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Going private: A socioemotional wealth perspective on why family controlled companies decide to leave the stock-exchange

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ABSTRACT

Our purpose is to understand the process of 'going private' decisions in family firms by applying a socioemotional wealth (SEW) perspective, specified in the following research questions: how do socioemotional wealth considerations influence owning families' decisions to delist their publicly-listed companies? How do socioemotional wealth considerations change after the delisting of a firm? Based on case studies of two family firms, we elaborate upon the balancing of socioemotional and financial wealth considerations by the family owners, the assessment of which changes over time. Ultimately, we propose that the experiences from being listed can lead to the reevaluation of financial, as well as socioemotional, wealth considerations. By delisting, the companies reclaim independence and control, and the identity as a private family-owned firm becomes once again pronounced. We develop the SEW-perspective by viewing the decision to delist as a mixed gamble, in that owning families have to weigh personal and financial losses against SEW gains, thereby indicating how SEW-considerations change over time. We find that owning families are willing to sacrifice current SEW, accepting current financial losses for prospective increased SEW. Additionally, in this study we extend the argument that decisions to leave the stock market are tradeoffs between competing factors.

1. Introduction

For many people, the notion of publicly traded family firms is an oxymoron – a view commonly supported in the literature – as family firms and large publicly traded firms are classed as contrasting types of organizations (Boers & Nordqvist, 2012). Still, recent research has started to investigate this phenomenon (e.g., Boers & Nordqvist, 2012). Due to transparency, accountability, board composition, and the ability to hire highly qualified managers, extant literature depicts the publicly listed firm (including family firms) as the prototype of a professionally managed company (Chang, Wu, & Wong, 2010; Gedajlovic, Lubatkin, & Schulze, 2004).

There are cases of family firms going public, but equally there are listed family firms choosing to go private. Following the assumption that publicly listed family firms can help to better understand the phenomenon of family firms and their behaviors, we find it interesting to explore the empirical implications. While there is some literature on the so-called 'going private' phenomenon in general (Croci & Giudice, 2014; Martinez & Serve, 2011; Thomsen & Vinten, 2014), this issue has thus far received little attention in family business research. While there is some literature on the so-called 'going private' phenomenon in general (Croci & Giudice, 2014; Martinez & Serve, 2011; Thomsen & Vinten, 2014), this issue has thus far received little attention in family business research, which is surprising considering that Croci and Giudice (2014) found that from 429 firms which delisted in Europe, 69 were family controlled. In this article, we claim that a socioemotional wealth (SEW) perspective (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011) can contribute to the understanding of decisions to go private. Earlier research noted that the owning families' expectations mainly concerned financial aspects when listing their businesses on the stock market (Rydqvist & Högholm, 1995). We pose, however, that it is unclear how these expectations are met, and how nonfinancial, i.e., socioemotional and wealth considerations are affected over time. Instead of merely being a tradeoff between financial gains and losses, such decisions could emerge from a "mixed gamble" where financial and socioemotional wealth factors are weighed against each other (Gómez-Mejía, Campbell et al., 2014; Gómez-Mejía, Cruz, & Imperatore, 2014). In other words, family owners consider several possible

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outcomes in regards to financial and socioemotional wealth in their decision-making. Reasonably, the motives for a delisting decision will develop whilst listed as it has substantial consequences for all shareholders and stakeholders. Therefore, it is relevant to study the consequences SEW considerations have for the delisting decisions of publicly traded family firms and how going private decisions affect the owner-family. Recent family business literature has acknowledged that family firms need to balance both financial and socioemotional wealth logics, framed under the umbrella of "socioemotional wealth" (Berrone, Cruz, & Gómez-Mejía, 2012; Brunninge & Melander, 2015; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Zellweger & Dehlen, 2012). Family decision-makers will judge their decisions under consideration of how these may affect the socioemotional endowment of the owning family, which may mean accepting higher risks, even though this will potentially lead to lower financial endowment (Gómez-Mejía et al., 2007).

The scarce literature on going private and delisting argues that the decision to leave the stock market is a tradeoff between the costs and benefits of staying (Djama, Martinez, & Serve, 2012). The dynamics of financial and socioemotional wealth considerations can help to understand why family firms change their attitudes concerning being listed or not over time. The purpose of this article is thus to understand the process of going private decisions for family firms, applying an SEW perspective. In order to fulfill this purpose, we will answer the following research questions: (a) how do socioemotional wealth considerations influence owning families' decisions to delist their publicly listed company? (b) how do socioemotional wealth considerations change after the delisting of a firm?

