The corporate governance-diversification link: exploring the heterogeneity of family firms

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Abstract

Purpose – *Building on behavioral agency theory, the authors explore the role played by corporate governance characteristics as drivers of the diversification strategies of family firms. Specifically, this study aims to investigate the effects of board size and board gender diversity on the likelihood that family firms will execute a diversifying acquisition* vis-à-vis *a related acquisition. Furthermore, the authors investigate the contingency effects played by foreign directorship and the firm's listing status.*

Design/methodology/approach – *The hypotheses are tested on an original sample of 213 cross-border acquisitions executed by Italian family firms between 2008 and 2021.*

Findings – *The findings suggest that both large board sizes and greater gender diversity positively affect the diversification of family firms. While the presence of foreign directors magnifies the positive effect of board size, gender diversity discourages diversification in the case of listed firms.*

Originality/value – *The originality of this study is twofold. First, while prior literature has mostly focused on the family vs nonfamily dichotomy, this paper contributes to an emergent line of research investigating the heterogeneity among family firms' corporate strategy decisions. Second, by exploring the corporate governance-diversification link in the context of family business, the authors answer to recent calls that diversification by family firms deserves further investigation in light of its highly controversial nature in terms of socioemotional wealth implications and potential mismatch among multiple objectives.*

Keywords *Diversification, Family firms, Acquisitions, Board size, Board gender diversity, Foreign directors*

Paper type *Research paper*

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Introduction

Family ownership is associated with a particular approach to strategic decision-making that prioritizes the maintenance of family control (Anderson and Reeb, 2003; Worek *et al.*, 2018) and long-term investments relative to short-term opportunities (Gómez-Mejía *et al.*, 2007). At the same time, however, the entrepreneurial orientation of family firms leads to a low appetite for risk (Berrone *et al.*, 2012), as testified by the general reluctance to undertake risky investments such as internationalization (Alessandri *et al.*, 2018). At the corporate strategy level, the diversification decision is one of the riskiest and most important. In the specific context of family business, such a decision represents a fertile area of inquiry (García Soto and Álamo Vera, 2007; Gómez-Mejía *et al.*, 2010) that, despite receiving little empirical attention over the years with only a few notable exceptions (Anderson and Reeb, 2003), has recently seen a revived academic interest (Hafner, 2021). Indeed, diversification is controversial for family firms because it highlights the potential mismatch among their multiple objectives (Muñoz-Bullon *et al.*, 2018). Family firms may follow two opposite

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directions (...) when making diversification decisions: either opt for less diversification to preserve socioemotional wealth (SEW) or choose greater diversification to dilute concentrated business risk (Gómez-Mejía *et al.*, 2010).

Most of the literature has regarded the propensity to diversify in terms of differences between family vs nonfamily firms (Anderson and Reeb, 2003; Ducassy and Prevot, 2010). In contrast, a growing body of literature is emphasizing that family firms are actually a heterogeneous group in virtue of their unique and varied set of family goals, governance structures, and mechanisms (Berrone *et al.*, 2012; Chrisman *et al.*, 2012; Chua *et al.*, 2015). In line with this nascent stream of research, we build on recent studies investigating the heterogeneity of family firms in diversification decisions (Muñoz-Bullon *et al.*, 2018) and explore how diversification preferences may vary in the context of corporate international acquisitions. In response to several prominent literature reviews and conceptual studies in the field (Pukall and Calabrò 2014), we, thus, focus on family firm heterogeneity to deepen our understanding of the contingencies that foster the family's proclivity to protect its SEW and, consequently, that shape its diversification strategy (Hafner, 2021).

From a theoretical standpoint, we build on behavioral agency theory and explore the role played by corporate governance characteristics of family firms in affecting their diversification decision. According to this theoretical perspective, family firms are not necessarily risk-averse, and their risk preferences are not even necessarily constant (Wiseman and Gomez-Mejia, 1998; Chrisman and Patel, 2012). This theoretical framework, therefore, offers a particularly valuable conceptual approach capturing the multifaceted and complex decision-making dynamics in family firms. Following this logic, we focus on whether and how board size and board gender diversity influence the propensity of family firms to execute a diversifying acquisition, and we bring into our framework the contingency role played by foreign directors and the listing status of the firm.

Taking a positivist deductive approach, we build on a sample of 213 cross-border acquisitions executed by Italian family firms in the 2008–2021 period. Our results provide evidence that both board size and board gender diversity encourage family firms' diversification. As the presence of foreign directors increases, the positive relationship between board size and diversification is weakened. Similarly, the positive effect played by board gender diversity is reduced in case the acquiring firm is listed.

Overall, our paper contributes to the recent conversations on diversification decisions in family firms (Hafner, 2021) and to the growing body of literature exploring the heterogeneity of family firms (Schmid *et al.*, 2015; Muñoz-Bullon *et al.*, 2018). Furthermore, our results help shed light on the role played by board diversity in strategic decision-making.

