RIETI Discussion Paper Series 26-E-006

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KUBO, Yuichiro
Kobe University

HONDA, Tomohito
Kobe University

UCHIDA, Hirofumi
Kobe University

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RIETI Discussion Paper Series 26-E-006

January 2026

Do Family Firm Sellers Consider Stewardship in M&A Decisions?[†]

Yuichiro Kubo[‡]
Graduate School of Business Administration, Kobe University

Tomohito Honda
Graduate School of Business Administration, Kobe University

and

Hirofumi Uchida
Graduate School of Business Administration, Kobe University

Abstract

This study examines whether, when acting as sellers in M&A transactions, privately held firms set sales conditions and make buyer selection decisions that reflect stewardship considerations. Using unique data on M&A involving privately held small and medium-sized enterprises (SMEs), our analysis reveals that many set sales conditions which reflect their preferences for stewardship-orientation. However, we do not find that family firms are more likely to do so, nor to select buyers with less informational asymmetry, than non-family firms. These findings indicate that in M&A transactions, privately held firms behave as suggested by stewardship theory, but there are no significant differences between family and non-family firms.

Keywords: Family firms; M&As; sellers' decisions; Stewardship; SMEs

JEL classification numbers: G34, L26, L25, M14, D23

[†] This study is an achievement of the Project "Study Group on Corporate Finance and Firm Dynamics" undertaken at the Research Institute of Economy, Trade and Industry (RIETI). An earlier version of this paper was presented at the RIETI and EIASM Workshop on Family Firm Management Research, and Forum for Entrepreneurial Studies. The authors thank Hiroshi Ohashi, Iichiro Uesugi, Eiichi Tomiura, Seiichiro Inoue, Peng Xu, Hiroyuki Okamuro, Yoji Takahashi, Shozo Kanki, Yuki Takenobu, Hiroshi Fujiki, Masato Shizume, Kozo Harimaya, Kazuo Yamada, Julia Suess-Reyes, and Joaquin Cestino Castilla, and seminar participants for their comments. This study is financially supported by JSPS KAKENHI Grant Number 22H00860 and Research Grant from the Center for Research and Education on SME M&A, Graduate School of Business Administration, Kobe University.

[‡] Corresponding author: Graduate School of Business Administration, Kobe University, 2-1 Rokkodai, Nada-ward, Kobe 657-8510, E-mail: y-kubo@people.kobe-u.ac.jp.

1. Introduction

Smooth business succession is critically important for the long-term sustainability of small and medium-sized enterprises (SMEs). Given their limited human resources, SMEs that face exits of their managers must choose from a variety of options for succession of their management, including family succession, succession to employees, external sales, or liquidation (e.g., DeTienne, McKelvie & Chandler 2015). Among these, acquisition by a third party through mergers and acquisitions (M&A) is a vital method for ensuring the continuity of the business when there is no successor within the family or among employees, which is often the case in aging economies.

To promote M&A in SMEs, it is essential to understand how such transactions are actually carried out. However, existing evidence on M&A is heavily skewed toward publicly listed firms, largely due to the lack of data availability, and despite its growing importance, research on M&A involving SMEs—especially privately held and family firms—remains underdeveloped (Bauer & Matzler, 2014).

Addressing this gap is critical**,** because M&A transactions involving privately held firms differ significantly from those involving listed firms. In the case of listed companies, their shares are traded on public markets, and the valuation of the selling firm is relatively straightforward, allowing acquisitions to proceed often without regarding the seller's intentions. In contrast, for privately held firms, shares cannot be transferred without incumbent shareholders' consent, so the sellers' decisions play a critical role in determining the success or failure of the acquisition. Indeed, many acquisitions of such firms are initiated by the seller (Graebner & Eisenhardt, 2004; Zeng, Douglas, & Wu, 2013), and this is especially the case for family firms, where shares are held by family members and the seller's intentions are particularly important.[1] However, the seller's perspective

[1] To explain these facts regarding M&A involving non-listed firms, Graebner and Eisenhardt (2004) proposed the so-called courtship theory, which conceptualizes the transaction as a mutual interaction between buyer and seller—akin to a process of "courtship." Their study demonstrates that acquisitions are not typically driven by unilateral buyer dominance, but rather by a seller-led process in which the seller strategically selects a buyer from among multiple candidates based on strategic and cultural compatibility. However, the supporting evidence for this

has received relatively little attention in the M&A literature (King et al., 2022).

Against this background, this paper aims to clarify how sellers choose their buyers in M&A transactions involving privately held firms. Among the various seller-related factors, this study focuses particularly on a factor that are likely unique to privately held firms, especially family firms—stewardship. Stewardship refers to the attitude of managing and operating organizational resources and values sincerely for the benefit of the organization as a whole and future generations, rather than for personal gain (Davis, Schoorman, & Donaldson, 1997). Stewardship theory explains human motivation not through economic rationality, as in the agency theory, but through group orientation and trust-based relationships.

The emphasis on stewardship in family firms has already been demonstrated in various manners (Miller, Le Breton-Miller, & Scholnick 2008; Neckebrouck, Schulze & Zellweger, 2017). However, such analyses have primarily focused on the long-term perspective of families in *continuing* family firms (Le Breton-Miller, Miller, & Lester, 2011; Hoffmann, Wulf, & Stubner, 2016). To the best of our knowledge, the importance of stewardship in the context of M&A has not yet been examined. Using a unique dataset, this study seeks to uncover the importance of stewardship for privately held firms when they select buyers in M&A transactions, with particular emphasis on its differences between family and non-family firms.

In this vein, we use very unique data provided by one of the top four listed M&A intermediaries in Japan that specializes in facilitating M&A transactions for small and medium-sized enterprises (SMEs). The dataset covers SMEs' M&A deals completed between 2016 and 2021. In Japan, due to population decline and aging demographics, a shortage of successors in SMEs has become a pressing issue, leading to a rise in third-party business succession through M&A. M&A intermediaries that identify and match sellers with buyers, assist in the negotiation process, and help finalize transactions, are contributing to this rise.

