Acquisition Relatedness in Family Firms: Do the Environment and the Institutional Context Matter?

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ABSTRACT   Research on the acquisition behaviour of family firms has produced conflicting theoretical arguments and mixed empirical findings on their propensity to acquire related or unrelated targets. While previous work has mainly focused on firm-level variables, this study examines the environment in which family firms operate and the institutional context where acquisitions take place. Drawing on the mixed gambles logic of the behavioural agency model, we theorize that family firms are more likely than nonfamily firms to undertake related acquisitions when they operate in uncertain environments to avoid losses to the family's *current* socioemotional wealth. However, family firms are more likely to undertake unrelated acquisitions, when the environment is uncertain but the target operates in a similar and more developed institutional context where *prospective* financial gains are more predictable. Overall, building on a sample of 1014 international acquisitions, our study offers important contributions to the literature on family firms and acquisitions.

Keywords: acquisitions, relatedness, family firms, environmental uncertainty, institutional context

INTRODUCTION

While the choice between a related and an unrelated acquisition has been acknowledged by seminal studies as crucial in the diversification literature (e.g., Park, 2002), with some scholars arguing that relatedness in acquisition is a primary driver of a firm's success

(e.g., Lubatkin, 1983; Montgomery, 1985; Palepu, 1985) and others pointing to the effect of a firm's success on relatedness in acquisitions (e.g., Burgelman, 1983; Grant et al., 1988; Miles, 1982; Weston and Mansinghka, 1971), the current knowledge about the mechanisms behind acquisition relatedness has remained quite limited (see, e.g., King et al., 2004, 2022). This is especially regretful when considering family-controlled firms – the most ubiquitous form of business organization worldwide (Gedajlovic et al., 2012; Neckebrouck et al., 2018) in which a family owns and manages the business (Miller et al., 2007). Recent studies have emphasized that family firms are key to advancing knowledge about related and unrelated acquisitions whose decision is often vital for them to prosper across generations (see, e.g., Hoskisson et al., 2017; King et al., 2022). For instance, the related acquisition of Chrysler by the family firm Fiat in 2009 was vital for the long-term prosperity of the Italian car manufacturer. Similarly, the related acquisition of the Mexico-based Femsa Cerveza by the family-controlled Heineken in 2010 allowed the Heinecken family to consolidate its position at the helm of the world's second-largest brewer in the world by revenue. Also, the unrelated acquisition of the US-based Trinity Coal by the Indian family-owned Essar Group, or the unrelated acquisitions of ventures in the tourism industry by the South-Tyrolean Senfter family, which traditionally specialized in the meat processing and production business, allowed the family acquirers to fuel their future growth ambitions.

Research suggests that family firms have good reasons to either prefer or to avoid unrelated or related acquisitions. A line of reasoning from an agency logic advances that family firms acquire unrelated targets to diversify the family's financial portfolio. Unrelated diversification can reduce business risk, which according to classical agency writings is key to family firms because most of the family's wealth is tied up to the business to retain family control (see e.g., Miller et al., 2010). Drawing from an affective logic, other scholars instead suggest that family firms prefer related acquisitions to protect the family from nonfinancial losses while bearing the business risk associated with this behaviour (see e.g., Gomez-Mejia et al., 2018). Unfortunately, however, theory and empirical research have not been able to provide consistent arguments and support for either of these two perspectives. As a result, King et al. (2022) recently observed that family firms' propensity to acquire (un)related targets is likely to depend on underinvestigated externally related variables (see also Geppert et al., 2013). Although this theoretical and empirical puzzle is of great interest for academic research, it is also of great economic and practical relevance because family firms contribute substantially to the GDP of nations in any environment and institutional context (Arregle et al., 2021). In addition, M&As constitute 'one of the most strategic phenomena in management' because of their influence on firms' growth and survival rates (Maas et al., 2019, p. 237), including in family firms (Meglio and King, 2019).

Drawing on the mixed gamble logic of the behavioural agency model (Chirico et al., 2020b; Gomez-Mejia et al., 2014, 2018; Martin et al., 2013), we rely on the socioemotional wealth (SEW) perspective or the affect-related value embedded in family firms (Gomez-Mejía et al., 2007) as a theoretical framework to offer a more nuanced understanding of family firms' engagement in related or unrelated acquisitions (Gomez-Mejia et al., 2018; Miller et al., 2010) across different environments (Baum and Wally, 2003) and institutional contexts (Globerman and Shapiro, 2003). Martin et al. (2013) proposed

that decision-makers balance the fear of losing current endowed wealth with the prospects of protecting or enhancing future wealth. *Prospective wealth* concerns the future wealth potential attributed to strategic decisions, while *current wealth* refers to accumulated firm-specific wealth that is subject to loss. As current wealth exceeds prospective wealth, decision-makers become more conservative in their strategic choices; conversely, situations where prospective wealth appears to be more attractive than current wealth induce decision-makers to make bolder choices in the pursuit of higher prospective wealth (Gomez-Mejia et al., 2014; Hoskisson et al., 2017). Borrowing from the notion of bounded rationality (Simon, 1957, 1972), some key heuristics that decision-makers use to assess the value of current versus prospective wealth are related to the external environment and the institutional context in which they operate.

Research has established that acquisitions entail additional costs for family firms relative to nonfamily firms because families evaluate their strategic decisions – including acquisitions – based on both current SEW and prospective financial wealth considerations (Gomez-Mejia et al., 2014; King et al., 2022). As such, all else being equal, the riskiness of any given acquisition is comparatively higher for a family firm because of the potential SEW losses in addition to potential financial losses. In addition, such losses are potentially higher in the case of unrelated acquisitions because of more uncertain financial returns (Hoskisson et al., 2017). Applying the mixed gamble model to the case of family firms' acquisition relatedness, we thus theorize that compared to nonfamily firms, family firms acquire more related targets when the business environment is more uncertain because more rapid change and volatile demand increase the risk of current SEW losses (in addition to financial losses) from acquisitions (Duchin and Schmidt, 2013; Girod and Whittington, 2017; McNamara et al., 2008). That is, in such an environment, family firms have a lower tolerance for additional SEW risk from unrelated acquisitions and thus prefer related targets. However, we also contend that such an effect is offset by favourable institutional conditions that may limit financial risk and increase the likelihood that unrelated acquisitions may result in prospective financial gains. Expected gains from acquisitions, in fact, have been found to be higher when targets operate in similar or more developed institutional contexts because lower information asymmetries improve the ability of foreign firms to correctly assess the target's value and potential synergies (Roy, 2012) and to spot and respond to economic and legal issues (Perkins et al., 2014; Pinelli et al., 2022). As a result, we argue that the positive contingency effect of environmental uncertainty on the relationship between family control and the acquisition of a related target is mitigated by the institutional distance between the acquirer's and the target's countries.

