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ARTICLE

The influence of family control on decisions regarding the specialization and diversification of business groups

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Abstract This study analyses the impact of family control on decisions regarding the specialization and diversification of large business groups whose parent companies are listed on Spanish stock exchanges. Using a sample of ninety-nine companies, having identified the companies that constitute the business group, and using both binary logistic models and the Heckman two-step method to eliminate selection bias, the results show how the familial nature of the parent company favours specialization and reduces the level of the business group's diversification. In addition, we see that there are differences among family groups with respect to the concentration of their holdings in that a higher level of concentration increases the level of diversification in the family business group.

Introduction

Among the categories of recent company owners, families stand out as one of the most significant controlling groups (La Porta et al., 1999; Zahra and Sharma, 2004). The family nature of a business has an influence on the company's strategic behaviour and thus on the strategy of diversification, given that family members not only pursue the fulfilment of financial goals but also work for both the survival and continuity of the family business (Arregle et al., 2007) and the preservation of socio-emotional wealth (Gomez-Mejia et al., 2007, 2010).

Most of the literature related to the influence of a business's familial nature on diversification corresponds to studies performed in the United States (Kang, 1999; Anderson and Reeb, 2003; Gomez-Mejia et al., 2010; Miller et al., 2010), with fewer studies in the European (Ducassy and Prevot, 2010; Muñoz-Bullón and Sánchez-Bueno, 2011) and Asian contexts (Chen and Yu, 2011). However, the results obtained in these studies are not consistent (Kang, 1999; Anderson and Reeb, 2003; Ducassy and Prevot, 2010; Gomez-Mejia et al., 2010; Chen and Yu, 2011). These discrepancies are possibly due to differences in how diversification is

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defined in the studies' measures and methodologies (Benito-Osorio et al., 2012) and/or to differences in the influence of the institutional settings of the countries where the studies were conducted (Peng, 2003).

Conversely, there has been considerable analysis of the direct influence of the concentration of holdings on diversification, using agency theory as a point of reference (Amihud and Lev, 1999; Lane et al., 1999). An increase in holdings concentration gives rise to a reduction in the level of diversification by reducing the principal-agent agency problem (Amihud and Lev, 1981; Berger and Ofek, 1995; Goranova et al., 2007). Nevertheless, when the degree of concentration of holdings is high, a principal–principal agency problem can arise (majority stockholder–minority stockholder). This problem can prompt the controlling shareholder to implement a strategy of greater diversification to maximize his or her own profit and/or reduce to his or her personal risk (based on his or her increased participation in the capital of the company) and to decline to participate in diversification intended to maximize the value of the business (seeking synergies in sales, costs, or risks among the various businesses and/or activities resulting from diversification) (Fama and Jensen, 1983; La Porta et al., 1999; Lins and Servaes, 2002). It would be appropriate to translate this evidence to the set of family companies, proposing the following questions: Can concentration of holdings have a moderating effect on the relationship between the familial nature of a business and diversification? In other words, do family businesses with higher levels of concentration of holdings differ from family businesses with lower levels of concentration of holdings with respect to diversification?

This study intends to answer the questions posed above by proposing a double objective: first, to analyse the impact of family control on the diversification[1] of large business groups whose parent company is listed on Spanish stock exchanges; and second, to analyse the moderating effect of the concentration of holdings on the influence of family control on diversification. To establish this study's hypothesis, we begin by discussing the contributions of agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983) and then complement that discussion with the concept of socio-emotional wealth (Gomez-Mejia et al., 2007, 2010). The nature of the shareholder who controls the group of businesses can affect the diversification strategies that are adopted, both through differences in the goals that are pursued and through agency costs arising out of contracts that seek either to maintain the cohesion of the group or to regulate conflicts. More specifically, the family will adopt strategies that allow it optimize performance, always subject to the restriction of maintaining management control and the allocation of company resources in family hands.

In addition to the considerations presented above, the study is justified for the following reasons. First, and unlike most previous studies that use the company's diversification itself as the unit of analysis,[2] our study of diversification uses the pyramidal group of independent businesses controlled by the same parent company (i.e., a group's head company) as the unit of analysis. This unit of analysis allows for better identification of the corporate strategy adopted by the parent company because it incorporates the activities developed by dependent companies, avoiding the omission of important activities because exclusively considering the parent company's activities can give a distorted vision of the company's corporate strategy.

Second, the study provides new evidence for the case of Spain with respect to the influence of the familial nature of the controlling shareholder on strategies of the specialization and diversification of large business groups whose parent company is listed on an exchange. More specifically, the study compares family and non-family groups of businesses, considering the possible moderating effect of the concentration of holdings.

Third, the study contributes to the literature by analysing a government and regulatory setting distinct from the American institutional context. Spain is characterized by its membership in a legal system based on civil law, which has an institutional and regulatory framework to protect minority stockholders that is weaker than the institutional framework of the United States and the United Kingdom (La Porta et al., 1999), which explains Spain's greater concentration of company holdings in general and its greater concentration of holdings in family businesses in particular.

To achieve this goal, the study is structured as follows. First, a theoretical framework is presented in which the relationship between the level of diversification and the familial nature of the business group is established from the perspective of agency theory, complemented by the concept of socio-emotional wealth, and the hypotheses to be compared are established. Second, we present the database, variables, and methodologies to contrast with previously established hypotheses. Third, the principal results of the study are shown. Finally, the conclusions and implications of the study, its limitations, and future lines of investigation are given.

Theoretical framework: the familial nature of a company and business diversification

The influence of familial nature on diversification strategy

When establishing differences between family and non-family businesses with respect to their levels diversification, the point of departure is established by agency theory. Non-family businesses present a variation in the group of stockholders that is greater than that of family businesses such that their executives are more proactive regarding the use of diversification strategies. An increase in the size of the enterprise through diversification can mean an increase

[1] The concept of diversification used refers to product diversification. Conversely, when speaking of low levels of diversification, the term implicitly refers to the strategy of specialisation of activities (Palich et al., 2000), that is, a strategy in which a company opts to carry out a single activity or alternatively, where a large part of a company's income is derived from a single business (Rumelt, 1982).

[2] Exceptions include the studies by Bertrand et al. (2008) and Bru and Crespi (2006), who contribute significantly to the study of particular aspects of corporate governance, using family business groups in Thailand and Spain, respectively, as the unit of analysis.