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THESIS

Top Management Teams in Family Business:
The Role of Non Family Managers

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CHAPTER 1

General Introduction
1.1 OVERALL AIM OF THE RESEARCH

Non Family Managers (external, outside or professional managers) (NFMs) are defined as executives not having a blood or a marital or adoption relation to the family owning the firms (Klein, 2007). They have always been depicted by family business scholars as an homogeneous group (Hall and Nordqvist, 2011), characterized by a formal style of management, professional knowledge (Klein, 2007), objective and non-contextual approach, focused on financial performance (Dyer, 1989; Klein, 2007) and not emotionally involved in the future of the company (Sonfield and Lussier, 2009).

Given these characteristics previous studies in family business field have concentrated on the argument of conflicts arising among Family (FMs) and Non-Family Managers (NFMs) (Minichilli et al., 2010; Block, 2011). The motivation at the basis of this perspective, is that differences in status between the two groups, lead to the emergence of schisms and tensions that negatively impact on behavioural integration and, in turn on firm performance (Chua, Chrisman and Sharma, 2003; Minichilli et al., 2010). Besides, other conflicts may be driven also by different orientation and approach to the business. Indeed, FMs are supposed to be more attached to the firm, pursuing emotional objectives, while NFMs tend to be more economically-driven (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson and Moyano- Fuentes, 2007; Berrone, Cruz and Gomez-Mejia, 2012). Recent studies also recognized that a mixed top management team leads to a behavioural disruption, and consequently hurts performance, when the proportion of FMs and NFMs increases in the Top Management Team (TMT), while when there are few members of one or the other faction, conflicts are lowered because the minority faction has less power to contest decisions (Minichilli et al., 2010; Minichilli and Berrone WP).

The implicit condition at the basis of the described lines of reasoning, is the consideration of the Non Family Team (NFT) as a “factional”, homogeneous group, composed by members who
share the same professional experiences and the same feeling of exclusion from the controlling family (Minichilli et al., 2010).

However, the drawback of this perspective is the employment of the family status as the only attribute from which the TMT dynamics in the family firm depend. To date, the potential impact of other key attributes and their interactions is largely disregarded. Indeed, the family status is only one of several aspects that describe TMT members in family firms. Besides, NFMs are not supposed to be all characterized by objectivity, opportunistic behavior and indifference toward the future of the company. They might undertake different behaviors, depending on their specific characteristics.

Thus, the topic of this work is mainly at the confluence of two lines of research, strategic management literatures that argue that firm performance is a reflection of its top management team (TMT), also known as Upper Echelon Theory, and Family Firms literature (Hambick and Mason, 1984; Minichilli et al., 2010). With this purpose it relies on some conceptual frameworks provided by Group Diversity Theory, that is fundamental in investigating the effect exerted by the TMT composition.

Indeed, family business literature, with few exceptions (Minichilli et al., 2010; Ling and Kellermanns, 2010; Eansley and Pearson, 2005), have always neglected the importance of the top executives characteristics, mainly with regards to those exhibited by NFMs. Previous studies have always analyzed the argument in a tangential manner, through a conceptual method or from erroneous perspectives (Lussier and Sonfield, 2007; Klein, 2007; Dyer, 2006). As stated by Lussier and Sonfield (2007), there is definitely a breach in literature that has not received much attention, originating the need to better understand the role played by NFMs in family business, as “this is a topic of great importance since the decisions of top managers may determine the extent to which a family business obtains superior economic performance”.
In this context diversity theory help us to understand who effectively are the top managers taking these decisions, whether they belong to the family or not, which is their level of studies, their functional and educational backgrounds or their organizational tenure. Furthermore it bridges the above mentioned theories, allowing for the integration in a single framework of Upper Echelons and Family Business Literature.

The hypothesis are tested through an electronic questionnaire survey conducted among the Top 500 Italian Furniture Family Firms. Indeed, 89 percent out of the entire population of firms in this industry can be defined as family firms (Source: Aida). We interviewed 92 firms belonging to the five most important furniture districts in Italy.

1.2 STRUCTURE OF THE RESEARCH

The thesis is organized into four parts each concerning a different, but substantial topic. The following paragraphs briefly summarize the content of each chapter, giving an overview of the whole work structure.

1.2.1 Chapter 2 – Conceptual Framework and Literature

This chapter specifies the conceptual framework in which the study is placed. Precisely it analyzes the possible TMT composition a family firm can exhibits, distinguishing among Pure Family Managed Firms, Mixed Constellation of Family and Non Family Managers and Pure Non Family Management. It also defines the notion of professionalization process, through a deep review of extant literature on the argument.

Besides, the notion of diversity and the role it plays in the TMT context are introduced. The advantages and drawbacks, identified by Upper Echelons scholars, and the major theoretical approaches adopted are described and explained.
The issue of diversity is then applied to the family firm context. Starting from earlier works that completely neglect its role, the focus shifts on more recent ones, that identified different salient variables as specific sources of diversity in family firms.

Finally the role played by NFMs, within the family firm context is examined., In this sense, the chapter conclusion explains why diversity in the NFT impacts on family firm performance. As a consequence, the theoretical gap and the research questions are presented and explained.

**1.2.2 Chapter 3 – The Empirical Setting: TMTs in Italian Furniture Family Firms**

Chapter three deepens the empirical setting used in order to test the hypothesis. More precisely, it describes the Furniture Industrial Districts (IDs), assessing their importance in the whole Italian economic system and their historical development. It also highlights the dominance family firms exert in shaping the districts evolutionary pattern.

Indeed, notwithstanding the recognition of this criticality, few studies directly address the issue. Thus, the objective is to understand *which role family firms play in the Italian Industrial Districts*. From this perspective the major contribution is toward IDs field of studies, through offering an in-depth analyses of the characteristics showed by family firms in terms of TMT composition.

The chapter also explained the data collection procedure employed. An electronic questionnaire survey has been conducted on the top 500 furniture family firms, in terms of revenues. Every participating firm, has provided information on each member of its TMT regarding his/her family status, educational and functional background, level of studies awarded, organizational tenure, age and gender. Furthermore other major family firm characteristics, such as the presence of a family CEO, the generation in charge of the firm, the number of employed generations and the firms establishment year have been collected.
At the end the results of the survey, systematized with respect to five different Furniture IDs are reported and commented.

1.2.3 Chapter 4 – TMT Diversity at work. The Role of Non Family Managers in Family Business: Results from a Survey

In this part, the issue of diversity in the team of NFMs is fully embraced. More precisely, the aim of this chapter is to understand how Non Family Team (NFT) Diversity impact on the Family Firm Performance. With this purpose, the study focuses on three specific sources of diversity, relevant for the NFT: the number of NFMs (NFT Size), the NFT Organizational Tenure Diversity and the NFT Dominant Functional Diversity.

Thus main contribution is toward family business literature. Firstly, through opening the NFMs’ black box it offers an additional level of complexity, thus enriching the understanding of TMT processes in family firms. Indeed, while prior studies investigated the relationship between FT diversity and firm performance (see Ling and Kellermanns, 2010), the same aspect has been almost disregarded with respect to the NFT. Secondly, in contributes to group diversity theory, through the analysis of multiples relevant dimensions. The use of such a multifactor approach overcomes the limit of previous studies employing the family status as the only variable originating diversity. In this sense, it allows for a more integrative and complete view (Mannix and Neale, 2005).
1.2.4 Chapter 5 – Diversity among Non-Family Managers in Family Business: A team-level contingency analyses

This chapter adopts a contingency lens and investigates under which conditions the NFT Diversity Performance relationship is strengthened. More precisely, building from Upper Echelon theory, we argue that in order to benefit from diversity the family firm has to exploit it correctly (Nielsen, 2010; Menz, 2011). Taking this idea in mind, we propose that the impact of the NFT specific sources of diversity on family firm performance is moderated by the same sources exhibited at the overall TMT level. The aim is to understand how TMT Diversity moderates the relationship between NFT Diversity and Family Firm Performance

This study offers mainly a twofold contribution. First, we contribute to family business literature, by looking at the conditions under which the NFT diversity is correctly exploited. As a matter of fact, while several studies investigated the relationship between FT diversity and firm performance, adopting numerous moderating variables (see O’Boyle, Pollack and Rutherford, 2012), the same contingency perspective has never been adopted with respect to NFT diversity. Secondly we contribute to Upper-Echelon theory considering interaction processes at an intra-team level (Menz, 2011). In doing so, we add some knowledge on how different TMT members’ fit with the rest of the TMT. Finally we cautiously aim to give a managerial suggestion, explaining under which conditions family firms can take advantage of mixed top management team. As a matter of fact, the interaction between the NFT and the whole TMT may synergistically resolve into higher-level outcomes. That is, der certain conditions, FMs and NFM can coexist and engage in cooperative and successful relationship.
CHAPTER 2

Conceptual Framework And

Literature
INTRODUCTION

This chapter illustrates the theoretical foundations of the present study. It is organized in four paragraphs. The first introduces the theoretical framework in which the study is placed. It describes the alternative Top Management Team compositions a family firm can implement. It also explains the meanings of the so-called professionalization process a family firm goes through, underlying the different degrees reached in each of the managerial alternatives adopted.

The second refers to diversity theory, focusing on the part of this literature that is much suitable in order to analyze the TMT dynamics in Family Firms, considering in particular recent studies, set in family firm context, with a focus on those addressing the NFM issue. It reviews extant seminal works on TMT Diversity, assessing its definition and the major theoretical approaches, explaining why diversity has always been described as a double-edged sword.

The third introduces the issue of diversity in family firms TMT, starting from earlier works that completely neglected its role, it focuses on more recent ones, that identified different salient variables as specific sources of diversity in family firms.

The fourth deeply investigates the role played by Non Family Managers, within the family firm context. By reviewing prior literature on the argument, it explains how diversity in the NFM team can impact on the firm performance TMT. As a consequence, the theoretical gap and the research questions are presented and explained.
2.1 DIFFERENT TMTs COMPOSITIONS IN FAMILY FIRMS

The TMT definition taken into consideration in the present work is consistent with those adopted by previous studies investigating similar issues in family business (Minichilli et al., 2010; Eddlestone and Kellermanns, 2010; Berrone and Minichilli, WP). It will considers a TMT to consist of the CEO, CFO and the Chair Person, and all the other top executives on the management board and/or reporting directly to the CEO of the firm (Minichilli et al., 2010).

The composition of TMT, as defined, has much powerful impact within the family firm context than in non-family one, given that the governance mechanism in this kind of firms has to cope with the overlap of three subsystems such as the family, the ownership and the business (Gersik, 1999; Westhead, Cowling and Howorth, 2001). More precisely, as argued by Klein (2000; 2007) there are three possible compositions of management teams in family business:

1) Pure Family Management;

2) Mixed constellations that see the cooperation of family and non-family executives;

3) Total separation of ownership and management, that is pure non-family management.

Concerning this issue the majority of previous studies agree that as family firms become older and more established, the likelihood of bringing a greater numbers of NFM into the firm increases (Lussier and Sonfield, 2007; Klein, 2007; Block, 2011). More precisely, as a family firm grows, it tends to evolve from a pure family management to the mixed constellation aforementioned (Dyer, 1989; Klein, 2007; Sonfield and Lussier, 2007; Hall and Nordqvist, 2008; Block, 2011). In other words, the so-called professionalization process occurs (Dyer, 1989; Klein 2000; 2007).

In a famous empirical work, by Klein (2000) on a random sample of all German family business, 44 per cent of all management boards were found to be completely controlled by family
members, 42 per cent had a mixed top management team and 14 per cent have a pure non family management.

Similarly, Minichilli et al. (2010) in their study on the top 500 Italian Family Firms TMTs, found an average TMT Family ratio (ratio between family members involved in the TMT and the total number of TMT members) of 0.27, corroborating the hypothesis of a vast presence of Non Family Executives in the Italian context.

Notwithstanding this evidences, a part from Dyer (1989) seminal article, research explicitly focusing on the notion of professional non family management in family business is still scarce (Hall and Nordqvist, 2008).

More precisely, recent articles have focused on the argument, addressing several issues, such as the actual meanings of professionalization process, its causes, modes and benefits. However, these topics usually have been addressed laterally to other main issues, or through the use of anecdotal or conceptual method, rather than via empirical investigation. Besides, few exceptions, conducting an empirical investigations (Minichilli et al., 2010; Berrone and Minichilli, WP), focused on the conflicts arising in integrating professional managers into the family context, basing their reasoning on the ratio between family (FMs) and non-family managers (NFMs), rather than on their specific characteristics. In other words, the dominant view tends to conceive of FMs and NFMs as two opposing factions, or better two internally homogeneous breeds that are mutually exclusive.

As, précised in the following paragraphs of this chapter, the aim of this study is to shed light on the actual dynamics arising in such mixed TMTs, not fostering an a priori conflicting mechanism, but investigating the role played by NFMs, through the examination of their specific characteristics.
From this perspective, FT (Family Team, as the team composed by Family Managers) and NFT (Non Family Team, as a team composed by Non Family Managers) are not supposed to be internally homogeneous. A part from the family status, they can be composed by diverse members, that behave differently and act toward the firm and the family in different ways.

Keeping this objective in mind, the next paragraph reviews extant literatures on the possible composition of family top management teams, underlying the professionalization process and assessing its meanings, causes and modes.

### 2.1.1 Meanings of professionalization

In studies on family firms the core meaning of professionalization used is hiring NFM’s, bringing them into the Family TMT, thus with a delegation of authority (Chittoor and Nas, 2007, Chua et al., 2009). However, in their seminal article on the modes of professionalization in family firms, Stewart and Hitt (2011) give an extensive definition of professionalization. Indeed, a family firm can move toward different degrees of professionalization, even without changing the composition of management. As a matter of fact, professionalization is a multi-dimensional term that encompasses, not only the management composition (family or not), but also several other aspects, such as ownership, governance mechanism, rewards, leadership style, careers paths and networks. In this sense, professionalize a firm could involve changes in the organizational design, new and more fair systems of monitoring and rewarding managers, formal and analytical style of management, meritocratic hiring practices, bureaucracy, external and not kinship-embedded networks etc.etc. (Stewart and Hitt., 2011). Apart from hiring NFM’s, it may involve several courses of actions, such as the use of outside consultants, more time engaged in strategic management or the use of more sophisticated financial management tools (Sonfield and Lussier, 2004)
Clearly, for a family firm highest degrees of professionalization are reached when hiring NFM and can culminate with the total separation of ownership and management (Pure non-family management).

2.1.2 Pure Family Management

As stated above, lower degrees of professionalization can coexist with Pure Family Management. Indeed, several authors identified different classification of family firms management modes, depending on their level of professionalization.

In this context Stewart and Hitt (2011) identified five typologies, starting from “minimally professionalized family firms” to “pseudo-professional public family firms”. The former are family firm that simply don’t feel the need to professionalize. This kinds of firms rely on family management and family CEOs. They are characterized by an emotional and idiosyncratic family culture, informal and paternalistic style of management. FMs are likely to be longer-tenured and trained on the job (with low level of formal education), feeling an high level of commitment to the family business, conceiving it as an extension of their own well-being.

A step forward in professionalization, is made by the so-called “wealth-dispensing private family firms”. In this case, family firms have the possibility to growth through hiring external management or by going public, however the family leaders wittingly choose to not undertake such actions. The causes at the basis of this choice, can be identified in the opportunity the family sees in the benefits it draws from the business ownership and management. This particular kind of firms are characterized by a strong kinship domain that pursue socio-emotional objectives, rather than economically driven ones. In other words, the family leaders prefer to chase reputation, prestige, next-generations wealth and/or relatives employment, rather than purely financial objectives. For these reasons the level of professionalization reached by wealth dispensing firms, is limited to the
adoption of outside consultants, advisors and professionals, that cannot exert any power on strategic decisions.

However, it could be possible that, family leaders choose not to professionalize because they actually serve the firm better than external NFM's. The so-called “entrepreneurially operated family firms”, found the source of their competitive advantage in the informal and idiosyncratic methods employed in leading the company. In this kind of firms, the link among family members lead to higher coordination and knowledge sharing, mutual accommodation, tacit and team-based knowledge, that fosters adaptation to change. Given this particular characteristics, entrepreneurial family management is recognized as superior with respect to formal, standardized and objective style provided by the professionalization process. As entrepreneurially operated firms grow, they can evolve into entrepreneurially family business group. Indeed, the advantages of knowledge sharing, informal ties and trust, are often synergistically exploited among a networks of jointly owned and kinship-connected firms. In a similar way, Gersick et al., identified what they called siblings partnership or cousin consortium, that are business groups owned and managed by siblings or cousins that pull together resources from across different companies in order to pursue a single aim (1999).

The last mode of professionalization for pure family managed firms identified by Stewart and Hitt (2011) is the pseudo-professional public family firms, a particular kind of firms that “seek the private benefits of control with other people’s money, seeking the appearance, while violating the spirit of public governance”.

Further than the broad classification by Stewart and Hitt (2011), from a strictly managerial point of view family firms can maintained their leadership in management, deciding to professionalize FMs (Dyer, 1989). This option is often followed when the family wants to keep the business in its boundaries, but at the same time is aware of the need to sophisticate the level of the managerial and strategic tools employed. In this sense the firm undertakes an hybrid pattern,
perpetuating family management, ownership, cultures and values, relying only on its own resources and talents. Courses of actions characterizing this kind of pattern are training programs and formal education for family members before entering the business and classes on managerial skills and practices given by longer-tenured non-family employees, once entered (Dyer, 1986; 1989).

2.1.3 Mixed Constellation of Family and Non Family Management

Even if family firms can leverage on several factors in order to professionalize its own managers, they often choose to engage in mixed management teams, through bringing in professional NFM or by delegating authority to non-family members.

Regardless of the modalities adopted by these kind of firms, the reasons at the basis of this choice have been broadly investigated by extant literature. One of the most commonly recognized reason is the lack of management skills within the family (Dyer, 1989; Westhead and Howorth, 2006).

Another motivation grounds in the succession process. Quite a few family firms often face with the problem of having no successor, because there are not qualified heirs or because they are not interested in the family business (Klein, 2007). In such a case, the professionalization process is due to force majeure. NFM can be also willingly hired in order to bridge two family generations together, acting as mentors, supporting the successor in taking the guide of its own company (Klein, 2007; Chittoor and Das, 2007; Sonfield and Lussier, 2004). The other way around, NFM can help to undergo interpersonal conflicts surrounding the succession, that can arise among the potential successors or between the outgoing and the coming leader (Chittoor and Das, 2007; Sonfield and Lussier, 2004, Sciascia and Mazzolla, 2008; Stewart and Hitt 2011). Several other authors argued that professionalization arises because of firm growth in size and age (Sharma, Chrisman and Chua, 1997; Sonfield and Lussier, 2004). In this case, even if the family members are capable and talented they are not able to cover all the key managerial positions that a competitive firm requires
(Westhead and Howorth, 2006; Dyer, 1989; Sciascia and Mazzolla, 2008). In particular, this need concerns later generation family firms, that differently from the founding ones, have to cope with the challenge to maintain and enhance the business (Sonfield and Lussier, 2004). In this condition, another objective that the family can pursue is to change the values and norms of the business, making them more consistent with organizational efficiency and profit logic (Dyer, 1989; Sharma et al., 1997). Hiring NFMs and appointing them with the power to make these changes, is a viable and valuable option (Dyer, 1989).