Literature review and hypotheses development

Under agency theory, agency conflicts in family firms differ from those occurring in dispersed-ownership organizations, as when concentrated ownership prevails, majority shareholders can more closely control and influence inside directors and executives, and actively participate in strategic decision-making (Shleifer and Vishny, 1997; Dyck and Zingales, 2004; Oba *et al.*, 2010), thus, affecting their firms' risk levels (Nguyen, 2011). Extant literature also highlights that, along with differences in their governance structures (Mathew *et al.*, 2018) and financial preferences (Gómez-Mejía *et al.*, 2007), the risk behavior of family businesses is also strongly influenced by both SEW priorities and other noneconomic goals (Miller *et al.*, 2010; Gomez-Mejía *et al.*, 2010).

According to the behavioral agency theory (Wiseman and Gomez-Mejia, 1998), family members manage their businesses to preserve or increase the socioemotional endowments they derive from the business at the expense of financial returns maximization (Gómez-Mejìa *et al.*, 2011), and thus, to the detriment of nonfamily owners (Matias Gama and Rodrigues, 2013). In this regard, while it is argued that family owners favor more conservative strategies to limit the risk of firm failure and increase the likelihood of handover (Abinzano *et al.*, 2020), passing the business onto the next generation may lead family owners to fully exploit entrepreneurial opportunities (Nguyen, 2011) and to undertake riskier projects to increase the firm's value and competitive advantage (Zahra, 2005).

SEW gains or losses are particularly affected by whether the acquisition is for corporate diversification (Berrone *et al.*, 2012; Miller *et al.*, 2010; Schierstedt *et al.*, 2020). While related acquisitions bring substantial benefits in terms of strengthening the firm's market position in the core industry, exploiting and redeploying already existing resources and creating economies of scale and scope, diversified acquisitions provide advantages in terms of reduction of the firm's risk profile due to lower dependence on the core industry and access to new markets characterized by high entry barriers (Schierstedt *et al.*, 2020). In the context of the family business, diversification is perceived as controversial (Anderson and Reeb, 2003; Nguyen, 2011). On the one hand, it may compromise the reputation of the company and of the family itself (Deephouse and Jaskiewicz, 2013), creating challenges deriving from the new and unfamiliar market made of unknown social ties and business connections (Chua *et al.*, 2015). Moreover, diversifying also raises the need to rely on experienced managers, which may lead to a reduction of family members' power (Schierstedt *et al.*, 2020). On the other hand, diversification can lower their poorly diversified portfolio risk (Gomez-Mejía *et al.*, 2007). Consistently, evidence shows that as the family ownership stake increases, diversifying acquisitions are more likely, as to preserve SEW through maintaining family control, family owners prefer to dilute risk by investing in diversification (Defrancq *et al.*, 2016).

While extant research has extensively focused on acquisitions in family vs nonfamily firms, we suggest that family firms are actually heterogeneous and may, hence, display different preferences in an acquisition context. Previous studies investigating the relationship between family ownership and firms' risk levels did not provide conclusive results (Anderson and Reeb, 2003; Zahra, 2005). Specifically, the link between corporate governance and diversification is extensively acknowledged and offers fertile ground for additional exploration in view of the mixed findings (Nguyen, 2011; Mathew *et al.*, 2016; Birindelli *et al.*, 2020). Literature has shown that the characteristics of the Board of Directors (BoD), especially in terms of diversity, may substantially influence acquisition choices and performance (Choi *et al.*, 2019). Thus, we explore board size as a driver of diversity due to members' different backgrounds (Dharmadasa *et al.*, 2014; Guest, 2009) and board gender diversity as two potential drivers that may shape the willingness of family firms to embark on diversifying investment projects. Furthermore, we examine the contingency role played by the foreign nationality of directors as an additional source of diversity in the board and by the listing status of the acquiring firms, this being a further element that may shape the risk preferences at the corporate level.

The role of board size

According to agency theory, the BoD plays a crucial and twofold role, as it both has a monitoring function and contributes to strategic decision-making through advising, thus, influencing firms' performance and corporate risk-taking (Zheng and Tsai, 2019). In this regard, the role played by board size on corporate decision-making has been at the core of multiple studies, with both contrasting theoretical perspectives and inconclusive empirical findings (Wellalage *et al.*, 2012).

On the one hand, focusing on the advisory function, it is maintained that the disadvantages of large boards are usually associated with more complex and lengthy decision-making processes (Tampakoudis *et al.*, 2018). Moreover, at increasing board size, the ability of outside directors to supervise insiders' actions is weakened, as more board members may lead to greater free-riding and lower individual costs of inefficient directors' duties fulfilments (Jensen, 1993).