A key advantage of this dataset is that it includes information on the initial sales conditions that the seller desired, which is collected at the time when the intermediary entered into a contract with

theory remains primarily qualitative in nature.

the seller and began the process of seeking a buyer. This information is unique because it allows us to extract the seller's preferences. This is not possible using the information from the outcomes of the M&A deal at later stages because they reflect both demand (buyer-side) and supply (seller-side) factors. The information on the finalized transaction outcomes is also available, which enables us to examine whether the stewardship-related considerations are reflected in the final outcome that also depend on demand (buyer)-side factors.

Using this unprecedented dataset, we construct two sets of variables to represent sellers' stewardship-oriented preferences. First, we use four variables on sales conditions that sellers initially desired and so highly likely reflect such preferences. The three of them indicate that the seller includes conditions to (1) preserve business relationships with the current suppliers or customers, (2) retain the current employees, and (3) retain the companies' name. These conditions directly reflect sellers' preferences for stewardship. The fourth variable is the asking price that the sellers initially set in selling themselves, which indicates to what extent firms place emphasis on monetary value.

Second, we also use four variables to capture the attributes of the buyer in the finalized M&A transaction that relate to the asymmetry of information—or lack thereof—of buyers to the sellers. Sellers who prioritize stewardship and value the continuity of the firm after the sale are expected to choose buyers capable of maintaining business operations, employment, and relationships post-acquisition. However, such preferences are difficult to verify if the sellers lack sufficient information about the buyer. Therefore, such sellers are likely to select buyers with lower levels of informational asymmetry. To identify such buyers, we use proxies for geographical and industry proximity to the buyers, and an indicator that the buyer is a family firm.

Using these variables, we conduct both univariate and multivariate analyses. The univariate analysis reports the descriptive statistics on the above two sets of variables. Even such a primitive analysis provides us with valuable insights into the realities of M&A transactions among privately held firms, because, to the best of our knowledge, actual data on these aspects has never been uncovered before. In the multivariate analysis, we unveil the differences in these conditions and the types of buyers between family and non-family firms among the privately held firms in our sample.

In this analysis, the sales conditions and the types of the buyers are used as alternative dependent variables, and regressed on the indicator for family firms.

Our univariate analysis reveals that many privately held firms, regardless of whether they are family or non-family firms, tend to set conditions that reflect a strong orientation toward stewardship. More than ninety percent of our sample firms include retention of their employees as condition to sell themselves in the M&A, and more than sixty percent include preservation of business relationships with current suppliers and customers and retention of the company name. This finding suggests that regardless of family or non-family firms, privately held firms generally place a high value on stewardship in the context of M&A transactions.

From the multivariate analysis, we find that family firms are not more or less likely than non-family firms to exhibit stewardship-oriented preferences in setting the sales conditions. We also find that stewardship orientation is not reflected in the selection of buyers' type. Taken together, this study identifies strong preferences for stewardship in the seller's desired sales conditions, but do not find notable differences between family and non-family firms.

The uniqueness of this paper lies in its analysis on M&A involving privately held firms, and its differences between family and non-family firms, by using unique data that can identify pre-deal sales conditions that only reflect sellers' preferences, as well as the types of buyers finally matched. Through this analysis, this study makes three key contributions to the literature. First, it offers a unique seller-side perspective on buyer selection, addressing a gap in existing research where sellers' behavior has been largely overlooked (King et al., 2022). Second, it contributes to studies on stewardship theory by offering new evidence from the context of SMEs' M&A, showing that sellers often prioritize relational continuity and informational proximity over monetary value, extending prior findings on emotional and non-financial value (Zellweger et al., 2012; Kammerlander, 2016; Dehlen et al., 2014). Third, it highlights behavior of privately held firms in setting sales conditions and choosing buyer types, and sheds light on the pre-deal decision-making process in private firms' M&A, an area still underexplored (Welch et al., 2020).

The rest of the paper is composed as follows. Section 2 reviews the theoretical framework that underpins this study and establishes the hypotheses. Section 3 introduces the data and methodology.

Section 4 reports the results and provides a discussion. Section 5 concludes the paper.

2. Theory and hypotheses

2.1. Stewardship

Stewardship theory provides a foundation for research on privately held firms or family firms. This theory assumes that managers act in ways that contribute to the organization. Hernandez (2008, p.122) defines stewardship as "the long-term best interests of a group ahead of personal goals that serve an individual's self-interests." It explains human motivation not solely through economic rationality but also through group orientation and trust-based relationships.[2] Stewardship theory suggests that managers and employees are not solely motivated by personal interests or goals, as assumed in agency theory.[3] It rather suggests that their motivations may align with organizational objectives, leading them to act as stewards that behave cooperatively and altruistically toward the organization and others (Davis, Shoorman, & Donaldson 1997).[4]

Stewardship is considered to be prominent for privately held firms, where ownership and management are not clearly separated. And among them, it is likely to be most prominent for family firms, where family managers own the companies. Stewardship in the context of family firms refers

[2] Stewardship has traditionally been discussed in relation to personal qualities such as compassion, generosity, loyalty, and responsible commitment—typically directed toward social groups or organizations (Donaldson, 1990).

[3] Agency theory focuses on conflicts of interest among stakeholders in principal-agent relationships, such as shareholders and managers, or managers (or firms) and creditors (e.g., Jensen & Meckling, 1976). When such conflicts arise in the presence of information asymmetry between them, managers may engage in opportunistic behavior—the so-called agency problem.

