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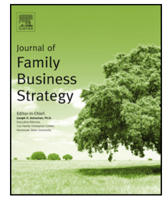

Family firms and industrial districts: Evidence from the Italian manufacturing industry

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ABSTRACT

Family firms and industrial districts represent the pillars of the Italian manufacturing industry. Yet, the interplay between corporate ownership and the districtual organization of the industry has been basically overlooked. This paper reports preliminary evidence on the joint contribution of family firms and industrial districts to the competitive performance of Italian manufacturing firms. Descriptive and econometric analysis shows a positive effect of family ownership on firm profitability, as measured by the industry-adjusted Return on Sale (ROS), whereas the advantage of being located in an industrial district is less evident. Empirical evidence shows that the comparative advantages of family ownership change along the firm size distribution and according to the nature and relevance of the external (districtual) economies. Specifically, the performance impact of the interaction between the "district effect" and the "family effect" changes significantly across firm size classes: while these two effects operate as a substitute in smaller sized classes, they are complements in medium-sized firms. In particular, medium-sized firms (100–250 employees) are the best at leveraging the benefits of districtual organization, but only in the case of family ownership.

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1. Introduction

Scholars have commonly assumed that firms owned and controlled by a family are a source of competitive advantage only in the early stages of industrialization (Ben-Porath, 1980; Payne, 1984), as they combine a number of unique characteristics that make them extremely important in the early stage of the growth of the firm (Benedict, 1968; Bertrand & Schoar, 2006). However, the large presence of family firms around the world shows that this model of governance has many positive characteristics that make family firms extremely well-placed to assist economic growth even in stages of mature development (Lopez de Silanes, La Porta & Shleifer, 1999).

Gedajlovic, Carney, Chrisman, and Kellermanns (2012) point out that the relevance of family ownership as a source of competitive advantage is based on its support to the networks of small- and medium-sized firms (SMEs) through family-specific advantages such as: long term orientation (Miller & Le Breton-Miller, 2005), greater access to internal financial capital (Steier, 2007), family social capital (Arregle, Hitt, Sirmon, & Very, 2007) and stewardship (Miller, Le Breton-Miller, & Scholnick, 2008). These features can be particularly relevant when the process of economic development is based on the predominance of micro- and small firms that build their competitiveness on a system of inter-firm relationships, as in industrial districts (IDs).

A large literature has focused upon the importance of industrial districts to economic development (Becattini, Bellandi, & De Propris, 2009). This issue was particularly relevant in the case of Italian post-war economic recovery (Amatori, Bugamelli, & Colli, 2013; Brusco & Paba, 1997), as it was based on an exceptional proliferation of small, family-owned and managed firms, embedded in these peculiar types of industrial organization.

In IDs, concentrated populations of new and established firms are embedded in social communities characterized by a "relatively homogenous system of values and views" (Becattini, 1990, p. 39). In IDs, tacit knowledge and values can be created over long periods of time and transmitted into the wider community to facilitate low-cost coordination and regulate competition.

Recently, the challenges of globalization and accelerated innovation, the emergence of new technological paradigms and other events have stimulated a number of structural modifications

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of the core structure of IDs (Belussi & De Propris, 2014; De Marchi & Grandinetti, 2014; Rabellotti, Carabelli, & Hirsch, 2009; Solinas, 2006). One of the most significant outcomes is the appearance of medium sized enterprises as the key players able to adapt and compete in the new scenarios (Coltorti, 2009). The presence and economic relevance of these firms entails a shift towards a more hierarchical organization of the market transactions, where medium sized firms, most of them still maintaining a family ownership, play a leading role as coordinators of networks of SMEs (Markusen, 1996).

Research on medium-sized family firms suggests their relevance also in many other contexts than the Italian districts (Gedajlovic et al., 2012; Storper, 1993). Besides their role in Germany's postwar economic reconstruction (Herrigel, 1996), today, Germany's *Mittelstand* firms are one of the pillars of the present model of industry in the country (Berghoff, 2006; Block & Spiegel, 2013), with many "hidden champions", highly focused technology leaders that pursue global niche strategies (Gedajlovic et al., 2012; Simon, 2009).

Despite the considerable attention that IDs received from researchers, the role of the family ownership in IDs and in the evolving profile of districtual organizations has been largely neglected, except for few descriptive analyses with prevalent sociological orientation (Bagnasco & Trigilia, 1984). Moreover, the evidence on the dynamic interplay between the family governance and the districtual structure of an (local) economy is still somewhat overlooked. This paper strives to contribute to this issue by studying the role of family ownership in an economic environment whose development process is based on industrial districts as a peculiar form of industrial organization. To address this point, we provide an analysis of the relevance of family firms in the Italian economy and discuss how and to what extent the family ownership and the districtual organization interact to support firm performance. Because of the inherent characteristics of the districtual organization based on an efficient network of SMEs, we look closely at the size class composition of the industry and at the different interaction dynamic within each size class.