On the other hand, previous studies claim that the advantages of larger boards are related to their greater heterogeneity (Dharmadasa *et al.*, 2014; Guest, 2009), which can provide firms with more comprehensive advice, better-informed monitoring and better external linkages; thus, improving growth strategy options evaluation and implementation (Zheng and Tsai, 2019). Consistently, most previous studies suggest that the greater the number of directors, the greater the opportunities to implement diversification moves (García Soto and Álamo Vera, 2007; Marouan, 2015), consistent with findings reporting that more diversified companies tend to have a higher number of outside directors (Anderson *et al.*, 2000) that can provide firms with a better access to external resources.

In the specific context of family firms, family members are often appointed to the board and actively participate in strategic decision-making, prioritizing the preservation of socioemotional endowments (Abinzano *et al.*, 2020). According to previous studies, as family owners' stakes increase, their propensity to diversification strategies raises as a means to simultaneously reduce the riskiness of their investment portfolio and retain their control over the business (Defrancq *et al.*, 2016). In this perspective, we believe that as the number of outside directors is likely to be higher in larger boards of directors (Lanis and Richardson, 2018), at increasing board size, outside directors' skills and expertise will positively reinforce family owners' diversification choices. Hence, our first hypothesis is as follows:

H1. The board size positively affects the likelihood that family firms will execute a diversifying acquisition if compared with a related acquisition.

The moderating effect of directors' foreign nationality

Studies have demonstrated that the presence of foreign directors on the board positively affects firms' international markets' knowledge and ability to approach foreign contextual issues (Zahra and Filatotchev, 2004). Foreign members in the BoD represent a repository of foreign experience that helps to conclude better acquisitions, especially in the case of cross-border acquisitions (Masulis *et al.*, 2012). Conversely, some authors argue that ethnic diversity can marginalize foreign directors, as it can translate into different cognitive and relational processes, thus, leading to slower decision making and more difficult group interactions (Johnson *et al.*, 2013).

Overall, the literature suggests that the presence of foreign directors on the board dramatically alters the ownership-control balance thanks to their independence (Ramaswamy and Li, 2001). Their appointment is a signal of a firm's orientation toward global expansion because of their invaluable set of knowledge, competencies and social capital that can be leveraged in the context of international growth. In view of their international expertise, they may direct strategic behavior away from diversification so that resources are allocated to more related investment projects where they can better deploy their international knowledge (Ramaswamy and Li, 2001). Hence, we expect that the presence of foreign directors on a family firm's board may negatively affect the positive association between board size and the likelihood to diversify. Our second hypothesis is as follows:

H2. The presence of international members on the board weakens the relationship between board size and the likelihood of executing a diversifying acquisition relative to a related acquisition.

The role of board gender diversity

Consistent with the resource-based view, gender diversity within the board improves its supervisory and advisory functions (Groening, 2019), augments cross-cultural integration, the development of alternative perspectives (Chatjuthamard *et al.*, 2021) and the legitimacy of corporate practices (Hillman *et al.*, 2007), also promoting higher quality decisions (Loukil *et al.*, 2019). In this context, evidence exists that women provide tougher monitoring and higher meetings attendance and friendliness, which collectively minimize agency problems (Mathew *et al.*, 2016; Birindelli *et al.*, 2020). Moreover, their nontraditional backgrounds and higher levels of education and training (Hillman *et al.*, 2002), managerial skills and long-term and greater stakeholder orientation (Sarkar and Selarka, 2021) improve strategic decision-making (Loukil *et al.*, 2019).

Nevertheless, as feminine traits usually include greater risk aversion and lower overconfidence (Groening, 2019), women directors may hinder strategic changes and lessen the number of acquisitions undertaken by firms (Huang and Kisgen, 2013).

Relatively few studies investigate the role of women in family firms (Martinez Jimenez, 2009; Sarkar and Selarka, 2021). In this regard, family firms' peculiarities contribute in shaping women's participation in a unique way, as while facing "issues similar to those that all businesswomen face" (Martinez Jimenez, 2009, p. 54), they also confront conflicts arising from loyalty, roles and relationships with kin and nonfamily members.

Due to gender stereotypes, women tend to be kept invisible, as their role in the firm is often not formally recognized, and they tend to be under-represented and rarely considered as candidates for succession (Bannò *et al.*, 2021; Bjuggren *et al.*, 2018), notwithstanding their crucial role in strengthening the family unity, and thus, contributing to the business' continuity (Poza and Messer, 2001).

Furthermore, evidence exists that females on the board tend to be "grey directors", often appointed for reasons related to the retention of family control and to support preferences shown by family owners (Sarkar and Selarka, 2021); thus, failing to play a moderating role and to influence strategic decisions.

