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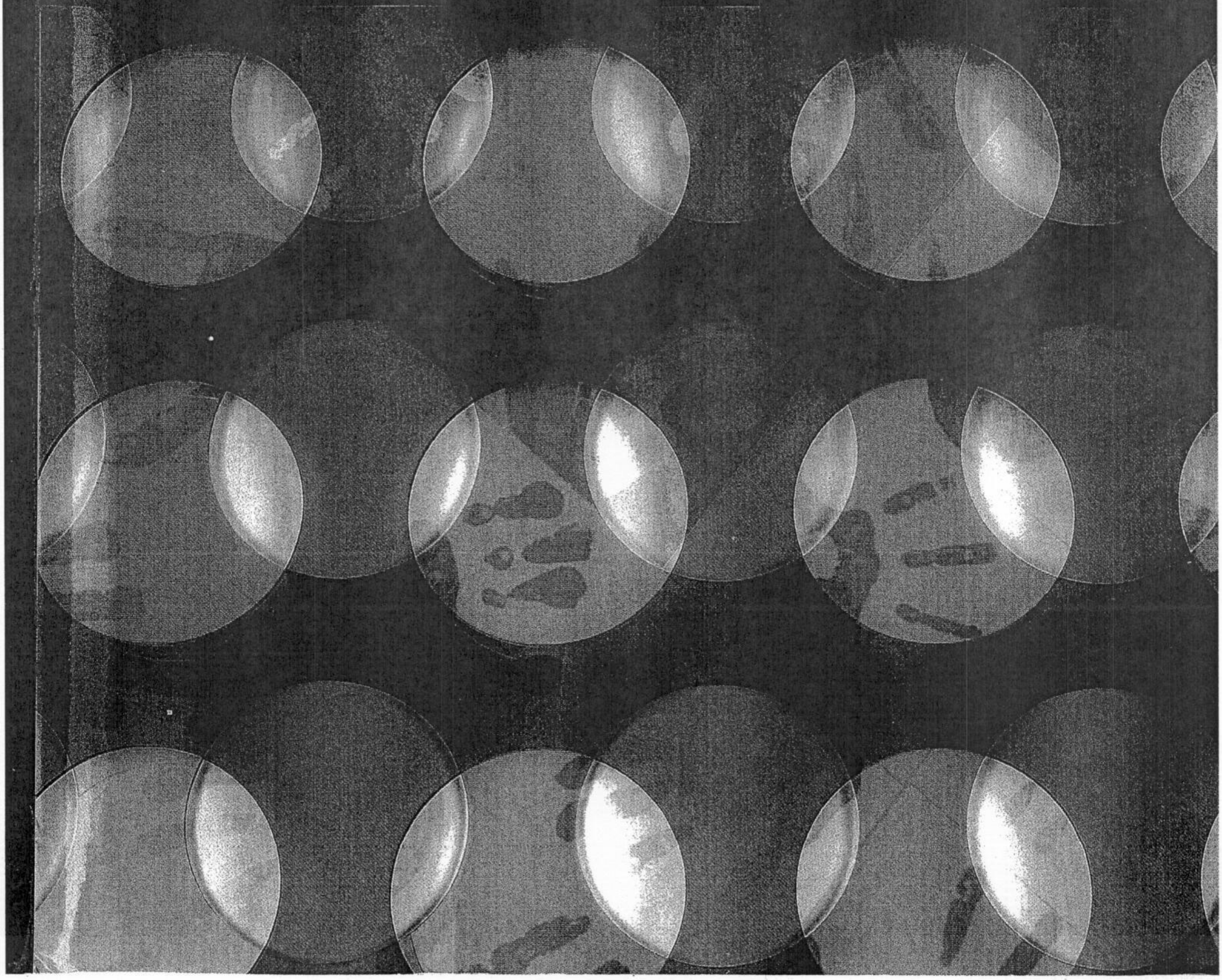

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27 Family-firm relationships in Italian SMEs: ownership and governance issues in a double-fold theoretical perspective

Luca Gnan and Daniela Montemerlo

This chapter offers a comparative study of family versus non-family small and medium-sized enterprises (SMEs) in terms of ownership and governance issues, and is based on a survey on 620 incorporated companies of small and medium size.

The survey was started in 2000 and was aimed at making an in-depth exploration of Italian small and medium-sized enterprises, with a special focus on family firms. Previous surveys had already analysed family small and medium-sized enterprises in Italy (Corbetta and Montemerlo, 1999); this survey intended to update some information and to go deeper into some issues, particularly into ownership and governance in terms of both structure and evolution. Another goal of the survey was to make some preliminary tests of different theoretical perspectives. On one side, we wanted to verify whether agency theory assumptions may apply to small and medium-sized enterprises and not only to large corporations; on the other side, we maintain that agency is a relevant perspective by which to interpret family small and medium-sized enterprises, but that it is not sufficient and should be integrated with a relational perspective.

The main findings we obtained confirmed, even at an exploratory level, that both perspectives are relevant. Family small and medium-sized enterprises are becoming more complex, especially in terms of ownership, which is increasingly fragmented. Fragmentation typically brings about differentiation between managing and non-managing owners, which raises a number of critical topics to be coped with to prevent agency problems, such as shares' transfers, dividends, appointment criteria for future leaders, company control through governance bodies. Family small and medium-sized enterprises do appear to cope with such topics by sharing rules for ownership and leadership, and by articulating governance systems. But this is not enough to retain ownership unity, which explains why, in a relational perspective, unofficial governance bodies such as family councils are used to nurture trust and shared vision.