Building on a sample of 1014 international acquisitions (2011–16), first, this study contributes to the mixed gamble logic of the behavioural agency model and SEW, which has traditionally been internally focused (see, e.g., Gomez-Mejia et al., 2018; Gómez-Mejia et al., 2022). We instead theorize and find that family firms acquire related or unrelated targets as a function of both the uncertainty in their business environment and the institutional context of the target. Family firms' acquisition behaviour is driven by a strategy of risk containment that limits the exposure to the current SEW risk by focusing on related acquisitions under uncertain environments and balances such risk with the chance that unrelated acquisitions may lead to higher

prospective financial gains when the institutional distance between the acquirer's and the target's countries is lower. Second, by focusing on the external environment and the institutional context, our work helps reconcile the contradictory findings (King et al., 2022) on family firms' preference for unrelated (Miller et al., 2010; Schierstedt et al., 2020) or related (Defrancq et al., 2016; Gomez-Mejia et al., 2010) acquisitions while bridging the seemingly parallel views of the agency versus the SEW perspectives (Gomez-Mejia et al., 2018; Miller et al., 2010). Our theory suggests that compared to nonfamily firms, family firms are sensitive to a larger number of risk factors whose importance varies depending on the external environment and the institutional context in which the family firm and target operates. As such, we advance existing research on the effect of contextual variables on family firms' diversifying acquisitions (Bauer et al., 2018; Berrone et al., 2022; King et al., 2022) while providing evidence that environmental and institutional factors offer a deeper understanding of the inconsistent results of past research. Third, we extend the literature on the influence of ownership types on international acquisitions (e.g., Connelly et al., 2010; David et al., 2010; Gomez-Mejia et al., 2018) by showing how risk containment considerations bias the direction of family firms' (un)related acquisitions toward specific institutional contexts (Kimjeon and Davidsson, 2022).

THEORETICAL FRAMEWORK

Mixed Gamble Logic and Socioemotional Wealth

The behavioural agency model developed by Wiseman and Gomez-Mejia (1998), which is based on Kahneman (1979) prospect theory and Cyert and March's (1963) behavioural theory, proposes that individuals' risk preferences are based on reference points or aspiration levels. In particular, building on the mixed gamble logic of the behavioural agency model, Martin et al. (2013) explained that decision-makers are guided by a desire to preserve the firm's *current* financial endowment or to maximize *prospective* future financial wealth. Current wealth is accumulated firm-specific wealth that is subject to loss, which can lead to more conservative behaviours. Prospective wealth concerns the future wealth potential attributed to strategic decisions, which can lead to bolder actions (Gomez-Mejia et al., 2014; Hoskisson et al., 2017). Although Martin et al. (2013) focus on financial wealth, the wealth endowment of family firms includes not only financial assets but also SEW – that is, the affective endowment that the owning family vests in the firm (Gomez-Mejia et al., 2011, 2014; Gomez-Mejía et al., 2007; Hoskisson et al., 2017) – whose preservation is a family firm's priority. Gomez-Mejia et al. (2014) is the first to bring the mixed gamble analogy into the family firm context.

Such SEW's overarching priority translates into a number of family-centred goals that are distinctive to family firms, such as providing employment opportunities to family members, preserving the family's reputation and maintaining harmony and cohesion among family members (Cruz et al., 2010; Deephouse and Jaskiewicz, 2013). However, most important for the owning family is to retain corporate control and to

transmit it to future generations (Arregle et al., 2007; Chirico and Kellermanns, 2022; Gomez-Mejia et al., 2018; Gomez-Mejía et al., 2007; Zellweger et al., 2012). Family firms are also interested in accumulating prospective economic wealth, but such endeavours often involve a trade-off with the preservation of current SEW (Chrisman et al., 2010, 2012; Combs et al., 2010; Gomez-Mejia et al., 2014; Leitterstorf and Rau, 2014) because family-centred goals are not necessarily the most economically savvy. That is, financial and socioemotional utilities are not fully fungible, and a change in one utility can lead to an opposite change in the other utility (Chirico and Kellermanns, 2022; Gomez-Mejia et al., 2018). From this perspective, family owners thus weigh the potential gains and losses of their decisions on current SEW and prospective financial wealth. Importantly, the preservation of SEW makes the owning family more interested in the long-term survival of the company than in chasing every opportunity to maximize economic wealth. As such, the owning family may be willing to forgo future positive net present value opportunities if these opportunities threaten its current SEW or put the stability and survival of the company at risk. However, the owning family may also focus more on prospective financial wealth in specific situations (see, e.g., Chirico et al., 2020b; Gomez-Mejia et al., 2018; Gómez-Mejia et al., 2022; Kotlar et al., 2018).

Acquisition Relatedness in Family Firms

Acquisitions are examples of potential value-creating strategic opportunities that family firms are willing to forgo due to potential current SEW costs and uncertain future financial gains (Gomez-Mejia et al., 2018). Indeed, although acquisitions entail a certain risk that prospective financial gains will be lower than expected for any acquiring firm, for family firms, they also entail the risk of incurring current SEW losses. Consistently, several empirical works have found evidence that family firms undertake fewer acquisitions than nonfamily firms (Caprio et al., 2011; Chirico et al., 2020a; Gomez-Mejia et al., 2018; Miller et al., 2010). Importantly, the extant theories and empirical research have yielded mixed theoretical arguments and results regarding the effect of family control on family firms' propensity to acquire related or unrelated targets (see, e.g., Gomez-Mejia et al., 2010, 2018; Hussinger and Issah, 2019; Miller et al., 2010; Schierstedt et al., 2020).

Although unrelated acquisitions can reduce business risk through diversification (Miller et al., 2010), their performance consequences are uncertain and unpredictable (Haleblian et al., 2009; Hoskisson et al., 2017; King et al., 2004), so most scholars argue that in family firms, potential current SEW losses are especially high in the case of unrelated acquisitions due to the higher risks of losing corporate control, eroding relationships with other family members and weakening the meaningfulness of the family's emotional projection on the firm's image (Gomez-Mejia et al., 2018; Hoskisson et al., 2017; King et al., 2022). Acquisitions of unrelated targets, in fact, expand the firm's portfolio to new products, technologies and markets, which may create a competence gap and may reduce the value of established routines and knowledge. Hiring external managers and advisors with the necessary additional required expertise may reduce the family's control over the company and create tensions

among family members. Similarly, hiring new employees with different technical capabilities may erode the social ties with long-time trusted employees. In addition, the production of heterogeneous products that adopt different technologies may require expanding the network of suppliers and clients, which may erode the family's relationships with the previous network of suppliers and clients. Finally, the extension of the product portfolio may also dilute the consistency of the firm image, which may reduce the significance of the firm-family identity relationship. Accordingly, Gomez-Mejia et al. (2018) theorized and found that family firms are more likely to acquire related targets, especially if they have an abundance of slack resources and perform well. That is, family firms are willing to bear the business risk of not diversifying their portfolio given that diversification can dilute their family's SEW. Similarly, Hussinger and Issah (2019) argued and found that family firms are more likely to acquire related targets, particularly if they are performing above their aspirations. Additionally, Defrancq et al. (2016) found that family firms are less likely to undertake diversifying acquisitions, but this relationship weakens with increasing family control.

However, from an agency perspective other scholars have argued that unrelated targets are desirable for family firms based on a portfolio-diversification logic (see e.g., Miller et al., 2010). In fact, the owning family's priority to preserve and transmit control implies that corporate ownership must remain concentrated in the hands of family members so that most of the family's wealth is invested in the firm and cannot be diversified in other financial holdings. As a result, the family's wealth remains exposed to negative economic and financial cycles, which put the wealth endowment at risk of being transmitted to later generations. By creating new potential future revenue streams, the acquisitions of unrelated targets would allow owning families to protect their wealth from downturns in particular business segments (Miller et al., 2010). As discussed earlier, this strategy can reduce business risk and, if successful, may result in a premium for unrelated diversification (Campa and Kedia, 2002; Graham et al., 2002; Villalonga, 2004). Miller et al. (2010) theorized and found a positive relationship between family control and unrelated acquisitions. Similarly, Schierstedt et al. (2020) found that family control leads to a higher probability of acquiring unrelated targets, but this effect is weakened if family members are appointed as managers.