Other than these reasons, several authors underlying the benefits the integration of NFMs in the family TMT can lead to. That is, professionalization it’s also an effective way to disciplining non performing kin and gain an high level of commitment from NFMs (Lee, Lim and Lim, 2003; Stewart and Hitt, 2011). NFMs may also help family members to release from the generational shadow effect and to make them think on alternative professions (Westhead and Howorth, 2006; Stewart and Hitt, 2011). Finally, the presence of manager external to the family is a source of new valuable firm social capital (Sciascia and Mazzolla, 2008).

Once ascertained the causes and the benefits of mixed TMT, it’s useful to explain the modes by which the process can be carried on. With regard to this argument, drawing from Dyer seminal article, prior studies agree that the process may articulate in two main ways (Dyer, 1986; 1989; 2006; Westhead et al., 2001; Klein, 2007; Lussier and Sonfield, 2007; Chua et al., 2009; Hall and Nordqvist, 2008; Westhead and Howorth, 2006; Stewart and Hitt, 2011):

1) professionalize non family employees currently working in the business

2) bring in outside professional management talent.

The first option doesn’t represent a radical evolution in the firm norms and culture, while the second underlies a more ground-breaking choice, that nurses a radical effort in changing both methods and company culture. The first option is often carried on if the family wants to perpetuate
family values as well as continue the strategic focus of the business (Dyer, 1989). Obviously, the condition at the basis of this choice is an higher level of loyalty and trust between family and non-family leaders. The professionalization process is often performed through specific courses of action. An assessment session in order to identify the non-family employees that better match the managerial skills, but also the values and the character analysis required. The strategic planning of an incentive based program in order to encourage NFMs to take charge of new and more important responsibilities. The study of training programs, workshop and seminars that effectively provide NFMs with new and more professional skills (Dyer, 1989; Klein, 2000; 2007).

However, when the family firm faces with radical external changes and turbulent environments along with higher losses in market share and profitability, a more radical change is required. In other words, the family is prompted to hire external professional managers.

The steps that often characterize this phase concern the integration of NFMs with the norms, values and culture of the business. Indeed, NFMs are hired to bring in the organization new ideas and novel insights in order to cope with the turbulence and the uncertainty of a changing environment. However while some norms have to be changed, some values such as commitment, trustworthiness, idiosyncratic and tacit knowledge, informal ties have to be retained. To promote integration and allow NFMs to embrace the organization perspective, several steps have to be carried on. Indeed, communication and integration may be fostered through the organization of group meetings, newsletters, informal lunches and meetings (Dyer, 1989). At the same time, a rewarding and incentive program have to be studied in order to establish a sort of psychological ownership, that allow NFMs to think like owner and act toward the family and the business as stewards (Dyer, 1989; Klein, 2007; Eddlestone and Kellermanns, 2007; Pierce, Kostova and Dirks, 2001, Bernhard and O’Driscoll, 2011). A widely diffused practice to tie the interests of NFMs to the firm is via stock ownership or board membership (Dyer, 1989, Sirmon and Hitt, 2003). Finally,
without putting into effect these measures, problems such as cultural integration, communication barriers and interpersonal conflicts may actually take place.

2.1.4 Pure Non Family Management

The last possible TMT composition identified by Klein is pure non family management, that is the family firm retains its ownership and/or influence, without being involved in the management (2007).

As claimed by Stewart and Hitt (2011), it is the highest degree of professionalization a Family firm can reach, or rather, the managerial composition that makes family business more like to a non-family one. As a matter of fact, firms adopting this kind of approach are those characterized by higher age, that passed over multiple generations and have gone public (Miller and Le Breton-Miller, 2006).

However, several studies argued that, the complete professionalization of a family firm, may lead to a detachment from the family values, norms and culture, that in turn decreases the level of distinctive familiness from which the firm takes its competitive advantage (Habbershon and Williams, 1999; Habbershon, Williams and Mac Millian, 2003). In line with this reasoning, other asserted that pure non family management can result in “creative destruction”, because NFMs create too much firm growth, stifling the Socio-Emotional Wealth approach established by prior generations (Lussier and Sonfield, 2007; Gómez-Mejía et al., 2007; Sonfield and Lussier, 2009; ).

Similarly Miller et al., (2011), from a stewardship perspective, argued that a complete lack of family involvement, is associated with lower stewardship and then lower performance. However they also asserted, that this effect may be softened through high levels of family ownership. In particular they found a U-shaped relationship between the level of ownership and that of stewardship with an inflection point around 28 per cent of ownership (Miller et al., 2011).
From this standpoint performance studies on the effect exerted by pure nonfamily management, are still contrasting. Few empirical studies suggested that family firms that have succeeded in passing through radical changes and multiple generations have adopted mixed family and nonfamily TMT solutions (Steier, 2009; Steward and Hitt, 2011). The reason suggested for this outperformance, is that they can simultaneously carry on a strategic, market-oriented perspective (Steier, 2009) without wane the norms and the values instituted by the founder and rooted in the family and its history (Hall and Nordqvist, 2008).

Once described the effective alternatives a family firm can adopt in dealing with its managerial instances, the next section is dedicated to the issue of diversity. As stated in the introductory paragraph of this chapter, diversity theory is the bridge that allows for the integration of family business literature and strategic management literature that argues that firm performance is a reflection of its top managers (Upper Echelon Theory). Indeed, the choice among different managerial compositions depends on the actual characteristics the top managers show, whether they belong to the family or not, which is their educational level, their functional backgrounds and they organizational tenure. For this purpose, next paragraphs review extant seminal works on TMT Diversity, assessing its definition and the major theoretical approaches, explaining why diversity has always been described as a double-edged sword.
2.2 TMT DIVERSITY LITERATURE REVIEW

Diversity means variety or the condition of having or being composed by differing elements. More precisely, the inclusion of different types of people in a group or organization (Merriam-Webster Dictionary of the English Language, 2013). Given this general and broad definition, empirical studies in the group diversity field shows extremely mixed and, somewhat, conflicting results (Simons, Pelled and Smith, 1999).

This complexity has led diversity to be widely considered as a dual-edged sword (Milliken and Martins, 1996, Mannix and Neale, 2005; Nielsen, 2010; Pelled, Eisenhardt and Xin, 1999; Certo, Lester, Dalton and Dalton, 2006). The cause of this uncertainty in empirical results is twofold. On one hand, it depends on the definition of diversity adopted, whether it includes only demographic factors, or non-demographic ones (e.g., social, skills, values, personality, status, organizational, network or social ties). On the other, it depends on the different theoretical approaches employed to understand the effects of diversity (Mannix and Neale, 2005). The following paragraphs explain both the perspectives.

2.2.1 About Definition of Diversity

The most widely accepted definition of diversity is the distribution of personal attributes among interdependent members of a work unit (Jackson, Joshi and Ehardt, 2003; Jackson and Joshi, 2004; Nielsen, 2010). Within this broad definition, diversity has been also subclassified in separation, variety and disparity (Harrison and Klein, 2007). Diversity as separation refers to differences in position or opinion among unit members, as variety represents differences in information, knowledge or experience and, as disparity, indicates differences in concentration of valued social assets, status or resources (Harrison and Klein, 2007). Among these sub-classification several other constructs have emerged, depending on the attributes taken into consideration in order to detect diversity. A shared view, among authors is the distinction based on attributes visibility.
In this context, Milliken and Martins (1996) in their attempt to search for common threads, categorize diversity in two types. The former is based on observable or *readily detectable* attributes, such as race or ethnic background, age or gender, and the latter is related to less visible or *underlying attributes* such as education, technical abilities, functional background, tenure in the organization, or socioeconomic background (Milliken and Martins, 1996). Concerning underlying attributes, diversity can be related to differences in personality characteristics or values. Besides, a particularly relevant type of diversity within the organizational and managerial field of study is that based on skills of knowledge (e.g. educational background, functional background, occupational background, industry experience) (Milliken and Martins, 1996; Pfeffer, 1983).

Similarly Jackson et al. (2003), distinguish diversity with respect to attributes that can be readily detected upon first meeting a person and underlying attributes, that become evident only after getting to know a person, and attributes that fall between these two extremes of transparency (Jackson et al., 2003). Beyond this categorization they also differentiate between *task-related* and *relation-oriented* attributes. The former reflects attributes likely to be related to knowledge, skills and abilities needed in the workplace (e.g., function, tenure, education). The latter includes demographics such as age, sex and ethnicity, which may shape interpersonal relationship, but that do not have an impact on performance (Jackson et al., 2003).

Likewise Pelled et al. (1999) in their model, distinguish among attributes depending on their level of *visibility* and *job-relatedness*. The job-relatedness of a demographic attribute is the degree to which that attribute captures experience and skills relevant for cognitive tasks at work (Pelled, 1996; Pelled et al., 1999). High job-related attributes are organizational tenure, education and functional background, while, high visible attributes are age, gender and race (Pelled, 1996).

Similarly, Horwitz and Horwitz (2007), in their comprehensive review, also dichotomized team diversity into *bio-demographic* diversity and *task-related* diversity. Bio-demographic diversity represents innate member characteristics that are immediately observable and categorized (e.g., age,
gender, and race/ethnicity) whereas task-related diversity includes individual attributes (e.g. functional experience and organizational tenure), that are supposed to be more germane in order to accomplishing tasks than bio-demographic ones (Horwitz and Horwitz, 2007).

Despite this large number of studies, scholars still reach inconsistent results, and the questions of whether diversity in managerial backgrounds is advantageous for companies still remains open (Cannella, Park and Lee, 2008; Nielsen, 2009). The next paragraph addresses the main causes of this inconsistency.

2.2.2 Diversity as a dual edged sword

Diversity advocates argue that more diverse teams are likely to create value and benefit for firm performance. The causes of this beneficial effect lie into several arguments. One stream of research claims that diversity fosters task (or substantive) conflict, enhancing group and, in turn, firm performance. A task conflict is the perception among group members that there are disagreement about task goals and key decision areas, procedures for task accomplishment and the appropriate choice for action (Pelled et al., 1996; Pelled, et al., 1999; Simons et al., 1999). Such kind of conflict is positively associated with team and firm performance. That is because, more diverse teams encompass more view points, forcing members to deepen issues and gather new information on problems. As a consequence, more diverse team are likely to engage in debate and decision comprehensiveness (Simons et al., 1999). Through discussing the merit of ideas and opposing one another, they look at the task issue with a wide lens, consider multiple approaches, courses of action, and decision criteria (Simons et al., 1999). These processes enhance the quality of decision making, promote creativity and innovation and lead to more effective problem solving (Horwitz and Horwitz, 2007).

Several empirical studies corroborate this “value in diversity” hypothesis (Mannix and Neale, 2005). Among these, the more relevant within the management field are those belonging to the
upper-echelons theory, which links demographic characteristics of top management teams to group and firm performance. In this theoretical framework, Bantel and Jackson, found that more innovative banks were managed by more educated team who were diverse with respect to their functional area of expertise (Bantel and Jackson, 1989). This finding support the hypothesis at the basis of upper-echelon theory, according to which more diverse team show diverse perspectives and higher level of information that prevent from groupthink (Hambrick and Mason, 1984). Fostering this wake of studies, Wiersema and Bantel analyzed the relationship between the demography of top management team and corporate strategic change in a sample of Fortune 500 companies. They found that firms most likely to undertake innovative actions were characterized by lower average age, shorter organizational tenure, higher team tenure and higher educational specialization diversity, supporting the hypothesis that top manager demographic characteristics reflect their cognitive perspectives and positively influence firm performance (Wiersema and Bantel, 1992). In the same way, Bunderson and Sutcliffe (2002), concentrating on functional diversity, found that more diverse team, from a functional specialization perspective, are positively associated with information exchange and sharing, and consequently less susceptible to the stereotypes and ingroup/outgroup bias. Consistently they found that this increase in information sharing widely explained the positive effect on firm performance (Bunderson and Sutcliffe, 2002).

As a counterbalance of this optimistic view, another stream of research has highlighted the benefits of homonogeneous team. Several authors claimed that diversity in demographic attributes, may lead to negative processes that dampen firm performance. In this light, prior studies demonstrated that when there are differences for example in age or tenure within the same team, older or longer-tenured members are more likely to leave, because they feel a sense of exclusion and are frustrated by their lack of communication ability. In this sense dissimilarities result in scarce cohesion and integration, higher turnover, lack of information sharing and exchange (Wagner, Pfeffer and O’Reilly, 1984; Pfeffer, 1983; O’Reilly, Caldwell and Barnett, 1989).
Another reason at the basis of the pessimistic view lies into the consideration that diversity fosters emotional (or affective) conflict (Pelled, 1996; Amason, 1996; Pelled et al., 1999; Certo et al., 2006). Differently from, task conflict, the emotional one is a dysfunctional kind of conflict, defined as the perception among group members that there are interpersonal clashes characterized by anger, distrust, fear, frustration, and other forms of negative affect (Pelled, 1996). Accordingly, more diverse team encompass different attitudes and values, that may turn into acrimony and negative sentiments (Bantel and Jackson, 1989). From this standpoint, Pelled (1996) recognized that affective conflict may harm firm performance, because team members are reluctant to take on new or more complex information brought in by the task-related ideas expressed by other members, thus wasting much of their energy and time in ineffective way (Pelled, 1996; Pelled et al., 1999; Simons et al., 1999).

Amason in its seminal article (1996), highlighted the paradox of strategic decision making. As a matter of fact, in order to take successful decision team members has to produce both quality and consensus. However, dissimilarities may lead to lack of understanding and commitment, provoking hostility, acrimony, and consensus attenuation among team members. At the same time attempts to reduce diversity will in turn lessen the quality of the decision, because the decision making process will involve few capabilities, perspectives and alternative solutions (Amason, 1996; Mannix and Neale, 2005). In this sense conflict, is considered the key stone of the diversity paradox, because it fosters high-quality decisions, contemporaneously prejudicing consensus (Amason, 1996).

Which of the two effects, and as a consequence, which of the two standpoints (the optimistic or the pessimistic) prevails is still under discussion in literature.

**2.2.3 Diversity theoretical approaches**

A valuable attempt to reconcile the aforementioned perspectives has been developed by Mannix and Neale (2005). In their seminal article, they recognized that the cause of both, empirical
and theoretical, results inconsistency lies in the different theoretical approaches employed to understand the effects of diversity.

With regard to this topic two broad paradigms have been employed by scholars. The first is the so-called factor (or multifaceted factor approach), while the second is the proportional one.

According to the former, as previously explained, diversity is categorized in a bifurcated way, distinguishing between visible (observable, surface level, readily detectable, bio-demographic) and less visible (underlying, deep-level, job-related, task-related) attributes (Mannix and Neale, 2005). An evolution of this approach (multifaceted factor) classified the range of attributes originating diversity, in a more comprehensive way, creating five categories, such as demography, task-related knowledge, values and beliefs, personality and cognitive styles and status in the work group’s organization (Mannix and Neale, 2005; Mc Grath et al., 1995). The previously mentioned studies on job-relatedness, task and emotional conflict employed this approach (Pelled 1996; Pelled et al., 1999; Simons et al, 1999; Bantel and Jackson, 1989; Wiersema and Bantel, 1992; Bunderson and Sutcliffe, 2002; Amason, 1996). In this light, diversity is conceptualized as the distance between all the members of a team on one or more demographic variables (Li and Hambrick, 2005; Mannix and Neale, 2005). Group members are threatened individually, measuring their own alignment with others in terms of salient and relevant demographic attributes (Li and Hambrick, 2005). Thus the focus is on the differences emerging among all the team members. Following this approach, demographic attributes are captured at the individual level, and then are aggregated at the team level, depending on the typology of variable taken into consideration. For example, continuous variable, such as age or tenure, are often measured through the coefficient of variation (standard deviation divided by the means), while nominal one, such as functional experience or educational background are calculated through the Blau index (Blau, 1977) or the Entropy or Transmission index (Attneave, 1959; Bunderson and Sutcliffe, 2002; Buyl et al., 2011).
The other way around, the *proportional approach* tries to overcome diversity negative effects such as affective conflict, acrimony and lack of consensus arguing for the presence of minority/majority membership within teams. According to this approach, members do not come to a group as individuals, but rather as representative factions (Li and Hambrick, 2005; Lau and Murnighan 1998). In this sense, to the extent that factions within a team strongly differ, with respect to demographic attributes, schisms and ruptures arise, that in turn lead to behavioral disintegration, conflict, lack of consensus and poor performance (Li and Hambrick, 2005). In the wake of this studies, Lau and Murnighan (1998) introduced the *faultline model*, with the purpose of investigating the dynamics arising among subgroups within the same team. According to their view a faultline exists when a group contains distinct subgroups that differ on multiple demographic features. The presence of a faultline leads to conflict, scorn and poor performance (Lau and Murnighan, 1998; 2005). In a more recent article, the authors recognized that faultlines can form around many attributes, such as visible or underlying ones (Lau and Murnighan, 2005). Following the revisited work by Lau and Murnigham other studies analyzed the magnitude of the faultlines with respect to affective conflict. Indeed, the prediction of faultlines model depends on the strength of the demographic differences encountered in the subgroups members (Thatcher, Jehn and Zanutto, 2003). That is, faultlines generate conflicts and exert a negative effect on firm performance, when they are either very strong or very weak. In particular, Tatcher et al (2003)., found that groups with moderately strong faultlines experience less conflict and perform better than strong or weak faultline groups. In other word, they argued for a U-shaped relationship between the strength of the faultline and the firm performance. Notwithstanding these theoretical and empirical evolutions in the proportional/faultline approach the overall validity of its predictions have still to be demonstrated and systematized (Mannix and Neal, 2005).

In particular, the well-known downside of proportional approaches is that they focus on single membership variables (such as gender or race or in our case family status) and, in turn, miss the potential impact of other key attributes and their interactions (Mannix and Neale, 2005).
On the contrary the factor approach conceives of diversity in terms of an array of relevant and salient attributes. The employment of this approach allows for an integrative view of the effects of multiple types of diversity on team and firm performance (Mannix and Neale, 2005). Thus, given that diversity is a multifaceted concept, the employment of a factor approach is more exhaustive and informative. In conclusion, consistently with Mannix and Neal seminal article, here a value in diversity and a factor approach is employed.
2.3 TMT DIVERSITY AND FAMILY BUSINESS LITERATURE

As stated above, only few studies address theoretically and empirically the issue of diversity in family firms. It is also quite surprising, since the “family provides an additional layer of complexity and unique resources on TMT diversity that cannot be found in non-family firms” (Ling and Kellermann, 2010; Sciascia, Mazzolla and Chirico, 2013).