[4] According to Hernandez (2008, 2012), individuals possess both a long-term perspective and a concern for others, and are likely to engage in behaviors that enhance others' long-term utility. Moreover, the stronger the emotional connection individuals feel toward others, the more they experience a sense of obligation to have a positive impact on the group. As a result, stewardship theory explains the mechanism by which individuals may pursue the long-term utility of stakeholders—even at the expense of their own personal interests (Hernandez, 2012).

to the attitude of family owner-managers who seek to maintain the business in a healthy and sustainable manner over the long term, and who interact with employees and customers with such mindset in mind (Miller, Breton-Miller, & Scholnick 2008). Miller , Breton-Miller, & Scholnick (2008) discuss stewardship from three perspectives: continuity in product and market development; connection with employees; and connection with consumers. Their analysis using data from privately held firms with fewer than 100 employees revealed that family firms involving multiple family members were more stewardship-oriented than those led by a single non-family manager.

Note, however, that stewardship in family firms may involve more complexity. Neckebrouck, Schulze, & Zellweger (2018) find that compared to non-family firms, family firms in Belgium place greater emphasis on "financial" stewardship—as reflected in higher investment in R&D, lower dividend payout, and higher risk tolerance—while less emphasis on "organizational" stewardship—as reflected in lower compensation practices, less investment in off-site employee training, higher voluntary turnover, and lower labor productivity. Therefore, whether privately held family firms are more or less stewardship-oriented may depend on the dimensions of stewardship under consideration.

2.2. Stewardship in M&A and our Hypotheses

The research question we ask in this paper is whether managers of privately held firms, especially family firms, behave as agents or as stewards *when they decide to sell their company* in M&A transactions. If they act as agents, they are expected to choose buyers who offer the highest purchase price. If they act as stewards, they are more likely to select buyers who can contribute to the long-term growth and sustainability of the company.

We are aware of some studies that deal with issues related to this research question. First, DeTienne, McKelvie, & Chandler (2015) classify managerial exit motivations into three categories: economic reward-based, stewardship-based, and withdrawal-based. Under the economic reward-based motivation, managers choose the exit option that maximizes their personal financial gain. In contrast, under the stewardship-based motivation, managers prioritize the long-term vision of the

family and the utility of other stakeholders, even at the expense of personal benefit.

Second, some studies argue that family firms often maintain strong relationships with stakeholders and tend to prefer the continued development of the business even after the sale (Arregle et al., 2007; Miller & Le Breton-Miller, 2008). As noted by Niedermeyer, Jaskiewicz, & Klein (2010) and Sharma & Manikutty (2005), family firms are more likely to prioritize non-financial factors in buyer selection, emphasizing the future prosperity of the organization and its stakeholders. Consequently, buyers with lower information asymmetry—such as known associates or geographically proximate firms—are expected to be preferred (Kammerlander, 2016).

However, these are mere theoretical propositions, and empirical evidence remains limited. We thus establish hypotheses based on these propositions and test them. First, we can predict that privately held firms have preferences for stewardship when they set sales conditions:

H1: In M&A transactions acting as sellers, privately held firms set sales conditions that contribute to the long-term benefits of stakeholders such as employees, business partners, and the local community.

We can also predict that such tendency is stronger for family firms where family members own the companies:

H1F: In M&A transactions involving privately held firms, family firms are more likely to set sales conditions that contribute to the long-term benefits to stakeholders such as employees, business partners, and the local community, than non-family ones.

Second, we can also predict that due to the stewardship-oriented preferences, privately held firms choose buyers with lower informational asymmetry:

H2: In M&A transactions acting as sellers, privately held firms select buyers with lower informational asymmetry.

And among such firms, family firms will have more tendency to do so:

H2F: In M&A transactions involving privately held firms, family firms are more likely to select buyers with lower informational asymmetry than non-family ones.

3. Data and Methodology

3.1. Data

The data used in this study consists of records of M&A deals provided by a major M&A intermediary specializing in M&As of SMEs in Japan. These are deals completed between April 2016 and September 2021. A key advantage of this dataset is that it includes information on the initial sales conditions desired by the sellers, which were collected by this intermediary when they entered into the brokerage agreements with the sellers and started conducting matching with potential buyers. In addition, the dataset contains information on the outcome of the finalized transactions, enabling an analysis of whether stewardship consideration were reflected in the final outcome. Our data also include information on sellers' and buyers' stockholders and board members, which enable us to identify family firms by their names and bonding relationships.

The original dataset contains 1,824 M&A deals during this period. Among them, we focus on 1,616 deals that were identified as transactions conducted through a share transfer scheme. We further restrict our sample to deals for which information on family or non-family status as well as on sellers' preferred conditions is available. This selection process resulted in our baseline sample of 464 deals when we focus on the initial sales conditions, and 433 deals when we focus on the finalized transaction outcomes.

3.2. Analysis

As explained in the introduction, our analyses are twofold. The first is the univariate analysis, where we report the descriptive statistics on two sets of variables that represent sellers' stewardship consideration. The first of them, *Sales Conditions*, represents variables for the sales conditions that the seller's initially desired and could reflect their stewardship-oriented preferences. The second, *Buyer Type* represents variables that capture characteristics of the buyer chosen in the finalized transaction and is considered to indicate whether the seller prioritized stewardship in selecting the

buyer. This analysis is to obtain insights into the realities of M&A transactions among privately held firms by testing Hypotheses 1 and 2.

Second, we conduct the multivariate analysis to unveil the differences in these variables between family and non-family firms. This analysis is to test Hypothesis 1F and 2F. The models we estimate in this analysis are the following:

$$Sales\ conditions\ =\ a_0\ +a_1\ *\ Family\ seller + a_2\ *\ X\ +\varepsilon_1 \quad (1)$$

$$Buyer\ type\ = b_0 + b_1 * Family\ seller + b_2 * X\ +\ \varepsilon_2 \quad (2)$$

Among the variables in these equations, the dependent variables the above two sets of variables to reflect whether the seller places importance on stewardship. The most important independent variable in these equations is a dummy variable *Family seller* that indicates that the seller is a family firm. To examine whether the effect of being a family firm varies depending on firm size as suggested by Miller, Breton-Miller, & Scholnick (2008), we also estimate the equations by including an interaction term between Family and firm size. In addition, to account for other factors that may influence the dependent variables, we include a set of control variables, represented by *X*.