In light of the above, we believe that inconclusive results can be derived from both family firms' peculiarities and critical mass theory (Torchia *et al.*, 2011; Bannò *et al.*, 2021). On the one hand, when referring to family firms, the majority of the BoD' members tend to be family members (Bannò *et al.*, 2021); we assume that diversification decisions are made depending on SEW and risk diversification matters, regardless of directors' gender. On the other hand, notwithstanding women's risk aversion, under critical mass assumptions, the under-representation of women weakens their ability to exert an effective advisory function. Thus, the following hypothesis may be formulated:

> *H3.* The board gender diversity positively affects the likelihood that family firms will execute a diversifying acquisition if compared to a related acquisition.

The moderating effect of the acquirer's listing

The level of shareholder protection is usually greater in the context of listed companies for the number of listing requirements that firms have to comply with (Lele and Siems, 2007). This implies that in low shareholder protection contexts such as small, unlisted family businesses, board members' designation may be driven by reasons other than the advisory and supervisory functions, as the appointment of family members decreases hired professionals' expropriation risks (González *et al.*, 2020). This way to designate board members, often based on family ties and nepotism (Sarkar and Selarka, 2021), leads to boards characterized by lower skills and financial expertise, with board members acting as "grey directors", potentially threatening the board independence and effectiveness (Lanis and Richardson, 2018).

Thus, we believe that the listing status may substantially shape the role played by board gender diversity on the firm's risk preferences and may, hence, affect the decision to diversify through acquisitions. Indeed, the number of nonfamily-affiliated female directors increases in larger companies with a higher proportion of independent directors (Bianco *et al.*, 2015). As the presence of nonfamily female directors is associated with higher human capital as a result of more stringent selection processes (Schmid and Urban, 2017), we believe that this circumstance can improve female directors' effects on strategic decisions.

Furthermore, in a number of countries, the listing requirements also establish some minimum thresholds of female directors being appointed, thus, providing substantial benefits in terms of the critical mass that women may reach. For instance, since 2011, the Italian regulation requires listed companies to appoint at least 30% of female directors, and in 2021 Banca d'Italia and CONSOB reported the average proportion of women on boards to be 42.8%, i.e. more than the proportion maintained to be crucial to women to be influential directors (Noguera, 2020). Thus, in light of the above, our fourth hypothesis follows:

> *H4.* The positive relationship between board gender diversity and the likelihood that family firms will execute a diversifying acquisition is weakened in listed firms relative to unlisted firms.

The conceptual model and hypotheses are shown in Figure 1.

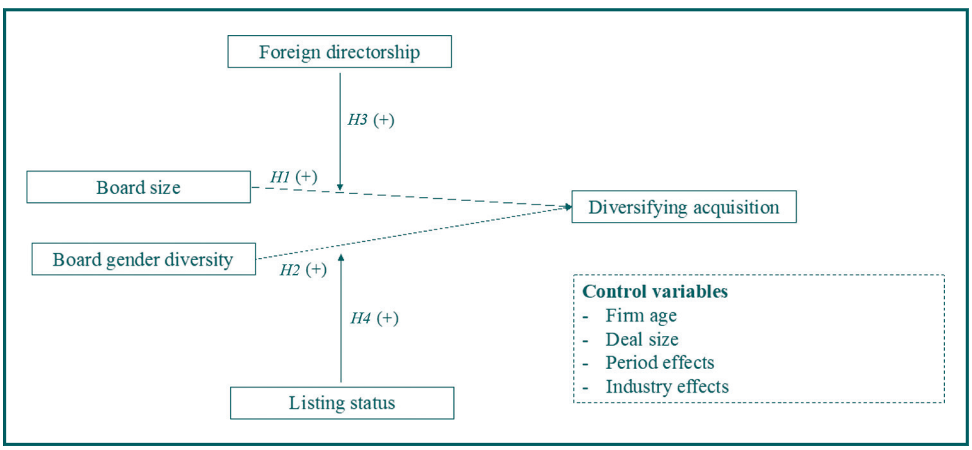
Methodology

Consistent with prior research on corporate governance (Zattoni *et al.*, 2013), this study adopts a positivistic research paradigm, with theory-driven hypotheses being empirically tested using a quantitative approach in a defined context (Antwi and Hamza, 2015; Al-Ababneh, 2020).