Notwithstanding this peculiarity this avenue of research in family business literature is still in its infancy (Kellermanns and Eddleston, 2004, 2007; Minichilli, Corbetta and MacMillan, 2010; Ling and Kellermanns, 2010). Indeed, previous studies have solely focused on the specific mechanisms arising among the FMs, assessing the typologies of conflicts, ties and relationships that characterize this team (Eansley and Pearson, 2005; Eddleston and Kellermanns, 2006; Miller and Le Breton-Miller, 2006; Kellermanns and Eddleston, 2007; Chirico and Nordqvist, 2010). The common thread that links these works is that they all address the differences arising between behavioral processes of TMTs in family and non-family firms, without deepening the specific sources of diversity that characterized TMTs in family firms (Chrisman, Chua and Steier, 2005). Indeed, earlier studies have completely neglected the intrinsic diversity that may originate within the family firm TMT, stressing the importance of cohesion and homogeneity (Eansley and Pearson, 2005). Only recently, some empirical works addressed this issue, through the identification of specific sources of diversity (Ling and Kellermanns, 2010). However their analysis focuses on the particular differences arising among FMs, disregarding the role played by NFMs in mixed TMTs. Besides, studies dealing with this argument adopted an in-group/out-group perspective, stressing the issue of conflicts between FMs and NFMs, instead of effectively examine their relationship on the basis of their particular characteristics.

Given this complex theoretical framework the next paragraphs are dedicated to review each of the aforementioned interpretative branches, in order to effectively explain the theoretical gap, the present study aims to fill.
2.3.1. Homogeneity Advocates

Earlier studies, fostering the homogeneity issue in family firm, have developed the concept of familiness, defined as the bundle of idiosyncratic internal resources that exists due to the involvement of the family in the firm (Habbershon and Williams, 1999; Habbershon, Williams and Mac Millian, 2003).

Drawing on this concept, several other studies assessed the importance of family firm unique identity, routed in its history and values, as a key source of homogeneity in family firm TMTs (Zellweger, Eddleston and Kellermanns, 2010). In other words, FMs are considered as characterized by strong commitment and sense of belonging to the organization, that in turn lead to high information exchange and idea sharing. They feel like oneness and share a common destiny and viewpoints. Taken together all these factors, increase the cohesion and the consensus of the TMT, facilitating the path and the quality of decision making process (Zellweger, Eddleston and Kellermanns, 2010).

Similarly, Arregle et al.(2007) recognized in the family social capital the major source of TMT homogeneity and competitive advantage. They state that the relationship among family members create an ideal environment that generates trust, shared moral behavior, cooperation and coordination (Arregle et al., 2007; Pearson, Carr and Shaw, 2008). In this sense, the so-called family social capital make family members, operating in the firm, to be characterized by the same values, norms and cognitive schemes (Arregle et al., 2007). Besides, this alignment in cognitive schemes, leads to a more stable, interdependent, interactive and close (in a word homogeneous) TMT (Pearson et al., 2008).

In the wake of this studies, Eddlestone and Kellermann stressed the concept of altruism in the family firm. They describe FMs as stewards, highly dedicated to the business, strongly committed to fulfill family and organizational goals (Eddlestone and Kellermanns, 2007). From this standpoint,
a family firm is described by a collectivistic culture, in which cooperation and collaboration are fostered by FMs characterized by the same values, norms, beliefs and objectives (Eddlestone and Kellermanns, 2007; Zahara et al., 2004).

The first attempt centered on the TMT dynamics in family business is that by Eansley and Pearson (2005). They argued that higher level of familiness results in better conflict, cohesion, potency and strategic consensus. More precisely, they argued that higher level of familiness allow FMs to have greater common understandings, shared values, trust and affinity, thus increasing the cohesion. They also argue that, given long-term, stable and effective patterns of communication developed as a family, functional idea conflict, newel insights and innovative ideas are more likely to emerge. Stressing the argument of homogeneity, along with stewardship theory, they state that FMs are characterized by the same mental models and by a shared strategic cognition and group potency. According to this hypothesis they conclude that more homogeneous TMT, such those characterized by parental ties (teams consisting of parents and child) are more effective than those characterized by familial (teams consisting of family members but without parental ties, such as cousins) or non-familial ties.

The tricky point is that, along with extant logic, they didn’t identify any sources of specific diversity among TMT members. The diversity is only analyzed at the firm level, distinguishing between family firm characterized by highest (parental family firms) and lowest level of familiness (familial family firms). The effective composition of the TMT is still neglected.

2.3.2 Diversity Advocates

The first empirical work actually addressing the “value-in-diversity” issue in family firms is that by Ling and Kellermanns (2010). Differently from previous researches, they argued that family members within the TMT are not supposed to be homogeneous, given that within the same family, variance in capabilities and orientations occurs due to the unique external experiences of each
family member (Ling and Kellermanns, 2010). Moreover this familiar diversity enhances, instead of worsening family firm performance (Miller and Le Breton-Miller, 2006; Ling and Kellermanns, 2010). In particular, they identified three specific sources of diversity unique to family firms: the generation in charge of the firm, the number of family employees, and the number of employed generation (Ling and Kellermanns, 2010).

Indeed, drawing on prior works on generational succession process (Gersik, Lansberg, Desjardins and Dunn, 1999), they argued that different generations bring to the family firm different business sense. The first generation define initial strategic path and mission, while subsequent generations take charge of the legacy and are supposed to bolster the business (Ling and Kellermanns, 2010, Sciascia, Mazzolla and Chirico, 2013). Different generation are also characterized by different education, knowledge and experience of the industry. Given the differences in knowledge, motivation and background, the authors found that when the ownership is passed from an early to a later generation, the new generation of family firm is likely to bring a different orientation, thus introducing diversity among TMT members.

Regarding the number of family employees, they suggest that the alignment of interest and the family values sharing, don’t necessarily imply that all the FMs will also share the same experiences, social and educational background, or talents. These differences in nature, disposition and attitudes, introduce diversity in the family TMT, that in turn positively affects firm performance (Ling and Kellermanns, 2010). In a similar way, the simultaneous presence of family members in the TMT belonging to different generation, is likely to bring different entrepreneurial orientations. Older generations tend to be more conservative, while youngest ones are more likely to break with previous patterns and to refresh the business organization. The coexistence of different entrepreneurial orientations, increases the level of diversity within the TMT, that in turn, exerts a positive effect on the firm performance, because of the presence of difference perspectives and better decision making (Ling and Kellermanns, 2010).
2.4. OTHER SOURCES OF DIVERSITY IN FAMILY FIRMS TMTs:

THE ROLE OF NON FAMILY MANAGERS

Further than diversity among FMs, another major source of TMT diversity in family firms is that between family and non-family managers (henceforth NFMs) and among the NFMs group itself. As a matter of fact, while a stream of literature have recognized the role played by the TMT diversity in the FT, analysing its specific sources, on the other side, the same specific sources for the NFT have been disregarded. Furthermore several articles pointed out the lack of research on the relationship between FMs and NFMs (Chua, Chrishman and Sharma, 2003; Klein, 2007; Bernd and O’Driscoll, 2011).

As stated above, a family firm can not only engage in pure family management, but also in mixed constellation that see the coexistence of family and non-family managers. Thus, managing NFMs and enhancing their value creating attitudes is an essential factor in ensuring long-term prosperity in family firm (Chua et al, 2003).

However, although a shared position among scholars is reached about the relevance and the significance of the argument, surprisingly there is relatively little (empirical) research on the role of NFMs in family firm (Block, 2011). The following two paragraphs are dedicated to a brief overview of the current state of relevant research on NFMs in family firm and on their relationship with FMs.

2.4.1 Non Family Managers in Family Firms Literature – The Pessimistic View

NFMs (external, outside or professional managers) are defined as executives not having a blood or a marital or adoption relation to the owning family (Klein, 2007).
The dominant view tends to equate professionalization of the family firm with bringing in outsiders. As a consequence professional, NFM have always been considered as an homogeneous group (Hall and Nordqvist, 2011), characterized by a formal style of management, professional knowledge (Klein, 2007), objective and non-contextual approach, focused on financial performance (Dyer, 1989; Klein, 2007) and not emotionally involved in the future of the company (Sonfield and Lussier, 2009).

Given these characteristics several authors have concentrated on the argument of conflicts arising among FMs and NFM (Minichilli et al., 2010; Block, 2011). The reasoning at the basis of this issue is that the differences in status, social background, education and previous experiences between the two teams, lead to the emergence of schisms and tensions that negatively impact on behavioral integration and, in turn on firm performance (Chua, Chrisman and Sharma, 2003; Minichilli et al., 2010). Several authors expressed their concern on this argument, arguing that a family firm is a natural environment for nepotism, free riding and adverse selection (Barnett and Kellermans, (2006). That is because often family members are employed because of their family status, regardless their professional skills or competence (Kellermanns and Eddlestone, 2007). This leads NFM to have a distort perception of justice in the human resources practices of the family (Kellermanns and Eddlestone, 2007; Chua, Chrisman and Bergiel, 2009). Jealousies and resentments driven by different roles of family members inside the firm, determine emotional distancing and affective conflicts (Amason, 1996; Pelled et al., 1999; Minichilli and Berrone, WP). As a result, NFM assign blame to FMs, concluding that the hiring or promotion process could have been more fair. Thus, the shared opinion among scholars is that NFM suffer from their lack of family status, since they are part of the business but not of the family system (Eddlestone and Kellermann, 2006; Kellermanns and Eddlestone, 2007).

Further than the hiring and promotion strategies carried on by the family, other conflicts may be driven also by different orientation and approach to the business. FMs are supposed to be more
attached to the firm, pursuing emotional objectives, while NFMs tend to be more economically-driven (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson and Moyano-Fuentes, 2007; Minichilli et al., 2010; Minichilli and Berrone WP; Berrone, Cruz and Gomez-Mejia, 2012). FMs may look at NFMs as not having the firm’s tradition “running through their veins” and thus are not entitled to decide about the company’s future (Minichilli and Berrone, WP). From this perspective, NFMs are considered as a sort of intruders, because they are not endowed with the strong emotional tie that bonds family members to their firms (Campopiano, Cassia, De Massis and Kotlar, 2011). Conversely, NFMs look at family members as spoiled kids, that due their role to their status, and not to their entrepreneurial skills or formal training (Minichilli e al., 2010; Ward, 1987).

The result of this broad literature, has been synthesized by Gomez-Mejia et al. (2007) in the well-known Socio-Emotional Wealth (SEW henceforth) approach. SEW captures “the affective endowment, the sense of belonging and intimacy of family owners, including the family desire to exercise authority, enjoinderment of family influence, maintenance of clan-membership within the firm, the fulfillment of family obligations based on blood ties rather than on strict criteria of competence, retention of a strong family identity, reputation and social capital, perpetration of the family dynasty, goals and values through the business” (Gomez-Mejia et al. 2007). A decrease in SEW implies loss of intimacy, reduced status and failure to meet the family’s expectations (Gomez-Mejia et al. 2007). Following this approach, several authors have identified in SEW the principal cause of conflict between FMs and NFMs. Specifically, even if NFMs can endure some kind of attachment or affection to the firm, they will never be provided by the same intrinsic SEW value that characterizes FMs (Berrone et al., 2012). The preservation of the SEW become an end itself, and it is “anchored at a deep psychological level among FMs whose identity is inextricably tied to the organization”(Berrone et al., 2012). This contrasts with NFMs that live their experience in the firm in a more transitory, detached and interested way (Gomez-Mejia et al. 2007; Berrone et al., Minichilli et al., 2010; Minichilli and Berrone, WP).
Following the same approach, Minichilli et al. (2010) recognized that a mixed top management team leads to a behavioral disruption, and consequently hurts performance, when a faultline among FMs and NFMs occurs. Adopting the faultline model, explained in the first part of this chapter, Minichilli et al., recognized that, in the case of family firms, the most evident TMT divide is between FMs and NFMs.

Accordingly they stressed the differences among FMs and NFMs, arguing that the group dynamic perspective predicts the emergence of schisms, which in turn lead to conflicts and tensions between the two. That is the case arising when the proportion of both factions increases in the TMT, while when there are few members of one or the other faction, conflicts are lowered because the minority faction has less power to contest decisions (Minichilli et al., 2010).

Given the implicit condition at the basis of the faultline model, a NFT is considered as a “factional”, homogeneous group, composed by members who share the same professional experiences and the same feeling of exclusion from the controlling family (Minichilli et al., 2010).

In the same way a FT is a “factional”, homogeneous group, composed by members who share common culture, values, patterns of education and emotional attachment (Minichilli et al., 2010).

In other words they depict FT and NFT as two different antithetical breeds, that are mutually exclusive (Hall and Nordqvist, 2008; Minichilli et al., 2010).

2.4.2 Non Family Managers in Family Firms Literature – The Optimistic View

Recent works, challenged the dominant view on NFMs in family firms, that equate them with professionalism, competence, objectivity, not-emotionally, economically-driven and opportunism, stating that it contains a number of simplistic and outdated connotations (Hall and Nordqvist, 2008). Indeed, whereas certain aspects of the SEW approach, such as formal education and
professionalism are easy to agree with, other such as objective, impersonal and non-emotional approach are easy to contest (Hall and Nordqvist, 2008).

Specifically, this approach reject several plausible hypotheses, such as that exist FMs who do not feel a strong attachment to the business, that behave opportunistically, or that are formally trained or provided with professional skills and competences. Instead FMs are only see as non-professional, socioemotionally endowed and attached to the firm. Conversely the same seems to be true for NFMs, always depicted as professional, detached, objective and opportunistic whatever their previous background and understanding of the firm (Hall and Nordqvist, 2008).

Actually NFMs can show an high cultural competence, understanding the family’s goals, norms and values (Hall and Nordqvist, 2008). As suggested by Bernhard and O’Driscoll (2011), they can feel a psychological ownership, defined as a certain state of mind in which “individuals feel as though the target ownership [...] or a piece of it is “theirs” (i.e. “it is MINE!”)” (Pierce, Kostova and Dirks, 2001). NFMs that are endowed with psychological ownership are more likely to display positive in-role and extra-role behaviours, they are willing to contribute to the firm, to participate and give their perspectives, thus reducing the group-think (Bernhard and O’Driscoll, 2011; Zellweger et al., 2010). The identification with the family goals make ideas and capabilities of FMs and NFMs to be combined and aligned, fostering innovation and avoiding organizational inertia (Zellweger et al., 2010). In line with this arguments Klein, in his seminal article on NFMs literature (2007), argued that not only FMs might act as stewards and regard firm performance as an extension of their own well-being, but also NFM might. For instance, longer-tenured NFMs may facilitate the succession process, taking on the role of mentor, supporting the successor, providing him with his/her tacit and explicit knowledge, experiences and skills (Barnett, Long and Marler, 2012). A NFT can also consist of managers grew up in the family business, that have been professionalized over time. In such a case NFMs are likely to be idiosyncratic to the family firm and to have had little or no experience in other type of organizations (Dyer, 1989). Thus, they are not
characterized by the objective, formal and non-contextual approach depicted by the dominant view. Instead, they are likely to feel a strong emotional attachment to their job, acting toward the family and the firm, as stewards (Klein, 2007; Bernhard and O’Driscoll, 2011; Barnett et al., 2012). This is not to say that NFMs cannot be characterized by the dominant view aforementioned aspects. Here, the argument is that those aspects are not the only ones recurring in the family business TMT context.

2.4.3 The theoretical gap

The major cause of the aforementioned incongruities, is that literature have always neglected the issue of diversity within the NFMs subgroup, assuming that all the members adopt the same opportunistic behaviour toward the family and the business, undertake the same actions and show the same relational dynamics with the FMs and with the other NFMs. Indeed, while a stream of literature have recognized the role played by the FT diversity, analysing its specific sources, on the other side, the same specific sources for the NFT have been disregarded.

In this light, the SEW approach, even dealing with the interaction between FT and NFT, have neglected the role played by the intrinsic diversity of the two subgroups. Furthermore, the employment of the faultline model in order to disentangle the complex dynamics arising between FMs and NFMs have led to biased and simplified conclusions.

As asserted by Van Knippenberg et al. (2012), negative effects of team diversity are better understood by considering the influence of different dimensions of diversity in conjunction, rather than for each dimension separately. In this sense, a more rigorous application of the faultline model requires that a strong faultline is based on a combination of all the dimensions of diversity studied. A meaningful difference can be made between faultlines formed by only two dimensions and those formed by three or more dimensions of diversity (Van Knippenberg et al., 2010; Mannix and Neale, 2005; Tachter et al., 2003). Using a faultline on a single variable the contribution of different
dimensions to creating faultline effects is obscured, leading to erroneous conclusions. In the case of Minichilli et al. (2010) work on family firms TMT the faultline was one-dimensional and the only variable taken into consideration to explain diversity was the family status, disregarding the effect of others salient variables. However as Thachter et al., (2003) pointed out faultlines incorporate multiple characteristics of group members simultaneously, highlighting the need to assess multiple demographic characteristics at a time, instead of just one, as most past diversity research has done. Besides they develop a measure to capture the complexity of the faultline construct and found a curvilinear effect, in which very weak faultline may have the strongest and most deleterious effects on group process and performance (Thatcher et al, 2003; Mannix and Neale, 2005).

In the light of this reasoning the faultline model is not the most suitable approach in order to disentangle the TMT diversity issue in family firms. Even more so in the family firms context, where diversity can be conceptualized as an array of relevant and salient variables, beyond the family status.

For this reason, it requires to apply a factor approach that analyse diversity from multiple perspectives and allows for an integrative and more complete view. The tricky point is that there is the need to embrace complexity instead of avoiding it, through basing only on the membership status. A NFT is not supposed to be homogeneous. It can be composed by diverse members, that behave differently and act toward the firm and the family in different ways, thus fostering or decreasing the firm performance.

Accordingly the objective here is to enrich the understanding of TMT diversity in family firms by focusing on three specific sources of diversity, relevant for the NFT: the number of NFM (NFT Size), the NFT Tenure Diversity and the NFT Dominant Functional Diversity.

Building from this, the aim is to examine the impact of these specific sources of NFT Diversity on family firm financial performance, arguing that the same sources of diversity in the
overall TMT may moderate this effect. From this standpoint, the effect of NFT diversity cannot be evaluated without looking at the entire TMT. More precisely we try to answer two specific research questions.

- *How NFT Diversity affects Family Firms Performance?*

- *How TMT Diversity moderates the relationship between NFT Diversity and Family Firms performance?*
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CHAPTER 3

The Empirical Setting: TMTs in Italian Furniture Family Firms
INTRODUCTION

Industrial Districts (IDs) in Italy are dominated by family firms (Belussi, 1998; Borga, Citterio, Noci and Pizzurno, 2009; Belussi, 2010; Chiarvesio et al., 2010). Empirical evidences show that the major IDs in Italy have often successfully developed, thanks to the presence of entrepreneurial families that have taken charge of both their own business and the territory’s growth (Belussi, 1998; Borga et al., 2009). In this sense, the family involvement in the business and the effective composition of family firms Top Management Teams (TMTs) play a fundamental role in shaping the ID’s evolution patterns, especially when it faces with the present global competition.