Surprisingly, the extant research has mainly focused on internal contingency factors (e.g., firm performance, slack resources) to explain the relationship between family control and acquisition relatedness (Gomez-Mejia et al., 2018; Miller et al., 2010; Palmer and Barber, 2001). Following King et al.'s (2022) insight that family control and internal firm-level factors per se may be insufficient to explain this relationship without considering the external context, next we build on the mixed gamble logic of SEW to theorize that the uncertainty of the environment in which family firms operate and the institutional context of the target affect family firms' preference for related or unrelated acquisitions.

HYPOTHESES DEVELOPMENT

As discussed earlier, family firms make acquisition decisions based on both their financial and socioemotional risks. Conversely, nonfamily firms mainly evaluate expected financial

outcomes. Of course, this does not mean that nonfamily firms do not give attention to nonfinancial goals; however, for family firms, such goals are much stronger (Chirico et al., 2020a; Zellweger et al., 2012). As a result, we posit that the overall riskiness of an acquisition is ceteris paribus higher for family firms because potential SEW losses add to the financial risk of uncertain financial returns. Additionally, potential SEW losses are higher for unrelated acquisitions. *SEW risk* is the risk that potential current SEW losses from acquisitions will realize; conversely, *financial risk* is the risk that expected prospective financial gains/returns from acquisitions will not realize (Hoskisson et al., 2017). The riskiness of any given acquisition thus depends on its economic risk for nonfamily firms and on both its economic risk and its SEW risk for family firms (Gomez-Mejia et al., 2014, 2018). Both family and nonfamily firms may decide to undertake a related or an unrelated acquisition if its riskiness does not exceed a certain acceptance threshold. However, this threshold is likely to be higher for family firms due to SEW reasons in addition to financial concerns (DeTienne and Chirico, 2013; Symeonidou et al., 2022). In the following sections, we present hypotheses that link family firms' likelihood of acquiring either related or unrelated targets to external factors that affect acquisitions' financial riskiness.

Family Control, Environmental Uncertainty and Acquisition Relatedness

Uncertain environments produce opportunities and threats; they create new business opportunities for firms but simultaneously pose serious challenges to their survival and growth (Baum and Wally, 2003; Bettis and Hitt, 1995; Keats and Hitt, 1988). Indeed, uncertain markets and their related industries are characterized by changes in technologies, variations in customer preferences, and fluctuations in product demand that can make current products obsolete (Jansen et al., 2006). Thus, in highly uncertain environments, firms must respond rapidly and effectively to competitors' actions, customers' needs and other major changes in competitive markets, often with important restructuring activities (King et al., 2022). As such, environmental uncertainty heightens the need for engaging prudently in acquisition strategies given that the possible performance shortfalls from acquisitions, and in particular from unrelated acquisitions (Wright et al., 2002), tend to be higher when the environment is uncertain (Girod and Whittington, 2017; Haleblian et al., 2009; Hoskisson et al., 2017). Even though a portfolio diversification strategy may reduce business risk (Miller et al., 2010), unrelated acquisitions imply, in fact, a higher risk that prospective financial gains will not be realized due to the lower potential to achieve synergies with the targets. This effect is likely to be stronger under uncertain environments (Ahuja and Katila, 2001; Chatterjee and Lubatkin, 1990; Kim and Finkelstein, 2009).

To protect their nonfinancial wealth, we contend that the degree of uncertainty in the external environment affects family firms' decision to engage in related or unrelated acquisitions. That is, as the acquirer's environmental uncertainty increases, the extent to which a family firm acquires a related target increases more than that of a nonfamily firm. This occurs because such strategic choice under uncertainty, in addition to reducing the financial risk that prospective economic gains from an acquisition will not realize, enables family firms

to limit their exposure to the risk that current SEW losses will realize (Hoskisson et al., 2017). The potential loss in current SEW looms larger than the overall uncertain future financial gains from an unrelated acquisition, which leads family firms to a higher preference for related targets when the business operates in uncertain environments. Using the terminology of the mixed gamble logic (Gomez-Mejia et al., 2014; Gómez-Mejía et al., 2022; Martin et al., 2013), given the anticipated loss of current SEW derived from unrelated acquisitions in uncertain environments, family firms are more likely than nonfamily firms to sacrifice potential, yet uncertain and risky prospective financial wealth and thus focus on acquisition relatedness. As such, we predict that environment uncertainty positively moderates the relationship between family control and the acquisition of a related target. In formal terms:

Hypothesis 1: Environmental uncertainty positively moderates the relationship between family control and the acquisition of a related target in such a way that as environmental uncertainty increases, the extent to which a family firm acquires a related target increases more than that at which a nonfamily firm acquires a related target.

We have argued that family firms limit their exposure to current SEW risk by engaging in more related acquisitions than nonfamily firms when the environment of the acquirer is highly uncertain. Next, we contend that family firms also balance current SEW and prospective financial risks through a risk-balanced acquisition strategy. That is, family firms undertake more unrelated acquisitions when the environment of the acquirer is uncertain (which implies a higher current SEW risk), yet the target operates in a similar and more developed institutional context (which implies a lower prospective financial risk).

The Moderating Role of the Institutional Context

The institutional context comprises the key elements that foster economic transactions, such as the enforcement of contracts, protection of property rights, degree of judicial independence from political pressures, containment of crime and corruption, stability of the national government, and extent of the private sector's development (Kaufmann et al., 2007). As a result, when institutions set rules of the game that are developed and stable, the legal system efficiently and transparently protects property and individual rights, the free market is supported, corruption is minimal, and bureaucracy is efficient (Brewer, 1993; Delios and Henisz, 2000; Globerman and Shapiro, 2003). Conversely, when institutions are poorly designed, inefficiently functioning or manipulated, the outcomes of economic transactions are more uncertain (Kaufmann et al., 2009), property rights and legitimate returns are scarcely protected, and self-serving opportunism becomes more economically rational than benevolent behaviour (Castaldo et al., 2010; Luo, 2007; Roy, 2012; Sirdeshmukh et al., 2002).

Such undesirable effects of a poorly developed institutional context on the outcomes of economic transactions also apply to acquisitions (Pinelli et al., 2022), so that the risk that financial gains from these transactions may not be realized is higher when a firm acquires a target in a country whose institutions are less developed than those of the home country. In fact, information asymmetries between foreign and local firms are magnified when host institutions are weaker (Meyer, 2001), so the ability of foreign firms to obtain and interpret relevant and accurate information is further limited (Delios and

Henisz, 2003; Luo, 2007). This is particularly relevant for acquisitions because acquirers need to accurately assess and identify trustworthy targets (Roy, 2012). Furthermore, a weaker institutional context in a host country exposes foreign firms to discrimination and appropriation costs (Zhou and Guillen, 2016). Governments may be biased in favour of local companies and issue regulations against foreign firms (Meschi, 2009), particularly in the case of acquisitions of strategic assets such as valuable natural resources (e.g., minerals, oil, or gas) or newly developed technologies (García-Canal and Guillén, 2008; Henisz et al., 2014). Consistently, countries with a stronger institutional context have been found to attract larger amounts of foreign direct investment (e.g., Choi et al., 2016; Globerman and Shapiro, 2003) because acquisition outcomes are less uncertain. Building on these insights, we argue that targets in countries with stronger institutions imply a lower financial risk of potential prospective financial losses for acquiring firms, which should compensate, at least partially, for the financial risk that derives from the acquirer's environmental uncertainty.

