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Salvatore Sciascia
Università IULM, Italy, salvatore.sciascia@iulm.it

Pietro Mazzola
Università IULM, Italy

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SUMMARY

FAMILY OWNERSHIP AND INVOLVEMENT: EXPLORING NON-LINEAR EFFECTS ON PERFORMANCE

Salvatore Sciascia, Università IULM, Italy
Pietro Mazzola, Università IULM, Italy

Principal Topic

A remarkable number of studies attempted to understand if and how family ownership and family involvement affect performance. However, results are conflicting. Thus, this paper aims to explore the presence of non-linear relationships among the above-mentioned variables. More specifically, discussing the benefits and the disadvantages of both family ownership and family involvement, we tested a hypothesis on an inverted U-shaped relationship between family ownership and performance, a hypothesis on an inverted U-shaped relationship between family involvement and performance, and a hypothesis on an interaction effect of family ownership and involvement that influences performance.

Method

The study had been carried out on 620 Italian firms. In order to measure performance, our dependent variable, respondents were asked to compare the development of performance relative to their main competitors along seven different dimensions. Family ownership was measured using the percent of the firm's equity held by the owning family. Family involvement was measured using the percentage of a firm's managers who were also family members. The three hypotheses were tested by running regression analyses.

Results and Implications

Results were not expected. We did not find any significant relationship between family ownership and performance: stewardship, altruism, trust, paternalism, commitment, stability and the long-term perspective that characterize family ownership are all benefits compensated by excessive family members’ compensation, related party transactions, special dividends and nepotism.

A negative quadratic relationship between family involvement and performance was found instead. The stewardship effect and the agency costs reduction induced by the presence of family managers do not appear to be strong enough to compensate the costs deriving from the possibility to enlarge the company social and intellectual capital through the employment of non-family managers. Moreover, the higher the family involvement, the higher will be the performance reduction. This means that the negative effects of family involvement are more pronounced at higher levels of family member’s participation in management.

Different from what we expected, family ownership and family involvement do not interact in influencing performance. This unexpected finding supports that family ownership has no influence on performance, and that company results in family business are just affected by the degree of family participation in management.

CONTACT: Salvatore Sciascia; salvatore.sciascia@iulm.it; (T): +39 02 891412636; Istituto di Economia e Marketing, Università IULM, Via Carlo Bo 1, 20143 Milano.