Notwithstanding the recognition of this criticality few studies have conducted an in-depth analyses of the TMT composition in the family firms that belong to IDs. Thus, in this work we focus on the Italian Furniture Industrial Districts, because they are characterized by an high presence of family businesses. Indeed, 89 percent out of the entire population of firms in the furniture industry can be defined as family firms (Source: Aida). Through an electronic survey we interviewed 92 firms belonging to five different and most important furniture districts in Italy. We mapped the TMTs composition, asking to each member the family status (whether he/she belong to the owning family or not), the educational background, the level of studies awarded, the organizational tenure, the age and the gender. We further evaluate other major family firm characteristics, such as the presence of a family CEO, the generation in charge of the firm and the firms establishment year.

From this perspective, we aim to shed light on the familial trait that characterizes the firms within the IDs context, showing the fundamental position it covers.

The work is organized into three paragraphs. The first provides a broad overview of the Italian Furniture industry and its productive structure. In this section are also highlighted some industry aspects related to the analysis: the argument of industrial districts, the major triggering
factors that the firms are facing with, and their strong familiar trait. The second paragraph deals
with an historical evolution of the major furniture district in Italy. The third encloses explanations
about the sampling and data collection procedures and deeply describes the results of the survey for
each district taken into consideration.

3.1 THE ITALIAN FURNITURE INDUSTRY

In order to test our hypotheses, accordingly to the most recent studies on family business
TMT (Minichilli et al., 2010; Prencipe et al., 2011; Ling and Kellermanns, 2011) we’ve chosen the
Italian setting because it is particularly suitable for the purpose of this research. Indeed, differently
from previous researches (Anderson and Reeb, 2003; Villalonga and Amit, 2006, 2010; Miller et
al., 2008), focused on large-listed USA corporations, we prefer to concentrate on firms that possess
most of the characteristics of a typical family business (Prencipe et al., 2011).

As stated by Prencipe et al. (2011), with respect to other countries Italian setting shows:

- Companies with an ownership concentration significantly higher than other countries
  (the average level of ownership for controlling families is 17.9 per cent higher than the
  level of ownership reported for S&P 500 family firms);

- Companies with an higher involvement of family members in key management position
  (55 per cent of family-controlled companies listed at MSE is characterized by a family
  CEO, founder or descendant (Coretta and Minichilli, 2006; Minichilli et al., 2010).

The choice of the furniture industry has also multiple motivations primarily related to the role
it plays in the whole national economy, the peculiar organization of the production in Industrial
Districts (IDs) and the traits showed by the firms that operate within it.

Before deepening the former argument is proper to give a short definition of furniture industry
productive structure. The so-called furniture macro-system encompasses firms producing home and
office furnishing, accessories, lighting equipment, sleeping systems, panels, unfinished wood, stairs, floors and other wood products for the construction industry (Catalani and Lojacono, 1999; Chiarvesio, Grandinetti, Guerra and Tabacco, 2002; Lojacono, 2003; Gargiulo, Onida and Traù, 2005). In other words, the macro-system refers to a group of companies that realize products and services designed to meet the need to furnish a home, an office or a public space (Catalani and Lojacono, 1999; Grandinetti, 2002; Marelli, 2005; Lojacono, 2003). Goods or services that meet this need are made by carrying out a set of activities (design, production, wholesale, distribution, transportation, assembly, etc.) conducted by different economic actors (companies production, retailers, architects, etc.). Specifically, the whole industry can be split in two main business areas: that of furniture which accounts for about 60 per cent, and that of wood that absorbs the remaining 40 per cent of total production (Cosmit and Federlegno, 2012).

With respect to the furniture business area, furniture for offices and stores account for 28 per cent of production, the kitchen furniture 21 per cent, the chairs and seats 22 per cent, while the category defined generically other furniture, which includes also upholstered furniture, represents 29 per cent of total production (Cosmit and Federlegno, 2012; Csil, 2012).

It’s interesting to note that, over the years, the filière has been affected by significant changes in its internal articulation. In particular, a strong downsizing of the upstream production (wood) occurred, while the transformation phase has shifted to the downstream (the furniture) (Lojacono, 2003).

All the furnishing product is the result of activities that take place in different sectors: chemical, textile, wood, metal, glass. These activities are performed by different actors, as can be noted in the Figure 1. Some firms focus on assembling, other on distributing the finished product, other also carry out some activities in the upstream phase of the filière, many others deal with specific stages of the productive process or with the production of special components.
Furthermore, firms producing finished products can show different levels of specialization.

Single-product firms are specialized in the manufacture of one kind of product, while diversified companies exploit complementarities in production technology (Lojacono, 1999, 2003; Gargiulo et al. 2005; Marelli, 2005).
A valuable classification of the firm operating in the industry is based on two variables: the degree of vertical integration and the degree of product diversification (Lojacono, 2003). The intersection of the two variables provides four typologies of firms populating the industry:

- **Integrated and specialized firms**: the majority of the productive activities is carried on by single or grouped companies controlled and managed by a single farmer. These companies are usually characterized by high degrees of innovation and offer highly customized products. In this category can be included Natuzzi, the leading firm of the upholstery furniture district in Basilicata, where the monitoring of the supply chain activities is widely spread and covers advertising, design and marketing of a specific product (sofas and armchairs). Natuzzi has propagated in the surrounding areas the model of innovation it established in the 80’s (Belussi, 1998).

- **Integrated and diversified firms**: direct control over productive activities is combined with the provision of different furniture products, such as kitchens, living room, bedrooms etc. Product diversification is frequently reached through external growth. Diversification has often been induced by the need to enhance bargaining power with respect to the distribution or by the identification of potential synergies with the acquired businesses. The acquisition of Varenna by Poliform, Salvarani by Feg, Ernesto Meda by Scavolini are valuable examples of firms pursuing such a strategic logic. Each of these operation have been driven by the potential synergies on both productive (firms specialized in wall units have decided to apply their skills in woodworking, through the kitchens production) and brand complementarities (brands were homogeneous and characterized by high intrinsic value). Another valuable case within this category is the Molteni Group that controls all phases of woodworking and produces home furniture (Molteni), for the kitchen (Dada) and office (Unifor and Citterio).

- **Assembling and specialized firms**: these firms outsource the majority of the productive processes and buy all the components from sub-contractors with whom supply relationships
are long lasting and well-established. Examples of this type of companies are Flou (textile beds), Chateau d'Ax (upholstered furniture) and Calia (upholstered furniture).

- *Assembling and diversified firms*. This category encompasses both big companies pursuing a strategy of volume, and small ones addressing niche market that base their competitive advantage on craftsmanship.

Once defined the boundaries of the furniture industry it’s proper to analyze the role it plays within the whole national economy. With a total turnover of 20 billions of euro furniture macro-system is a significant contributor to the whole Italian GDP. It is constituted by more than thirty thousand companies with more than two hundred thousand employees (Cosmit and Federlegno Arredo Annual Report, 2012).

34 per cent of the total turnover is derived from exports. With a share of 10% of the total, Italy is the third largest producer in the world furniture industry (BNP Paribas Economic Research, 2011). Over the past 10 years, Italy has maintained its leadership as the major exporter with a share of the total close to 9 percent (BNP Paribas Economic Research, 2011). In the first 10 months of 2011, exports showed a 4,4 percent increase, with respect to the previous year.

The European Union is still the main foreign market for the export (60 per cent), even if the growth rate is limited and declining. France is the first importer of Italian furniture, followed by Germany and the United Kingdom. Italy has a European market share of 15% (Cosmit and Federlegno Arredo Annual Report, 2012). United States and Russia are currently the most dynamic markets for Italian furniture companies, followed by Middle East countries such as United Arab Emirates, Saudi Arabia and Qatar, that are expected, within 5 years to double their purchase compared to 2011. With respect to Far East markets, Italian companies achieved a marginal presence in China and India, notwithstanding they have doubled the market share between 2010
and 2011 (Cosmit and Federlegno Arredo Annual Report, 2012). Table 1 briefly summarizes Italy’s export position in the worldwide furniture industry.

Table 1-Worldwide purchases of Italian Furniture Goods (Values expressed in millions of euro)

<table>
<thead>
<tr>
<th>Country/Areas</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Δ2011-2010</th>
<th>Italy Market Share on Total Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total UE 15 (Switzerland included)</td>
<td>5.504</td>
<td>5.362</td>
<td>4.306</td>
<td>4.378</td>
<td>4.314</td>
<td>-1.55%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Total non UE 15 (Belarus, Serbia, Slovachia, Slovenia, Turkey etc.)</td>
<td>2.015</td>
<td>2.250</td>
<td>1.512</td>
<td>1.451</td>
<td>1.562</td>
<td>7.6%</td>
<td>15.8%</td>
</tr>
<tr>
<td>East Europe Countries (Poland, Romania, Hungary etc.)</td>
<td>1.087</td>
<td>1.169</td>
<td>819</td>
<td>767</td>
<td>789</td>
<td>2.8%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Russia</td>
<td>842</td>
<td>995</td>
<td>639</td>
<td>623</td>
<td>692</td>
<td>11.2%</td>
<td>28.9%</td>
</tr>
<tr>
<td>Middle East</td>
<td>478</td>
<td>628</td>
<td>502</td>
<td>557</td>
<td>642</td>
<td>15.2%</td>
<td>13.1%</td>
</tr>
<tr>
<td>United States/Canada</td>
<td>837</td>
<td>709</td>
<td>507</td>
<td>558</td>
<td>590</td>
<td>5.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Eastern Asia (China, Japan, South Corea etc.)</td>
<td>395</td>
<td>378</td>
<td>313</td>
<td>401</td>
<td>468</td>
<td>16.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>South America</td>
<td>109</td>
<td>117</td>
<td>100</td>
<td>108</td>
<td>130</td>
<td>19.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Mediterranean Africa (Algeria, Egypt, Morocco, Libya and Tunisia)</td>
<td>119</td>
<td>140</td>
<td>167</td>
<td>173</td>
<td>106</td>
<td>-38.7%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>91</td>
<td>99</td>
<td>87</td>
<td>120</td>
<td>108</td>
<td>-10.2%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>102</td>
<td>103</td>
<td>77</td>
<td>89</td>
<td>101</td>
<td>12.8%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Central Asia (India, Kazakstan etc.)</td>
<td>81</td>
<td>83</td>
<td>68</td>
<td>86</td>
<td>100</td>
<td>16.9%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Source: Cosmit and Federlegno Research Center, 2012.

Despite the performance on the foreign markets, the last five years showed a fall down in the turnover, that begun in 2009 with -18 per cent, with respect to 2008. The whole system, between 2007 and 2011, hacked a strong decrease in consumer consumption, that had led to -9.8 per cent in 2011. First results of 2012 are not comforting, given that the propensity to purchase furniture goods only affects 14.7 per cent of consumers (Osservatorio Findomestic, Trimestral Report, 2012). In
particular the turnover generated, in the domestic market, is about 20.3 billion euro in 2011 (-4.8 percent with respect to 2010).

Table 2-Furniture Macro-System (Values expressed in millions of Euro)

<table>
<thead>
<tr>
<th>Furniture Industry</th>
<th>2010</th>
<th>2011</th>
<th>∆2011/2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (a)</td>
<td>21,297</td>
<td>20,269</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Export (b)</td>
<td>10,002</td>
<td>10,433</td>
<td>4.3%</td>
</tr>
<tr>
<td>Import (c)</td>
<td>3,105</td>
<td>3,167</td>
<td>2.0%</td>
</tr>
<tr>
<td>Balance (b - c)</td>
<td>6,897</td>
<td>7,267</td>
<td>5.4%</td>
</tr>
<tr>
<td>Export/Turnover (% b/a)</td>
<td>47.0%</td>
<td>51.5%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Employees</td>
<td>222,456</td>
<td>218,155</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Firms</td>
<td>33,140</td>
<td>32,277</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

Source: Cosmit and Federlegno Research Center, 2012.

In order to ascertain the main causes of this decline an in depth-analysis of two structural features of the industry is needed. The former concerns with the concentration of the firms in Industrial Districts (IDs), while the latter pertains to the specific family firm trait. The following paragraphs address these issues.

3.1.1 Industrial Districts in Italy

The main structural feature that distinguishes the Italian furniture industry is the concentration of firms in IDs. The regions of the Northeast along with Lombardy, Tuscany, Basilicata and Marche regions are the main national furniture producers. Lombardy holds 23 per cent of the Italian furniture companies, Veneto 18 per cent along with Friuli Venezia Giulia (4.5 per cent), followed by Tuscany (10.2 per cent) and Marche (5.4 per cent) (Marelli, 1999).

Before deeply describe each districts historical development, it’s appropriate to give first an outline of the IDs main features and evolutionary patterns. Indeed, IDs have historically been exalted by scholars for numerous reasons. Starting from the famous quote by Marshall (1920),
several studies have identified a relevant number of distinctive characteristics (Becattini, 1990; Becattini and Rullani, 1993; Dei Ottati, 1995; Belussi, 1999; Corò and Grandinetti, 1999; Becchetti, Panizza and Oropallo, 2007).

As a matter of fact, firms operating in ID model can take advantage from a vast array of factors. They can reach distinctive technical capabilities and the exploitation of costs advantages deriving from specialization (Belussi and Sammarra, 2010). Besides, they can develop knowledge sharing, due to interactive communication and cooperation (Corò and Grandinetti, 1999). In this context, geographical proximity allows the growth of reciprocal trust between the actors, derived from repeated exchanges (Becattini 1990; Dei Ottati, 1994; Belussi and Sedita, 2010). Actually, among the advantages the one that plays a primary role is the industrial atmosphere in which firms are immersed, that stimulates the transfer of knowledge, the introduction of novelties, and the rapid adoption of good ideas (Belussi and Sedita, 2010). In other words, firms within the same ID possess a so-called collective identity, that originates from the sense of belonging to a specific social and cultural context (Corò and Grandinetti, 1999). Collective identity favors communication among the actors and, as a consequence the diffusion of innovation and the emulation of successful behaviors (Becattini and Rullani, 1993; Corò and Grandinetti, 1999). From this perspective, IDs are self-sustaining networks, able to self-generate human, financial and cognitive skills necessary for its reproduction over time (Becattini and Rullani, 1993; Becchetti et al. 2007; Belussi and Sedita, 2010). Therefore, the water-resistance to the external environment has not prevented, but on the contrary has always fostered IDs’ competitive advantage (Corò and Grandinetti, 1999; Becchetti et al., 2007).

However, if in the past IDs were able to operate as closed systems, showing only marginal contacts with external environment, in the light of the recent rapid transformation of the competitive scenario this closure can become an evolutionary limit (Beccattini and Rullani, 1993; Corò and Grandinetti, 1999). In the wake of this argument, several authors, adopting the so-called
Global Value Chain approach, have expressed their concerns on whether such a confined network can succeed, when it faces with a globalized economy (Belussi, 1999; Corò and Grandinetti, 1999; Di Maria and Micelli, 2006; Belussi and Sedita, 2008; Belussi and Samarra, 2010; Chiarvesio, Di Maria and Micelli, 2010).

In support of this claim, recent literature has extensively documented the empirical variety of IDs evolutionary patterns of growth (Belussi and Sedita, 2008; Belussi and Samarra, 2010; Belussi, 2010; Sammarra, 2010; Chiarvesio, Di Maria and Micelli, 2010; Fernandez and Nieto, 2005).

Different IDs have shown, in the last decades, different growth trajectories, some have grown and changed, while others have turned down.

One of the primary cause of IDs decline is the high level of territorial and social embeddedness, that in turn leads to the so-called, path-dependence phenomenon (Belussi, 1999; Belussi and Sedita, 2008). In other words, past social relations influence firms, within the ID, and shape their subsequent actions. In this sense, the industrial atmosphere and social capital core capabilities, may resolve into core rigidities, preventing the evolutionary development of the ID.

Furthermore, the evolutionary development doesn’t follow a precise trajectory, but a multiple path-dependence, showing different outcomes, depending on the life-cycle stage the ID passes through (Belussi and Sedita, 2008). Different ID’s life cycle stage leads to different triggering factors.

For instance furniture IDs, like those in Brianza and Matera are in a maturity phase and have to cope with triggering factors, such as the entry of international competitors in the market, the technological innovation and the downturn of the domestic demand (Morrison, 2004; Belussi and Sedita, 2008). For these reasons they evolved along similar trajectories, undertaking diversification and differentiation strategies, followed by an implement of product quality and design. Furthermore
they both undertook internationalization trajectories, even if with different modes of entry in foreign market.

In such a framework, other scholars contended with the challenges the IDs cope with, adopting the same Global Value Chain approach. Among these challenges, a shared position has been reached with respect to three key elements, triggering IDs evolutionary trend: internazionalization, innovation and network technologies (Morrison, 2004; Fernandez and Nieto, 2005; Belussi and Sedita, 2008;; Chiarvesio, Di Maria and Micelli, 2010).

Notwithstanding the diverse perspectives adopted, the underlying thread that bring together these studies is that they shift the level of analysis to firms, dismissing the idea of the districts as a whole (Di Maria and Micelli, 2006). Indeed, traditional studies have always defined IDs as networks of Small and Medium Sized Enterprises (SMEs) specialized both horizontally and vertically, that depend on their local relationships with other local firms (Dei Ottati, 1994; Corò and Grandinetti, 1999). However, these kind of firms can compete at an international level in a different and more effective way than other firms that do not belong to IDs (e.g. Large Companies, Multinational Companies, Foreign Companies) (Di Maria and Micelli, 2006).

In this light some authors highlighted the internationalization argument, stating that IDs firms are able to reorganize their supply chain, taking advantage from both local and foreign suppliers, or to increase their presence on international markets creating their own commercial network and sales force (Di Maria and Micelli, 2006). In this context, as mentioned above, several companies in the Furniture IDs have established formal (through acquisition) or informal (through consortium) groups in order to reach the critical mass (in terms of brand and financial resources) needed to undertake innovative international strategies (Chiarvesio and Guerra, 2002).

With respect to innovation, scholars agree with the fact that, globalization pushes IDs firms to carry on compound innovation in their business models, internal organization and productive
process (Belussi, Gottardi an Rullani, 2003; Di Maria and Micelli, 2006). In the particular case of furniture IDs the global competition has stimulated furniture companies to join in industrial groups. These coalitions had the purpose to renovate process, widening the range of realized products and enhancing their quality (Chiarvesio and Guerra, 2002; Di Maria and Micelli, 2006).

Even from the network technologies point of view, firms within IDs demonstrated to be aware of the need to be provided with proper ICT and advanced application. Again the global competition pushed firms to improve organizational control and information flows (Chiarvesio et al., 2004).