Yet, although strong institutions certainly foster business and economic transactions, a large part of the risk that intended financial gains will not be realized also originates from a poor knowledge of the host institutional environment. In fact, although firms have knowledge of potential economic and legal issues in their familiar institutional context, dissimilar institutions create information asymmetries that reduce the awareness about both the existence of such problems and the legal tools to solve them (Perkins et al., 2014). In such unfamiliar contexts, firms sustain extra costs due to poor knowledge about local conditions (Hymer, 1960; Zaheer, 1995; Zhou and Guillen, 2016). As such, we also argue that in similar institutional contexts, acquisitions are likely to imply a lower financial risk that prospective financial gains will not be realized, which would compensate for the financial risk created by the acquirer's environmental uncertainty.

Bridging these insights and in line with the mixed gamble logic that family firms can afford taking on an additional current SEW risk from acquisitions of unrelated targets when prospective financial risks are lower, we propose that the target's institutional context affects the extent to which family firms choose related or unrelated acquisitions under uncertain environments. In fact, to bear the increased current SEW risk derived from engaging in unrelated acquisitions in uncertain environments, family firms require the prospective financial risk to be lower to diversify their business portfolio and potentially maximize prospective financial gains (Gomez-Mejia et al., 2014; Miller et al., 2010; Morck et al., 2005; Shleifer and Vishny, 1986). Before, we contended that prospective financial risks are lower if acquirers and targets operate in similar institutional contexts and if the host institutions are more developed than those of the acquirer's home country. In Hypothesis 1, we also contended that when the acquirer's environment is uncertain, family firms tend to limit their exposure to current SEW risk by focusing on related acquisitions. By combining these arguments, we predict that under environmental uncertainty, family firms are more likely to bear the potential current SEW risk of undertaking unrelated acquisitions when targets operate in countries with similar and more developed institutions because they imply a lower financial risk and, thus, potentially higher prospective financial gains. This allows family firms to afford bearing some additional current SEW risk from the unrelated acquisitions under uncertain environments while balancing such SEW risk with

the possibility that the unrelated acquisition will reduce the portfolio/business risk and maximize future financial wealth. Conversely, when targets operate in different and less developed institutional contexts, where prospective financial risks are higher, family firms will be more likely to acquire related targets under uncertain environments to limit further current SEW losses. In formal terms, we predict:

Hypothesis 2: The positive moderating effect of environmental uncertainty on the relationship between family control and the acquisition of a related target will be weaker (stronger) when the target operates in (a) a similar (dissimilar) and (b) more (less) developed institutional context.

METHODS

Data and Sample

Our cross-country dataset consists of 1014 international acquisitions undertaken by listed family and nonfamily firms that were announced between 1 January, 2011 and 31 December, 2016. To assemble this dataset, we collected information about family control from the NRG Metrics database. We then searched the Thomson Reuters Eikon database for acquisitions undertaken by these firms, which resulted in 1061 cross-border acquisitions. Due to some missing information about firm-level variables for some acquisition years (i.e., working capital, long-term debt, retained earnings and net income), we retained a final sample of 1014 acquisitions undertaken by 626 firms.[1]

Dependent, Independent and Moderator Variables

We measured the *relatedness* in acquisitions between the acquirer and the target through Thomson Reuters' 10-digit industry activity code. Following previous studies (Gomez-Mejia et al., 2018; Wang and Zajac, 2007), we assigned a score of 1 if the Thomson Reuters' activity codes of the acquiring firm and target firm coincided; we assigned a score of 0.8 if they coincided only for the first 8 digits, and so forth. The minimum value of this measure is zero, which indicates that the acquirer and the target operate in completely different economic sectors. Thus, higher values of this measure indicate increasing industry relatedness.

Family control. To distinguish between family and nonfamily controlled firms, we considered family-controlled firms as those where a family owns at least 5 per cent of the shares and at least one family member serves as a top-level executive or is a member of the board of directors (see, e.g., Chrisman and Patel, 2012; Gomez-Mejia et al., 2018; Patel and Chrisman, 2014). When the family ownership and management criteria were met, family control was measured in terms of the percentage of family ownership. Firms without these criteria were categorized as nonfamily firms (coded as 0), which resulted in a left-censored variable (e.g., Chrisman and Patel, 2012; Patel and Chrisman, 2014). However, as a robustness test of our results, we also ran the analyses with a family firm dummy variable and different family ownership cut-offs.

To proxy for the degree of acquirers' *environmental uncertainty*, we followed the conventional approach of assessing industry-level uncertainty through a measure of the variation of sales in industry revenues. Following previous studies (see, e.g., Luger et al., 2018; Simerly and Li, 2000), we thus computed environmental uncertainty through a standardized measure of the volatility of sales for each industry over the last five years prior to the acquisition. Additionally, in line with many studies (see e.g., Berry et al., 2010; Xu and Shenkar, 2002; Zhou and Guillen, 2016), we captured *institutional (dis)similarity and development* by calculating the cross-national distances in terms of degrees of institutional development of the acquiring firms' and target firms' countries. To build these measures, we ran a principal component analysis of each country's World Bank Governance Indicators (Kaufmann et al., 2009; Pinelli et al., 2022), which provide information on various dimensions of a country's institutional context (i.e., voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption). Thus, we first built a measure of *institutional (dis)similarity*, which is a continuous variable computed as the absolute value of the difference between the World Bank Governance Indicators of the acquirer's and the target's countries. This measure takes only positive values, and higher (lower) values indicate a larger dissimilarity (similarity) in the institutional contexts of the acquirer's and target's countries. Second, we built a measure of *institutional development*, which is a continuous variable computed as the difference between the World Bank Governance Indicators of the acquirer's and the target's countries. This measure can take either positive or negative values, where positive (negative) values indicate that the acquirer's country has more (less) developed formal institutions than the target's country. These two measures of the institutional context differ in that the former considers the absolute distance between institutions; i.e., it does not take into account whether the target's country has stronger or weaker institutions than the acquirer's country, but only the extent to which it has a different degree of development.