Our article makes two contributions. First, it helps us better understand the phenomenon of going private decisions within family firms, in that, rather than being a tradeoff between financial gains and losses, such decisions arise from a mixed gamble where financial and socioemotional wealth considerations are weighed against each other (Gómez-Mejía, Campbell et al., 2014; Gómez-Mejía, Cruz et al., 2014). Second, we gain a better understanding of SEW by studying these empirical phenomena. As consecutive experiences from strategic actions lead to changes in such considerations, snapshot cross-sectional studies are not suitable. Instead, these changes need to be studied over time in a process based manner.

2. Frame of reference

2.1. The publicly listed family firms and the decision to go private

Owners of family firms may choose to go public with part of their firm's ownership for various reasons: to acquire personal financial liquidity, to facilitate succession, to seek growth capital, to financially incentivize key managers, and/or to seek increased publicity and legitimacy (Boers & Nordqvist, 2012; Ravasi & Marchisio, 2003). Publicly listed family firms have some different characteristics compared to private family ones, the most obvious being that those publicly listed have a greater number of shareholders. The public nature of the ownership also means that there are greater demands on listed family firms to communicate information and explain strategic decisions, as well as to share power in the board of directors (Anderson & Reeb, 2003). While minority shareholders may have little direct influence on the management in publicly listed firms, "controlling shareholders presumably act to ensure the pursuit of shareholder value since it is their own" (Davis & Useem, 2002, p. 241). The preferred shareholder value of minority shareholders is not necessarily the same as that of a large block owner, such as an owner-family. Theoretical and empirical evidence exist indicating that family ownership means a rather complex mix of economic and non-economic goals (Gómez-Mejía et al., 2007, 2011). Families seldom have exit as an explicit strategy unless there is clearly no future generation interested in taking over the ownership and control (DeTienne & Chirico, 2013; Zellweger & Astrachan, 2008). It has also been suggested that controlling families on the stock exchange are more interested in 'long-term building' rather than 'short-term dealing' (Miller & Le Breton-Miller, 2005). In a similar vein, Anderson and Reeb (2003) observe that dominant family ownership in listed firms in combination with the openness for minority shareholders to trade in the firm's shares are advantageous to discipline and monitor top management. A major downside of going public for a family firm is the partial loss of control and lack of influence regarding shareholder selection (Ravasi & Marchisio, 2003). Conflicts with minority shareholders represented on the board of directors who push for different strategic agendas, as well as media and financial analysts' criticisms regarding the possibility that non-financial family goals drive decisions (such as CEO succession where a family member is selected) rather than strict financial aims, are other downsides. Some family owners also find it difficult to deal with the generally increased expectations to increase transparency and share information to a wider set of stakeholders (Boers & Nordqvist, 2012).

Given the downsides of being listed, it is perhaps not surprising that publicly listed family firms sometimes leave the stock exchange. Literature exists regarding the reasons why companies, generally, leave the stock market (see Martinez & Serve, 2011). However, there is a lack of studies investigating this phenomenon in the family business literature. Only two articles were found in Web of Science (i.e., Croci & Del Guidice, 2014; Martinez & Serve, 2011), yet neither takes a specific family firm perspective. Rather, it is assumed that owning families have reasons other than private equity firms for delisting; i.e., nonfinancial or socioemotional due to having a longer-term perspective (Brundin, Samuelsson, & Melin, 2014; Miller & Le Breton-Miller, 2005).

The literature on "going private" and delisting is dominated by quantitative and financial studies relating to performance and tradeoff theory (Djama et al., 2012). Some recent studies using European data found that going private transactions are initiated by dominant and long-term shareholders (Martinez & Serve, 2011), a category to which owning families fall into. Thomsen and Vinten exemplify this in the following quote (2014, pp. 795–796):

> [G]oing private transactions can be regarded as a sign that the buyers find it more valuable to operate the company as a private entity, i.e. without disclosure, investor meetings, corporate governance regulations and other listing costs, as well as avoiding the costs of separating ownership and control.

The authors argue from a financial perspective, i.e., staying listed or leaving is primarily a tradeoff decision by the majority owner as to whether the costs or benefits of being listed overweigh those of not, too supported by a European study (Martinez & Serve, 2011). However, family firm owners do not only consider financial aspects in their decision-making, but also nonfinancial (Berrone et al., 2012; Gómez-Mejía et al., 2011). Indeed, for majority family owners of publicly listed family firms, nonfinancial, or SEW, considerations can be expected to be at least as equally important as cost-benefit considerations (Gómez-Mejía et al., 2011).

There is an important legal side to delisting decisions. According to European legislation, majority shareholders have the right to buy out or "squeeze out" minority shareholders if they own more than a certain threshold of all the shares (Martinez & Serve, 2011). A recent study by Croci and Giudice (2014) found that there were no positive impacts on performance when firms were delisted, but neither were minority shareholders expropriated by