms of effect sizes, the coefficient estimate on NFC Acquirer-NFC Divester in Regression [2] indicates that the CARs of acquisitions in which family CEO acquirers buy businesses from non-family CEO divesters are 1.5% higher than the CARs of acquisitions in which non-family CEO acquirers buy businesses from non-family CEO divesters. Similarly, the coefficient estimate on NFC Acquirer-FC Divester indicates that the CARs of acquisitions in which family CEO acquirers buy businesses from non-family CEO divesters are 2.3% higher than the CARs of acquisitions in which non-family CEO acquirers buy businesses from family CEO divesters. Finally, the coefficient estimate on FC Acquirer-FC Divester indicates that the CARs of acquisitions in which family CEO acquirers buy businesses from non-family CEO divesters are 1.6% higher than the CARs of acquisitions in which family CEO acquirers buy businesses from family CEO divesters.

Together, these findings support Hypothesis 1 by showing that the acquirer's shareholder returns when family firm/CEO acquirers buy businesses from non-family firm/CEO divesters are higher than in the three other pairings of family and non-family firms/CEOs.

4.3 | Divesting firms

Turning now to Table 4, the coefficients on NFF Acquirer-NFF Divester, FF Acquirer-NFF Divester, and FF Acquirer-FF Divester are all negative ($p < 0.05$) in the odd-numbered regressions. In terms of effect sizes, the coefficient estimate on NFF Acquirer-NFF Divester in Regression [1] indicates that the CARs of divestitures in which family firm divesters sell businesses to non-family firm acquirers are 0.8% higher than the CARs of divestitures in which non-family firm divesters sell businesses to non-family firm acquirers. Similarly, the coefficient estimate on FF Acquirer-NFF Divester

TABLE 3 Acquirer CAR regressions

Regression Dependent variable	Panel A. Unmatched sample (OLS)		Panel B. Matched sample (CEM)	
	[1] Acquirer CAR	[2] Acquirer CAR	[3] Acquirer CAR	[4] Acquirer CAR
NFF Acquirer-NFF Divester	−0.016 (0.005)		−0.014 (0.005)	
NFF Acquirer-FF Divester	−0.017 (0.006)		−0.015 (0.006)	
FF Acquirer-FF Divester	−0.021 (0.007)		−0.020 (0.007)	
NFC Acquirer-NFC Divester		−0.015 (0.006)		−0.015 (0.006)
NFC Acquirer-FC Divester		−0.023 (0.007)		−0.022 (0.007)
FC Acquirer-FC Divester		−0.016 (0.009)		−0.015 (0.010)
ln(Acquirer Total Assets)	−0.002 (0.001)	−0.002 (0.001)	−0.002 (0.001)	−0.003 (0.001)
Acquirer Market-to-Book Ratio	0.000 (0.001)	0.000 (0.001)	−0.001 (0.001)	−0.001 (0.001)
Acquirer EBITDA/Sales	0.003 (0.007)	0.003 (0.007)	0.000 (0.007)	0.002 (0.008)
Acquirer Capex/PPE	−0.001 (0.006)	−0.001 (0.006)	−0.001 (0.005)	0.000 (0.006)
Acquirer Debt/Equity	0.003 (0.001)	0.003 (0.001)	0.002 (0.001)	0.002 (0.001)
Acquirer # Segments	−0.001 (0.001)	−0.001 (0.001)	−0.002 (0.001)	−0.001 (0.001)
Acquirer Experience	0.000 (0.001)	0.000 (0.001)	0.000 (0.002)	0.000 (0.002)
Acquirer % Outside Directors	0.012 (0.017)	0.011 (0.017)	0.014 (0.017)	0.020 (0.018)
Acquirer Dual Class	−0.001 (0.009)	−0.001 (0.009)	0.003 (0.009)	0.003 (0.009)
Acquirer G-Index	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
Acquirer CEO Experience	0.001 (0.001)	0.000 (0.001)	0.002 (0.001)	0.001 (0.002)
Acquirer CEO Share Ownership	0.053 (0.048)	0.048 (0.048)	0.059 (0.047)	0.070 (0.049)
Acquirer CEO Duality	0.002 (0.005)	0.002 (0.005)	0.002 (0.005)	0.001 (0.006)
Acquirer CEO Turnover	−0.010 (0.007)	−0.010 (0.007)	−0.015 (0.007)	−0.011 (0.008)
Relatedness	0.006 (0.004)	0.007 (0.004)	0.006 (0.004)	0.008 (0.004)

TABLE 3 (Continued)