Control Variables

We added multiple controls that may have an influence on our dependent variable. First, since learning effects may affect acquisition behaviour (Gomez-Mejia et al., 2018; Haleblian et al., 2009), we controlled for the *acquirer's age* (the number of years since foundation at the time of the acquisition) and *acquisition experience* (the number of previous acquisitions in the 5 years before the acquisition). Additionally, since firm size may influence diversification (Bettis, 1981) and risk propensity (Baysinger and Hoskisson, 1989), we controlled for the *acquirer's size* (natural log of total assets) and *capital intensity* (Iyer and Miller, 2008). Second, since an abundance of resources may incentivize firms to engage in acquisitions and diversify (Gomez-Mejia et al., 2018), we controlled for the *acquirer's slack resources* (the ratio of cash and short-term investments to total assets), *leverage* (the ratio of long-term debt to total assets) and *profitability (ROA)*. In addition, since recent variations in performance may affect the extent to which family firms prioritize SEW-driven objectives (Gomez-Mejia et al., 2018), we also controlled for *profitability changes* (the difference between the ROA in the year before the

acquisition and the previous year) and *environmental munificence* (the compound average growth rate of industry revenues over the last 5 years before the acquisition; Boyd and Vozikis, 1994). Fourth, at the country level, we controlled for the degree of economic prosperity of the target's country (the *natural log of the GDP* per capita), for *cultural distance* (the Euclidian distance of Hofstede's cultural dimensions; Bae and Salomon, 2010), and for other country-specific factors through *country dummies*. Similarly, we also added *industry-* and *year-dummies* to control for industry- and time-specific factors.

RESULTS

The descriptive statistics and Pearson correlation coefficients for the study's variables are presented in Table I. To test our hypotheses, we used an OLS regression with heteroskedasticity-robust and clustered (at the acquirer's level) standard errors. For each model, we also checked the absence of potential multicollinearity issues through VIF. Table II reports our results. In the table, we report successive models for the control variables (Model 1), our independent variables (family control, environmental uncertainty, institutional dissimilarity, and institutional development; Model 2), and the two-way interaction between family control and environmental uncertainty to test Hypothesis 1 (Model 3). In Models 4 and 5, we add all the other two-way interactions and the three-way interactions with *institutional dissimilarity*, to test Hypothesis 2a. Similarly, in Models 6 and 7, we add all the other two-way interactions and the three-way interaction with *institutional development*, to test Hypothesis 2b. Interestingly, Model 2 shows that the direct effect of family control on acquisitions' relatedness is not statistically significant. This result is consistent with King et al.'s (2022) remark that family control per se may be insufficient to explain the relatedness of acquisitions undertaken by family firms.

First, in relation to Hypothesis 1, the interaction term between family control and environmental uncertainty is positive and significant (Table II, Model 3). Moreover, the results offered in Models 4 and 6 corroborate this result. These models include the two-way interactions needed before testing the three-way interaction hypothesis. Even with these other interaction terms, Hypothesis 1 is confirmed. To interpret this result, we plotted the two-way interaction in Figure 1. In support of Hypothesis 1, the figure shows that as environmental uncertainty increases, the extent to which a family firm acquires a related target increases more than that of a nonfamily firm. Second, to test Hypothesis 2a and 2b, we employed 2 three-way interactions (Dawson and Richter, 2006). The first interaction term involves family control, environmental uncertainty and institutional dissimilarity. The second interaction term involves family control, environmental uncertainty and institutional development. The three-way interaction effect with institutional similarity is significant (Model 5); yet the three-way interaction effect with institutional development is not significant (Model 7). Thus, Hypothesis 2a is confirmed, while Hypothesis 2b is not confirmed. We also plotted the significant three-way interaction effect in Figure 2, which confirms that as environmental uncertainty increases, family firms are more likely to acquire unrelated targets when they operate in similar institutional contexts.

Table I. Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Relatedness	0.45	0.4	1														
2 Family control	0.06	0.15	0.05	1													
3 Environmental uncertainty	3.55	1.03	0.07	0.04	1												
4 Institutional dissimilarity	1.14	1.17	0.05	0.04	0.02	1											
5 Institutional development	0.26	1.61	−0.01	−0.06	−0.14	0.31	1										
6 firm age	71.06	50.47	−0.09	−0.08	−0.12	−0.02	0.11	1									
7 Acquisition experience	5.21	6.45	−0.07	−0.09	0.05	0.05	−0.06	0.13	1								
8 Firm size	15.63	2.12	−0.14	−0.17	−0.1	0.14	−0.02	0.22	0.28	1							
9 Capital intensity	0.19	0.13	−0.03	−0.08	−0.22	0.04	0.07	0	−0.03	0.26	1						
10 Slack	0.31	1.03	0.01	0.01	0.09	−0.04	−0.01	−0.09	−0.05	−0.2	−0.2	1					
11 Leverage	0.39	0.2	0.03	−0.04	−0.16	0.07	−0.01	−0.02	−0.03	0.14	0.8	−0.24	1				
12 ROA	4.87	7.56	0.04	0.04	0.07	0.03	−0.03	0.06	0.12	0.08	−0.13	−0.16	−0.08	1			
13 ROA change	0.22	7.79	−0.04	0.01	−0.02	−0.03	0.02	0.06	−0.01	−0.05	−0.07	0.17	−0.1	0.4	1		
14 Environmental munificence	0.07	0.03	0.12	0.05	0.31	0.11	0.04	−0.13	−0.01	0.01	0.01	0.08	−0.01	0.03	−0.02	1	
15 GDP	10.55	0.67	−0.03	−0.01	0.06	−0.63	−0.65	−0.02	0.01	0.01	−0.08	0.02	−0.06	0.05	0.01	−0.14	1
16 Cultural distance	11.37	5.89	−0.09	−0.05	−0.01	0.28	0.08	0.08	0.04	0.21	0.04	−0.03	0.08	−0.03	−0.04	−0.01	−0.22

Note: All values equal/greater than |0.07| are significant at 0.05.

Table II. Results of the regressions

Variables	Model 1	Model 2	Model 3 Hypothesis 1	Model 4	Model 5 Hypothesis 2a	Model 6	Model 7 Hypothesis 2b
Firm age	−0.00*	−0.00+	−0.00+	−0.00+	−0.00*	−0.00*	−0.00*
Acquisition experience	−0.00	−0.00	−0.00	−0.00	−0.00	−0.00	−0.00
Firm size	0.00	0.01	0.01	0.01	0.01	0.01	0.01
Capital intensity	−0.09	−0.01	−0.02	−0.02	−0.03	−0.02	−0.02
Slack	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Leverage	0.09	0.07	0.07	0.07	0.08	0.07	0.07
ROA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ROA change	−0.00+	−0.00	−0.00	−0.00	−0.00	−0.00	−0.00
Environmental munificence	1.24*	0.95+	0.94+	0.95+	0.95+	0.96+	0.97+
GDP	−0.02	−0.04	−0.04	−0.04	−0.04	−0.04	−0.04
Cultural distance	0.00	−0.00	−0.00	−0.00	−0.00	−0.00	−0.00
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Family control		0.04	−0.44+	−0.43	0.27	−0.40	−0.41
Environmental uncertainty (Env uncert)		0.05**	0.04*	0.05*	0.06*	0.04*	0.04*
Institutional dissimilarity (Inst dissim)		0.00	0.00	0.03	0.05	0.00	−0.00
Institutional development (Inst develop)		−0.01	−0.01	−0.01	−0.01	0.00	0.01
Family control × Env uncert			0.13*	0.14*	−0.06	0.12+	0.12+
Family control × Inst dissim				−0.03	−0.46*		

(Continues)

Table II. (Continued)