First, we present the main theoretical references and the propositions that have been derived from both the agency and the relational perspectives. Then, we illustrate the methods, sample and data collection. The next section reports main findings. Finally, we discuss such findings, offering some concluding remarks to researchers and owning families.

Theoretical references

We maintain that, in order to read the structure and evolution of small and medium-sized family firms from a theoretical point of view, a double perspective is necessary. Specifically, we think we need two approaches that are traditionally used alternatively, but that should be complementary to enable a more in-depth understanding of family businesses.

The first perspective is the contractual one of agency theory that is not often applied to small and medium-sized enterprises, on the assumption that these firms do not have to cope with substantial agency problems; our point of view is that, on the contrary, small and medium-sized enterprises can be complex enough to feature such problems.

The second perspective is the relational one centred on the special links that exist between family owners and that may make the contractual devices that are typical of ownership insufficient. According to this perspective, a 'social capital' of trust, shared vision and networks exists, which has to be nurtured by means of relational devices that integrate with the contractual devices.

The contractual perspective

Agency theory is one of the literature mainstreams that look at companies from a contractual perspective, that is, as nexuses of contracts where the main counterparts are owner-principals and manager-agents; the key issue is how to align their interests, and particularly how to guarantee that agents behave in the interest of owners and not in their own. To overcome this threat (which is reinforced by contextual and behavioural conditions such as self-utility maximization, information asymmetry, bounded rationality, prevalence of economic goals and moral hazard) it is necessary to afford various agency costs in order to perform activities and operating systems that either monitor or bond agents, such as pay incentives, strategic planning, boards of directors, formal control systems, and so on (Jensen and Meckling, 1976; Morck et al., 1988).

For agency theory, small and medium-sized firms are considered to be the companies where agency problems are minimized, as owners and managers' roles are often played by the same people, which reduces costs related to conflicts (Fama and Jensen, 1983). But when the company evolves from the 'owner-manager' model towards the classical archetype of the corporation featuring complete separation between ownership and control, the typical agency threats re-emerge. In fact, different actors and corresponding interests may be involved even when the company is still small and medium sized: this happens, for instance, when managers not involved in ownership are hired, or when ownership becomes more numerous and differentiated and, by this means, only some owners play management roles.

The family nature that characterizes most small and medium-sized enterprises is also traditionally assumed to reduce agency costs for a number of reasons, particularly: in family firms, relations are based on kinship and blood; as such, these relations are made of emotions, sentiments, trust and altruism that are supposed to counter-balance opportunistic behaviours; family firms' long-term horizon reduces moral hazard problems (Daily and Dollinger, 1992; Gomez-Mejia et al., 2001; Harvey, 1999; Kang, 2000). But some studies show that the family nature can actually bring about special agency costs owing to problems of incongruity between executives' and family goals, lacking market discipline, self-control, adverse selection, managerial entrenchment and moral hazard (Buchanan, 1975; Gomez-Mejia et al., 2001; Jensen, 1998; Morck et al., 1988). On top of that, many of these problems can be originated by altruism itself (Schulze et al., 2001).

All this leads us to assume that agency threats do have to be coped with in both family and non-family small and medium-sized enterprises. Particularly, we assume that the more companies become complex in size and ownership, the more it is necessary to delegate tasks to agents at various levels and, consequently, to monitor them. To this purpose, a number of tools can be used, such as:

- policies to handle ownership issues like shares' transfers and dividend distribution. These are typical tools that are put in place to cope with agency problems, especially between managing and non-managing owners. In fact, both transfers and dividends may be regulated to guarantee that the former will not cheat the latter by putting up obstacles to exit and by 'hiding' company performances. Differentiation between managing and non-managing owners generally occurs when ownership becomes fragmented, that is when the number of owners increases (Corbetta and Montemerlo, 2003);
- policies to handle another key ownership issue such as the criteria for appointing future company leaders. Again, fragmented ownership may tend to agree on 'teams at the top' as leadership models for generations to come, as this model better guarantees full ownership representation in company governance. Later on, we will see that the agency perspective is not sufficient to understand teams at the top, and another interpretation will be offered;
- articulation of governance systems, typically by appointing bodies that appoint and monitor other bodies, and so on. By governance systems, we mean the combination of bodies that can be involved in governance at ownership, board and top management level (Montemerlo et al., 2004; Rediker and Seth, 1995).

This basic assumption can be translated into the following propositions:

Proposition 1 In family firms, extent of ownership fragmentation is related positively to policies adopted to regulate ownership issues such as shares' transfers and dividend distribution;

Proposition 2 In family firms, extent of ownership fragmentation is related positively to policies adopted to create a 'team at the top' leadership model;

Proposition 3 In family firms, size of the company and extent of ownership fragmentation are related positively to the articulation of their governance systems.