### 3.1.2 Family Business in Industrial Districts

A crucial aspect that characterizes firms within the IDs has been narrowly investigated from prior literature, that is their family trait. With respect to this topic, the majority of previous empirical studies on IDs agree that they are mainly composed by family managed firms, that are often overcoming the second or the third generation (Belussi, 1998; Morrison, 2004; Belussi and Sedita, 2008; Borga, Citterio, Noci and Pizzurno, 2009; Belussi, 2010; Chiarvesio et al., 2010).

Several authors stated that the most important IDs in Italy have often developed in a successful way, because of the leading role played by family firms. For instance, well-known examples are Tecnica, Caberlotto, Geox, Rossignol and Munari in the shoe districts of Montebelluna (Belussi, 2010), that of Natuzzi, Calia and Nicoletti in the upholstery district of Matera (Morrison, 2004; Belussi, 1998; Borga et al., 2009), that of Mastroatto Group in the leather tanning district of Arzignano (Belussi and Sedita, 2010), that of Flou, Molteni and Misuraemme in the furniture district of Brianza (Borga et al, 2009; Chiarvesio et al., 2010), that of Scavolini in the kitchen district of Marche etc.

Thus, the family involvement in the business management plays a pivotal role, especially in the ID context, that is challenged by global competition. From this perspective, it is widely
accepted that Family Managers (FMs) can bring special skills and innovative and value enhancing expertise (Anderson and Reeb, 2003). They strongly identify with the firm and consider its performance as an integral extension of their own well-being. The willingness to pass the firm onto succeeding generations leads FMs to be characterized by less managerial myopia and longer-term horizon, (Sharma, 2004; Miller D., Le Breton-Miller, 2006), to invest in product, reputation and market share development (Miller, Le Breton-Miller and Scholnick, 2008). The perspective of business continuity also makes them to mature a set of non-economic utilities, such as socio-emotional attachments to the firm (Gomez-Meja, Takács Haynes, Núñez-Nickel, Jacobson and Moyano-Fuentes, 2007), sense of belonging, affection and intimacy, personal and social fulfillment (Gomez-Meja et al., 2007).

Furthermore, several authors pointed out the importance of knowledge transfer (from the founder to the descendants), underlining the family ability to transfer and preserve tacit and idiosyncratic knowledge and connections (Lee et al., 2003; Miller and Le Breton-Miller, 2006).

From a social network perspective family’ social capital and network configuration are considered as a source of competitive advantage and sustainability across generations (Nahapiet and Ghoshal, 1998; Salvato, Melin, 2008). That is, even more important in IDs’ context, given the firms embeddedness in the local territory. The so-called familiness (Sonfield and Lussier, 2004, Habberson and Williams, 1999; Sharma, 2004) contributes to establish the industrial atmosphere (Belussi and Sedita, 2010) and collective identity (Corò and Grandinetti, 1999) of the district.

Further than the family involvement, a major challenge that family firm in the IDs context are facing with, is the engagement of external, Non Family Managers (NFMs). As highlighted in previous studies, family firms in IDs are often in later generations and thus are more likely to use a “team” style of management (Lussier and Sonfield, 2004; Klein, 2007).
From this standpoint, the role played by NFMs and their relationship with FMs are fundamental issues to be deepened, mainly because they are potential triggering factors that may hinder IDs evolution process. Indeed, several authors, within the ID field of literature, have underlined the difficulties that family firms meet in approaching global and rapidly changing scenarios (Fernandez and Nieto, 2005; Grave and Thomas, 2008). Among these are the resistance to change of the founder and his/her descendants, limited capital to fund both family needs and business growth needs, organizational inertia, avoidance of venture capital, and, more importantly, reluctance to external NFMs (Gallo and Garcia-Pont, 1996; Fernandez and Nieto, 2005; Grave and Thomas, 2008; Minichilli and Berrone, 2012; Minichilli, Corbetta and Mac Millian, 2010).

Notwithstanding these arguments, no previous empirical studies on IDs, shed light on how the management composition of this widespread kind of firms, impacts on their performance, and, as a consequence on the ID evolutionary pattern.

Given this theoretical and empirical gap, it is pertinent, therefore, to deepen the family firm management issues in the specific context of IDs. Especially in the furniture one, that shows the higher percentage of family firms in (89 percent out of the entire population) among the whole set of Italian IDs (Source: Aida).
3.2 ITALIAN FURNITURE INDUSTRIAL DISTRICTS:

THE HISTORICAL DEVELOPMENT

3.2.1. The District of Triveneto

The district of Triveneto is the youngest among the furniture ones (Marelli, 2005). It developed in the 70s and it’s characterized by a strong presence of family firms, mainly managed by mixed constellation of top management team, with a strong openness toward external NFMs (Marelli, 2005).

It is located in Bassa Padana and Bassanese (specialized in classic furniture), Treviso and Pordenone (modern furniture) and Manzano (for the chair) (Club dei Distretti and UnionCamere 2011). These three areas encompasses all the stages of supply chain, from primary processing (sawmill and drying panels), the second processing (production of semi-finished products, manufacturing of components and specialist), to the finished product (for construction, furniture and special ).

The district is oriented toward mass production technologies and has always pursued a cost leadership strategy, combined with an aggressive and widespread distribution in thousands of shops spread in the whole domestic territory. The production is characterized by a wide range of products, with an high quality/price ratio, that have led several firms to gain top positions in terms of turnover generated in both the domestic and the foreign market. Among these Snaidero Rino S.p.a., owned by Snaidero family and Veneta Cucine S.p.a.owned by Archiutti family, respectively occupy in 2011 the 14\textsuperscript{th} and the 7\textsuperscript{th} position in the top 500 furniture companies, with respect to revenues (Source: Aida). In charge of both the companies are the second generation family members. Both have also engaged in mixed TMTs, availing themselves respectively of eight and four NFMs.
The growth of the district was mostly due to grouping strategies. Firms within the district started to create consortium, in order to reach productive synergies, bear R&D costs needed for products’ quality improvement and take advantage from a coordinated internationalization strategy.

With regard to the internationalization process, it started two decades ago, with a marginal presence in the European market (e.g. Germany, France and Spain). At the beginning of the two thousand century, the firms within the district started to delocalize some production phases in foreign countries (especially in Western Europe), because of the lower cost of raw materials and modular components. In recent times, the internationalization strategies has extended not only to the production phase, but also to the distribution one, with the creation of Direct Owned Stores all over the world.

3.2.2 The District of Brianza

The Brianza is the oldest among the Italian furniture districts (production began two centuries ago) and it holds 18.5 per cent of the national production of furniture and 5.2 per cent of the European Union (Marelli, 2005; Borgia et al., 2006).

It is specialized into a wide range of productions (such as furniture, but also objects in wood, metal and furniture accessories) characterized by the quality of materials and finishes, design and style. The district includes firms that produce finished products (furniture, chairs, sofas, tables, bedrooms), but also components (paints, adhesives, plastics, hardware, fabric manufacturers, etc.). It includes several production stages, such as the assembly of furniture, carving, polishing, lacquering, gilding, glass and metals.

Firms within this area, especially in the first three decades after the second postwar (from 50s to 80s), had grown very quickly dragged by the entrepreneurial spirit of the founders. However, since the beginning of the 90’s, they had to deal with profound changes in the technological system.
(flexible automation, lean production etc.), demand (consumer looking for more and more personalized product solution), foreign competition and the distribution system that has seen those years, the advent of large retail chains (Club dei Distretti and UnionCamere 2011).

The cause of this crisis is threefold:

- A business strategy based on the propensity of the consumer to pay an high premium-price. A strategy that is no longer supported by the domestic market that have shifted its attention toward products showing a better quality/price ratio (Marelli, 2005);

- The productive structure of the district is highly fragmented. Around 75 per cent of the six thousand companies in Brianza is still artisanal. Such a small size makes difficult to gain bargaining power toward retailers and to reach scale economies.

- The accentuated familiar traits of the firms that, differently from those located in the Triveneto area, didn’t open to external NFMs. New generation of FMs are not effectively educated for carrying on the family craftman’s studio and are interested in different kind of activity (Borgia et al. 2006, Marelli, 2005).

However, the situation has been less disruptive for the modern furniture producers, such as the case of Molteni Group owned by Molteni family and Flou owned by Messina family. Both the firms have successfully passed over the second generation, occupying in 2011, respectively 18th and 80th positions in the top 500 furniture companies, with respect to revenues (Source: Aida). Both the firms had already adopted a mixed and well balanced top management team, at the beginning of the 90s (NFT size reported from the CEOs is five for both the companies).
3.2.3 The Upholstery District of Murgian Area

The upholstered furniture district of Matera is the youngest one. It developed between the provinces of Matera, Basilicata, and Bari (the so-called triangle formed by Matera, Altamura and Santeramo in Colle). The typical products of the district are chairs, sofas and armchairs.

The premises for the district growth were placed around the mid-fifties, when the leading firm, Natuzzi has propagated the model of innovation it established in the eighties (Belussi, 1999). The model was characterized by the outsourcing of several stages of the supply chain, huge investments in process technologies and product innovation. The propagation of this productive organization has led to the consolidation of the actual Matera district, due to the emergence of SMEs specialized in contract and subcontract.

The model established by Natuzzi and his main followers (Calia and Nicoletti), had lead the system to reach an extraordinary growth. At the beginning of the 90’s the district of Matera was the most important center in Italy for the production of upholstered leather furniture, whose sales attained the 50 per cent of the entire national production (Belussi, 1999). This remarkable growth involved also the European and the American markets. At the end of the 90’s Natuzzi was the leading European firm in the upholstery sector, supplying twenty per cent of the American and five per cent of the European market (Belussi, 1999).

In the last five years, however the district has to cope with a strong downside in the turnover and with a huge labor crisis. At the end of 2011, Natuzzi had to lay off 2940 employees. Nicoletti closed in 2008 and, after an attempt to rise up again its production sites, obtained a waived lay off for 330 employees at the end of 2012.

The main cause of this surprising decline has been found into the severe competition in the international market. At the beginning of two thousand, developing countries started to produce and sell upholstery furniture characterized by same quality, but at lower prices (Club dei Distretti and
UnionCamere 2011). Furthermore the cost of labor dramatically grew in the two-years 2003-2004 (the increase was around 11 milions of euro). These two factors along with a cricking debt situation of the leading companies halved the number of employed workforce and of the value added generated in the District in 2011 with respect to 1997 (Club dei Distretti and UnionCamere 2011).

3.2.4 The Pesaro-Urbino District (Marche District)

Also known as Pesaro-Urbino District, it consists of 30 municipalities in the province of Pesaro-Urbino (Marche region). Firms within the District are specialized in the manufacture of wooden furniture (living rooms and bedrooms, etc.). However the district is also well-known for its specialization in kitchen manufacture.

The district started its growth in the 50's and, similarly to the Triveneto district, firms have developed, budding from a dense network of artisans. During the 60s the first up-grade of technological processes led to the achievement of strong economies of scales and to the increase in the firms size. Another crucial aspect that have determined the growth of the district, has been the disintegration of the production process in different stages of the supply chain. Firms within the districts started to decentralize addressing several manufacturing phases to a large number of small subcontractors. This breakup process has led to a further down turn in fixed costs, increasing the whole flexibility of the district (Club dei Distretti - Unioncamere, 2011).

The presence of a large number of SMEs, each specialized in a particular phase of the process and highly integrated with each other, have promoted the creation of a series of relationships developed around some leading companies. Among them, the companies belonging to the group of kitchen producers, that between 80s and 90s consolidated their position.

One aspect that strongly characterizes this district is its duality. Indeed, a huge divide between few large companies (mainly kitchen producers, that are vertically integrated and professionally
structured) and small ones (modestly structured, purely-endowed with strategic planning and less evolved) is observed.

A successful example of the former kind of firms, that have led the district in the 70’s, is the Scavolini Group, owned by Scavolini family. Differently from other companies in the same district, Scavolini Group has been able to match the familiar feature (to date all the sons of Walter Scavolini, the founder, work in the firm along with some of the most prepared and quoted managers in the kitchen industry), without losing sight of the strategic and professional aspect. This remarkable balance between family and business, has led Scavolini to occupy in 2011 the 6th position in the top 500 furniture companies, with respect to revenues (Source: Aida).

In recent years, the district boundaries are expanding. Leading companies started addressing outside-suppliers, considerably increasing their weight in the whole district transactions. Notwithstanding this evolutionary enlargement of the boundaries the district still remains the reference point for the supply relationships.

### 3.2.5 The Tuscany District

The Tuscany region has formally recognized as the furniture district areas only those of Poggiobonsi and Sinalunga. However, in an informal way, the supply network can also be extended to other areas, such as Pisa, Cascina, Ponsacco Quarrata, all characterized by a high concentration of firms specialized in the production of wood furniture.

The strength of the district is the production of kitchens, furniture and furnishing accessories. Besides the furniture production, the firms within these areas are also specialized in collateral activities, such as the mechanics one (machines for wood-manufacturing and construction).

The origins of artistic vocation of the district artisans lie into the extraordinary economic development of the 40s. During the second postwar started to develop and spread.
Even if the Tuscan area was cut off from the major transportation and communication arteries, isolated and without renewal initiatives, the entrepreneurial spirit of the founders led to the emergence of many initiatives.

However, Tuscany is one of the Italian districts that is facing with a progressive and incontrovertible recession. The underlying causes of the recession are due to the emergence of tourism and agriculture industries that have distracted resources from the furniture industry (Il Club dei Distretti – Unioncamere, 2011).
3.3 RESEARCH METHOD

3.3.1 Data Setting

The analysis is based on an original dataset covering the entire population of Italian family-controlled firms in the Furniture industry. According to the quali-quantitative definition by “IL Club dei Distretti”, the companies operating in the Furniture Districts can be identified through the ATECO 2007 classification of economic activities. These firms fall under the compartment 31.000 “Furniture Manufacture”.

The entire population is composed by more than eighteen thousand firms. Further, out of this population, we considered only those firms that fall under the definition of family firm.

In the matter of this argument, although there are several possible definitions (Anderson and Reeb, 2003; Villalonga and Amit, 2007; Chua et al., 2003; Minichilli et al.2010; Prencipe et al., 2010), we identified as family firms those in which one or more families is linked by kinship, close affinity, or solid alliances and holds a sufficiently large share of risk capital to enable members to make decisions regarding strategic management (Prencipe et al.2008; Minichilli et al, 2010).

Specifically, we adopted the Minichilli et al. (2010) classification, according to which a firm is defined as a family firm, when the same dominant family (or families) owns (directly or indirectly through subholdings) more than 50 per cent of the shares. The threshold is reduced to 30 per cent for listed companies, which is reasonable given the features of the Italian stock exchange both in terms of average size and average stock ownership (Minichilli et al., 2010).

In forming this classification, similarly to Minichilli et al. (2010) we examined the relationship of each individual shareholder to the dominant family, and the family’s ability to control the strategic decisions, through a careful analysis of all publicly available information.
This definition is in line with previous studies on family firms TMTs, according to which family control can be identified as the fractional equity holding by family members (founding or descendants), which allows ownership control over the company (Anderson and Reeb, 2003; Lee, 2006; Minichilli et al., 2010).

To collect data on ownership we availed ourselves of public sources such as AIDA (Italian Digital Database of Companies) – the Italian branch of Bureau van Dijk European Databases. Aida incorporates financial information for the most recent ten years for all public and privately held firms in Italy. The information are acquired from official sources such as the balance sheets and income statements that all companies in Italy deposit annually in the Chamber of Commerce (Minichilli and Berrone 2012, working paper).

The comprehensiveness of this database makes it a unique asset in studying a vast assortment of private family firms (Minichilli and Berrone 2012, working paper). Once identified the family firms within the Ateco 31.000 section, given the peculiar structure of the industry, that is extremely fragmented in a large number of micro-firms, we decided to include into the final sample only top 500 firms with respect to revenues.

The firms selected have produced a total turnover of 10.722.012 million euro in 2011, declaring a total number of 42.642 employees in the same year. Half of the sample turnover is produced by the first 75 companies of medium-large size (58-594 employees, with the exception of the first two firms: Natuzzi, with 2942 employees and Friul Intagli with 1067 employees). With respect to the establishment year, the average age of the firms in the sample is around 25 years suggesting that the majority of them are passing over the second or third generation.

As indicated in the table 3, 215 firms out of 500 belong to the district of Triveneto, 115 to that of Brianza, 27 to that of Murgia, 95 to that of Pesaro-Urbino, 48 to Toscana district and the remaining 22 to regions that do not belong to any district (Lazio, Campania, Sicilia and Sardegna.
regions). The firms belonging to the Triveneto area, encompasses the higher number of working units employed (19,841) and produced in 2011, the higher turnover among the five districts considered. However, the average ROA measure, suggests that the Marche district is the one with the highest profitability. Consistently with the ancient origins of the Brianza district, the firms located in this area, show the highest average age (30 years), while the Murgian ones the lowest (18 years).

Table 3-Top 500 Family firms described by Districts in 2011 (Values expressed in millions of euro)

<table>
<thead>
<tr>
<th>Districts</th>
<th>Number of Family Firms</th>
<th>Overall Turnover</th>
<th>Average Turnover</th>
<th>Overall Employment</th>
<th>Average Employment</th>
<th>Average Age 2011</th>
<th>Average Age</th>
<th>Average ROA 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>215</td>
<td>4,632.071</td>
<td>23.876</td>
<td>19.841</td>
<td>106</td>
<td>28</td>
<td>3.54</td>
<td></td>
</tr>
<tr>
<td>Brianza</td>
<td>115</td>
<td>2,591.161</td>
<td>25.655</td>
<td>7.777</td>
<td>83</td>
<td>30</td>
<td>3.42</td>
<td></td>
</tr>
<tr>
<td>Murgia</td>
<td>27</td>
<td>764.636</td>
<td>42.480</td>
<td>3.622</td>
<td>68*</td>
<td>18</td>
<td>-0.35</td>
<td></td>
</tr>
<tr>
<td>Marche</td>
<td>95</td>
<td>1,737.794</td>
<td>21.722</td>
<td>7.127</td>
<td>97</td>
<td>25</td>
<td>3.64</td>
<td></td>
</tr>
<tr>
<td>Tuscany</td>
<td>48</td>
<td>814.822</td>
<td>23.965</td>
<td>3.418</td>
<td>114</td>
<td>24</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Other Regions</td>
<td>22</td>
<td>181.528</td>
<td>11.345</td>
<td>857</td>
<td>61</td>
<td>23</td>
<td>-1.18</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>10,722.012</td>
<td>24.642</td>
<td>42.642</td>
<td>92</td>
<td>25</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

*The average employment is calculated without Natuzzi. Including Natuzzi in the sample the average number of employees is 392.
Source: Aida (2011)

### 3.3.2 Data Collection Procedure

In order to test the hypothesis we sent an electronic questionnaire survey to all CEOs and Chairpersons of the 500 firms sampled, to gather information on their TMTs’ characteristics. The electronic survey mode is preferred, as it reduces the possibility of mistakes in the data entry procedures (Minichilli et al., 2010).
Given that most of the information required in the questionnaire refers to objective data, we consider it proper to have at least one respondent as a key informant in the TMT for each of the firms involved in the survey (e.g. Human Resources Director, Sales Director, Administrative Director, CEO etc.). With this purpose we developed a website through which all firms within the 500 sampled, may have connected with specific user id and password, and filled in the questionnaires.\textsuperscript{1} A guide explaining how to fill in the questionnaires and to create new questionnaires for all the members of the Top Management Team, was developed.\textsuperscript{2}

In order to ascertain the comprehensiveness of the questionnaires, before starting to contact all the 500 firms in the sample, we undertook an in-depth pre-test to streamline the questionnaire on 2 influential family firm of the industry. About two hour-long semi-structured interviews with the CEO or other key informants were administered. In this occasion we decided to split the questionnaires into two typologies. The first typology was headed only for the CEO, that was required to provide information on both his/her own personal characteristics (age, gender, education, functional experience and tenure in the firm) and on the Top Management Team composition. In particular he/she had to provide information on the TMT size and on the number of members within the TMT that did not belong to the owning family (number of Non Family Managers, NFMs).