Variables	Model 1	Model 2	Model 3 Hypothesis 1	Model 4	Model 5 Hypothesis 2a	Model 6	Model 7 Hypothesis 2b
Env uncert × Inst dissim				−0.01	−0.01		
Family control × Env uncert × Inst dissi.					0.12*		
Family control × Inst develop						−0.04	−0.09
Env uncert × Inst develop						−0.00	−0.00
Family control × Env uncert × Inst develop							0.01
Endogeneity score	−0.03	−0.04	−0.05	−0.05	−0.06	−0.05	−0.05
Mills ratio	0.07*	0.08*	0.09*	0.09*	0.09**	0.09*	0.09*
R-squared	0.14	0.15	0.15	0.15	0.15	0.15	0.15
Adjusted R^2	0.11	0.11	0.12	0.12	0.12	0.12	0.12
Prob > F	0.00	0.00	0.00	0.00	0.00	0.00	0.00
F statistic	7.50	6.95	7.02	6.65	7.18	6.79	6.61

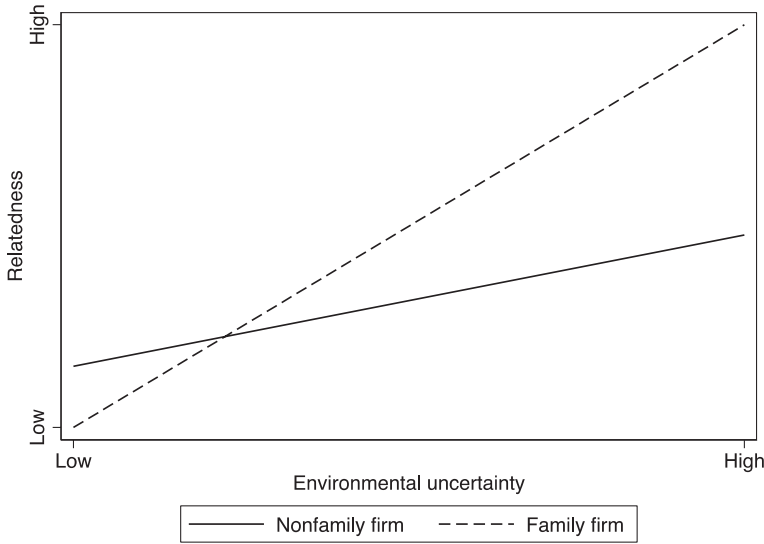[+]p < 0.1; *p < 0.05; **p < 0.01; ***p < 0.001.

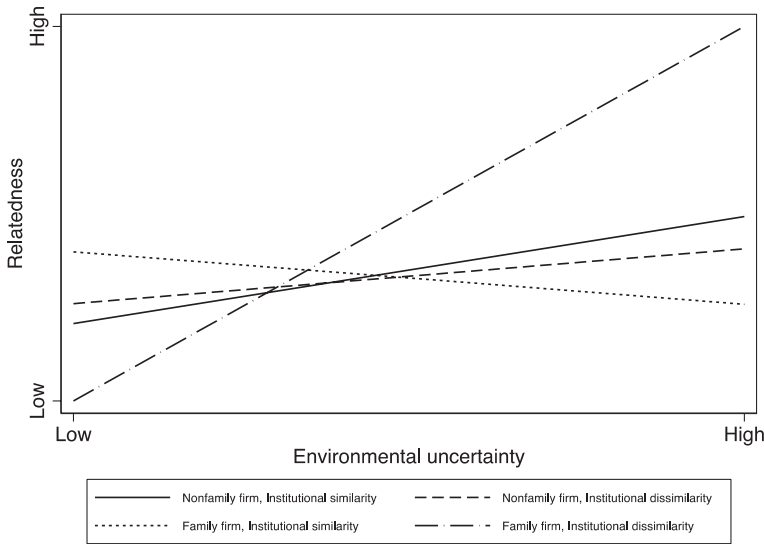Figure 1. Two-way interaction for Hypothesis 1

Figure 2. Three-way interaction for Hypothesis 2a

Endogeneity, Selection Bias and Robustness Tests

Industry relatedness can be endogenous to family firms' unique features. That is, the factors that might influence industry relatedness could also influence the preference for maintaining a family business. To control for endogeneity, we employed a two-stage residual inclusion (2SRI) model (see Patel et al., 2018; Terza et al., 2008). The 2SRI estimator is similar to a linear two-stage least squares estimator; the exception is that

in the second-stage regression, the endogenous variables are not replaced by first-stage predictors. In addition, first-stage residuals are included as added regressors. The literature suggests that family firms may be more inclined to keep control over their firm if it is managed by a family CEO and when the family's name is included in the firm's name (Deephouse and Jaskiewicz, 2013; Gomez-Mejia et al., 2011). We rely on these two instrumental variables to correct for endogeneity. Theoretically, both instruments are unlikely to influence industry relatedness, but they can affect the essence of a family firm (Gomez-Mejia et al., 2011). This contention is supported in our data. In the first stage, we regressed the two instruments on the family firm variable. In the second stage, we included these variables' residuals as predictors of our dependent variable (Terza et al., 2008) together with our independent variables. Thus, we controlled for the endogeneity score in all analyses (Table II).

Additionally, we corrected for sample selection bias due to the exclusion of firms that did not engage in acquisition activities. Based on a Heckman (1979) two-step procedure, we used the inverse Mills ratio based on the results of a first-stage probit model (1 = acquisition; 0 = no acquisition). By entering this ratio into the second-stage regression model, we can reduce biases in the regression coefficients by accounting for sample selection. We identified the variable 'distance from bankruptcy (Altman's Z score)' (Kennedy, 2003). Firms with a lower distance from bankruptcy are likely to be more poorly managed in terms of meeting their short-term obligations, which renders strategic initiatives such as acquisitions less likely. The distance from bankruptcy reflects the effects of underlying unobservables on a firm's strategic position, and the drivers of a lower distance from bankruptcy could explain why some firms engage in acquisitions while others do not. The resulting inverse Mills ratio is included in the analyses (Table II).

Finally, as a robustness test of our results, we first relied on a family firm dummy variable (which equals 1 if the family owns at least 5 per cent of the company and at least 1 executive or board member is a family member and is 0 otherwise), which confirmed our main results. Under environmental uncertainty and institutional similarity, family firms are more likely to engage in unrelated acquisitions. Second, to check the robustness of the operationalization of family firms in this study, we also applied 10 per cent, 20 per cent, 30 per cent and 40 per cent as family ownership cut-offs, and all results were in line with our main analyses (yet, Hypothesis 2a was marginally significant at p = 0.083 with the 40 per cent family ownership cut-off). Relatedly, we also relied on the family ownership continuous and dummy measures without considering the family management component and results were again confirmed. Third, we reran our models by using an alternative measure of environmental uncertainty, namely, environmental density – the log of the number of firms in each industry (Bradley et al., 2011). Hypothesis 1 was confirmed, while Hypothesis 2a was in the expected direction but not significant. Finally, we used a dummy variable of acquisition relatedness (which equals 0 if the acquirer and the target operate in completely different economic sectors and equals 1 otherwise). Interestingly, with the dummy variable of acquisition relatedness, Hypothesis 2b was confirmed (although the effect was only marginally significant at p = 0.063).