The relational perspective

In family firms, for the reasons mentioned above, agency costs should be lower; but in fact, the debate on their level in this type of company has not yet led to definite results. What emerges, nevertheless, is that agency theory represents a fundamental perspective, but at the same time an insufficient one to understand family firms in depth (Corbetta and Salvato, 2004; Mustakallio, 2002).

The relational perspective integrates the contractual perspective; within the former perspective, the social capital stream of theories seems to be particularly useful. Social capital can be defined as an asset that is rooted in social relations and networks (Leana and Van Buren, 1999; Nahatapiet and Goshal, 1998); such an asset appears to be critical in family firms, given the strong relational component that contracts feature in these companies. Nevertheless, application of this conceptual category in studies about governance, and particularly about governance of small and medium-sized enterprises, is relatively recent.

As to family firms, Mustakallio has offered a comprehensive framework of 'social capital including structural, relational and cognitive dimensions' (2002, p. 107). Within the structural dimension, family institutions such as family meetings and family councils can play a role in both family and company governance. As regards company governance, family councils represent the 'unofficial' part of governance structures, as they do not exist either in law or in management practice. In literature, they have been analysed both as complements and as substitutes to 'official' bodies and, especially, to the shareholders' meeting (Gersick et al., 1997; Lank and Ward, 2000; Lansberg, 1999; Ward, 1987, 1991). It has to be noted that these studies refer to large family firms and that relatively little attention is given to family councils in family small and medium-sized enterprises (Moores and Mula, 2000). A few studies have examined the role of family institutions such as family councils in the creation of trust and shared vision (that represent, respectively, the relational and cognitive dimensions of social capital – Gilding, 2000; Habbershon and Astrachan, 1997; Neubauer and Lank, 1998; Tsai and Goshal, 1998). Trust and shared vision determine unity and commitment of family and non-family actors; and together with quality of decisions, unity and commitment are acknowledged by several authors as the key conditions for family firms' success (Davis and Harveston, 1998; Gallo et al., 2001; LaChapelle and Barnes, 1998).

The presence of family councils in family business highlights the importance of the relational perspective to interpret the structures and dynamics of family firms. Our study researched such presence in Italian family small and medium-sized companies, based on the following propositions:

Proposition 4 In family firms, 'official' governance bodies coexist with 'unofficial' bodies.

Proposition 5 In family firms, 'official' governance bodies are utilized less than 'unofficial' bodies.

Method

Sample and data collection

As mentioned above, the sample comprised 620 incorporated companies of small and medium size, representative of the Italian population in terms of size, industries and geographical location. By small companies we mean firms with less than 250 employees and turnover of 50 million euros; medium-sized firms are considered to be those employing 251 to 500 employees and turnover totalling 50 to 250 million euros.

To build up the sample, 15 157 companies were randomly extracted in such a way as to be also representative of the reference population by region, range of employees and industries. Then a questionnaire was mailed to the extracted companies in October 2000; it was a complex questionnaire, comprising six sections investigating some anagraphical data on companies and respondents, ownership and governance structure, strategy, performance, and succession issues. All 620 responses were collected through January 2001; respondents held a leading position in 95 per cent of cases. Collected data have been elaborated by using descriptive statistics, t-tests and cluster analysis.

Of the 620 companies, 513 (83 per cent) were identified as family businesses. We define family businesses as those companies that meet at least one of the following requirements: (1) 51 per cent of equity or more is owned by the family; (2) the family owns less than 51 per cent but controls the company in partnership with friends, other entrepreneurs,

Table 27.1 Mailing list and sample by size and macro-industry

		Mailing list		Sample		Response rate
		Number	%	Number	%	%
Manufacturing	Small	6048	40	266	43	4.4
	Medium	887	6	45	7	5.1
Non-manufacturing	Small	6181	41	242	39	3.9
	Medium	2041	13	67	11	3.3
		15157	100	620	100	4.1

employees; (3) respondents perceive the company to be a family business, whatever the family share (which actually happened in 14 cases, see Greenwald and Associates, 1995).

Focusing on the sub-sample of family businesses, the redemption rate is indicated in Table 27.1 and is in line with the rates which are normally obtained in Italy. We compared the industries represented in our sample with those of the database used and found no differences in the industries represented (see Table 27.1). We also compared early respondents (first half) with late respondents (second half), following the Armstrong and Overton procedure (1977); differences here were also not significant. The same happened with other variables, for example, company age, size (employees and turnover), market and industry characteristics. All this suggested that non-response bias might not be a problem and that control variables were not necessary.

The incidence of family businesses on the whole sample confirms the worldwide acknowledged relevance of family firms, as these firms represent the predominant model.

What is more, Italian family firms perform the same in terms of continuity and the same, or even better, in terms of profitability; besides, they feature similar strategies. However, family companies are structurally smaller than non-family ones.

The ages of both types of firms resulted to be analogous, that is, the mean of year of foundation for family businesses is 1966 (median: 1974) and 1968 (median: 1976) for non-family firms.

Profitability indicators show that, from 1994 to 1999, family and non-family firms feature similar ratios in terms of ROS (return on sales), ROI (return on investment) and ROE (return on equity), as shown in Table 27.2. It has to be noted that the difference between family and non-family firms is significant only for return on investment in 1995 and 1996 and for return on equity in 1995 (sig. $<= 0.05$).

