

Earnings Quality in Acquired and Nonacquired Family firms: A Socioemotional Wealth Perspective

Federica Pazzaglia, Stefano Mengoli and Elena Sapienza

When we use the term “family firm,” we know that all family firms are not alike, they vary in size, industry, and age to name just a few. This study looks at how earnings quality varies between firms that are acquired and firms that are non-acquired. A non-acquired family firm in this research study is one that was originally created by a family and then passed on to subsequent generations. An acquired family firm is one that was acquired through a market transaction. This study looks at the earnings quality of acquired and non-acquired firms in the Milan Stock Exchange between 1995 and 2008. There were a total of 1254 observations over that period of time of which 943 were non-acquired family firms and 311 were acquired family firms.

The major results of the study are as follows:

- Acquired family firms exhibit lower earnings quality than non-acquired family firms
- A family CEO has a positive effect on earnings quality for non-acquired firms but a negative effect for acquired firms.
- Non-family CEOs exhibit higher earnings quality in acquired firms.

The authors also report a post hoc finding. They found that board of directors' independence is beneficial for acquired firms but detrimental for non-acquired firms. More research needs to be done in this area before drawing any firm conclusions but is an interesting and compelling finding. More research also needs to be done to see if similar findings concerning earnings quality occur in other countries.

The results of this study provide several implications for practitioners and family firms which the authors discuss in the “Discussion and Conclusion” section of the paper. Of particular interest is the authors' recommendation that financial advisors should be aware of the differences between firms that are acquired through the market and firms that have been founded by a family.

If you are interested in learning more about this fascinating study, the “Introduction” section of this paper provides a concise and very readable summary of this research project.