Regression Dependent variable	Panel A. Unmatched sample (OLS)		Panel B. Matched sample (CEM)	
	[1] Acquirer CAR	[2] Acquirer CAR	[3] Acquirer CAR	[4] Acquirer CAR
Deal Value	0.002 (0.002)	0.002 (0.002)	0.004 (0.002)	0.006 (0.003)
Divester % Outside Directors	0.002 (0.018)	0.002 (0.018)	−0.002 (0.017)	−0.007 (0.018)
Divester Dual Class	−0.007 (0.009)	−0.007 (0.009)	−0.012 (0.009)	−0.013 (0.009)
Divester G-Index	−0.001 (0.001)	−0.001 (0.001)	−0.001 (0.001)	−0.001 (0.001)
Divester CEO Experience	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Divester CEO Share Ownership	−0.004 (0.061)	−0.006 (0.061)	0.006 (0.058)	0.002 (0.063)
Divester CEO Duality	−0.007 (0.005)	−0.007 (0.005)	−0.008 (0.005)	−0.009 (0.005)
Divester CEO Turnover	0.005 (0.006)	0.004 (0.006)	0.003 (0.005)	0.003 (0.006)
Constant	0.022 (0.025)	0.024 (0.025)	0.024 (0.024)	0.027 (0.026)
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	745	745	711	683
R ²	0.085	0.0847	0.084	0.088

Note. The coefficients on NFF Acquirer-NFF Divester, NFF Acquirer-FF Divester, and FF Acquirer-FF Divester are all measured relative to the omitted category of FF Acquirer-NFF Divester.

The coefficients on NFC Acquirer-NFC Divester, NFC Acquirer-FC Divester, and FC Acquirer-FC Divester are all measured relative to the omitted category of FC Acquirer-NFC Divester.

indicates that the CARs of divestitures in which family firm divesters sell businesses to non-family firm acquirers are 1.0% higher than the CARs of divestitures in which non-family firm divesters sell businesses to family firm acquirers. Finally, the coefficient estimate on FF Acquirer-FF Divester indicates that the CARs of divestitures in which family firm divesters sell businesses to non-family firm acquirers are 0.8% higher than the CARs of divestitures in which family firm divesters sell businesses to family firm acquirers.

The coefficients on NFC Acquirer-NFC Divester, FC Acquirer-NFC Divester, and FC Acquirer-FC Divester are also negative ($p < 0.05$) in the even-numbered regressions of Table 4. In terms of effect sizes, the coefficient estimate on NFC Acquirer-NFC Divester in Regression [2] indicates that the CARs of divestitures in which family CEO divesters sell businesses to non-family CEO acquirers are 0.8% higher than the CARs of divestitures in which non-family CEO divesters sell businesses to non-family CEO acquirers. Similarly, the coefficient estimate on FC Acquirer-NFC Divester indicates that the CARs of divestitures in which family CEO divesters sell businesses to non-family CEO acquirers are 1.3% higher than the CARs of divestitures in which non-family CEO divesters sell businesses to family CEO acquirers. Finally, the coefficient estimate on FC Acquirer-FC Divester indicates that the CARs of divestitures in which family CEO divesters sell businesses to non-family CEO acquirers are 0.8% higher than the CARs of divestitures in which family CEO divesters sell businesses to family CEO acquirers.

TABLE 4 Divester CAR regressions

Regression Dependent variable	Panel A. Unmatched sample (OLS)		Panel B. Matched sample (CEM)	
	[1] Divester CAR	[2] Divester CAR	[3] Divester CAR	[4] Divester CAR
NFF Acquirer-NFF Divester	−0.008 (0.004)		−0.008 (0.004)	
FF Acquirer-NFF Divester	−0.010 (0.004)		−0.010 (0.005)	
FF Acquirer-FF Divester	−0.008 (0.004)		−0.009 (0.004)	
NFC Acquirer-NFC Divester		−0.008 (0.003)		−0.008 (0.003)
FC Acquirer-NFC Divester		−0.013 (0.005)		−0.013 (0.005)
FC Acquirer-FC Divester		−0.008 (0.004)		−0.008 (0.004)
ln(Divester Total Assets)	−0.001 (0.001)	−0.002 (0.001)	−0.002 (0.001)	−0.002 (0.001)
Divester Market-to-Book Ratio	−0.003 (0.001)	−0.003 (0.001)	−0.004 (0.001)	−0.004 (0.001)
Divester EBITDA/Sales	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Divester Capex/PPE	0.012 (0.009)	0.011 (0.009)	0.013 (0.009)	0.012 (0.009)
Divester Debt/Equity	0.001 (0.000)	0.001 (0.000)	0.002 (0.000)	0.002 (0.000)
Divester # Segments	−0.001 (0.001)	−0.001 (0.001)	−0.001 (0.001)	−0.001 (0.001)
Divester Experience	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Divester % Outside Directors	0.018 (0.013)	0.019 (0.013)	0.020 (0.013)	0.022 (0.013)
Divester Dual Class	−0.003 (0.006)	−0.002 (0.006)	−0.003 (0.006)	−0.002 (0.006)
Divester G-Index	0.000 (0.001)	0.000 (0.001)	−0.001 (0.001)	−0.001 (0.001)
Divester CEO Experience	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Divester CEO Share Ownership	−0.022 (0.047)	−0.017 (0.047)	−0.025 (0.048)	−0.021 (0.048)
Divester CEO Duality	−0.008 (0.004)	−0.008 (0.004)	−0.009 (0.004)	−0.009 (0.004)
Divester CEO Turnover	0.000 (0.004)	0.000 (0.004)	0.001 (0.004)	0.001 (0.004)
Relatedness	0.001 (0.003)	0.001 (0.003)	0.000 (0.003)	0.001 (0.003)