Strategic behaviours are also similar in family and non-family firms, comprising a common trend towards increasing complexity. In fact, main strategic changes in the past decades and those envisioned for the next appear similar. For example, for the 10 years preceding the year of this survey, owners highlighted growth in sales (79 per cent) and employees (48 per cent), entry into new segments of the same industry (38 per cent), internationalization (34.6 per cent), diversification into new industries (25 per cent), and strategic alliances with other companies (21 per cent), as key changes.

For the following decade, entrepreneurs figure out they will establish many more alliances (47 per cent), they will increase the degree of internationalization (41.4 per cent), they will diversify more into new industries (37.3 per cent) than new segments (35 per cent). As to growth, 65 per cent of companies expect to increase their size in term of sales;

Table 27.2 Profitability indicators in family and non-family firms

		Mean		Std. deviation	
		Non-family firms	Family firms	Non-family firms	Family firms
ROS	1995	3.55	4.79	4.62	7.73
	1996	6.12	5.98	4.50	6.89
	1997	4.18	5.45	5.81	4.74
	1998	4.22	4.58	6.64	4.49
	1999	5.25	5.36	5.88	5.25
ROI	1995	4.10	6.89	6.58	5.72
	1996	7.39	8.37	5.68	6.53
	1997	5.00	7.29	6.14	5.72
	1998	5.51	6.26	6.31	5.35
	1999	6.78	7.14	6.66	6.37
ROE	1995	2.08	12.08	18.09	17.51
	1996	17.31	14.37	23.41	19.70
	1997	7.34	9.25	12.55	16.52
	1998	5.63	7.19	23.53	17.83
	1999	9.62	7.44	20.89	20.21

in general, the expected growth is more in terms of sales than of employees (24 per cent, t = 17.614, sig. <= 0.001).

As to size, family firms are smaller, on average, than non-family firms; 84.5 per cent of family firms are small whilst the corresponding percentage of non-family is 69.1 per cent (t = 3.246, sig. <= 0.001).

Moreover, most family firms are concentrated in the lower-size ranges: for example, 73.4 per cent of family firms and 58.3 per cent of non-family ones have less than 50 employees (t = 2.932, sig. <= 0.001). Presence of family firms, and particularly of small ones, is higher in more consolidated, manufacturing industries: 43.1 per cent of family firms are manufacturing, while the incidence of manufacturing non-family firms is 30.8 per cent (t = 2.475, sig. <= 0.001, the difference seems to be especially due to the stronger presence of non-family firms in service industries: 25 per cent versus 15.5 per cent, t = 2.120, sig. <= 0.001); small family firms account for 87.4 per cent of manufacturing and 81.6 per cent of non-manufacturing companies.

Results

Family ownership between tradition and change

Family ownership is still quite 'traditional' in terms of both prevalence of family and scarce openness to outsiders. We found a number of similarities with previous studies in terms of family stake, concentration of control power, average number of family shareholders, relevance of managing ones and scarce presence of non-family shareholders (Corbetta and Montemerlo, 1999); particularly:

- family owns 100 per cent of equity in 72 per cent of cases, and more than 51 per cent in another 18.5 per cent;

- average share owned by the family as a whole is 89 per cent today (std. dev. 22.5) and has not changed over the past 10 years;
- present average share held by single-family owners is 37.9 per cent (std. dev. 19.4), while the average share of the most important family shareholder is 51.3 per cent (std. dev. 23.4). Again, no change occurred with respect to 10 years before;
- the average number of family shareholders is 3 (std. dev. 2.2); with respect to 10 years ago, the increase (+0.35 per cent) is not significant; neither is this number expected to change in the future. Besides, it turned out to be positively correlated (sig. <= 0.001) with size, both for turnover (r = 0.215) and number of employees (r = 0.191) (Gnan and Montemerlo, 2001);
- most family business shareholders (on average, 69 per cent of total shareholders) work in the company;
- non-family partners exist in about 28 of cases and in almost two-thirds of these cases they are friends of the controlling family, with no changes with respect to 10 years before. This actually represents an increase with respect to previous surveys (Corbetta and Montemerlo, 1999);
- 53 per cent of total family assets, on average, are invested in the company.

This does not mean that ownership structure is not going to change. On one hand, in the past 10 years, some family owners exited from 20 per cent of companies (and in 81 per cent of these cases this occurred during the succession process). As a whole, 42 per cent of shares was transferred (28 per cent per shareholder on average). Exits were correlated (sig. <= 0.001) with generation (r = 0.210), age (r = 0.141) and fragmentation, that is, number of family owners (r = 0.205), confirming that family business' evolution naturally brings about transfers of shares, either within the same generation or from one generation to the next. Some companies are going to significantly change the structure owing to family exit; in 6.6 per cent of cases, respondents declared there will not be any family shareholders in 10 years' time.

Fragmentation was already being experienced in the past decade, and it is increasing; family ownership groups comprising four to six shareholders increased from 20.4 per cent to 25.7 per cent in the past 10 years (t = 2.019, sig. <= 0.001), and are expected to increase to 31 per cent in the next 10 years (t = 1.887, sig. <= 0.001).

