



# Corporate governance in family firms, learning and reaction to recession: Evidence from Italy



Marco Cucculelli<sup>a</sup>, Cristina Bettinelli<sup>b,\*</sup>

<sup>a</sup> Università Politecnica delle Marche, Piazza Martelli, 8, Ancona, Italy

<sup>b</sup> University of Bergamo, Via Dei Caniana, 2, Bergamo, Italy

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## ABSTRACT

This paper focuses on the interaction between internal and external factors explaining performance of small and medium-sized family firms. We used framework foresight to suggest how learning and internal factors such as CEO's origin, tenure and turnover, could affect the firm's reactions to one particular external factor, economic recession. The paper draws on empirical observations of a large sample of small and medium family firms operating in Italy between 2002 and 2011 to identify the baseline future, an expected future for these firms. This analysis may be of interest to both management scholars and practitioners. We hope to contribute to the debate on how internal and external factors interact to affect firm success, measured as sales growth. The implications for the future viability of an economic system based on family businesses are straightforward, as the turbulence and instability of the economic environment has grown significantly in the last decade, especially in more developed countries. Whether the ability of a company to adapt and survive to negative shocks depends on its governance provides a rationale for exploring alternative perspectives on the competitiveness of the economic system and the ability of different owners to cope with future negative events.

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## 1. Introduction

Over the years, theoretical and empirical inquiries have shown that the antecedents of a family firm's success or crisis can range from those related to the external environment to industrial or firm-specific factors (e.g., Villalonga & Amit, 2014; Salvato & Corbetta, 2014). A number of contributions on these antecedents exist, but the literature and practice of management still lacks appropriate perspectives for capturing the antecedents of firm success during economic recessions (Abatecola, 2012). This is especially true for family firms, whose specific characteristics may generate competitive advantage during recessions in comparison with other types of companies (Bauweraerts & Colot, 2013).

This article aims to contribute to filling this gap by exploring the antecedents of family firms' success when economic recession arise. We suggest that patterns of success at such times can be understood through the literature about organizational adaptation. We start by considering the interaction between internal and external antecedents of firm performance in small and medium-sized Italian family firms. The focus on the Italian context allows us to explore a field rich in family firms and where the institution of "family" permeates both social and economic behaviors (Bettinelli, 2011). Different factors, such as the Italian state's historical reaction to the Great Depression (Aganin & Volpin, 2005), corporate

\* Corresponding author. Fax: +39 0352052549.

E-mail addresses: [m.cucculelli@univpm.it](mailto:m.cucculelli@univpm.it) (M. Cucculelli), [cristina.bettinelli@unibg.it](mailto:cristina.bettinelli@unibg.it) (C. Bettinelli).

niche specialization, the evolution of Italian law, and the persistence of local competition (Corbetta, 1998) have led Italian companies to rely on a typical corporate governance model. This includes a large number of small and medium-sized enterprises controlled by families (Ayyagari, Beck, & Demircug-Kunt, 2007), a diminished role for capital markets (Aganin & Volpin, 2005; Corbetta, 1998), and strong intercompany ties. These features collectively provide an extremely interesting environment in which to explore the future of small and medium family firms.

Foresight has become relevant in futures studies, and stresses the need to explore the baseline future and multiple alternative futures rather than predict one (Rohrbeck & Gemünden, 2011). This paper incorporates the futures perspective by acknowledging that today's decisions and actions are influenced by the past and in turn influence future developments (Sardar, 2010; Fuller, 2003; Fuller & Moran, 2001). Considering that "a viable future depends on recognizing and appreciating [this] past" (Sardar, 2010, p. 178), we offer an empirical analysis of data on the recent financial crisis, using it as an external antecedent example, with data on family vs. non family CEOs and CEOs' origin, tenure and turnover as internal antecedents. The analysis of empirical data and future prospects may improve family firms' responsiveness to the changing environment and their ability to adjust their entrepreneurial behaviors accordingly (Hines & Bishop, 2013).

## 2. External and internal antecedents of a firm's success

We start from the idea that it is important to study joint and dynamic occurrences among both internal and external antecedents of a firm's success. We consider firms' reaction to economic recession through the lens of the Abatecola framework and contemplate some distinctive features of family firms. The aim of our framework (Fig. 1) is to move from a general model for understanding corporate crises in co-evolutionary terms (i.e., Abatecola, 2012) towards more specific aspects that can be particularly useful for understanding the multi-level co-evolution of small and medium-sized family firms' practices and for delineating their possible futures (Breslin, 2011). We identify corporate governance in particular, and explore how it can affect the relationship between the capacity of the firm to learn from economic recessions and firm success.

### 2.1. The reaction to economic recession and the Abatecola framework

Abatecola (2012) observed that a large number of corporate failures have been caused by the current macro-economic global recession. He offered a theoretical framework interpreting the phenomenon through a co-evolutionary approach. Here, reactions to external discontinuities can be explained and forecast through the multi-level co-evolution of organizational practices (Abatecola, 2012, p. 861; Breslin, 2011). Co-evolution implies interdependencies and reciprocal feedback among multiple levels within the firm and between firms (Flier, Van Den Bosch, & Volberda, 2003; Baum & Singh, 1994). Abatecola's framework identifies both external (institutional/environmental or industrial) and internal antecedents. The latter refer to top management (TM) features and personality traits. TM includes the CEO and other executives whose decisions can have significant effects on the firm's future. The core of this approach is that possible interdependencies between external and internal antecedents of crises are taken into account contemporaneously. Even if each antecedent influences firm performance, a more complete view can be obtained by considering how they interact. The most relevant role is played by TM misperceptions that act as a link between external and internal factors and directly affect firm performance.

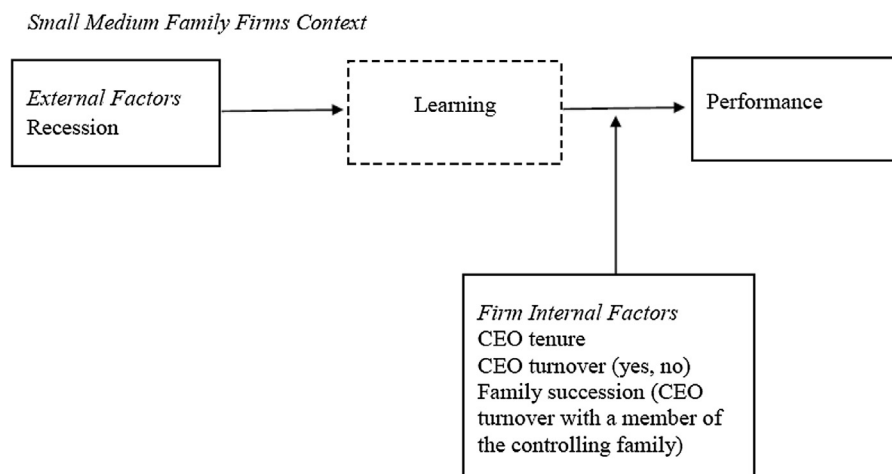


Fig. 1. Antecedents of firm success.

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