DISCUSSION

It is a common assumption in family business research that family firms are willing to forgo positive net present value opportunities to preserve their SEW. The prioritization of SEW over economic wealth is considered a key reason why family firms are reluctant to engage in acquisitions. In this study, we develop a theory of family firms' acquisition relatedness and unrelatedness, which contributes to the literature in multiple ways. First, our work contributes to the mixed gamble logic of the behavioural agency model and SEW, which has been largely internally focused, for instance, in terms of variations in firm performance (e.g., Gomez-Mejia et al., 2010, 2018; Gómez-Mejia et al., 2022). In line with research calls to include external forces in the behavioural theory framework (Greve and Teh, 2018; Wright et al., 2014), our work focuses on two key external boundary conditions to the behavioural agency model in relation to family firms' acquisition strategies, that is, the roles of the acquirer's environmental uncertainty and the target and acquirer's institutional context. As such, our study *extends* the mixed gamble logic from an internally focused to an external perspective while offering important theoretical insights into linking family firms' acquisition behaviours to external forces. That is, we theorize that family firms' acquisition behaviour differs from that of nonfamily firms depending on the external context: when the acquirer's environmental uncertainty is high, family firms contain the overall acquisition riskiness by avoiding current SEW risks from unrelated acquisitions (Hypothesis 1). Thus, our theoretical arguments and related results *alter* the basic family firms' mixed gamble logic predicting that although family firms are averse to nonfinancial losses and thus prioritize current SEW over prospective financial wealth under normal conditions (status quo), they consistently prioritize prospective financial wealth and paradoxically focus less on current SEW when under duress or threats (see Gomez-Mejia et al., 2011, 2018; Hoskisson et al., 2017). Our work theorizes and shows (see Figure 1) instead that as environmental uncertainty increases, the extent to which a family firm acquires a related target increases (rather than decreases) more than that of a nonfamily firm to protect current SEW against potential future financial wealth.

Conversely, we theorize that when the prospective financial risk is lower given that the target operates in a similar (Hypothesis 2a) or more developed (Hypothesis 2b) institutional context, family firms are willing to accept additional current SEW risk from unrelated targets in uncertain environments to increase the diversification of their investment in the firm and to maximize future financial wealth. However, our Hypothesis 2b was not confirmed in our main analysis, but it was marginally supported when using the dummy variable of industry relatedness as the dependent variable. Overall, our results suggest that although the difference in the development of the institutional context of the acquirer and the target matters, it is more challenging to gauge if such difference affects family firms' acquisition relatedness proxied through a more fine-grained measure rather than a dummy measure of diversification. Hypothesis 2b leads to an interesting 'nonresult' or 'mixed result' (Bettis et al., 2014; De Massis et al., 2016), suggesting that the examined relationship is more complex than hypothesized and multiple proxies of acquisition unrelatedness and

diversification should be used in future studies. In this regard, a qualitative approach might be useful to reveal the complexity behind the mechanisms underlying how environmental uncertainty and institutional influences concur to shape the diversification behaviour of family firms.

In relation to Hypothesis 2a, Figure 2 shows instead that family firm acquirers that operate in uncertain environments are more likely to engage in unrelated acquisitions when targets are in countries that are more institutionally similar. Rather, when the home and host countries' institutions differ more, family firms are more likely to choose the 'safer' option of a related acquisition. In the case of nonfamily firms, instead, higher environmental uncertainty leads to higher related acquisitions (in cases of both institutional similarity or dissimilarity), possibly because they are less risky and more likely to lead to higher post-acquisition outcomes (Grubb and Lamb, 2000; Weber and Camerer, 2003; Wright et al., 2002). Additionally, this tendency is stronger when the home and host institutions are similar, whose effect may be again due to the potentially higher financial returns. Thus, as a function of the external environment and institutional context, family firms tend to judiciously balance current SEW and prospective financial risks in their (un) related acquisition decisions. From a theoretical perspective, our study theorizes and provides evidence on how the environment and institutional disturbance can have a major impact on this mixed gamble by extending its logic, which offers an important theoretical advancement to existing theory.

Second, our focus on the external environment and the institutional context helps reconcile inconsistent theoretical and empirical findings on family firms' preference for unrelated (Miller et al., 2010; Schierstedt et al., 2020) versus related (Defrancq et al., 2016; Gomez-Mejia et al., 2018) targets, which missed the opportunity to explore the effect of the external environment on family firms' acquisition relatedness. Our contingency framework that predicts an either positive or negative effect of family control on acquisition relatedness based on external factors sheds light on prior studies that looked *solely* at internal factors to find contrasting results on this important relationship. For example, Miller et al. (2010) theorized that risky unrelated acquisitions can help family firms diversify their portfolio and thus reduce business risk. Whereas Gomez-Mejia et al. (2018) contended that unrelated acquisitions risk eroding the family's nonfinancial wealth and thus family firms prefer to bear the related business risk of not diversifying their portfolio. By focusing on external forces, we go beyond Miller et al. (2010) and Gomez-Mejia et al. (2018)'s studies, as well as the recent work from Gómez-Mejia et al. (2022), whose findings show that 'family firms consistently take less risk' than nonfamily firms under both *internal* financial health and distress situations. Our theory and empirical findings suggest instead that family firms are neither *less* nor *more* risk taking than nonfamily firms but rather they are sensitive to a larger number of risk factors. When the prospective financial risk adds to the current SEW risk, the overall riskiness of an unrelated acquisition increases, and its attractiveness is reduced for family firms. However, when prospective financial risk is limited, family firms find an unrelated acquisition more attractive. That is, compared to nonfamily firms, family firms bear both current/prospective SEW and financial risks, whose importance varies depending on the external environment and institutional context in which the acquirer and target operate. As such, our study provides evidence that environmental and institutional factors offer a deeper understanding of the

mixed results from past research while connecting the apparently contrasting agency and SEW views advanced by scholars to explain family firm diversification (Gomez-Mejia et al., 2018; Miller et al., 2010).

Relatedly, in contrast to the observation that 'in the absence of performance hazards, family principals can afford the luxury of remaining undiversified' (Gomez-Mejia et al., 2018, p. 1371), our theory and related findings also show that while controlling for firm performance, the direct effect of family control on acquisition relatedness is nonsignificant. Rather, diversification, and in particular an unrelated acquisition, is a 'luxury' that family firms are willing to afford only through a risk-balanced acquisition strategy that is a function of the external context. Recently, in reviewing the literature on family firms' corporate restructuring, King et al. (2022) concluded that existing mixed results on family firms' acquisition behaviour indicate that family firms' propensity to undertake related or unrelated acquisitions is likely to depend on underinvestigated, externally related variables rather than solely on the fact that families are the controlling owners and managers. As such, our study advances existing theory by underscoring the enabling roles that environmental uncertainty and similar institutional contexts (Davidsson et al., 2020; Kimjeon and Davidsson, 2022) play in determining the extent of the relatedness of family firms' acquisitions. In this way, we advance existing research on the effect of the external environment on strategic decisions (Agarwal et al., 2017; Davidsson, 2020; King et al., 2022).