Data collection and sample

To investigate the likelihood that family firms engage in diversifying acquisitions, we use a dependent dichotomous variable, as specified hereinafter. For this purpose, data on acquisitions were collected from ORBIS, the database produced by Bureau van Dijk Electronic Publishing, which includes financial data on over 50 million corporations globally and is increasingly used in management research. The data collection followed several criteria. First, we included in our sample only completed transactions, and thus, excluded all cases of announcements, rumors and demergers. Second, we excluded those deals with individual or unknown investors. Furthermore, given the purpose of our analysis, we focused solely on pure acquisitions for majority ownership, i.e. with an initial stake of 0% and a final stake of at least 51%. Thus, we excluded from our data set any deal executed for increasing

Figure 1 Conceptual model



already existing ownership stakes, i.e. deals aimed at restructuring, capital increase/equity increase from shareholders. We identified the ultimate acquirers and targets in any deal to avoid potential misclassifications in case of deals initiated by subsidiaries. Finally, we deleted duplicated deals and kept only those observations with disclosed values. With the aim to investigate the impact of boards characteristics on family firms' diversification, we identified whether the deals were executed by a family firm: we built on prior literature and defined family-owned acquirers as those firms having at least two board members with the same surname (Schierstedt *et al.*, 2020). Following this established route in the literature, we scrutinized additional databases (e.g. *Bureau Van Dijk*'s analisi informatizzata delle aziende) and companies' websites to identify the independent variables related to board size (*H1*), directors' foreign nationality (*H2*), board gender diversity (*H3*) and acquirers' listing status (*H4*). Collectively, these eligibility criteria led to a final data set of 213 cross-border acquisitions executed by family-owned Italian acquirers between 2008 and 2021.

Model specification

Consistently with the binary nature of the dependent variable, univariate binary choice models represent appropriate estimation methods. Thus, we performed a logit specification. In particular, to test the hypotheses of this study, the following model was run:

$$\begin{aligned} \textit{Diversifying acquisition} = {} & \alpha_0 + \alpha_1 \textit{Board size} + \alpha_2 \textit{Board gender diversity} \\ & + \alpha_3 \textit{Foreign directorship} + \alpha_4 \textit{Acquirer listing status} \\ & + \alpha_5 \textit{Board size} * \textit{Foreign directorship} \\ & + \alpha_6 \textit{Board gender diversity} * \textit{Acquirer Listing status} \\ & + \alpha_7 \textit{Firm age} + \alpha_8 \textit{Deal size} + \alpha_9 2009 + \alpha_{10} 2010 \\ & + \alpha_{11} 2011 + \alpha_{12} 2012 + \alpha_{13} 2013 + \alpha_{14} 2014 \\ & + \alpha_{15} 2015 + \alpha_{16} 2016 + \alpha_{17} 2017 + \alpha_{18} 2018 \\ & + \alpha_{19} 2019 + \alpha_{20} 2020 + \alpha_{21} 2021 \\ & + \alpha_{22} \textit{Transports \& warehousing} + \alpha_{23} \textit{ICT services} \\ & + \alpha_{24} \textit{Consultancy services} + \alpha_{25} \textit{Other services} \\ & + \alpha_{26} \textit{Trade} \end{aligned}$$

Variables and measures

Dependent variable. The dependent variable of our study is the family firm's likelihood of executing a diversifying acquisition. The variable *Diversifying acquisition* is operationalized as a dichotomous variable based on the match between the acquirer and target North American industrial classification system (NAICS) codes as retrieved from ORBIS. Specifically, this variable takes value 1 if the 2-digit NAICS codes are different and value 0 in case they match.

Independent variables. Before delving into the description of our independent variables and their measurements, it is worth noting that to avoid endogeneity issues, our variables of interest are lagged relative to the year in which the deal was completed. This also allows us to correctly incorporate in our study the time gap connected with the acquisition decision-making.

Board size. This variable is a count variable based on the number of members sitting on the BoD one year prior to the deal. This variable is comprehended between a minimum of 2 and a maximum of 17 members, and, in our sample, 76.52% of observations refer to acquirers with less than 10 members in their BoD.

Board gender diversity. This variable was measured as the ratio of the number of women in the BoD over the total number of members one year prior to the deal. In our sample, only 14 deals (6.6% of the total number of observations) were executed by acquiring companies with a majority of females sitting on the board. This is in line with recent studies (Banca d'Italia and CONSOB, 2021) suggesting that the presence of women in top positions in nonlisted Italian companies is very limited despite the strong upward trend that occurred in the past decade.

Foreign directorship. This variable has been measured as the ratio of the number of foreign directors sitting on the board over the total number of BoD members. In our sample, the majority of deals (70,9%) were carried out by family firms having entirely domestic BoD, whereas only six observations have a percentage of foreign members higher than 50%.

Listing status. The listing status of the acquiring firm was operationalized through a dichotomous variable to capture if the acquirer is listed at the time of the deal. This variable takes value 1 in case the acquiring firm is listed at the time of the acquisition and value 0 if otherwise.

A number of variables are included to control for potential additional factors that may shape the likelihood of family firms executing diversifying acquisitions. Specifically, we controlled for several firm- and deal-level effects. Since prior literature suggests that the impact of emotional concerns on firms' preferences toward diversification may vary throughout their organizational life (Berrone *et al.*, 2012), we controlled for firm age one year prior to the deal. Concerning control variables at the deal-level, we included a variable capturing the deal value as a size measure of the overall investment and two sets of dichotomous variables to control for both time and industry effects, with 2008 and the manufacturing industry as the baseline categories, respectively.