TABLE 4 (Continued)

Regression Dependent variable	Panel A. Unmatched sample (OLS)		Panel B. Matched sample (CEM)	
	[1] Divester CAR	[2] Divester CAR	[3] Divester CAR	[4] Divester CAR
Deal Value	0.004 (0.001)	0.004 (0.001)	0.005 (0.002)	0.005 (0.002)
Acquirer % Outside Directors	0.031 (0.022)	0.028 (0.022)	0.029 (0.022)	0.027 (0.022)
Acquirer Dual Class	0.025 (0.011)	0.025 (0.011)	0.025 (0.011)	0.025 (0.011)
Acquirer G-Index	0.002 (0.001)	0.002 (0.001)	0.002 (0.001)	0.002 (0.001)
Acquirer CEO Experience	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Acquirer CEO Share Ownership	0.043 (0.062)	0.047 (0.062)	0.048 (0.062)	0.052 (0.062)
Acquirer CEO Duality	0.008 (0.006)	0.008 (0.006)	0.009 (0.006)	0.009 (0.006)
Acquirer CEO Turnover	−0.006 (0.010)	−0.007 (0.010)	−0.004 (0.011)	−0.005 (0.011)
Constant	−0.018 (0.024)	−0.016 (0.024)	−0.016 (0.024)	−0.014 (0.024)
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	2,471	2,471	2,345	2,345
R ²	0.042	0.043	0.045	0.046

Note. The coefficients on NFF Acquirer-NFF Divester, FF Acquirer-NFF Divester, and FF Acquirer-FF Divester are all measured relative to the omitted category of NFF Acquirer-FF Divester.

The coefficients on NFC Acquirer-NFC Divester, FC Acquirer-NFC Divester, and FC Acquirer-FC Divester are all measured relative to the omitted category of NFC Acquirer-FC Divester.

Together, these findings support Hypothesis 2 by showing that the divester's shareholder returns when family firm/CEO divesters sell businesses to non-family firm/CEO acquirers are higher than in the three other pairings of family and non-family firms/CEOs.

5 | DISCUSSION AND CONCLUSION

5.1 | Summary of results

There are two main results in this study. The first is that the shareholder returns to acquiring firms are highest when family firm acquirers buy businesses from non-family firm divesters, especially when family CEO acquirers buy businesses from non-family CEO divesters. The second is that the shareholder returns to divesting firms are highest when family firm divesters sell businesses to non-family firm acquirers, especially when family CEO divesters sell businesses to non-family CEO acquirers. These findings do not appear to be driven by heterogeneity in the acquisitions and divestitures that family versus non-family firms/CEOs undertake, since our results are nearly identical using unmatched and matched samples of family and non-family deals. Our results also do not appear to be attributable to family firms/CEOs engaging in transactions with systematically different

characteristics than non-family firms/CEOs, since there are no differences in the value-weighted returns of transactions involving the four pairings of family and non-family firms/CEOs.

5.2 | Theoretical contributions

This paper contributes to the corporate strategy literature and to research on family firms. One of the unique features of this study is that it explicitly engages with the idea that acquisitions and divestitures are bilateral (except in the case of spinoffs): when Firm A acquires a business from Firm B, Firm B divests that business by selling it to Firm A, and vice versa. Our paper is built on the agency theoretic premise that owner–manager agency conflicts are mitigated in family firms due to the monitoring and incentives of the founding family (Villalonga & Amit, 2006). This implies that investors may expect family firm acquisitions and divestitures to be undertaken and implemented in a way that creates more shareholder value than non-family firm acquisitions and divestitures. As a result, investors' expectations of how much value a given acquisition or divestiture will create are shaped by whether the *focal firm* that undertakes that transaction is a family or a non-family firm, consistent with existing findings (André et al., 2014; Ben-Amar & André, 2006; Bouzgarrou & Navatte, 2013; Feito-Ruiz & Menéndez-Requejo, 2010; Feldman et al., 2016). But, since acquisitions and divestitures are bilateral, not only do investors observe whether the *focal firm* in a given transaction is a family or a non-family firm, but also whether its *counterparty* is a family or a non-family firm. This suggests that whether the *counterparty* is a family or a non-family firm should (and does) influence investors' expectations of how much shareholder value a transaction will create for the *focal firm*. This key insight from our study extends research on corporate strategy and family firms in two important ways.