The second typology of questionnaire was headed for all the members of the TMT as indicated by the CEO, and required information only on demographic characteristics, such as age, gender, education, functional experience, position and tenure within both the firm and the TMT\textsuperscript{3}.

Once, ascertained that the objective of the research was comprehensible from the firm point of view and that questionnaires were clearly understandable we started the actual contact-phase.

\textsuperscript{1} www.osservatoriodelmobile.it/questionari.html
\textsuperscript{2} See Appendix 1 for the body of the guide.
\textsuperscript{3} See the Appendix for the content of the questionnaires.
The survey was preceded by a letter, briefly explaining the content and motivation of the study, the importance of the survey for his scientific work and for the industry, and the filling procedures. Respondents were assured that their responses would remain confidential and only managed by the research team. Each letter contained also personal credentials for the web portal access and a paper version of the questionnaires.

To all the companies were given three alternative responding methods:

- Connection to the web-portal and electronic filling of the questionnaires, using the specific credentials provided;
- Filling the questionnaires, printing the papers and sending them back;
- Telephonic interview with a key respondent (e.g. Human Resources Director, Sales Director, Administrative Director, CEO etc.), that had the task to collect information on the TMT Composition and on the demographic characteristics of its members.

In this phase we also availed ourselves of a prestigious research company that is the Center for Industrial Studies (CSIL). The team of researchers, conducted a telephone recall of all the 500 firms sampled, in order to ascertained that they had receive the research presentation letter, and the willingness to participate to the research project. In the meantime, we’ve been in contact with the editors-in-chief of an high-ranking industry journal, that heads the furniture editorial of the Sole24Ore Group. She published our research project, both on-line and on the paper version, inviting the entrepreneurs of the industry to respond to the questionnaires.\(^4\) Thanks to her endorsement, we presented the research project within a seminar that took place in one of the most important furniture fair in Italy, that is Abitare il Tempo-100% Project. In that occasion we presented the study to the Federlegno committee (the professional institution that represents the furniture producers in Italy). The entrepreneurs that participated to the seminar were invited to collect the information needed and to provide the data.

\(^4\) http://www.living24.it/imprese-familiari-come-cambiano/0,1254,58_ART_7767,00.html
After the seminar we started a second recall and electronic mailing in order to:

- Gather information from companies that had filled in the questionnaires in a partial or wrong way (e.g. conflicting answers, especially in the questionnaire ahead for the CEO, missing responses or whole questionnaires);
- Convince companies that have visited the web-portal, but have not yet filled in the questionnaires;
- Convince non-respondents to take part in the survey.

Simultaneously a double check on both the TMT composition and the single managers demographic characteristics has been carried on. TMT composition, as indicated by each responding firm, has been compared with data available on Who’sWho, the on-line database that stores information on more than 240.000 Italian managers belonging to more than 45.000 Italian companies.

Besides single managers demographic characteristic (such as age, gender, education, functional experience, position and tenure) indicated by each responding firm, have been compared with data available on LinkedIn, the professional social network that counts more than 100 million of users all over the world, among which the Italians one amount to more than 1.700.000.

Additional archival data have been collected for firms in the larger sample frame in order to check for the non-respondent bias, using the Kolmogorov–Smirnov procedure.
3.3.3 Sample and Results from the Survey

A total of 92 out of 500 firms responded to the survey, providing data on 92 different TMT’s. Eight companies declined to participate and five filled the questionnaires in erroneous way and have asked not to be contacted again.

For the 92 firms, a total of 565 questionnaires were retained. Firm makeup included 6 with turnover higher than 100 million euro, 3 with a turnover between 100 and 50 million euro, 14 with a turnover between 50 and 25 million euro, 35 with a turnover between 25 and 15 million euro, 22 with a turnover between 15 and 12 million euro and 13 with turnover lower than 10 million euro. The average turnover of the responding firms is 32.608 million of euro.

The overall turnover produced by the responding firms in 2011 is 3.032.590 millions of euro, that represents the 23,28 per cent of the total turnover generated by the Top 500 firms sampled. The whole number of employees in the same year amounts at 12.468 and represents the 29,23 per cent of the overall working units. With respect to the establishment year, the average age of the responding firms is around 36,09 years (higher than the average of the Top 500 sampled, 25 years), suggesting that ancient firms are more willing to participate to the research.

In particular among the 92 surveyed, 29,3 per cent (N=27) of the firms are at the first-generation, while the remaining 70 per cent are passing over the second (57,6 per cent, N=53) or the third (12,0 per cent, N=11) generation (only one firm has reached the fourth generation). 65 out of 92 firms (70,7 per cent) have 2 generation of family members working in the firm, 22 (24,9 per cent) employ family manager belonging to only one generation, while the remaining 5 firms (5,4 per cent) have more than two generation family members working together.

On average the TMT was composed by 6 members, with a standard deviation of 2,03 members (range from 2 to 12 members). The Family Team (FT) showed an average of 2,92 members, with a standard deviation of 0,90 (range from 1 to 5 members), while the Non Family
Team (NFT) was on average composed by 3,08 members, with a standard deviation of 1,62 (range from 0 to 9 members). The average tenure of the 92 TMT is 14,6 years (18,4 for the FT and 11,46 for the NFT), with an average age of 48,3 years old (49,6 for the FT and 43,4 for NFT).

At the individual level, respondents were predominantly male (79,3 per cent, N=448), with an average age of 48,3 years old and a standard deviation of 11,2 years (range from 21 to 83 years old). 274 belonged (48,5 per cent) to the owning family (FMs) and the remaining 291 (51,5 per cent) were external NFMs. Organizational tenure ranged from 2,5 years to 60 years, with an average of 17,63 years. The tenure as a member of the TMT ranged from 2 years to 53 years, with an average of 14,38 years. 255 respondents out of 565 (45,13 per cent) obtained a college degree (master or bachelor), while 43,19 per cent of the sample (N=244) had an high school degree and the remains 11,4 per cent had respectively middle school (9,56 per cent, N=54) and primary school (1,95 per cent, N=11) degree. Only one respondent had a PhD degree. With respect to the educational background, the majority of the respondents (48,85 per cent, N=276) awarded the highest degree in business and economics, the remaining 51,15 per cent had respectively followed a pattern of studies in engineering or architecture (21,06 per cent, N=119), arts and literature (18,94 per cent, N=107), science (8,32 per cent, N=47) and law (2,83 per cent, N=16).

The CEOs interviewed were predominantly male (95,7 per cent, N=88), 82 (89,1 per cent) were members of the owning family and 38 were also the founders of the company. The average age of the CEO (irrespective of Family or Non Family) was 56,57 years old, while the organizational tenure was 28,37 years.

Concerning the partition among the districts analyzed, as can be noted in table 4, we found the higher response rate in the District of Marche (20,00 per cent, N=19), followed by Triveneto (19,53 per cent, N=42), Brianza (19,53 per cent, N=18), Murgia (14,81 per cent, N=4) and Tuscany (8,33 percent, N=4). Firms not located in any district area, surprisingly show an higher response rate (22,73 per cent, N=5). The firms surveyed in the Murgian area covered 71 per cent and 92 percent,
respectively of the overall turnover and employment, however this is because the firm that accounts for the majority of sales and number of employees in the district (Natuzzi) responded to the survey.

Nevertheless, notable results in terms of turnover and employment representativeness have been reached in the Pesaro Urbino (34,0 per cent for the Turnover and 31,8 per cent for the Employment) and the Triveneto (28,6 per cent for the Turnover and 22,7 per cent for the Employment) districts.

The Brianza and the Tuscany District show pretty good representativeness rates as well (respectively 17,2 and 9,6 per cent for the Turnover and 20,2 and 17,0 per cent for the Employment). The average ROA of the firms surveyed is almost in line with that observed for the overall industry (2,70 compared with 2,00). The difference between the average ROA of the districts and the average ROA of the firms surveyed within each districts, never exceeds one percentage point (range between 0.5 for the Triveneto District and 1.0 for the Brianza district), demonstrating that our sample almost reflects the overall performance trends

Table 4-Surveyed Family Firms described by Districts in 2011 (Values expressed in millions of euro)

<table>
<thead>
<tr>
<th>Districts</th>
<th>Number</th>
<th>Overall Turnover</th>
<th>Average Turnover</th>
<th>Overall Employment</th>
<th>Average Employment</th>
<th>Average ROA 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>42</td>
<td>1.327.095</td>
<td>31.598</td>
<td>4.500</td>
<td>125</td>
<td>2.93</td>
</tr>
<tr>
<td>Brianza</td>
<td>18</td>
<td>445.185</td>
<td>24.733</td>
<td>1.570</td>
<td>105</td>
<td>2.30</td>
</tr>
<tr>
<td>Murgia</td>
<td>4</td>
<td>542.868</td>
<td>135.717</td>
<td>3.356</td>
<td>839*</td>
<td>0.45</td>
</tr>
<tr>
<td>Marche</td>
<td>19</td>
<td>592.466</td>
<td>31.182</td>
<td>2.266</td>
<td>133</td>
<td>2.97</td>
</tr>
<tr>
<td>Tuscany</td>
<td>4</td>
<td>78.111</td>
<td>19.528</td>
<td>580</td>
<td>116</td>
<td>3.26</td>
</tr>
<tr>
<td>Other Regions</td>
<td>5</td>
<td>46.865</td>
<td>15.622</td>
<td>196</td>
<td>33</td>
<td>2.21</td>
</tr>
<tr>
<td>Total</td>
<td>92</td>
<td>3.032.590</td>
<td>32.608</td>
<td>12.468</td>
<td>512</td>
<td>2.70</td>
</tr>
</tbody>
</table>

The average employment includes Natuzzi. Excluding Natuzzi the average number of employees would have been 138.
Source: Aida (2011).
Consistently with the ancient origin of the Brianza District, it shows the highest establishment year on average (42.4 years), followed by the Triveneto district (41.4 years), that also shows the highest number of firms that are passing through the third generation (N=6). Similarly, the youngest district (Murgian Area) shows the lowest level of average age (26.8 years).

The majority of the firms surveyed are led by Family CEOs (N=82), of which almost the half are also the founder (46.34 per cent, N=38). The majority of the founders are observed in the Triveneto (N=14) and in the Pesaro-Urbino (N=11) districts, suggesting that in these firms different generations are active in the business management.

<table>
<thead>
<tr>
<th>Districts</th>
<th>Average Firm Age</th>
<th>1st Generation</th>
<th>2nd Generation</th>
<th>3rd Generation</th>
<th>4th Generation</th>
<th>Founder Ceo</th>
<th>Family Ceo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>41.4</td>
<td>12</td>
<td>23</td>
<td>6</td>
<td>1</td>
<td>14</td>
<td>39</td>
</tr>
<tr>
<td>Brianza</td>
<td>42.4</td>
<td>4</td>
<td>11</td>
<td>3</td>
<td>0</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Murgia</td>
<td>26.5</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Marche</td>
<td>26.8</td>
<td>12</td>
<td>12</td>
<td>1</td>
<td>0</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>Tuscany</td>
<td>28.7</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Other Regions</td>
<td>23.2</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>36.1</td>
<td>27</td>
<td>53</td>
<td>11</td>
<td>1</td>
<td>38</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Aida, (2011) - Survey.
Table 6-Average Size and Average Tenure of the teams surveyed (per District)

<table>
<thead>
<tr>
<th>Districts</th>
<th>Average TMT Size</th>
<th>Average FT Size</th>
<th>Average NFT Size</th>
<th>Average TMT Tenure</th>
<th>Average FT Tenure</th>
<th>Average NFT Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>5,9</td>
<td>2,9</td>
<td>3,0</td>
<td>18,2</td>
<td>23,1</td>
<td>12,2</td>
</tr>
<tr>
<td>Brianza</td>
<td>6,6</td>
<td>3,2</td>
<td>3,4</td>
<td>17,8</td>
<td>23,2</td>
<td>10,6</td>
</tr>
<tr>
<td>Murgia</td>
<td>7,5</td>
<td>2,5</td>
<td>5,0</td>
<td>13,0</td>
<td>17,8</td>
<td>11,0</td>
</tr>
<tr>
<td>Marche</td>
<td>5,8</td>
<td>2,8</td>
<td>3,0</td>
<td>17,3</td>
<td>21,8</td>
<td>11,3</td>
</tr>
<tr>
<td>Tuscany</td>
<td>4,0</td>
<td>2,0</td>
<td>2,0</td>
<td>19,2</td>
<td>23,4</td>
<td>14,3</td>
</tr>
<tr>
<td>Other Regions</td>
<td>5,7</td>
<td>3,3</td>
<td>2,3</td>
<td>19,8</td>
<td>21,7</td>
<td>9,9</td>
</tr>
<tr>
<td>Total</td>
<td>6,0</td>
<td>3,0</td>
<td>3,1</td>
<td>17,8</td>
<td>22,5</td>
<td>11,6</td>
</tr>
</tbody>
</table>

Source: Survey

On average the firms characterized by larger TMTs are those in the Brianza (N=6,6) and the Murgian (N=7,5) Districts, however in the latter case we have to take into consideration that the presence of Natuzzi enhances the average value, given that its TMT encompasses 11 members, of which 9 are NFM. The Triveneto and the Pesaro-Urbino Districts also shows an average TMT size about 6 (respectively 5,9 and 5,8). The largest presence of NFM is observed in the Brianza district, that on average shows a NFT composed by 3,4 members, followed by the Triveneto and the Marche region (both N=3).

Table 7 and Table 8 respectively describe the educational backgrounds and the level of studies, of FMs and NFM. With respect to the educational background the majority of NFM attended a Business and Economics or an Engineering pattern of studies (N=152, 56,2 per cent and N=78, 26,8 per cent). Surprisingly a large amount of FMs undertook a Literary studies (N=83, 30,3 per cent). This results is mainly due to the founder generation FMs, that often obtained a primary or middle school degree, and have not reached the typical study specialization that characterizes highest level of education. Nevertheless the majority of FMs are specialized in Business and
Economics (N=124, 45.3 per cent), suggesting that the financial and managerial perspective is not only a NFMs’ prerogative, as previous studies in family business often suggest (Hall and Nordqvist, 2008).

Table 7 – FMs and NFMs Educational Background per District

<table>
<thead>
<tr>
<th>Districts</th>
<th>Arts Literature</th>
<th>Science</th>
<th>Engineering Architecture</th>
<th>Business Economics</th>
<th>Law</th>
<th>Total FMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>41</td>
<td>7</td>
<td>17</td>
<td>56</td>
<td>4</td>
<td>125</td>
</tr>
<tr>
<td>Brianza</td>
<td>20</td>
<td>4</td>
<td>9</td>
<td>23</td>
<td>1</td>
<td>57</td>
</tr>
<tr>
<td>Murgia</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Marche</td>
<td>12</td>
<td>4</td>
<td>9</td>
<td>28</td>
<td>0</td>
<td>53</td>
</tr>
<tr>
<td>Tuscany</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Other Regions</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total FMs</strong></td>
<td><strong>83</strong></td>
<td><strong>20</strong></td>
<td><strong>41</strong></td>
<td><strong>124</strong></td>
<td><strong>6</strong></td>
<td><strong>274</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Districts</th>
<th>NFMs Educational Background</th>
<th>Total NFMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Brianza</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Murgia</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Marche</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Tuscany</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Other Regions</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total NFMs</strong></td>
<td><strong>24</strong></td>
<td><strong>27</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total FMs and NFMs</th>
<th>Total FMs</th>
<th>Total NFMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>107</td>
<td>47</td>
<td>119</td>
</tr>
</tbody>
</table>

Source: Survey

It’s interesting to note that the level of studies awarded by NFMs is higher than that of FMs. Specifically there aren’t NFMs with Primary School degree and only 5 have obtained a Middle
School degree. Indeed the majority of NFMs awarded either a High School (N=120, 41.2 per cent) or a Bachelor (N=166, 57.0 per cent) degree. Conversely, 4 per cent of FMs have only a Primary School degree (N= 11), 17.9 per cent have attended Middle School and the majority (N= 124, 45.3 per cent) reached an High School award.

Table 8 – FMs and NFMs Level of Studies per District

<table>
<thead>
<tr>
<th>Districts</th>
<th>Primary School</th>
<th>Middle School</th>
<th>High School</th>
<th>Bachelor Degree/Master</th>
<th>PhD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>8</td>
<td>25</td>
<td>46</td>
<td>46</td>
<td>0</td>
</tr>
<tr>
<td>Brianza</td>
<td>1</td>
<td>10</td>
<td>26</td>
<td>19</td>
<td>1</td>
</tr>
<tr>
<td>Murgia</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Marche</td>
<td>1</td>
<td>9</td>
<td>35</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Tuscany</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Other Regions</td>
<td>0</td>
<td>5</td>
<td>6</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Total FMs</td>
<td>11</td>
<td>49</td>
<td>124</td>
<td>89</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Districts</th>
<th>NFMs Level of Studies</th>
<th>Total NFMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Triveneto</td>
<td>0</td>
<td>63</td>
</tr>
<tr>
<td>Brianza</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Murgia</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Marche</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Tuscany</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Other Regions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total NFMs</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

| Total FMs and NFMs | | |
|---------------------| | |
| 11                  | 54 | 244 | 255 | 1 | 565 |
Discussion and Conclusions

The study was aimed at contributing to the literature on IDs, shedding light on the argument of family firms. Specifically the purpose was to offer an in-depth analyses of the characteristics showed by family firms in terms of TMT composition. Indeed, the TMT composition has a much powerful impact in family than in non-family firms, given that they have to cope, not only with the regular dynamics emerging in a team, but also with the coexistence of FMs and NFMs (Gersick et al., 1999; Lussier and Sonfield, 2007).