Test of proposition 1: In family firms, extent of ownership fragmentation is related positively to policies adopted to regulate ownership issues such as shares' transfers and dividend distribution Thirty-six per cent of cases featured policies for shares' transfer and, particularly, pre-emption and option rights. Such rules are mainly formalized in articles of associations, morê rarely in owners' agreements. They appear to be more frequent the more numerous the family owners (r = 0.167, sig. <= 0.001), and especially managing ones (r = 0.220, sig. <= 0.001).

Besides, in 38 per cent of cases explicit dividend policies were declared. Again, a positive correlation has been found between such policies and the number of owners (r = 0.163, sig. < = 0.001), plus generation (r = 0.122, sig. <= 0.050) and age (r = 0.134, sig. < = 0.001).

In sum, the more family ownership becomes fragmented and generations advance, the more owning families feel the need to regulate critical issues through appropriate rules. Proposition 1 is thus verified.

Test of propositions 2: In family firms, extent of ownership fragmentation is related positively to policies adopted to create a 'team at the top' leadership model The survey has measured for the first time the presence of 'teams at the top', that is, groups of peers co-leading the company: respondents declared that such teams characterize 55.4 per cent of companies today. Such teams resulted to be composed by 1.69 people on average (0.34 of which are women) and they include non-family members in 34 per cent of cases and a majority of them in 12 per cent.

Presence of teams at the top was positively correlated with number of owners ($r = 0.225$, sig. $<= 0.001$), and particularly of managing ones ($r = 0.310$, sig. $<= 0.001$), thereby confirming proposition 2.

Looking into the future, multiple leaders are expected to increase further up to 64 per cent of companies ($t = 2.819$, sig. $<= 0.001$). As ownership fragmentation is also expected to increase, the two trends might be correlated as well, thereby further supporting proposition 2 also for the future.

Governance structures' composition and functioning: five archetypes

Governance bodies can be divided into three groups: (1) at ownership level, the shareholders' meeting; (2) at board level, the board of directors of the holding company in case of groups, the board of directors and executive committee of operating companies, the operating companies' chairman and chief executive officer (CEO), a 'sole CEO' who is the alternative to the operating company board as, according to the Italian law, neither the board of directors nor the chairman exist when he/she is nominated; and (3) at top management level – the general manager of operating companies, the managing committee of operating companies. It was not possible to locate at which level the 'team at the top' operates (see above).

Each body, in general, may appoint members of the bodies it delegates tasks to, define their functioning mechanisms, approve their proposals, advise and monitor them, formulate some decisions itself (Huse, 2000). Bodies at levels (1) and (2) are more often devoted to decision control (ratification and monitoring), while at level (3) they are also delegated decision management functions (that is, initiation and control; see Fama and Jensen, 1983, Huse, 2000; Rediker and Seth, 1995).

These bodies can be regarded as 'official', as they are acknowledged as 'corporate organs' by law or by practice. We decided to consider also some 'unofficial' bodies, that is, bodies that normally do not appear in company organization chart, namely: (4) the family council, that is a collegial body composed by adult family members, whether they are owners of the company or not, either formal (that is, structured and organized with its own regulation) or informal (family members just meet when they need to); and (5) third parties (consultants, chartered accountants, lawyers) – empirical evidence highlights they may have critical influence, especially in advising and monitoring governance decisions but, sometimes, also taking part in their formulation.

The analysis on governance was conducted on a more restricted sample of companies, namely, 450 family small and medium-sized enterprises. A cluster analysis was made on the restricted sample and it led to identification of five 'archetypes', that is, five macro-structures encompassing similar governance structures.

The archetypes featured different complexity in terms of both number and relative frequency of their composing bodies. That is, complexity is higher when the number of

*Table 27.3 Archetypes of governance structures in family small and medium-sized enterprises**

Archetype	1	2	3	4	5
Number of firms	123	79	143	76	29
Percentage	27.3	17.6	31.8	16.9	6.4
Family council	26.8%	**50.6%**	0.7%	**100.0%**	24.1%
	23.6%	*45.6%*	*0.0%*	***100.0%***	*17.2%*
Shareholders' meeting	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	41.5%	*21.5%*	***69.9%***	***81.6%***	***65.5%***
Holding board of directors	0.0%	2.5%	7.0%	6.6%	31.0%
	0.0%	*1.3%*	*4.9%*	*6.6%*	*31.0%*
Operating board of directors	0.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	0.0%	*13.9%*	*43.4%*	*40.8%*	***62.1%***
Chairman	0.0%	49.4%	**97.9%**	**93.4%**	**82.8%**
	0.0%	*3.8%*	***91.6%***	***80.3%***	***65.5%***
CEO	0.0%	**83.5%**	**90.2%**	**96.1%**	**72.4%**
	0.0%	*22.8%*	***64.3%***	***76.3%***	***65.5%***
Sole CEO	**100.0%**	0.0%	0.0%	0.0%	0.0%
	77.2%	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Executive committee	2.4%	3.8%	4.2%	13.2%	13.8%
	1.6%	*3.8%*	*4.2%*	*13.2%*	*13.8%*
General manager	14.6%	11.4%	22.4%	19.7%	**96.6%**
	5.7%	*5.1%*	*15.4%*	*15.8%*	***93.1%***
Managing committee	4.9%	1.3%	5.6%	10.5%	**51.7%**
	4.1%	*1.3%*	*4.2%*	*9.2%*	***51.7%***
Third parties	17.1%	2.5%	23.1%	44.7%	**93.1%**
	14.6%	*2.5%*	*23.1%*	*42.1%*	***93.1%***

Note: * For each governance body, the two percentages indicate existence and functioning (italic). Percentages of 50% and more are indicated in bold.

bodies that make up the archetype is higher, or when the number is the same but at least most of the bodies that make up the archetype feature a higher frequency in terms of existence and/or functioning. Two dichotomized indicators were used to measure these two phenomena, based on the answers given to a question that, for each of the 11 official and unofficial bodies listed above, asked respondents to indicate: (1) if the body did exist in the company or not; and (2) whether it was functioning, that is, actually utilized or not.