We carry out our empirical analysis using a large dataset ($n = 62{,}153$) of Italian manufacturing firms. The dataset combines two different sources: a longitudinal dataset on company accounts for the period 2004–2012, and a dataset on the spatial identification of Italian industrial districts that allows each firm to be identified as districtual or non-districtual. The resulting dataset covers about 90% of Italian companies with more than 50 employees and an even larger share (about 92%) of companies with the obligation to deposit the financial statement to the Italian Registry of Companies.

The empirical analysis shows a significant impact of family ownership on the performance of Italian manufacturing firms. When measured by the industry-adjusted Return on Sale (ROS), i.e. the difference between a firm ROS and the median ROS of its industry and size class for a specific year, family firms always outperform other firms. Interestingly, some differences emerge across the different size classes, with a lower, although positive, role of the family variable in the 50–99 and 100–249 employees size classes, and a more evident contribution in the smaller (0–49 employees) and larger size classes ($\geq$250 employees). When it comes to the districts, the districtual advantage appears to have a minor impact on performance, in accordance with a weakening influence of the "district effect" on firm's competitiveness. A positive effect is only observed in non-family firms, thus confirming the role of the districtual organization as a provider of positive externalities, and in family firms in larger size classes, that exploit their ability to lead and coordinate networks of efficient productive units. Finally, and most noteworthy, the interplay between the "district effect" and the "family effect" changes significantly across the firm size distribution: while these two effects operate as substitutes for smaller size firms, they are complements in medium-sized firms. Therefore, heterogeneity in family firms is also fostered by the way in which peculiar traits of the family governance interact with specific features of the districtual advantage arising from localized productive activities.

This paper is organized as follows. In Section 2 we provide some background literature and develop the research questions addressed in the empirical analysis. In Section 3 we describe our dataset and carry out the empirical analysis. Section 4 concludes.

2. Theoretical framework and past evidence

The claim that family patterns may have an impact on development represents a reversal of the more usual argument that connects development to the social structure of a country. There is abundant research on the way in which economic development produces changes in dominant family patterns in societies around the world (Bertrand & Schoar, 2006). On the contrary, the view that family participation in the firm can affect the economic development has been advanced much less often, but it is a central focus in the empirical agenda (Gorodnichenko & Roland, 2010; Morck, Stangeland, & Yeung, 2000; Whyte, 1996). According to the approach proposed in the previous section, in the following sub-section we briefly review some theoretical aspects related to family ownership, industrial districts and firm size. In particular, in Section 2.1 we will discuss some linkages between family business and economic development, whereas in Sections 2.2 and 2.3 we will consider the district effect and the size effect.

2.1. Family business and economic development

Most businesses in developing and emerging economies tend to be small, and most of them are family firms (Naudé, 2010; Szirmai, Naudé, & Goedhuys, 2011). Because of the predominance of these small family firms in developing countries, it is often argued that family businesses are only good in emerging economies, whereas they can be a cause of retard in developed ones (Banfield, 1958; Fukuyama, 1995). According to this approach, the interaction among family and businesses is mostly beneficial during the initial stage of economic development, when incomplete markets and untrustworthy institutions make the family an effective response to the opacity of business transactions. In these settings, family helps the development of small businesses not only because it provides financial and entrepreneurial capital, but also for its unique role in building trust in social and economic transactions.

However, family business can be a suboptimal economic organization form when the economy reaches a higher level of development, because of the limitations typical of this organizational model. The idea that an economic system based on strong family ties may impede economic development is not new. Family ownership and management is supposed to be able to restrain growth because of nepotism and to hinder the development of formal institutions in society (Burkart, Panunzi & Shleifer, 2003; Fukuyama, 1995; Jones & Rose, 1993). Also, family businesses can be a source of retard for economic development because of the tendency to keep the size of the firm small enough to be controlled and managed by families. This, in turn, determine lack of managerial abilities and shortage of financial resources (Bloom & Van Reenen, 2007; Perez-Gonzalez, 2006). Furthermore, family firms are considered inherently reluctant to take risk and prone to avoid decisions affecting the firm's survival or the stability of control (Thomsen & Pedersen, 2000; Villalonga & Amit, 2006). Sometimes, they are too conservative in preserving their financial and socio-emotional wealth (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007), and oriented to investments

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