Table 1 reports the variables used in the study and their operationalization.

Results

Table 2 provides the descriptive statistics and the correlation between our variables. The low correlation coefficients suggest that multicollinearity did not bias our results. Furthermore, the variance inflation factors (VIFs) are all well below the common threshold of 10, thus, confirming that multicollinearity was not an issue.

Table 3 reports the results of the regression analysis. Model 1 displays only control variables, Model 2 includes the main effects of our *H1* and *H3* and Model 3 shows the full

Table 1 Variables and measures

Variable	*Measure*
Diversifying acquisition	Dichotomous variable 1 if 2-digit NAICS codes of acquirers and targets match 0 if otherwise
Board size	Number of members sitting on the Board of Directors at t–1
Board gender diversity	Ratio of the number of women in the BoD over the total number of members at t–1
Foreign directorship	Ratio of the number of foreign directors sitting on the board over the total number of BoD members at t–1
Acquirer listing status	Dichotomous variable 1 in case the acquiring firm is listed at the time of the acquisition 0 if otherwise
Firm age	Number of years since the firm's inception at t–1
Deal size	Size of the deal as the amount paid for the acquired stake (log-transformed)
Year dummies	One dichotomous variable for each year of observation from 2008 to 2021 (with 2008 as a residual category)
Industry dummies	One dichotomous variable for each industry of observation (manufacturing, transports and warehousing, ICT services, consultancy services, other services and trade; with manufacturing as baseline)

Note: ICT = information and communication technologies

Table 2 Descriptive statistics and correlation matrix

		Mean	SD	1	2	3	4	5	6
(1)	Diversifying acquisition	0.33	0.47	1					
(2)	Board size	6.64	3.45	0.09	1				
(3)	Board gender diversity	0.25	0.19	0.08	–0.20*	1			
(4)	Foreign directorship	0.07	0.14	0.012	0.08	–0.13	1		
(5)	Acquirer listing status	0.21	0.41	–0.04	0.49*	–0.32*	0.01	1	
(6)	Firm age	54.36	65.46	–0.13	–0.01	0.01	–0.01	–0.12	1
(7)	Deal size	19,439	36,788	–0.10	0.06	–0.07	0.09	0.04	0.06

Notes: $^{*}p < 0.5$; Year and industry dummies are not reported for space reasons

Table 3 Logistic regression

Dependent variable: diversifying acquisition	*Model 1: only controls*	*Model 2: main effects*	*Model 3: full model*
Board size		0.17 (0.06)***	0.46 (0.14)***
Board gender diversity		1.53 (1.10)	7.18 (2.75)***
Board size *Foreign directorship			–0.85 (0.45)*
Board gender diversity* Acquirer listing status			–12.58 (4.72)***
Foreign directorship			4.46 (2.81)
Acquirer listing status			2.24 (1.75)
Firm age	–0.00 (0.00)	–0.01 (0.00)*	–0.01 (0.00)*
Deal size	0.00 (0.08)	0.07 (0.09)	0.07 (0.09)
Year dummies	*Included*	*Included*	*Included*
Industry dummies			
Transports and warehousing	0.60 (0.99)	1.12 (1.03)	1.12 (1.15)
ICT services	2.68*** (0.75)	2.99 (0.80)***	3.24 (0.89)***
Consultancy services	1.19 (0.83)	1.19 (0.87)	1.72 (0.94)*
Other services	0.97* (0.52)	1.12 (0.53)***	1.16 (0.59)**
Trade	2.09*** (0.65)	2.37 (0.67)***	2.69 (0.61)***
Intercept	–1.18 (1.61)	–3.76 (1.84)**	–5.52 (2.08)*
No. observations	213	213	213
Chi-Square	55.13	65.79	81.45
Residual Dev.	216.02	205.36	189.69

Notes: Standard errors are reported in brackets. Significance levels: $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

model, including the moderating effects hypothesized in *H2* and *H3*. Statistical measures indicate an improvement in the goodness of fit of the models (Chi-square= 81.45 in Model 3 vs 55.13 in Model 1).

Our *H1* on the positive effect of board size on the likelihood of executing a diversifying acquisition is supported in both Model 2 (β = 0.17, *p*-value < 0.001) and Model 3 (β = 0.46, *p*-value < 0.001). Referring to *H2* on the moderating effect played by the directors' foreign nationality on the positive relationship between board size and the likelihood of a diversifying acquisition, our findings confirm our predictions. Indeed, the interaction term *Board size** *Foreign directorship* has a negative and statistically significant effect (β = –0.85, *p*-value < 0.1).