Third, we extend the literature on the influence of ownership types on strategic actions to encompass international acquisitions (David et al., 2010; Gomez-Mejia et al., 2018). Although most literature is biased toward the role of managers in strategic decision-making (for a review, see Hoskisson et al., 2017), the governance literature suggests that the strategic behaviour of corporations – even that of large and publicly traded ones – is in large part dictated by the preferences and priorities of their owners (Connelly et al., 2010; Kotlar et al., 2018; Matzler et al., 2015; Schulze and Zellweger, 2021). We show how, under environmental uncertainty, risk containment considerations bias the direction of family owners' unrelated (related) acquisitions toward countries with a similar (dissimilar) institutional context. Accordingly, our study is one of the few that examines the influence of formal institutions on family owners' acquisition decisions (Worek, 2017). Our theory also extends the arguments by Peng et al. (2018). In their work, these authors proposed that family firms have more latitude to retain corporate control and pursue their family-centred objectives in weak institutional contexts due to their greater ability to exploit institutional voids, for example, in financial and labour markets. Conversely, we argue that to engage in unrelated acquisitions under environmental uncertainty, family owners prefer more similar and more developed institutions that create an economic infrastructure where the outcomes of business transactions are less uncertain. In this way, our theory and results also complement international family business (e.g., Arregle et al., 2021; Debellis et al., 2021; Gomez-Mejia et al., 2010) and nonfamily business (e.g., Gomez-Mejia and Palich, 1997; Hitt et al., 2006; Palich and Gomez-Mejia, 1999) studies that focus on the cultural distance or differences between countries as predictors of international diversification and related outcomes, which have systematically led to contradictory arguments and findings. Our study instead provides evidence that the similarity in the degree of development in the acquirers' and targets'

countries has an important effect on acquisition relatedness. However, this effect varies highly (being positive or negative) between different types of owners, depending on the acquirer's environmental uncertainty (see Figure 2). Therefore, our work contributes to advancing our knowledge on how the ownership type, environmental uncertainty and institutional context influence corporate strategies and behaviour (Castañer et al., 2022). It is also worth mentioning that our theory and theoretical predictions are tested through a strong international database across multiple countries and continents that is much more developed and sophisticated than existing datasets used in prior family firm research on this topic (King et al., 2022). As such, our findings go beyond the limits of existing family business M&A studies that have mostly been focused on family firms from a single country (e.g., USA) or continent (e.g., Europe) (Chirico et al., 2020a; Gomez-Mejia et al., 2018; Granata and Chirico, 2010; Miller et al., 2010).

Finally, our work also has implications for policy makers, practitioners and market analysts who are interested in fostering resource redeployment through acquisition-favouring regulations or in assessing family firms as investment opportunities. Evaluations of firms' strategic orientation through the examination of their acquisition behaviour are highly influenced by the 'relatedness hypothesis', which generally states that performance outcomes monolithically grow with the relatedness of combined businesses (King et al., 2004; Sakhartov and Reuer, 2022). Our theory and results, however, show that the decision to acquire more or less diversified businesses is especially complex for family firms, and it involves a delicate trade-off between socioemotional and financial considerations and is influenced by market- and country-level factors. Therefore, the evaluation of their strategic orientation and of their risk/return profiles needs to account for such specificities that distinguish them from nonfamily firms. This caveat is especially relevant because of the economic prevalence of family firms worldwide and the importance of M&As for firm performance, growth and survival. Additionally, we advise family owners and managers to carefully evaluate and assess the characteristics of their external environment and the target's institutional context, as they can potentially impact their financial and SEW risk perceptions and, thus, their propensity to acquire related or unrelated targets.

Our study also has a number of limitations that may trace fruitful paths for further research. Although we control for various alternative explanations (including firm-, industry- and country-level factors), there are aspects of acquisitions that we do not examine and that reflect the different underlying motivations of family and nonfamily firms. For instance, family firms' desire to maintain ongoing control may lead them to prefer certain structures or deal characteristics. Additionally, family firms exhibit substantial heterogeneity, which can affect their acquisition decisions. Future studies could examine the heterogeneity of family firms in terms of, for instance, the generation in control, the generational involvement and presence of a family CEO, and the potential different effects of family owners' acquisition behaviours and post-performance outcomes. In particular, the succession event, either intra-family (Dawson et al., 2015; De Massis et al., 2008; Nordqvist et al., 2013) or external (Dawson et al., 2014; Wennberg et al., 2011; Wiklund et al., 2013), is likely to shape the related/unrelated international acquisition behaviour of family firms. As such, studies on the intersection between family firm acquisitions and succession, especially in an international context, represent an exciting path for future research in family firms.

Additionally, our study uses a sample of public firms from multiple countries. Because the generalizability of our results beyond the multiple countries investigated should not be inferred, it would be useful to replicate our findings in specific countries. Also, our study analyses the relationship between family business and acquisition by using archival proxies. An interesting avenue of research consists of developing a qualitative research project aimed at investigating the decision-making process within the board of directors (Ravasi and Zattoni, 2006) to better understand how various types of directors (e.g., family and nonfamily, executive and non-executive) may influence the final decision. Moreover, future research may explore – through interviews and questionnaire surveys – whether a 'community versus financial logic' affects whether family firms choose a related versus unrelated diversification approach (Christensen-Salem et al., 2021).

Future research may also explore how different types of owners and managers/directors (Ravasi and Zattoni, 2006) engage in related versus unrelated diversifications to serve both acquirers' and targets' local communities (in addition to their firms) across different environments (Christensen-Salem et al., 2021). Future scholars could also examine how external factors impact acquisitions in family firms that experience specific internal circumstances, such as financial distress. Such research could provide a better understanding of how resistance to change affects family firms' acquisition activities. For example, Poza et al. (1997) suggested that firms hire external consultants, whereas Chrisman et al. (2003) argued that firms should regularly evaluate the business to avoid path-dependent behaviours. Decommitment strategies can help family firms overcome psychological barriers; top management changes, infusions of external management expertise and actions to champion exit (Salvato et al., 2010) are some examples by which family businesses can make financially beneficial decisions. Furthermore, research could focus on assessing how successful unrelated acquisitions may prompt the subsequent pursuit of novel entrepreneurial opportunities across different environments and institutional contexts.

In sum, by focusing on externally related factors, our theory and related results expand our knowledge on family firms' acquisition (un)relatedness. We hope that this study serves as a foundation to stimulate further research on the intersection of external forces and related and unrelated acquisitions in family business.

ACKNOWLEDGMENTS

NOTE

[1] Regarding the geographic distribution of the acquirers, approximately 15 per cent of the firms in our sample have headquarters in the USA, 13 per cent in Japan, 13 per cent in France, 8.5 per cent in the UK, 8% in Germany, 5.5 per cent in Sweden, 5.5 per cent in Switzerland and 4 per cent in Canada. The remaining 28 per cent of the sample are spread across 25 countries in Europe, Oceania and Asia. Regarding the geographic distribution of the targets, approximately 22 per cent have headquarters in the USA, 10% in the UK, 8.5 per cent in Germany, 6.5 per cent in France, 6 per cent in Canada, 6 per cent in Italy, 5.5 per cent in the Netherlands, 5 per cent in Spain and 5

per cent in Switzerland, whereas the remaining 27 per cent of the targets in our sample are spread over 50 countries in Europe, Asia, Africa, and South America. Interestingly, we further examined the variable 'institutional context/quality', which is the result of a principal component analysis on the World Bank's Governance Indicators and the building block that we used to compute the institutional variables. This variable has a higher mean in the subsample of the most represented countries. This indicates that the institutional quality of the least represented target countries is on average lower than that of the countries in the other subsample, which implies that the most represented target countries are more developed and have stronger institutions. The lower institutional quality of the least represented target countries, relative to the most represented ones, is also reflected in the values that the other institutional variables take in the two subsamples (institutional dissimilarity and institutional development).

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