A synthesis of archetypes' characteristics is sketched out in Table 27.3. Details are offered in the remaining part of this section.

Archetype I: Single leader This is family firms' simplest archetype, present in 27.3 per cent of companies, where the shareholders' meeting is always there but is actually used in less than half the cases (41.5 per cent). In fact, the family council is existing in 26.8 per cent and utilized in 23.6 per cent of companies. The stronger body in this archetype is the 'sole' CEO, always present, and almost always functioning (77.2 per cent). Presence of other bodies is very small.

Archetype 2: Family council over official collective bodies This archetype accounts for 17.6 per cent of cases. The stronger body appears to be the family council, present in half the companies (50.6 per cent) and almost always utilized (45.6 per cent). The family council might partially act as a substitute for the shareholders' meeting (actually used in 21.5 per cent of cases) but also of other bodies such as the board of directors (which is also there in all cases, but is functioning only in 13.9 per cent). The chairman and CEO are quite frequent (49.4 per cent and 83.5 per cent respectively) but not much used (3.8 per cent and 22.8 per cent, respectively). All other bodies feature a very low presence.

Archetype 3: Active ownership and board in a single company Archetype 3 is the most common within its sub-set of companies as well, as it accounts for 31.8 per cent of cases. With respect to archetypes 1 and 2 of family firms, archetype 3 features greater prevalence and a higher utilization of official bodies. The family council is almost absent; the shareholders' meeting is used in 69.9 per cent of cases; the board of the operating company plays an actual role in less than half the companies (43.4 per cent); the chairman and CEO are the most prevalent (97.9 per cent and 90.2 per cent respectively) and functioning (91.6 per cent and 64.3 per cent); again, overlaps are possible. Other bodies feature a very small presence, with the partial exception of the general manager and third parties.

Archetype 4: Active ownership, board and unofficial bodies in a single company This archetype accounts for 16.9 per cent of cases. It is quite similar to archetype 3 but for a greater articulation owing to a higher utilization of the family council and third parties. In particular, the family council is always present and used, and might partially substitute for the board of directors, which is always there, but is functioning in only 40.8 per cent of cases.

Archetype 5: All active, both official and unofficial bodies, in single companies and groups This is the most articulated archetype, including governance bodies at all levels; in particular, holding boards, top management bodies and third parties are much more utilized than in previous archetypes. This archetype accounts for 6.4 per cent of cases.

Test of other propositions – Proposition 3: In family firms, size of the company and extent of ownership fragmentation are related positively to the articulation of their governance systems; Proposition 4 In family firms, 'official' governance bodies coexist with 'unofficial' bodies; Proposition 5: In family firms, 'official' governance bodies are utilized less than 'unofficial' bodies Results of this part of the study show (see Tables 27.4 and 27.5), first, that governance archetypes may be quite complex even in small and medium-sized enterprises, while they are generally supposed to feature very simple structures in governance literature. It also emerged that there is always a gap between existence of and actual utilization of, which confirms that governance bodies may be present, but not functioning.

Secondly, matching archetypes with company size showed that family small and medium-sized enterprises increase the existence and actual use of governance bodies as long as they grow larger and the number of family owners increases, which supports proposition 3. Thus, a further complexity might be expected in the future as companies expect to grow more and to experience more fragmentation (see above).

Thirdly, our study offers insights on the presence and importance of the family council. In particular it shows that family councils do exist in a number of small and medium-sized

Table 27.4 Test of proposition 3

Archetype		1	2	3	4	5
Number of firms		123	79	143	76	29
Percentage		27.3	17.6	31.8	16.9	6.4
Sales ('000 euros)	Mean	5879.2	8544.2	15029.8	17760.8	35482.6
	Std. dev.	14352.7	9917.3	17578.4	22853.8	43702.0
Employees	Mean	45.9	39.7	79.9	77.0	143.2
	Std. dev.	68.3	69.1	87.4	79.4	132.2
No. of shareholders	Mean	2.9	3.0	5.4	4.4	4.3
	Std. dev.	0.9	1.3	5.3	2.3	4.6
Family shareholders	Mean	2.4	2.8	3.1	4.0	4.2
	Std. dev.	0.9	1.2	1.9	1.9	4.3