With respect to this argument, the analysis of the Italian Furniture Districts has underlined the strong familiar trait of the firms suggested in the study. Specifically we found that family firms within different districts show different characteristics in terms of age and generation in charge, and thus adopt diverse TMT strategies. Besides, conversely from common thought, we found that the majority of the firms surveyed avail of external managers, and thus are not reluctant to bring in outside NFMs. Thus, the professionalization process is a keystone within the evolutionary pattern of the Districts entrepreneurial tissue. More specifically family firms employ NFMs characterized by high level of studies and high business and engineering competences, maybe in order to compensate the scarce economic knowledge of the founder generation FMs.

Lastly, the familial trait and the right TMT composition within the IDs context offer a rich avenue for future researches, mainly because they represent distinctive competences that, if correctly exploited, could become powerful tools for sustainable competitive advantage. On the contrary, an ineffective exploitation of these tools may trigger not only the future of the companies, but also that of the districts in which they are located.
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CHAPTER 4

TMT Diversity at work. The Role of Non Family Managers in Family Business: Results from a Survey
Abstract

The purpose of this study is to open the black box of Non Family Managers, within the Family Business context. It challenges the dominant view according to which a NFT (Non Family Team – team exclusively composed by Non Family Managers) is an homogeneous group, characterized by a formal style of management, focused on financial performance and not emotionally involved in the company. Here a multi-faceted factor approach is employed and the effects of three specific sources of NFT diversity (the number of Non Family Managers, the NFT Tenure Diversity and the NFT Dominant Functional Diversity) on the family firm performance, are examined. Results, from a survey conducted on the Top 500 Family Firms in the Italian Furniture Industry indicate that NFT Dominant Functional Diversity positively affects firm performance. A U-shaped relationship is found between NFT Organizational Tenure Diversity and family firm performance. Besides, conversely from prior studies we found support for the hypothesized inverted U-shaped relationship between NFT Size and family firm performance.

Keywords: Top Management Team, Team Diversity, Tenure Diversity, Dominant Functional Diversity
4.1 INTRODUCTION

It is well established that the Top Management Team (TMT) composition has a much powerful impact in family than in non-family firms, given that family firms have to cope with the overlap of three subsystems such as the family, the ownership and the business (Gersik, 1999). About TMT composition, previous studies agree that as family firms become older and more established, the likelihood of bringing a greater numbers NFMs into the TMT increases (Lussier and Sonfield, 2007; Klein, 2007; Block, 2011). In a famous empirical work, by Klein (2000) on a random sample of all German family business, 44 per cent of all management boards were found to be completely controlled by family members, 42 per cent had a mixed top management team and 14 per cent have a pure non family management. Similarly, Minichilli et al. (2010) in their study on the top 500 Italian Family Firms TMTs, found an average TMT Family ratio (ratio between family members involved in the TMT and the total number of TMT members) of 0.27, corroborating the hypothesis of a vast presence of NFMs in the Italian context.

Indeed, a part from Dyer (1989) seminal article, family business literature has mainly be concerned with the specific mechanisms arising among the family managers, assessing the typologies of conflicts, ties and relationships that characterize this subgroup (e.g Eansley and Pearson, 2005; Eddleston and Kellermanns, 2007; Ling and Kellermanns, 2010). However, research explicitly focusing on NFMs is still scarce. More precisely, recent articles addressed the topic laterally to other main issues, or through the use of anecdotal or conceptual method, rather than via empirical investigation (Klein, 2007). Besides, few exceptions, conducting an empirical investigations (Minichilli et al., 2010; Berrone and Minichilli, WP), focused on the conflicts arising in integrating NFMs into the family context, basing their reasoning on the TMT Family Ratio, rather than on the top managers specific characteristics. Stressing the differences between FMs and NFMs and adopting a so-called faultline model, they predict the emergence of schism and conflicts.
when both the subgroups are present (Minichilli et al., 2010; Minichilli and Berronw WP; Gomez-Mejia, et al. 2007). In this light NFMs are considered as an homogeneous group (Hall and Nordqvist, 2011), characterized by a formal style of management, professional knowledge (Klein, 2007), objectivity, focused on financial performance (Dyer, 1989; Klein, 2007) and not emotionally involved in the future of the company (Sonfield and Lussier, 2009). Thus, this approach assumes that all the members adopt the same opportunistic behaviour toward the family and the business, undertake the same actions and show the same relational dynamics with the FMs and with the other NFMs. However, NFMs also show an higher understanding of the family’s goals, norms and values, feel a strong psychological ownership and emotional attachment to their job (Dyer, 1989; Klein, 2007; Hall and Nordqvist, 2008; Bernhard and O’Driscoll, 2011). Actually a non-family team (NFT) is not supposed to be homogeneous, thus, showing a greater level of diversity.

In this work, we reconcile two stream of researches, strategic management literatures that argue that firm performance is a reflection of its TMT (Upper Echelon Theory), and Family Firms literature (Hambrick and Mason, 1984; Minichilli et al., 2010) to address the aspect of NFT diversity. Specifically, while previous works have identified specific sources of family team (FT) diversity affecting the family firm performance (see Ling and Kellermann, 2010), the same analysis hasn’t be conducted for the NFT. Thus, this work is organized around the following research question: How NFT Diversity affects Family Firms Performance?

Accordingly we focus on three specific sources of diversity, relevant for the NFT: the number of NFMs (NFT Size), the NFT Organizational Tenure Diversity and the NFT Dominant Functional Diversity. Firstly, investigating on the role of NFT size implies that as the number of NFMs increases variance in capabilities and orientations occurs due to the unique experiences and social network they have faced with. That is, the fact of not belonging to the family system doesn’t infer that NFMs share identical values and attitudes. Secondly, focusing on the organizational tenure diversity, several scholars pointed out, that a NFT can be composed by NFMs that have been
professionalize over time and by outside professional managers that entered the family firm in later stages (Dyer, 1989). Thus, a NFT characterized by an higher level of organizational tenure diversity will be composed of individuals likely to have different attitudes toward the family firm and its strategy because of their tenure-stage differences (Boeker, 1997). Lastly, since dominant functional diversity detects the extent to which there is an heterogeneous mix of functional experiences within a team (Marcel, 2009), NFMs are not supposed to have gained the same experiences in the same functional areas. Conversely a NFT may avail itself of a limited or varied set of functionally based schema, depending on the functional areas covered by each members.

From a survey conducted on the Top 500 Family Firms in the Italian Furniture Industry, we found that NFT size and family firm performance are characterized by an inverted U-shaped relationship. Conversely, NFT Organizational Tenure Diversity follows a U-Shaped trend with respect to the performance, while the NFT Dominant Functional Diversity is positively related to it.

The contribution of this study is mainly toward family business literature. Firstly, through opening the NFMs’ black box it offers an additional level of complexity, thus enriching the understanding of TMT processes in family firms. Indeed, while prior studies investigated the relationship between FT diversity and firm performance (see Ling and Kellermanns, 2010), the same aspect has been almost disregarded with respect to the NFT. Secondly, in contributes to group diversity theory, through the analysis of multiples relevant dimensions. The use of such a multifactor approach overcomes the limit of previous studies employing the faultline model, and allows for a more integrative and complete view (Mannix and Neale, 2005). Finally, we cautiously aim to enhance Upper Echelon understanding, that has mainly be concerned with large public corporations, overlooking the impact of top executives characteristics on privately held family firms performance (Minichilli et al., 2010).
4.2 THEORETICAL BACKGROUND

4.2.1 TMT Diversity and Family Firms Performance

The issue of diversity, within the TMT field has always been described as a dual-edged sword, consisting of opposing forces that affect firm performance differently (Finkelstein and Hambrick, 1996; Mannix and Neale, 2005; Certo, Lester, Dalton and Dalton, 2006; Ling and Kellermanns, 2009). Therefore, while a stream of research has developed the advantages of heterogeneous TMTs, the other have highlighted the benefits of homogeneous ones (Certo et al., 2006). The diversity advocates claim that heterogeneous TMTs are characterized by a broad range of knowledge, expertise and perspectives, and thus are able to provide higher-quality solutions than homogeneous ones (Mannix and Neale, 2005; Certo et al., 2006). Furthermore, relying on cognitive dissonance and divergent viewpoints, heterogeneous teams create a positive environment of constructive conflict and debate, in which ideas resolve into novel insights and solutions (Mannix and Neale, 2005). In the opposite way, other scholars have stressed the diversity drawbacks such as those related with integration, cohesion and coordination problems, that in turns result in negative performance (Mannix and Neale, 2005; Certo et al., 2006; Ling and Kellermanns, 2009).

In this context, on one hand, family business scholars have highlighted the importance of cohesion and homogeneity among TMT members (Eansley and Pearson, 2005). Eansley and Pearson argued that depending on the level of familiness (Habbershon, Williams and MacMillian, 2003), ties among TMT members are more or less effective. They conclude that more homogeneous group, such those characterized by parental ties (teams consisting of parents and child) are more effective than those characterized by familial (teams consisting of family members but without parental ties, such as cousins) or non-familial ties.

On the other hand, more recent studies have reached the conclusion that TMT composed by diverse members have a positive impact on TMT behavioural integration and thus on firm
performance (Ling and Kellermanns, 2010). From this standpoint, Ling and Kellermanns gave a specific definition of family firm TMT diversity (2010). Differently from previous researches, they argued that family members within the TMT are not supposed to be homogeneous. In particular they recognized three different sources of family firms diversity such as the generation in charge, the number of family employees and the number of employed generation (2010). As a result, they concluded that “familiar diversity” positively impacts on family firm performance.

In the wake of this study, others asserted that the presence of multiple family members on the TMT is positively correlated with family firm financial performance (Miller and Le Breton-Miller, 2006). According to this view, the group of familiar executives is not seen as homogeneous, given that within the same family, variance in capabilities and orientations occurs due to the unique external experiences of each family member (Ling and Kellermanns, 2010). Moreover this familiar diversity enhances, instead of worsening family firm performance (Miller and Le Breton-Miller, 2006; Ling and Kellermanns, 2010).

However, further than diversity among FMs, another significant issue is that related to the diversity between FMs and NFMs, and within the NFT itself. Only few scholars have investigated the possible dynamics that the relationship between FMs and NFMs may originate (Klein, 2007; Minichilli et al., 2010). Building on organizational behaviour theory, Minichilli et al. recognized that a mixed top management team leads to a behavioural disruption, and consequently hurts performance, when a faultline among family and non-family executive occurs (2010). That is the case arising when the proportion of both factions increases in the corporate elites, on the contrary when there are few members of one or the other faction, conflicts are lowered because the minority faction has less power to contest decisions (Minichilli et al., 2010). Although dealing with the interaction between FT and NFT, Minichilli et al. neglect the role played by the intrinsic diversity of the these two subgroups. While a stream of literature have recognized the role played by the TMT diversity in the FT, analysing its specific sources, on the other side, the same specific sources
for the NFT have been disregarded. The dominant view depicts NFMs as subjects external to the family, that show the same objective, not emotionally involved and self-interested behaviors (Dyer, 1989; Klein, 2007; Hall and Nordqvist, 2008; Sonfield and Lussier, 2009). The tendency is, thus to equate NFMs with bringing in outsiders, and to look at NFMs and FMs as two different antithetical breeds, that are mutually exclusive (Hall and Nordqvist, 2008).

Actually a NFT may show a higher level of diversity that could positively impacts on the family firms performance. Before examining the specific sources of NFT diversity the next section is dedicated to a brief literature review regarding NFMs and the role they play within the framework of Family Firms.

4.2.2 Non-Family Managers in Family Firms

NFMs (external, outside or professional managers) are defined as executives not having a blood or a marital or adoption relation to the owning family (Klein, 2007). As previously mentioned, previous studies agree that as a family firm grows, it tends to evolve from a pure family management to a “mixed constellation” TMT consisted of FMs and NFMs (Dyer, 1989; Klein, 2007; Sonfield and Lussier, 2007; Hall and Nordqvist, 2008; Block, 2011). In other words, the so-called professionalization process occurs (Dyer, 1989; Klein 2000; 2007).

Although a shared position among scholars is reached about the relevance and the significance of the NFT, surprisingly there is relatively little (empirical) research on the role of NFMs in family firm (Block, 2011). In particular, previous studies have focused on the peculiar characteristics of the whole NFMs group, stressing the differences with the FMs one. Given these characteristics several authors have concentrated on the argument of conflicts arising among FMs and NFMs (Minichilli et al., 2010; Block, 2011). The reasoning at the basis of this issue is that the differences in family status, lead to the emergence of schisms and tensions that negatively impact
on behavioural integration and, in turn on firm performance (Chua, Chrisman and Sharma, 2003; Minichilli et al., 2010).

Actually, a NFT can be composed by diverse members. For instance, it can consist of managers grew up in the family firm, that are likely to be idiosyncratic to the family and the business (Dyer, 1989). Thus, they are not characterized by the objective, formal and non-contextual approach depicted by the dominant view. Instead, they are likely to feel a strong emotional attachment to their job, acting toward the family and the firm, as stewards (Hendry, 2002; Anderson and Reeb, 2003; Klein, 2007).

Indeed, previous studies, investigating the role of NFM in family firm, have always employed a so-called proportional approach, using the family status as the only single attribute that originates diversity within the TMT. That is the case of the above mentioned Minichilli et al. (2010) work on the faultline among FMs and NFM that leads to conflicts and detrimental performance. The employment of this kind of approach, has led scholars to reach the belief that FT and NFT are antithetical and mutually exclusive factions, that try to prevail one against the other. Nevertheless, the well-known downside of proportional approaches is that they focus on single membership variables (such as gender or race or family status) and, in turn, miss the potential impact of other key attributes and their interactions (Mannix and Neale, 2005).

On the contrary with the so-called multifactor approach, diversity is conceptualized in terms of an array of relevant and salient (depending on the context) variables. The employment of this approach allows for an integrative view of the effects of multiple types of diversity on group performance (Mannix and Neale, 2005).

In the light of this reasoning, here a multifactor approach is employed. Consistently with the theoretical framework adopted, we follow the Upper Echelons tradition, which focuses on TMT demographic characteristics (Hambrick and Mason, 1984; Hambrick, 1989; Finkelstein and
Hambrick, 1996). In particular, we employ the three TMT Demographic indicators that have received substantial conceptual and empirical attention in the extant literature: the number of NFMs (or NFT size), the NFT organizational tenure diversity and the dominant functional diversity of NFMs. Therefore, a NFT could be more or less effective depending on the intrinsic differences that emerge among its members. With this assumption in mind, the next section explores the impact each of the proposed specific sources exert on the family firm performance.

4.3 RESEARCH HYPOTHESIS

**Number of Non–Family Managers (NFT Size)**

Finkelstein and Hambrick (1996) suggest that the team size represents an important determinant of team diversity and, in turn, of firm performance. In the family business context, it could be argued that as the number of NFMs increases, so will the number of individual judgments that can be used to correct errors that occur during the decision making process and thus the number of potential solutions (Certo et al, 2006; Ling and Kellermanns, 2009). Furthermore a large NFT, given the landscape of values and expertise it includes, provides a wider room for cognitive conflict (Certo et al., 2006). Such conflict concerns with the work-at-hand without involving non-task related issues, like negative emotions (Kellermanns and Eddlestone, 2006). By openly discussing the merit of ideas, cognitive conflict improves the range of options for decision-makers and leads to high-quality strategic decisions. So, we can initially predict a positive effect of NFT size on family firm performance.

However, when the NFT size becomes disproportionate, the effect exerted by the cognitive conflict, may ultimately turns into the so-called “creative destruction” phenomenon (Morck and Yeung, 2003; Morck, Strangeland and Yeung, 2000). That is, when the number of NFMs comes to be excessive, the positive effect of creativity and innovativeness is replaced by a decrease in the level of familiness, from which the firm draws its competitive advantage, (Habbershon and
Williams, 1999). In other words a detachment from the family values and norms, instituted by the founder and rooted in the family and its history, may arise. Indeed, the initial effect exerted on the performance by the cognitive conflict, make the family fosters NFMs profitable initiatives. However when the family feels NFMs cracking the familiness status-quo or passing over its values and norms, it removes its support toward those initiatives. Fear for such a loss in control and in family values lead the family blocking or discouraging NFMs creativity and innovation and thus stifle family firm performance (Lussier and Sonfield, 2007; Sonfield and Lussier, 2009). This reasoning argues for the existence of an inverted U-shaped relationship. In other words, as the number on NFMs increases a positive impact on performance, due to the emergence of cognitive conflict, occurs. However, when the limit of familiness is overcome this positive impact turns into negative, because of the “creative destruction” effect.

Hypothesis 1 – There is an inverted U-shaped relationship between the NFT size and the Family Firm performance.

NFT Tenure Diversity

Arguing that a NFT exhibits high organizational tenure diversity indicates that its members entered the family businesses, at very temporally distant times (Hambrick and Mason, 1984; Finkelstein and Hambrick, 1996; Hall and Nordqvist, 2008). Therefore, it means that NFMs with longer and shorter organizational tenure interact within the same team. In the opposite way, a NFT with lower level of organizational tenure diversity means that the team is almost composed by either higher or shorter tenured NFMs.

Higher tenured NFMs bring a set of advantages to the family firm, given that they are likely to share with familiar members the same private language, routines and organizational culture (Klein, 2007; Eddleston and Kellermanns, 2006; Kellermanns and Eddleston, 2007).
On the other hand, shorter tenured NFMs, given their open and not parochial mindset, are more likely to bring in the family firms innovative and creative ideas, breaking with previous patterns and practices, thus enhancing family firm performance.

That is, in a NFT mostly composed by higher tenured NFMs, the firm benefits from their business idiosyncrasy and emotional attachment to the family. Besides, higher-tenured NFMs, given their longer experience together, are more prone to behave collaboratively and to bring more fluid team procedures and processes. In the same way, when there is a preponderance of shorter tenured NFMs, the firm takes advantage from their ability to generate creative practices and new expertise. Shorter-tenured NFMs are not embedded in the firm organizational routines and rigidities, thus they are likely to provide a fertile and supportive climate for group cohesiveness and potency.

In such a context a NFT showing mixed tenured NFMs may lead to relationship conflicts, that is a dysfunctional form of conflict that includes affective components, like annoyance, personal animosity and irritation of others (Klein, 2007; Eddleston and Kellermanns, 2006; Kellermanns and Eddleston, 2007). In particular, while in more homogeneous teams the team play effect prevails because of the aforementioned reasons, when the tenure shows an higher dispersion, rivalry among NFMs arises. Furthermore, the entry of new executives in recurring waves, lead to the problem of periodically integrate persons who lack the shared experience that are common to the rest.