Because we include interaction term as an independent variable, a probit model does not produce adequate marginal effects (see, e.g., Ai and Norton 2003), so we use an OLS estimation by assuming a linear function. Robust standard errors are employed to account for heteroskedasticity.

3.3. Variables

Sales conditions

As explained above, *Sales conditions* variables reflect whether the seller places importance on stewardship in the conditions they initially set when selling themselves. As such variables, we use three indicators—*Preservation of business relationships*, *Retention of employees*, and *Retention of company name*. First, *Preservation of business relationships* captures whether the seller includes the continuation of existing relationships with their customers and suppliers as a condition for

agreeing to the sale. Second, *Retention of employees* and *Retention of company name* respectively reflect whether the seller requires the buyer to maintain employment of the current employees and preserve the company's name as part of the sale conditions. In addition to these variables, we use *Asking price*, the prices at which the selling firms desire to sell themselves (in million JPY). This variable does not represent stewardship, and is rather used to examine whether the firm places greater emphasis on *monetary* value, as agency theory suggests.

Importantly, these variables capture the sales conditions that were set by the seller at the time they engaged the M&A intermediary and begin the buyer search. That is, they were *not* determined after a specific buyer had been identified, but rather reflect the seller's own preferences at the point of deciding to pursue an M&A transaction. As such, the information contained in these variables does not include preferences of the buyer, enabling us to isolate and identify sellers' preferences in a pure form within the context of SME M&A transactions.

Buyer type

Buyer type variables capture the characteristics of the buyer ultimately selected in the finalized M&A transaction. While these characteristics naturally reflect the type of buyer who chose the seller, they also provide insight into the seller's preferences. Among the type of buyers, we focus on those related to asymmetry (the lack thereof) of information on the buyers to the sellers. Sellers who prioritize stewardship and value the continuity of the firms after the sale are expected to choose buyers who can maintain the business operations, employment, and relationships after the acquisition. However, it is difficult to know whether a buyer actually possesses such preferences if the seller lacks sufficient information about the buyer. It is therefore likely that sellers with stewardship-orientation tend to choose buyers with lower levels of informational asymmetry.

To identify buyers with less informational asymmetry, we use variables to identify buyers with proximity. First, we use variables representing geographic proximity, which are supposed to capture the idea that a buyer located nearby is more transparent to the seller. Specifically, we use a dummy variable *Same prefecture*, indicating that the buyer is located in the same prefecture as the seller,

and a dummy variable *Same city*, indicating that the buyer is located more closely in the same municipality (city, ward, town, or village). Second, to capture the selection of buyers with industry proximity, we include a dummy variable *Same industry*, indicating whether the buyer operates in the same industry as the seller.

In addition, we use a dummy variable *Family buyer*, an indicator that the final buyer is a family firm. This variable may reflect stewardship-oriented preferences—based on the assumption that family firms share similar values and long-term commitments—as well as strong alignment of corporate culture between the buyer and the seller. However, the variable may not reflect stewardship-oriented preferences because it may just indicate that the seller preferred family buyers due to personal relationships, informal networks, or a desire to maintain control within a familiar circle. These preferences are rather consistent with the social capital theory or the stagnation hypothesis. Therefore, the interpretation of this variable requires careful consideration in light of both stewardship and alternative motivations.

Main independent variable: Family firms

The key explanatory variable in our multivariate analysis is *Family seller*, which indicates that the seller is a family firms. In this paper, we identify family firms as those that meet both of these two criteria: (1) a family holds more than 50% of the firm's shares; and (2) at least two board members are from the family. We also define *Family buyer* in the same manner, but there are some family buyers that are listed firms. In this case, we identify family firms as those where family members own 5% or more of the equity and at least one family member serves as a CEO.

To test whether family firms have stronger preferences on stewardship, we examine whether *Family seller* has a positive impact on the inclusion of sales conditions that reflect stewardship concerns, or the choice of buyers based on preferences for stewardship. We predict based on Hypothesis 1F that *Family seller* has a positive impact on the dependent variable to reflect stewardship (*Preservation of business relationships*, *Retention of employees*, and *Retention of company name*), while it has a negative impact on the dependent variable to reflect other concerns

(agency concerns) (*Asking price*). Also, based on Hypothesis 2F, we predict that *Family seller* has a positive impact on buyers with more proximity (*Same prefecture*, *Same city*, *Same industry*, and *Family buyer*), and *Family buyer*, but the impact on *Family buyer* might be the opposite based on other theories.

Control variables

As control variables in the multivariate analysis, we account for factors that may influence sellers' preferences or the selection of a buyer. First, to control for the size of the seller, we include sales and the number of employees (in natural logarithms) as independent variables. To capture the seller's profitability, we use ROA calculated as operating profit divided by total assets. Additionally, we include the age of the CEO of the seller.

Similarly, in equations to focus on the choice of buyers, we also control for buyers' size using sales, and profitability using labor productivity defined as operating profit over the number of employees. The age of the CEO of the buyer is also included as a control variable. Furthermore, to account for unobserved factors that may vary by region or over time, we incorporate prefecture fixed effects and transaction year fixed effects into all models. To eliminate the effect of extreme values, we winsorize sales, the number of employees, ROA, labor productivity, and firm age at the top and bottom 1 percent. We also winsorize *Asking price* at the top 1 and bottom 2 percent.[5]

[5] We did not winsorized *Asking price* at bottom 1 percent, because the lowest values represent more extreme asking prices than the largest. In previous literature regarding SME M&A, the selling price is typically winsorized between 1 percent and 2.5 percent on each side (Haider et al., 2020; Tao-Schuchardt, Riar, & Kammerlander,2023).

4. Results

4.1. Univariate results

Table 1 reports the descriptive statistics of the variables defined above, where Panel (A) shows the statistics for the whole sample. Panels (B) and (C) respectively show those when the sellers are family and non-family firms together with the results of the tests of the equivalence of the means between the two types of firms.