*Student t values for means differences**

Sales	Archetype 1	Archetype 2	Archetype 3	Archetype 4	Archetype 5
Archetype 1	–				
Archetype 2	**4.736**	–			
Archetype 3	**8.162**	**8.162**	–		
Archetype 4	**6.733**	**6.733**	**6.732**	–	
Archetype 5	**9.172**	**9.172**	**9.172**	**9.172**	–
Employees					
Archetype 1	–				
Archetype 2	**6.240**	–			
Archetype 3	**6.176**	**6.105**	–		
Archetype 4	**7.474**	**7.417**	**7.418**	–	
Archetype 5	**9.097**	**9.035**	**9.043**	**8.945**	–
No. of shareholders					
Archetype 1	–				
Archetype 2	0.310	–			
Archetype 3	**3.736**	1.852	–		
Archetype 4	0.368	0.356	1.668	–	
Archetype 5	1.314	0.679	0.630	0.430	–
Family shareholders					
Archetype 1	–				
Archetype 2	0.467	–			
Archetype 3	**4.213**	**2.058**	–		
Archetype 4	**2.822**	1.550	**4.811**	–	
Archetype 5	**3.085**	1.617	**5.382**	**4.524**	–

Note: * All t values in bold feature a $p < 0.005$.

enterprises, thus partially supporting proposition 4, and it highlights that they may sometimes substitute the shareholders' meeting and the board of directors, thereby partially supporting proposition 5. This raises some issues for the future that will be discussed in the next section.

Table 27.5 Test of propositions 4 and 5

Functioning % in each archetype	Number of firms	Family Council	Shareholders' Meeting	Holding Board of Directors	Operating Board of Directors	Chairman	CEO	Sole CEO	Executive committee	General Manager	Managing committee	Third parties
Family firms	450	32.4%	55.3%	4.9%	27.1%	47.6%	41.6%	21.1%	5.6%	16.0%	7.6%	24.9%
Archetype 1	123	23.6%	41.5%	0.0%	0.0%	0.0%	0.0%	77.2%	1.6%	5.7%	4.1%	14.6%
Archetype 2	79	45.6%	21.5%	1.3%	13.9%	3.8%	22.8%	0.0%	3.8%	5.1%	1.3%	2.5%
Archetype 3	143	0.0%	69.9%	4.9%	43.4%	91.6%	64.3%	0.0%	4.2%	15.4%	4.2%	23.1%
Archetype 4	76	100.0%	81.6%	6.6%	40.8%	80.3%	76.3%	0.0%	13.2%	15.8%	9.2%	42.1%
Archetype 5	29	17.2%	65.5%	31.0%	62.1%	65.5%	65.5%	0.0%	13.8%	93.1%	51.7%	93.1%
*t values associated with % difference between presence of a family council and presence of other bodies**												
Family firms	450	0.000	**7.110**	**11.341**	1.752	**4.683**	**2.843**	**3.871**	**10.944**	**5.867**	**9.821**	**2.515**
Archetype 1	123	0.000	**3.050**	**6.160**	**6.160**	**6.160**	**6.160**	**9.974**	**5.496**	**4.102**	**4.622**	1.796
Archetype 2	79	0.000	**3.311**	**7.715**	**4.637**	**6.960**	**3.110**	**8.133**	**6.960**	**6.616**	**7.715**	**7.325**
Archetype 3	143	0.000	**18.236**	**2.713**	**10.462**	**39.511**	**16.061**	0.000	**2.503**	**5.099**	**2.503**	**6.550**
Archetype 4	76	0.000	**4.143**	**32.851**	**10.503**	**4.323**	**4.857**	0.000	**22.396**	**20.133**	**27.370**	**10.223**
Archetype 5	29	0.000	**4.282**	1.244	**3.926**	**4.282**	**4.282**	**2.458**	0.363	**8.981**	**2.964**	**8.981**
*t value of the difference of % between the presence of third parties and the presence of other bodies**												
Family firms	450	**2.515**	**9.802**	**8.781**	0.760	**7.279**	**5.393**	1.348	**8.382**	**3.326**	**7.256**	0.000
Archetype 1	123	1.796	**4.907**	**4.592**	**4.592**	**4.592**	**4.592**	**12.660**	**3.843**	**2.347**	**2.895**	0.000
Archetype 2	79	**7.325**	**3.836**	0.584	**2.664**	0.455	**4.019**	1.432	0.455	0.834	0.584	0.000
Archetype 3	143	**6.550**	**8.997**	**4.593**	**3.728**	**16.248**	**7.734**	**6.550**	**4.839**	1.658	**4.839**	0.000
Archetype 4	76	**10.223**	**5.482**	**5.606**	0.165	**5.245**	**4.577**	**7.435**	**4.217**	**3.738**	**5.012**	0.000
Archetype 5	29	**8.981**	**2.758**	**6.337**	**3.053**	**2.758**	**2.758**	**19.786**	**9.981**	0.000	**3.977**	0.000

Note: *All t values in bold feature a $p < 0.005$.

Concluding remarks

Synthesis of main findings

Both theoretical perspectives, contractual and relational, seem to be relevant to understanding family small and medium-sized enterprises. The contractual perspective is pushing owning families to establish rules and to make their governance systems more complex to cope with the agency problems brought about by company growth and ownership fragmentation. The relational perspective encourages owning families to keep unofficial governance bodies such as family councils, and sometimes to substitute official bodies with these, to keep trust and shared vision between family members. Interestingly, teams at the top may result from a mix of agency needs (such as full ownership representation) and relational needs (for example, keeping cohesion between family executives).