Moving to the third hypothesis on the positive effect of board gender diversity, our results provide support in Model 3 (β = 7.18, *p*-value < 0.001). Concerning the moderating role played by the acquirer's listing status on the positive relationship between the board gender diversity and the likelihood of a diversifying acquisition, our results confirm our assumptions. Indeed, the interaction term *Board gender diversity** *Listing status* has a negative and statistically significant effect (β = –12.58, *p*-value < 0.001). Thus, our *H4* predicting that the effect of female presence on the board should be weakened in case the firm was listed is supported.

Robustness test

We conducted further analysis to test the robustness of our results. We used the acquirer-to-target relatedness to measure the dependent variable, based on Wang and Zajac's (2007) measure of similarity.

Logically, this dependent variable represents the reverse of diversifying acquisition; thus, we expect coefficients to have opposite signs if compared with the findings that we obtained in our models in Table 3. The results of the robustness test are fully consistent with this expectation, and hence, confirm our previous findings.

The first hypothesis is supported, thus, confirming that increasing board size is associated with a greater likelihood of executing diversifying acquisitions. *H2* is supported as well: the presence of foreign directors weakens the positive relationship between board size and the likelihood of a diversifying acquisition as the firm's resources are allocated to more related investment projects where foreign directors can better deploy their international knowledge.

Similarly, results for the third hypothesis are consistent with those in our main model: gender diversity on the board in terms of female presence has a positive effect on the propensity of family firms to complete diversifying acquisitions. Finally, *H4* on the moderating effect played by the acquiring firm's listing status is supported as well [1].

Discussion

More directors appointed to the board provide firms with broader advising ability and external linkages, leading to better growth options evaluation (Zheng and Tsai, 2019) and a greater propensity to diversification moves (Marouan, 2015). Moreover, as the main task of board members, especially outside directors, in family firms consists in advising family members to compensate for their lack of expertise (Van den Heuvel *et al.*, 2006), this circumstance appears to reinforce family firms' propensity toward diversification projects to lessen their risk and preserve their SEW (Defrancq *et al.*, 2016). The observed positive effect of board size is even more interesting in our research setting. First, under agency theory, family owners exert a stronger influence on decision-making processes, and as most Italian family firms are characterized by large ownership stakes operating in a low shareholders protection environment (D'Este and Carabelli, 2022), our findings support previous studies reporting a positive influence of larger ownership stakes on diversification strategies. This can also be explained according to the behavioral agency theory, predicting that the risk aversion of family owners may be affected by reasons other than economic assessment (Lim *et al.*, 2010). Second, as family firms averagely show smaller BoD (Wellalage *et al.*, 2012) and as evidence exists that increases in board size occur in favor of outside directors (Lanis and Richardson, 2018), this appears to confirm the crucial advisory role played by hired professionals in family firms. Furthermore, findings show consistency with the resource dependence theory, as each director, especially outside directors, brings different linkages and resources to a board, thus, supporting strategic decision-making, also concerning acquisitions (Hillman *et al.*, 2000).

However, the literature suggests that foreign directors significantly alter the ownership-control balance (Ramaswamy and Li, 2001) due to their independence from insiders and as their different backgrounds bring distinct perspectives to the board (Doğan and Ekşi, 2020). In this regard, consistently with existing literature reporting that foreign directors discourage diversification (Ramaswamy and Li, 2001), our findings show a negative correlation between the proportion of foreign directors on the board and diversification moves; thus, confirming their contrasting role against family owners' self-interested strategies due to SEW.

Although female directors tend to show greater risk aversion (Hurley and Choudhary, 2020), our findings indicate that, for family firms, a higher proportion of women sitting on the board negatively impacts the propensity to diversify projects. This is consistent with both SEW and critical mass theory (Torchia *et al.*, 2011): within family firms, appointed females tend to be poorly skilled and grey directors that favor the family's SEW objectives related to reducing firms' risk through diversification projects. Furthermore, this can also be explained through the lenses of behavioral agency theory, as family members appointed to the BoD are found to be influenced by parental altruism in their advising and monitoring functions. This implies that while their monitoring function is jeopardized to some extent, advising tasks and risk-taking decisions may be driven by family-level noneconomic welfare prospects (Lim *et al.*, 2010).

In addition, we believe that female directors' under-representation on the board may weaken the moderating and risk-averse role traditionally attributed to women on boards. Accordingly, when focusing on the moderating effect of the acquiring firm's listing status, the negative association between female directors and diversification can be ascribed to their greater ability to exert an influence on corporate decision-making through advisory tasks. Indeed, their higher expertise due to more rigorous selection processes and their nonfamily directors' status, as well as their higher proportion on board because of the Italian law on gender quotas, may result in a strengthened impact on strategic moves.