Of 433 firms in our baseline sample, we have 256 family firms (about sixty percent). As for *Sales conditions*, we find that more than sixty percent of the sellers include preservation of business relationships with incumbent customers and suppliers, and retention of company name, in the sales conditions. Also, more than ninety percent of the sellers include retention of employees in the conditions. As for asking price, the average price is 361 million JPY on average.

It is worth emphasizing that these findings on the first three sales condition variables are consistent with Hypotheses 1 and 2. The high proportions observed for these variables suggest that, regardless of whether the seller is a family or non-family firm, the privately held firms in our sample tend to place strong emphasis on stewardship considerations. These descriptive results are particularly noteworthy as important evidence on M&A of privately held firms, given the lack of direct data on them in prior research.

When we compare these variables between family and non-family firms, the former has a somewhat higher tendency to include these conditions, although the difference is not significantly different from zero except for *Preservation of business relationships*. *Asking price* is on average smaller for family firms, but the difference is again not statistically significant. Below, we dig deeper into these differences by regression analysis.

As for buyer type, about 33 percent of our sample firms sold themselves to buyers in the same prefecture, but the fraction of buyers in the same city is low at around 10%. In contrast, the fraction of buyers in the same industry and of family buyers are around 50%. However, we find no statistically significant differences in these types between family and non-family sellers. Again, we examine below whether these differences remain after controlling for other factors.

4.2. Multivariate results: (1) Sales conditions

Table 2 presents the estimation results on the sales conditions. The odd-numbered columns show the results without including the interaction term between *Family seller* and the number of employees, while the even-numbered columns show the results when this interaction term is included.

First, regarding the preservation of business relationships, the coefficient for *Family seller* is positive but statistically insignificant, indicating that family firms are not more or less likely to include the preservation of existing relationships with business partners as a condition of the sale. According to the results in column 2, which includes the interaction term, this tendency does not depend on the size of the seller. With respect to the retention of employees, no significant difference is observed between family firms and non-family firms. A similar result is found for the continuity of the firm's name, indicating that these conditions are not influenced by whether the seller is a family firm, nor are they affected by the size of the family firm.

Finally, regarding *Asking price*, there is no significant difference in the price between sellers who are family firms and those who are not. This finding means that there is no difference between family and non-family firms on the relative emphasis on short-term financial gains from the sale and long-term outcomes following the transfer of ownership. The two types of firms have similar tendency to prefer immediate price-driven outcomes suggested by DeTienne, McKelview, & Chandler (2015).

On balance, our findings reject H1F. They suggest that family firms do not demonstrate a stronger stewardship-oriented preferences than non-family firms, and our results do not lend support to the stewardship theory. It should be noted, however, that these findings do not imply that family firms disregard stewardship considerations. As shown in Table 1, both family and non-family firms tend to include such conditions in the sale. Our findings here just indicate that there are no significant differences in this high tendency, and privately held SMEs generally place a high value on stewardship—regardless of family of non-family firms.

4.3. Multivariate results: (2) Buyer types

Table 3 presents the estimation results regarding the types of final buyers. As in Table 2, the odd-numbered columns show results without the interaction term between *Family seller* and the number of sellers' employees, while the even-numbered columns include this interaction term. According to the results in columns (1) and (2), when the seller is a family firm, the likelihood of selecting a buyer located within the same prefecture increases compared to case where the seller is a non-family firm. Although this effect becomes statistically insignificant when we add the interaction term between *Family seller* and the number of employees, the interaction term itself is not statistically significant. These results indicate that family firms are more likely to choose buyers located within the same prefecture than non-family firms.

However, according to the results in columns (3) and (4), the same tendency is not observed in the selection of buyers located within the same municipality. Together with the previous results in columns (1) and (2), these results suggest that family firms seek a certain degree of geographical proximity to buyers, but tend to avoid excessive closeness. Sellers may avoid selling to too proximate buyers because they might expect lower growth opportunities, or smaller synergies due to limited potential for market expansion.

Furthermore, as shown in columns (5) and (6), family firms do not show a stronger tendency than non-family firms to select buyers from the same industry. The results in columns (7) and (8), also show no significant differences between family firms and non-family firms in terms of choosing family firms as buyers.

In summary, in the selection of final buyers, family firms show some tendency to consider stewardship more strongly than non-family firms in terms of choosing buyers located within the same prefecture, but such tendency is not evident in other aspects. These findings might suggest that stewardship considerations may play a relatively limited role in buyer selection.

4.4. Multivariate results: (3) Effect of sales conditions on buyer choice

In this subsection, we conduct an additional analysis to extend the previous one. Although we cannot directly examine to what extent buyers' preferences are reflected in the choice of final buyers, we can to some extent distinguish the effect of sellers' and buyers' preferences by elaborating equation (2) as follows.

$$Buyer\ type\ = c_0 + c_1 * Family\ seller + c_2 * Sales\ conditions + c_3 * Family\ seller * Sales\ conditions + c_4 * X\ +\ \varepsilon_3 \qquad (3)$$

In this equation, we add *Sales conditions* on the right-hand side to extract the effects of stewardship-oriented preferences reflected in sales conditions as distinct determinants of buyer type, as well as their interactions with *Family sellers*. By including these terms, we can extract the direct effect of stewardship-oriented conditions on the choice of buyer type.

The estimation results are presented in Table 4. We find that the effect of *Family seller* on the choice of sellers in the same prefecture disappears when controlling for the direct effect of stewardship-oriented conditions. This means that whether the seller is a family firm does not lead to buyer selection in the manner suggested by stewardship theory.

On the other hand, we find some interesting results on the added variables. In columns (3) and (4), we find that sellers that prefer retention of employees tend to be matched with buyers in the same city, although this effect disappears, or even reversed, for family firms. Also, sellers who want to preserve business relationships tend to be matched with buyers in the same industry, although it is not the case for family firms (columns (5) and (6)).