Some hints for researchers

We envision a few possible directions for future research.

First, our propositions might be turned into hypotheses to be extensively tested.

Second, studies on other countries might test the influence of national culture on the results we obtained. In particular, the very close relationship between family and firm that is typical of the Italian context might give unofficial governance bodies such as the family council a superior importance with respect to other countries.

Third, analysis of governance structures might go deeper from many points of view. For instance, to prevent the questionnaire being too onerous for respondents, we could not ask whether the same or different people played governance roles at different levels (ownership, governance and top management) and also in different positions (chairman, CEO, co-CEO, general manager), which is typical of family firms. The presence of the same people in various bodies might cause us to question our findings about governance archetypes. Another area that is worth exploring further is the substitution effect that was assumed for family councils over other bodies; to go deeper and verify it, it would be useful to analyse what types of decisions are taken by various official and unofficial governance bodies. Another relevant topic is agency costs and their measures, which would be worth working on to go deeper into the open issue of whether these costs are lower or not in family firms. Another challenging issue is the relationship between governance structures and company performances, which has not been definitely identified so far.

Fourth, given their present and perspective relevance, study of origination, composition and functioning of teams at the top represents another key topic to be further analysed in order to help families best design and manage them. Also, it was not possible to investigate where such teams are located in the governance system (At board level? At top management level?); to go deeper into this issue might be useful for a better understanding of both leadership and governance in family firms.

Finally, as we stated above, teams at the top could be a consequence of fragmented ownership's diffusion, that is, they could be used as an agency-based tool to settle possible conflicts of interest within family ownership. But this is not sufficient: the success of teams at the top requires a relational perspective as well, as it depends on personal, family and company variables such as team members' complementarity, mutual esteem, commitment to working together, listening and mediation aptitudes, clear division of roles but shared responsibility on key decisions, and family education centred on cooperation rather than competition (Ward, 1997). In sum, teams at the top may result from a mix of agency needs (such as full ownership representation) and relational needs (such as retaining cohesion between family executives); this might also be further explored to better understand and support leadership and governance structures.

Some hints for families

Our survey results show that, at a 'macro' level, the family model has been 'keeping its position' so far with respect to relevance, profitability and strategies.

The 'size issue', instead, has not been solved, which might be quite a weakness in a more and more difficult environment, to the extent that family business prominence and performance might be threatened. Some 'good news' is that family small and medium-sized enterprises are making progress: their strategic priorities are in line with the evolution of competitive systems, governance systems are developed in complexity consistently with size, and the importance of preparing for succession seems to be increasingly acknowledged. But it is critical not to 'lower one's guard' from all the mentioned points of view.

As far as ownership is concerned, important dynamics will have to be managed. In particular, it will become more important to facilitate relations between more numerous (and perhaps more diversified) shareholders, to govern exit processes and at the same time to activate all structures and processes that may be necessary to preserve unity and commitment and their most direct antecedents such as love for the company and trust between various actors.

Family small and medium-sized enterprises have already been doing some work in this direction by setting up shared rules on topics such as shares' transfers and dividends, which are critical when ownership gets extended. But this work has taken place especially in articles of association, whose formulating process is generally top-down and formal: perhaps more involving family agreements might be necessary to share principles and rules and to foster communication and cohesion (Montemerlo and Ward, 2005).

Some other work has been done on governance structures. Our study shows that Italian small and medium-sized enterprises do make efforts to keep their governance structures consistent with their ownership structure as well as their size, especially activating shareholders' meetings and boards of directors. But this 'upper part' of the official structure is still not utilized in many cases. This is likely owing to the fact that, in this kind of firms, ownership is generally concentrated and very much involved within the company. But in the future, with further fragmentation, the need to govern the agency relationships that will be created through a more active role of shareholders' meetings and boards could increase as well.

Another important part of the 'governance work' has been that on family councils. We have seen that, in many companies, the family council 'cuts across' the official structure, replacing the shareholders' meeting and the board and, by this mean, likely mixing up company and family issues. In these cases, the family council may represent a strength from a relational point of view, creating trust and shared vision in the owning family. But it might also be a weakness as it could lead family owners to neglect agency problems: for instance, mixing family and company through the family council might not be good for governing increasingly numerous family ownership, and particularly ownership groups composed of both managing and non-managing shareholders; also, it might make the company less attractive to qualified contributions of external actors such as managers and partners, who might feel excluded from company governance.

So, a big challenge for owning families and their leaders could be to use unofficial bodies such as the family council to complement rather than replace official corporate ones (Corbetta and Montemerlo, 2003). Given their influence, this is a big challenge for third parties as well.

Last, but not least, many family small and medium-sized enterprises are envisioning team leadership for the next generation. As mentioned above, teams at the top should be looked at in a 'mixed' perspective, that is, with the lenses of both agency and relational approaches. So, it is necessary to guarantee teams at the top's sense of responsibility and accountability to family owners and to preserve organizational clarity and transparency in order to attract the most qualified resources from both family and outside. But it is also necessary to share values that preserve team members' unity and commitment, and to translate values into rules that enable teams at the top successfully to complement other governance bodies, making the most of all stakeholders' contributions.

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