6-8-2013

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Recommended Citation
Migliori, Stefania; Monaco, Eleonora; Consorti, Augusta; and Steffens, Paul (2013) "KEEPING THINGS IN THE FAMILY? THE INFLUENCE OF NON-FAMILY GOVERNANCE ON THE EO-PERFORMANCE RELATIONSHIP (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 33 : Iss. 10 , Article 4.
Available at: https://digitalknowledge.babson.edu/fer/vol33/iss10/4

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Keppin Things in the Family? The Influence of Non-Family Governance on the EO-Performance Relationship

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Principal Topic

Entrepreneurial Orientation (EO) has been widely studied in entrepreneurship research, and a recent meta-analysis confirms that EO is a substantial predictor of firm performance (Rauch, Wiklund, Lumpkin, & Frese, 2009). Yet the relationship between the EO and the performance is more complex than a simple direct relationship (Lumpkin and Dess, 1996). In this study, we examine the degree to which governance structures in small firms moderate the effectiveness of EO. We argue that the governance can impact the way that strategic intent such as EO is translated into managerial decisions, and ultimately firm performance. Specifically, we study the family/non-family composition of both board and top management team (TMT).

Method

Our random sample is drawn from 1,160 Italian manufacturing SMEs compiled by the Center for Social and Economic Studies of Chamber of Commerce. 94 CEOs responded to a survey sent to 590 of these SMEs to collect data relating to EO and governance characteristics. Financial performance data was taken from AIDA Bureau van Dijk’s financial reports. Hierarchical linear regression analysis was used to test our hypothesis.

Results and Implications

We find that while family-only board composition has a negative direct effect on firm performance, it positively moderates the impact of EO on firm performance. This is in line with our reasoning that for firms with low EO, external members have a positive influence by opening up awareness of new opportunities. However for firms with a high EO, a non-family board composition can detract from firm performance by acting to interfere with the strategic and operational management of the firm. However, we did not find any support for our proposition that non-family TMT composition also moderates the effect of EO.

This paper suggests the need to take a deeper look the relationship between EO and performance by adopting a logic of interaction that also incorporates organizational factors such as governance structures. Future research is required to investigate which family/non family board characteristics enable firms to effectively translate EO into firm performance.

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