Overall, our findings offer further evidence in support of a behavioral agency perspective and the resource dependence theory (Wiseman and Gomez-Mejia, 1998; Chrisman and Patel, 2012). On the one hand, results seem to confirm behavioral agency predictions within family firms, as evidence is provided not only on the influence exerted by SEW on risk-taking but also on the role played by parental altruism. On the other hand, resource dependence is testified by the contingency effects played by the firm's presence of foreign directors sitting on the BoD and the listing status, suggesting that the risk preferences of family firms should not be regarded as automatic and invariant responses to decisions.

Conclusions

The connection between corporate governance and the firm's diversification strategy has been extensively examined in both the management and finance literature. In this paper, we analyzed the corporate governance-diversification link in the specific context of the family business. Diversification among family firms indeed represents a controversial decision (Muñoz-Bullon *et al.*, 2018): on the one hand, family owners may prefer risk-taking corporate strategies to ensure the family's wealth maximization; on the other hand, family managers are typically less professionally skilled than hired managers, their involvement in the decision-making process could lead to nonoptimal business strategies (Rossi *et al.*, 2018), thus, affecting firms' risk preferences.

In terms of contributions, while most studies focus on differences in the strategic behavior between family vs nonfamily firms, we contribute to an emergent line of inquiry, investigating the heterogeneity of family firms. Specifically, we build on recent studies (Muñoz-Bullon *et al.*, 2018) and explore how diversification preferences may vary in the context of corporate international acquisitions. In doing so, our framework provides a contribution to both the family business literature and the acquisition literature. Indeed, SEW priorities (Chrisman *et al.*, 2012) and maintenance of family control (Worek *et al.*, 2018) may affect diversification decisions through acquisitions. In our study, we, thus, find evidence that, although family owners will weigh the possible gains or losses in SEW according to the firm's vulnerability, the likelihood to diversify is strongly related to corporate governance characteristics. Our framework, thus, contributes to the existing conversations on corporate acquisitions by family firms by exploring the corporate governance-diversification link and, specifically, by investigating the contingency factors that may shape the likelihood to diversify in the context of international acquisitions.

Moreover, our study also helps shed light on the impact exerted by boards' diversity on corporate strategic decisions and confirms the controversial nature of diversification strategies for family firms: while diversification may preserve SEW for large family owners, at the same time, its riskiness may be detrimental to minority shareholders; thus, being discouraged in the context of more independent boards.

Overall, several implications arise from our study, from both the theoretical and a practical standpoint. First, we add to behavioral agency theory in family firms, also providing a partial response to the call for future research on family firms' heterogeneity in their risk-taking behaviors (Muñoz-Bullon *et al.*, 2018; Hafner, 2021). Indeed, we provide further insight on how SEW matters can influence strategic decision-making in different ways depending on the family ownership stake, thus, contributing to a research field that needs additional investigation (Lim *et al.*, 2010). Second, our findings support the critical mass theory (Torchia *et al.*, 2011), hence, endorsing prior studies that state the need for diverse directors to be adequately represented on boards to effectively exert their advisory function.

Evidence provided also yields practical implications for both family firms and nonfamily shareholders. On the one hand, results on board gender diversity suggest that to benefit from the typical female directors' risk-mitigating function (Birindelli *et al.*, 2020), nonlisted family firms should modulate their appointment in such a way that a critical mass is reached. Similar conclusions can be drawn for the appointment of professional outside directors, as our findings are in line with prior studies indicating the centrality of nonfamily directors to integrate more skilled competences in family firms' management, thus, reducing their risk levels (D'Este and Carabelli, 2022). On the other hand, nonfamily shareholders in a low investor protection environment should be aware of the greater risk propensity associated with family firms having larger boards, as well as of the potential "grey directors" nature of female family directors (Sarkar and Selarka, 2021). Furthermore, our results seem to confirm the effectiveness of the Italian government's gender diversity policies.

This study is, of course, not without limitations, which may, however, offer interesting avenues for future research. First, we focus on a single country. Thus, future research might perform multicountry studies aiming to identify potential differences at the country level. Second, we explore diversification implemented through acquisitions, these being sole ownership corporate growth modes. It would, thus, be interesting to investigate whether the propensity of family firms toward diversification varies as a function of the diversification mode: in view of SEW preservation objectives, the likelihood that the family firm may diversify may be contingent upon whether it is realized through single vs shared ownership modes like joint ventures. Finally, future research might also explore whether some specific target firm characteristics may drive preferences of acquiring companies: for instance, the positive performance of target firms may strengthen the desirability of the acquisition, and hence, lead managers to navigate the deal regardless of the potential socio-emotional implications. Overall, this study could be considered as an initial contribution to the exploration of the heterogeneous nature of family firms.

Note

1. Full results are available from the authors upon request.

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