Because the final seller-buyer match reflects preferences of both sellers and buyers, it is hard to infer in which direction the causality runs between the dependent variables and the independent variables. However, we can at least conclude that the sales conditions that reflect sellers' preferences can affect the final choice of buyers. On the other hand, it is unclear why such effects disappear or even reversed for family firms. At the least, our findings imply that family firms behave somewhat

differently from non-family firms, and call for the need of clarifying more nuanced mechanism behind their behaviors.

5. Conclusion

This study examined how the stewardship-oriented preferences of privately held firms affects sales conditions and buyer choices in M&A transactions, and whether there are differences between family and non-family firms. The results revealed that privately held firms, regardless of whether they are family or non-family firms, are highly likely to set conditions reflecting stewardship-oriented preferences. However, our findings also indicated no significant differences in terms of stewardship orientation between family and non-family firms. Thus, we can conclude that privately held firms have strong preferences for stewardship, and that family firms were equally, if not more, inclined toward stewardship than non-family firms.

From the analysis of the characteristics of the final buyer, we also find that stewardship orientation was not necessarily reflected in the final buyer selection. On the other hand, there were other interesting relationships between the conditions sought by the seller and the characteristics of the final buyer, and several notable differences were observed between family and non-family firms. Identifying the causes behind these results represents an important future research agenda for studies on M&A involving family firms or privately held companies.

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Tables and Figures

Table 1 Descriptive statistics

This table reports the descriptive statistics of the variables we use in our analysis. See Section 3.3 for their definitions. Panel (A) reports the statistics for the whole sample, while Panels (B) and (C) respectively reports those when we split the sellers in our sample into family and non-family firms. Panel (D) shows the results for the tests of the equivalence of the means for family and non-family sellers, where ***, **, * respectively indicate that the rejection of the null hypotheses of the equivalence at the significance levels of 1, 5, and 10 percents.

	(A) Total					
	N	Min	Ave	Med	Max	SD
Family seller	433	0.000	0.591	1.000	1.000	0.492
Preservation of business relationships	433	0.000	0.640	1.000	1.000	0.481
Retention of employees	433	0.000	0.915	1.000	1.000	0.280
Retention of company name	433	0.000	0.621	1.000	1.000	0.486
Asking price (in million JPY)	433	0.000	361.212	200.000	3000.000	403.474
Same prefecture	433	0.000	0.333	0.000	1.000	0.472
Same city	433	0.000	0.097	0.000	1.000	0.296
Same industry	433	0.000	0.506	1.000	1.000	0.501
Family buyer	433	0.000	0.547	1.000	1.000	0.498
Seller sales (in million JPY)	433	19.568	552.834	372.405	6039.344	626.663
Seller employees	433	1.000	27.908	14.000	642.000	51.588
Seller ROA	433	-0.256	0.119	0.083	5.685	0.303
Seller CEO age	433	27.000	62.122	64.000	87.000	11.230
Seller founder	433	0.000	0.515	1.000	1.000	0.500
Buyer sales (million yen)	433	16.800	18231.940	3409.237	542004.000	54413.790
Buyer_profit/employees	433	-12113.000	298.905	84.000	22208.000	1523.151
Buyer CEO age	433	33.000	56.346	56.000	84.000	10.281

Table 1 Descriptive statistics (continued)

	(B) Seller family firm						(C) Seller non-family firm						(D) Difference in means	
	N	Min	Ave	Med	Max	SD	N	Min	Ave	Med	Max	SD		
Family seller	256	1.000	1.000	1.000	1.000	1.000	177	0.000	0.000	0.000	0.000	0.000	1.000	
Preservation of business relationships	256	0.000	0.691	1.000	1.000	0.463	177	0.000	0.565	1.000	1.000	0.497	0.126	***
Retention of employees	256	0.000	0.918	1.000	1.000	0.275	177	0.000	0.910	1.000	1.000	0.288	0.008	
Retention of company name	256	0.000	0.648	1.000	1.000	0.478	177	0.000	0.582	1.000	1.000	0.495	0.067	
Asking price (in million JPY)	256	0.000	335.830	200.000	2000.000	348.972	177	0.001	397.922	250.000	3000.000	469.936	-62.092	
Same prefecture	256	0.000	0.355	0.000	1.000	0.480	177	0.000	0.299	0.000	1.000	0.459	0.056	
Same city	256	0.000	0.105	0.000	1.000	0.308	177	0.000	0.085	0.000	1.000	0.279	0.021	
Same industry	256	0.000	0.543	1.000	1.000	0.499	177	0.000	0.452	0.000	1.000	0.499	0.091	*
Family buyer	256	0.000	0.527	1.000	1.000	0.500	177	0.000	0.576	1.000	1.000	0.496	-0.049	
Seller sales (in million JPY)	256	19.568	526.353	365.325	4457.440	541.687	177	42.511	591.134	372.573	6039.344	732.318	-64.781	
Seller employees	256	1.000	25.359	14.000	642.000	49.763	177	1.000	31.593	15.000	440.000	54.050	-6.234	
Seller ROA	256	-0.141	0.100	0.076	0.679	0.106	177	-0.256	0.146	0.097	5.685	0.456	-0.046	
Seller CEO age	256	33.000	63.598	66.000	87.000	10.730	177	27.000	59.989	61.000	87.000	11.617	3.609	***
Seller founder	256	0.000	0.496	0.000	1.000	0.501	177	0.000	0.542	1.000	1.000	0.500	-0.046	
Buyer sales (million yen)	256	16.800	17690.630	3704.183	542004.000	54635.210	177	38.292	19014.860	3038.000	431200.000	54237.050	-1324.230	
Buyer_profit/employees	256	-2504.000	232.281	77.000	8610.000	809.524	177	-12113.000	395.266	92.000	22208.000	2174.681	-162.984	
Buyer CEO age	256	33.000	56.176	56.000	84.000	10.742	177	36.000	56.593	57.000	82.000	9.598	-0.417	

