



Separation of Ownership from Control and Acquiring Firm Performance: The Case of Family Ownership in Canada

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First published: 19 May 2006

<https://doi.org/10.1111/j.1468-5957.2006.00613.x>

Citations: 170

Abstract

Abstract: This study investigates the relationship between ownership structure and acquiring firm performance. A large proportion of Canadian public companies have controlling shareholders (families) that often exercise control over voting rights while holding a small fraction of the cash flow rights. This is achieved through the concurrent use of dual class voting shares and stock pyramids. Many suggest that these ownership structures involve larger agency costs than those imposed by dispersed ownership structures and that they distort corporate decisions with respect to investment choices such as acquisitions. We find that average acquiring firm announcement period abnormal returns for our sample of 327 Canadian transactions are positive over the 1998–2002 period. Cash deals, acquisitions of unlisted targets and cross-border deals have a positive impact on value creation. Governance mechanisms (outside block-holders, unrelated directors and small board size) also have a positive influence on the acquiring firm performance. Further, the positive abnormal returns are greater for family firms. We do not find that separation of ownership and control has a negative impact on performance. These results suggest that, contrary to other jurisdictions offering poor minority shareholder protection or poor corporate governance, separation of control and ownership is not viewed as leading to value destroying mergers and acquisitions, i.e., market participants do not perceive families as using M&A to obtain private benefits at the expense of minority shareholders. We do find a non-monotonic relationship between ownership level and acquiring firm abnormal returns. Ownership of a majority of the cash flow rights has a negative impact on announcement returns. This is consistent with the view that large shareholders may undertake less risky projects as their wealth invested in the firm increases.

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