First, our work suggests that it is important for scholars and practitioners to take into consideration the characteristics of *all* of the entities that are involved in acquisitions and divestitures—the focal firms that acquire or divest businesses, the counterparties with which the focal firms transact, and the businesses that are acquired or divested—when evaluating the performance of those transactions. Numerous papers have analyzed how the characteristics of acquiring and divesting (focal) firms affect acquisition (Anand & Singh, 1997; Barkema & Schijven, 2008; Capron et al., 1998; Halebian & Finkelstein, 1999) and divestiture performance (Brauer, 2006; Hoskisson et al., 1994; Lee & Madhavan, 2010). Recently, a few studies have also shown that certain characteristics of businesses that are bought in acquisitions or sold in divestitures also affect the performance of the companies that acquire or divest them (Capron & Shen, 2007; Cuypers et al., 2017; Feldman, 2014; Laamanen et al., 2014; Moschieri, 2011; Villalonga & McGahan, 2005). Our paper extends this existing body of research by showing that at least one characteristic of the counterparties that are involved in acquisitions and divestitures (whether they are family or non-family firms) also affects performance, above and beyond the characteristics of the focal firms and the businesses that change hands in the transactions. One productive avenue for future research might therefore be to explore how characteristics of the counterparties that are involved in acquisitions and divestitures (other than whether they are family or non-family firms) affects focal firm performance in those deals. More generally, another might be for researchers to begin conceptualizing and empirically analyzing acquisitions and divestitures bilaterally (by considering the focal firm and its counterparty), or even trilaterally (by considering the focal firm, its counterparty, and the divested business), rather than unilaterally.

Second, our paper carries important implications for understanding how investor perceptions shape firm and transaction performance. By showing that focal firms' shareholder returns from acquisitions and divestitures are fundamentally affected by whether their counterparties to those transactions are family or non-family firms, our work suggests that investor perceptions and expectations

(and hence, shareholder returns), may be affected by the characteristics of their counterparties in those transactions. This ramification is a significant one in that numerous studies provide evidence that managers deliberately take steps to manage how key external constituents like securities analysts (Gilson, Healy, Noe, & Palepu, 2001; Westphal & Clement, 2008; Westphal & Graebner, 2010; Zuckerman, 2000) and the media (Petkova, Rindova, & Gupta, 2013; Pollock & Rindova, 2003; Rindova, Pollock, & Hayward, 2006) perceive their firms, since these efforts shape investor perceptions in turn. Our paper therefore suggests that managers should be cognizant of and perhaps take steps to manage how investors perceive the counterparties with which their companies transact, as this can affect the returns of their transactions.

Beyond these ideas, our study also makes an important contribution directly to the literature on family firms. This body of research has amply demonstrated that family firms are distinct from non-family firms along many dimensions, including their financial characteristics, objectives, incentives, decision-making processes (Gómez-Mejía et al., 2010; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Villalonga & Amit, 2009, 2010), and most importantly, their corporate strategies (Caprio et al., 2011; Feldman et al., 2016; Gómez-Mejía et al., 2018; Palmer & Barber, 2001; Zellweger & Brauer, 2013; Zhou et al., 2011). As a result, family firms enjoy performance advantages simply from being family firms, both at the corporate-level (Anderson & Reeb, 2003; Villalonga & Amit, 2006) and also at the transaction-level (André et al., 2014; Ben-Amar & André, 2006; Bouzgarrou & Navatte, 2013; Feito-Ruiz & Menéndez-Requejo, 2010; Feldman et al., 2016).

Our study advances this literature by considering what happens when both, one of, or neither of the firms that are involved in a given corporate strategy transaction are family firms. In so doing, we document that the expected performance advantages of being a family firm dissipate when that company's counterparty in an acquisition or a divestiture is also a family firm. In other words, being a family firm only carries financial advantages in acquisitions and divestitures when the other company is not also a family firm. Thus, our study imposes an important boundary condition on existing findings that family firms are more valuable or perform better than non-family firms: "family-ness" only creates value when it is a unique resource to which the other firms that are involved in a given transaction do not have access. This contribution is also consistent with one of the core insights from the field of strategy, that *scarce and inimitable* resources enable firms to generate sustainable performance advantages. Interestingly, our work reinforces this point by confirming that the rents from a key resource (being a family firm) that would normally create sustainable performance advantages dissipate when other companies also have that resource.

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SUPPORTING INFORMATION

Additional supporting information may be found online in the Supporting Information section at the end of the article.

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