Table 2 Results on Sales condition regression

This table reports the results of the regression analyses examining the effects of a *Family seller* on various sales conditions. The dependent variables are *Preservation of business relationships, Retention of employees, Retention of company name, Asking price* as shown in columns (1) through (8). The estimated coefficients are reported, with robust *t*-statistics in parentheses. Asterisks (***, **, and *) respectively indicate the statistical significance of the relevant coefficient at the 1%, 5%, and 10% levels. All regressions include controls for seller area, industry, and year fixed effects.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	Preservation of business relationships	Preservation of business relationships	Retention of employees	Retention of employees	Retention of company name	Retention of company name	Asking price	Asking price
Family seller	0.078	0.210	0.038	0.154	0.069	0.102	0.017	0.275
	(1.640)	(1.501)	(1.337)	(1.464)	(1.337)	(0.650)	(0.211)	(1.104)
Family seller * Seller employees		-0.048		-0.042		-0.012		-0.094
		(-1.011)		(-1.213)		(-0.230)		(-1.050)
Seller sales	-0.003	-0.003	-0.012	-0.012	0.004	0.004	0.687***	0.687***
	(-0.094)	(-0.088)	(-0.505)	(-0.502)	(0.113)	(0.115)	(11.031)	(11.045)
log (Seller employees)	0.015	0.042	0.053**	0.077***	0.022	0.029	0.040	0.093
	(0.466)	(0.956)	(2.361)	(2.701)	(0.617)	(0.615)	(0.681)	(1.180)
Seller ROA	0.205	0.210	0.045	0.049	0.278	0.279	1.278***	1.289***
	(0.870)	(0.894)	(0.314)	(0.350)	(1.132)	(1.137)	(2.932)	(2.961)
Seller CEO age	0.010***	0.009***	0.004**	0.003**	0.001	0.001	-0.002	-0.002
	(4.433)	(4.300)	(2.171)	(2.067)	(0.361)	(0.336)	(-0.442)	(-0.544)
Seller founder	-0.114**	-0.114**	0.001	0.001	-0.028	-0.028	0.051	0.052
	(-2.255)	(-2.246)	(0.033)	(0.045)	(-0.519)	(-0.517)	(0.538)	(0.550)
Constant	0.128	0.064	0.798*	0.743	0.461	0.445	4.883***	4.759***
	(0.170)	(0.086)	(1.658)	(1.527)	(0.559)	(0.540)	(3.746)	(3.624)
Observations	464	464	464	464	464	464	464	464
Seller pref. fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Seller industly fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
R-squared	0.232	0.234	0.208	0.213	0.156	0.156	0.489	0.490

Table 3 Results on Buyer selection regression

This table presents the results of the regression analyses examining the effects of being a *Family seller* and the interaction between *Family seller* and employee size (*Seller employees* > median) on sales conditions. The dependent variables are *Same prefecture*, *Same city*, *Same industry*, and *Family buyer*, as shown in columns (1) through (8). The estimated coefficients are reported, with robust *t*-statistics in parentheses. Asterisks (***, **, and *) respectively indicate statistical significance at the 1%, 5%, and 10% levels. All regressions include controls for seller area, industry, and year fixed effects.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	Same prefecture	Same prefecture	Same city	Same city	Same industry	Same industry	Family buyer	Family buyer
Family seller	0.096**	0.146	0.008	0.071	0.005	-0.003	-0.073	0.023
	-(2.030)	-(1.015)	-(0.255)	-(0.767)	-(0.089)	(-0.021)	(-1.436)	(-0.142)
Family seller * Seller employees		-0.018		-0.023		0.003		-0.035
		(-0.376)		(-0.759)		-(0.056)		(-0.654)
log (Seller sales)	-0.056	-0.056	0.021	0.022	0.036	0.036	-0.062	-0.061
	(-1.349)	(-1.339)	(-0.808)	(-0.819)	(-0.834)	(-0.831)	(-1.543)	(-1.501)
log (Seller employees)	0.038	0.048	-0.029	-0.017	-0.02	-0.021	0.024	0.043
	-(1.085)	-(1.111)	(-1.286)	(-0.764)	(-0.523)	(-0.464)	-(0.665)	-(0.914)
Seller ROA	-0.027	-0.023	-0.103	-0.098	-0.158	-0.158	0.025	0.032
	(-0.106)	(-0.092)	(-0.655)	(-0.622)	(-0.627)	(-0.628)	-(0.102)	-(0.132)
Seller CEO age	0.002	0.002	0.001	0.001	0.004	0.004	-0.002	-0.002
	(-0.711)	(-0.679)	-(0.931)	-(0.867)	-(1.573)	-(1.564)	(-0.755)	(-0.807)
Seller founder	0.012	0.012	0.051	0.051	-0.086	-0.086	0.059	0.059
	-(0.214)	-(0.210)	-(1.415)	-(1.407)	(-1.463)	(-1.461)	-(1.094)	-(1.062)
log (Buyer sales)	-0.029*	-0.029*	-0.026**	-0.026**	-0.002	-0.002	-0.062***	-0.062***
	(-1.817)	(-1.830)	(-2.137)	(-2.159)	(-0.129)	(-0.127)	(-3.665)	(-3.413)
Buyer productivity	-0.000	-0.000	-0.000	-0.000*	-0.000***	-0.000***	0.000	0.000
	(-1.173)	(-1.231)	(-1.407)	(-1.806)	(-3.122)	(-3.039)	-(0.855)	-(0.912)
Buyer CEO age	0.000	0.000	-0.001	-0.001	-0.001	-0.001	-0.007***	-0.007***
	(-0.028)	(-0.038)	(-0.433)	(-0.451)	(-0.332)	(-0.330)	(-2.684)	(-2.655)
Constant	1.987**	1.962**	-0.416	-0.449	-0.575	-0.57	3.086***	3.036***
	-(2.422)	-(2.367)	(-0.901)	(-0.962)	(-0.689)	(-0.681)	-(3.288)	-(3.913)
Observations	433	433	433	433	433	433	433	433
Seller pref. fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Seller industly fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
R-squared	0.26	0.261	0.177	0.178	0.191	0.191	0.266	0.267

Table 4. Results on Buyer selection with sales condition regression

This table presents the results of regression analyses examining the effects of being a *Family seller* and the interaction between *Family seller* and sales condition variables (*Preservation of business relationships, Retention of employees, Retention of company name, Asking price*) on buyer type. The dependent variables are *Same prefecture*, *Same city*, *Same industry*, and *Family buyer*, as shown in columns (1) through (8). The estimated coefficients are reported, with robust *t*-statistics in parentheses. Asterisks (***, **, and *) respectively indicate statistical significance at the 1%, 5%, and 10% levels. All regressions include controls for seller area, industry, and year fixed effects.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	Same prefecture	Same prefecture	Same city	Same city	Same industry	Same industry	Family buyer	Family buyer
Family seller	-0.265	-0.435	-0.215	-0.368	0.296	0.384	-1.310	-1.755
	(-0.280)	(-0.447)	(-0.325)	(-0.518)	(0.287)	(0.348)	(-1.283)	(-1.642)
Family seller * Seller employees		-0.033		-0.029		0.017		-0.085
		(-0.623)		(-0.826)		(0.278)		(-1.456)
Preservation of business relationships	-0.092	-0.095	-0.026	-0.028	0.170*	0.171*	0.067	0.061
	(-1.180)	(-1.212)	(-0.563)	(-0.609)	(1.915)	(1.919)	(0.786)	(0.721)
Family seller * Preservation of business relationships	0.167	0.170	0.037	0.039	-0.211*	-0.212*	-0.132	-0.125
	(1.610)	(1.634)	(0.529)	(0.561)	(-1.797)	(-1.802)	(-1.208)	(-1.152)
Retention of employees	0.052	0.038	0.124**	0.112*	-0.050	-0.043	-0.146	-0.181
	(0.384)	(0.280)	(2.043)	(1.819)	(-0.368)	(-0.310)	(-1.039)	(-1.325)
Family seller * Retention of employees	-0.166	-0.152	-0.254**	-0.241**	0.132	0.124	0.146	0.183
	(-0.904)	(-0.816)	(-2.342)	(-2.251)	(0.691)	(0.644)	(0.763)	(0.964)
Retention of company name	-0.053	-0.052	-0.019	-0.018	-0.008	-0.009	0.074	0.077
	(-0.711)	(-0.695)	(-0.426)	(-0.402)	(-0.096)	(-0.103)	(0.946)	(0.998)
Family seller * Retention of company name	0.051	0.050	-0.028	-0.029	-0.093	-0.092	0.047	0.044
	(0.496)	(0.485)	(-0.433)	(-0.449)	(-0.821)	(-0.814)	(0.454)	(0.426)
Asking price	0.039	0.031	-0.001	-0.009	0.001	0.005	-0.005	-0.026
	(0.911)	(0.698)	(-0.045)	(-0.254)	(0.025)	(0.106)	(-0.112)	(-0.529)
Family seller * Asking price	0.020	0.032	0.024	0.035	-0.012	-0.018	0.060	0.093
	(0.409)	(0.629)	(0.700)	(0.912)	(-0.221)	(-0.306)	(1.149)	(1.624)
log (Seller sales)	-0.081*	-0.080*	0.016	0.017	0.034	0.034	-0.084*	-0.080*
	(-1.808)	(-1.772)	(0.592)	(0.635)	(0.719)	(0.700)	(-1.838)	(-1.764)
log (Seller employees)	0.035	0.053	-0.032	-0.016	-0.017	-0.027	0.024	0.072
	(0.982)	(1.185)	(-1.396)	(-0.635)	(-0.456)	(-0.550)	(0.646)	(1.531)
Seller ROA	-0.051	-0.045	-0.063	-0.058	-0.157	-0.160	-0.037	-0.021
	(-0.195)	(-0.172)	(-0.396)	(-0.360)	(-0.622)	(-0.631)	(-0.155)	(-0.088)
Seller firm age	0.002	0.002	0.001	0.001	0.004	0.004	-0.002	-0.002
	(0.656)	(0.616)	(0.839)	(0.786)	(1.451)	(1.463)	(-0.620)	(-0.718)
Seller founder	0.006	0.005	0.041	0.041	-0.086	-0.086	0.058	0.056
	(0.105)	(0.091)	(1.126)	(1.104)	(-1.437)	(-1.427)	(1.048)	(1.012)
log (Buyer sales)	-0.037**	-0.037**	-0.027**	-0.027**	0.002	0.002	-0.062***	-0.061***
	(-2.225)	(-2.219)	(-2.040)	(-2.036)	(0.090)	(0.088)	(-3.345)	(-3.343)
Buyer productivity	-0.000	-0.000	-0.000	-0.000*	-0.000***	-0.000***	0.000	0.000
	(-1.451)	(-1.579)	(-1.559)	(-1.908)	(-2.896)	(-2.822)	(0.897)	(0.578)
Buyer firm age	-0.000	-0.000	-0.001	-0.001	-0.001	-0.001	-0.007***	-0.007***
	(-0.133)	(-0.145)	(-0.305)	(-0.320)	(-0.207)	(-0.201)	(-2.600)	(-2.626)
Constant	1.970**	2.069**	-0.325	-0.235	-0.691	-0.742	3.662***	3.922***
	(1.999)	(2.120)	(-0.524)	(-0.369)	(-0.672)	(-0.704)	(3.780)	(4.014)
Observations	433	433	433	433	433	433	433	433
Seller pref. fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Seller industly fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
R-squared	0.275	0.276	0.193	0.195	0.206	0.206	0.285	0.289