So, we can initially predict a negative effect of NFT tenure diversity on family firm performance. However, when the differences in tenure among the NFMs are much extended and not so nearby, that is when a NFT is characterized by highest level of organizational tenure diversity, the effects on performance turns into positive. In such a case longer-tenured NFMs can introduce NFMs with shorter one to the organizational culture, language and routine, behaving as mentors. On the other hand, shorter tenured NFMs, enable NFMs with higher tenure to escape from the boundaries of organizational inertia. In this sense longer-tenured NFMs might route shorter
tenured NFMs novel ideas into the family firm rules and routines, enabling their adaptation to the organizational tissue and avoiding the firm to fall into the “creative destruction problem”. Higher tenure diversity increases the likelihood of beneficial task-oriented conflict, that is a beneficial kind of conflict that involve constructive debate, creative ideas, novel insights, simultaneously retaining the organizational culture and the family values. At the same time, the relationship conflict originated by the rivalry among NFMs is softened, because NFMs characterized by such different and not comparable positions, in terms of tenure, don’t perceive one another as a threat. Therefore, the NFT organizational tenure diversity exerts a negative effect on family firm performance, because of the relationship conflict problem, however beyond a certain point, this effect turns into positive, because of the complementarities showed by NFMs that originate functional task-oriented conflict.

*Hypothesis 2 – There is a U-Shaped relationship between the NFT Tenure Diversity and the Family Firm Performance.*

**NFT Dominant Functional Diversity**

Another demographic indicator most frequently studied in the Upper Echelons tradition is the functional background on TMT members (Finkelstein and Hambrick, 1996; Cannella, Park and Lee, 2008; Marcel, 2009). We adopt the definition used by Cannella et al. (2008), according to which dominant functional diversity is the functional area in which each team members has spent the most time.

As stated above, as TMT dominant functional diversity increases as does the breadth of knowledge, perspectives, experience and capabilities that the overall team can bring to bear in a decision situation (Cannella et al., 2008). As Cannella et al. pointed out more diverse team, in terms of functional background can generate more alternatives to creatively solve complex problem, reduce “groupthink” and increase decision effectiveness (2008).
In the particular case of NFT a higher level of dominant functional diversity helps to go through the organizational inertia problem with which the majority of family firms often face (Chirico and Nordqvist, 2010). Therefore, as several studies have highlighted the effect of the generational shadow shed by the founder and casted over the organization throughout subsequent generation, exerts a detrimental effect on the firm performance (Davis and Harveston, 1999; Sonfield and Lussier, 2004). In this light the aforementioned core capability of familiness is likely to become a core rigidities, and thus to make family firms less able to adapt and cope with the challenges of a changing environment (Chirico and Nordqvist, 2010).

In this context, a NFT with a higher level of dominant functional diversity can help family firm to overcome the generational shadow effect and in turn, to embank the effect of organizational inertia. As a matter of fact a NFT, including different backgrounds, generates idea conflicts, that are functional kind of conflicts, that lead to creative and innovative solutions, increasing the capacity to predict, interpret and effectively respond to environmental changes (Eansley and Pearson, 2005; Salvato and Melin, 2008; Cannella et al., 2008; Chirico and Nordqvist, 2010).

Nevertheless, given the strong involvement of the family in the decision-making process, NFM$s are often delegated to precise functional areas, characterized by low level of discretion (e.g. sales or distribution) (Escribà-Esteve, Sànchez-Peinado and Sànchez-Peinado, 2009). Said differently, NFT often are characterized by lower level of dominant functional diversity. However, through incorporating NFM$s specialized in many different and more significant functional areas, family firms can enhance their level of strategic orientation and cognitive conflict, fostering the ability to detect risks and opportunities, and to generate novel patterns of action and innovative ideas (Zahara, Hayton and Salvato, 2004). In this light it could be argued that as the NFT dominant functional diversity increases, so will the family firm performance.

Hypothesis 3 – There is a positive relationship between the NFT Dominant Functional Diversity and the Family Firm Performance.
4.4 METHODS

Sample and Data Collection procedure

The analysis is based on an original dataset covering the entire population of Italian family-controlled firms in the Furniture industry. According to the quali-quantitative definition by “IL Club dei Distretti”, the companies operating in the Furniture Districts can be identified through the ATECO 2007 classification of economic activities. These firms fall under the compartment 31.000 “Furniture Manufacture”.

The choice of the furniture industry has multiple motivations primarily related to the role it plays in the whole national economy and the peculiar organization of the production in Industrial Districts (IDs). With respect to the former argument the Italian Furniture industry represents an important contributor to the whole Italian GDP and exports. Indeed, with a share of 10% of the total worldwide production, Italy is the third largest player in the furniture industry (BNP Paribas Economic Research, 2011). Over the past 10 years, Italy has maintained its leadership as the major exporter with a share of the total close to 9 percent (BNP Paribas Economic Research, 2011). Furthermore, in the first 10 months of 2011, exports showed a 4.4 percent increase, with respect to the previous year.

With respect to the organization in IDs, the majority of previous empirical studies agree that they are mainly composed by family managed firms, that are often overcoming the second or the third generation (Belussi, 1999; Belussi and Sedita, 2009; Belussi, 2010; Chiarvesio et al., 2010).

Besides, several authors stated that the most important IDs in Italy have often developed in a successful way, because of the leading role played by family firms. The furniture districts are not an exception. For instance, well-known examples are Natuzzi, Calia and Nicoletti in the upholstery district of Matera (Morrison, 2004; Belussi, 1999; Borga et al., 2009), Flou, Molteni and Misuraemme in the furniture district of Brianza (Borga et al, 2009; Chiarvesio et al., 2010),
Scavolini in the kitchen district of Marche and Snaidero in the Triveneto one. This makes pertinent, therefore, to examine family firm management issues in this traditional industry.

The entire population is composed by more than eighteen thousand firms. Further, out of this population, we considered only those firms that fall under the definition of family firm. In the matter of this argument, although there are several possible definitions (Anderson and Reeb, 2003; Villalonga and Amit, 2007; Chua et al., 2003; Minichilli et al., 2010; Prencipe et al., 2010), we identified as family firms those in which one or more families is linked by kinship, close affinity, or solid alliances and holds a sufficiently large share of risk capital to enable members to make decisions regarding strategic management (Prencipe et al., 2008; Minichilli et al., 2010).

Specifically, we adopted the Minichilli et al. (2010) classification, according to which a firm is defined as a family firm, when the same dominant family (or families) owns (directly or indirectly through subholdings) more than 50 per cent of the shares. The threshold is reduced to 30 per cent for listed companies, which is reasonable given the features of the Italian stock exchange. This definition is in line with previous studies on family firms TMTs, according to which family control can be identified as the fractional equity holding by family members (founding or descendants), which allows ownership control over the company (Anderson and Reeb, 2003; Lee, 2006; Minichilli et al., 2010). To collect data on ownership we used public sources such as AIDA (Italian Digital Database of Companies) – the Italian branch of Bureau van Dijk European Databases.

Once identified the family firms within the Ateco 31.000 section, given the peculiar structure of the industry, that is extremely fragmented in a large number of micro-firms, we included into the final sample the top 500 firms with respect to revenues.

For the hypothesis testing, we sent an electronic survey to all CEOs and Chairpersons of the 500 firms sampled, to gather information on their TMTs’ characteristics. Given that most of the
information required in the questionnaire refers to objective data, we considered it proper to have at least one respondent as a key informant in the TMT for each of the firms involved in the survey.

To ascertain the comprehensiveness of the questionnaires, an in-depth pre-test to streamline the questionnaire on 2 influential family firm of the industry was carried on. About 2 hour-long semi-structured interviews with the CEO or other key informants were administered. Additional archival data have been collected for firms in the larger sample frame in order to check for the non-respondent bias, using the Kolmogorov–Smirnov procedure. A total of 97 out of 500 firms responded to the survey, providing data on 97 different TMT’s. A total of 584 questionnaires were retained.

MEASURES

Dependent variable

The dependent variable is family firm performance. Following Minichilli et al. (2010) and taking into account that the sample is constituted also of small and not listed companies we used as a measure of the dependent variable the ROA. Furthermore ROA is a well understood and common measure used in several studies on the impact of TMT’s characteristics (Minichilli et al., 2010).

Independent Variables

A definition of top management team (TMT) was included in the questionnaire to avoid misunderstandings. It considers a TMT to consist of the CEO; CFO and the Chair Person, and all the other top executives on the management board and/or reporting directly to the CEO of the firm (Minichilli et al., 2010).

Accordingly the Non Family Team (NFT) is defined as a team composed by Top Management Team Members, not related to the controlling family, reporting directly to the firm’s chief executive (Boeker, 1997).
**NFT Size** – Measured as the total number of NFMs in the company’s TMT, as reported by the CEO (Simsek et al., 2005)

**NFT Organizational Tenure Diversity** – Team tenure is measured by taking the average of the aggregate organizational tenure of all NFMs within the NFT. NFT Tenure diversity was measured using the coefficient of variation, defined as the standard deviation divided by the mean. Wiersema and Bantel (1992), following Allison (1978), noted that the coefficient of variation, because it is a scale-invariant measure, is preferred to the standard deviation or variance for interval-level variables.

**NFT Dominant Functional Diversity** – It’s the breadth of exposure to different functional areas. Measured by asking respondents to indicate the functional specialty of each NFT member into one of eight tracks (finance; accounting and auditing; human resources; marketing and sales; law; production-operations; R&D and engineering; administration and general management). Team members will be allowed to indicate up to three categories, taking into account that many people gain experiences outside their dominant career track (Buyl et al., 2011).

This increases the ecological validity compared to only considering one function, which is the standard approach in measuring functional background diversity. However, the downside of this approach is that obtaining a ‘pure’ index of functional diversity becomes more complicated, since we measured two types of information jointly: the extent of expertise-overlap of the team members, as well as the number of functions indicated by each of the team members (i.e. whether the team member is a generalist or a specialist). Ideally, it should be measured the distribution of unique functional expertise between TMT members, i.e. between-member functional diversity net of intrapersonal functional diversity (for details, see Bunderson and Sutcliffe, 2002), since theory emphasizes the information exchange and integration problems of people with non-overlapping knowledge working together (Brodbeck et al., 2007).
The mostly-used Shannon–Wiener measure of information and the analogous Herfindahl or Blau index do not disentangle both sources of diversity. Therefore, in this context, the Attneave’s (1959) entropy-based, so-called ‘transmission measure’ $T_{xy}$, is the most correct indicator. This measure can be derived from three types of information contained in any two-dimensional “team member (dimension Y with members from 1 to j) – functional category (dimension X with functional categories from 1 to i)” frequency table:

- the proportional distribution of the number of team members over the functional categories summarized by the marginal entropy measure $H_x$ (i.e. the standard Shannon–Wiener measure);
- the proportional distribution of the number of functional categories over the team members summarized by the marginal entropy measure $H_y$; and
- the total entropy of the frequency table indicated as $H_{xy}$.

\[
H_x = \sum^i p_i \log\left(\frac{1}{p_i}\right) \quad \text{where } i \text{ stands for any functional category}
\]

\[
H_y = \sum^j p_j \log\left(\frac{1}{p_j}\right) \quad \text{where } j \text{ stands for any team member}
\]

\[
H_{xy} = \sum^{ij} p_{ij} \log\left(\frac{1}{p_{ij}}\right) \quad \text{where } i \text{ stands for any functional category and } j \text{ for any team member.}
\]

$T_{xy}$, or transmission, equals $(H_x + H_y - H_{xy})$ and can be interpreted as a measure of association between the two dimensions of a frequency table, i.e. team members and functional categories in our study (Attneave, 1959). Note that a large value of $T_{xy}$ implies high functional background diversity, with expertise being uniquely distributed over team members.
Control Variables

**Firm Level**

*Firm size* – measured as a logarithmic transformation of sales as reported from the respondents (Boeker, 1997), checking it with other publicly available sources.

*Firm age* – measured by asking the number of years since the company was established, as it has been associated with the institutional routines and norms that affect firm performance (Ling and Kellermanns, 2010). Another check has been carried on with other publicly available sources (e.g. Aida)

*Generation in charge of the firm* – measured by asking which generation of the family controls the firm’s ownership (Ling and Kellermanns, 2010). Answers ranged from “first generation”, “second generation”, “third generation”, “fourth generation”, “fifth generation”, “beyond the fifth generation”. Of the firms in our sample, 29 per cent are controlled by the first generation (coded as 1), 57 per cent by the second generation (coded as two), 13 per cent by the third generation (coded as 3) and only one firm was controlled by the fourth generation (coded as four).

A definition of generation as the latest generation of family members who are active in the firm as officer, directors, blockholders relative to the generation of the founder, was included in the questionnaire (Villalonga and Amit, 2010).

*The number of employed generations* – measured by asking how many generations of the family are employed at the firm (Ling and Kellermanns, 2010). In total, 23 per cent indicated one generation, 71 per cent indicated two generations, and only 5 per cent indicated three generations.

*Pre-performance* - was controlled as the average ROA between year $t-4$ and $t-1$ (Marcel, 2009).
**Team Level**

*TMT Educational Background Diversity* – obtained by classifying each executive into one of five categories based on the highest degree awarded (arts, science, engineering business and economics, law). A variants of the HH index calculated as $1 - \sum S_i^2$, where $S_i$ is the proportion of a TMT in the $i$th category, will be employed (Blau, 1977).

*TMT Level of Studies Diversity* – obtained by classifying each executive into one of five categories based on the level of degree awarded (primary school degree, medium school degree, high school degree, college degree (master or bachelor) and PhD degree). Like in educational background diversity, a variants of the HH index calculated as $1 - \sum S_i^2$, where $S_i$ is the proportion of a NFT in the $i$th category, will be employed (Blau, 1977).

*TMT Gender* - at the individual level the gender (1= female, 0= male) has been captured for each executive. (Blau, 1977).

*TMT Age* – at the individual level the age has been captured for each executive. The team level age will be measured with the coefficient of variation, as the standard deviation divided by the means of the age of each executive within the NFT (Allison 1978)

*TMT Average Organizational Tenure* - is an important control variable when tenure diversity is calculated using the coefficient of variation (Allison, 1978).

*TMT Average TMT Tenure* – at the individual level the tenure in the TMT has been captured for each executive. At the team level the TMT tenure was measured as the mean number of years of employment in the TMT of all the TMT members in year $t$ (Allison 1978)
**Individual Level**

*CEO Tenure* – computed as the number of years in office the CEO served in the firm, as reported in the questionnaire (Minichilli et al., 2010). This is important in family-controlled firms, where CEOs tend to remain in office longer and are more difficult to remove than in publicly controlled firms.

*Specialist CEO* – operationalized as a dummy variable that equals to 1 when the CEO has a functional experience in only one of the eight functional categories proposed, and 0 otherwise.

*CEO Gender* – is a dummy variable that equals 1 if the CEO is a female and 0 otherwise.

*CEO Age* – Measured by asking the CEO his/her age through the questionnaire.

*CEO Founder* – is a dummy variable that equals 1 if the CEO is the founder of the firm

### 4.5 RESULTS

The descriptive statistics used in this study are reported in Table 10 and correlations of variables in Table 9. None of the correlation coefficients raises potential problems of multicollinearity. We tested the hypotheses through hierarchical multiple regression analyses, entered in multiple steps. The ultimate number of observations (92) resulted from the removal of 5 cases for which there were unavailable or incomplete data. The size of the sample is consistent with previous studies on TMT and mainly on Family Firms TMT (Wiersema and Bantel, 1992; Pelled et al., 1999; Minichilli et al., 2010).

--- INSERT TABLE 9 ABOUT HERE ---

--- INSERT TABLE 10 ABOUT HERE ---
The results of the regression analyses are reported in Table 11. Model 1 of Table 11 reports the control variables for the Performance valuation estimates. Firm Pre-performance, TMT average TMT Tenure and the presence of a Specialized CEO are positively associated to it, while TMT Educational Background Diversity and TMT Average Organizational Tenure are negatively associated to it.

The independent variable NFT Size was added in Model 2 to test whether there was a significant effect on performance. Model 3 investigates whether the NFT Size have an inverted U-shaped effect on firm performance. Results are consistent with Hypothesis 1. Specifically, both the positive and statistically significant ($\beta=1.56$, $p < 0.05$) effects of the main term and the negative and statistically significant ($\beta=-0.19$, $p < 0.05$) coefficient of the quadratic term confirm the prediction.

--- INSERT TABLE 11 ABOUT HERE ---

In order to test if NFT Tenure Diversity has a U-Shaped effect on the firm performance, Model 4 introduce the NFT Tenure Diversity quadratic term. In this model, the main term effect is negative and statistically significant ($\beta=-10.31$, $p<0.05$) and the quadratic term effect is positive and statistically significant ($\beta=8.68$, $p<0.05$). This result suggests that the negative effect of NFT Tenure Diversity, after a certain threshold turns into a positive one. No change is observed in the sign for NFT size compared with model 3, that is still significant. In Model 5 the NFT Dominant Functional Diversity has been introduced. The coefficient is positive and significant ($\beta=3.27$, $p < 0.01$).

To verify that results were not distorted by multicollinearity, variance inflation factors (VIF) have been calculated for all the models presented. The maximum VIF found within our models was below the commonly used rule-of-thumb cut-off of 10 (Cohen et al., 2003), indicating that multicollinearity is not an issue in the analysis.
4.6 DISCUSSION AND CONCLUSIONS

The primary purpose of this study was to open the black box of NFM$s$, challenging the dominant view and examining the role they play within the family companies. Previous studies have always used a proportional approach to investigate the relationship among the TMT composition and Family Firm Performance. This kind of approach has led to a misleading interpretation of the dynamics arising among Family and Non Family Managers. That is, because it employs a membership status (family or not family) as the only single attribute that may originate diversity. As a result, TMT in family firms have always been considered from the perspective of conflicts arising between two, antithetical and mutually exclusive factions of Family and Non Family Managers. Besides, according to this view a NFT is an homogeneous group (Hall and Nordqvist, 2011), characterized by a formal style of management, professional knowledge (Klein, 2007), objectivity, focused on financial performance (Dyer, 1989; Klein, 2007) and not emotionally involved in the future of the company (Sonfield and Lussier, 2009).

Adopting a multi-faceted factor approach, allows for a more integrative and less simplistic view of the role played by NFM$s$ in the Family Firm. As a consequence, following the Upper Echelon Theory, three specific sources of NFT diversity have been identified, arguing that the Number of NFM$s$, the NFT Tenure Diversity and the NFT Dominant Functional Diversity positively impact on the Family Firm Performance.

Empirical results supports the hypothesis developed. In particular we found that as the size of a NFT increases, so does the performance of the firm, until the number of NFM$s$ overcome the limit of challenging the familiness status quo. Beyond this point, increases in NFT size leads to the creative destruction phenomenon, that in turn exerts a negative effect on firm performance.

With respect to the second hypothesis, the U-Shaped relationship between the NFT Tenure Diversity and the Family Firm performance, was confirmed. That is, the NFT Tenure Diversity
exerts a negative impact on the firm performance, however this effect changes into positive for higher level of NFT Tenure Diversity. More homogeneous NFTs in terms of organizational tenure diversity, favor family firm performance. When diversity emerges, negative effect related to rivalry and relationship conflicts arise. However, this effect turns into positive for higher level of tenure diversity. Higher level of organizational tenure diversity means that NFMs with higher tenure and shorter tenure coexist in the same team. The large temporal difference in terms of tenure between them, softens the relationship conflicts problem and fosters beneficial task-conflict, supporting the family to overcome both the problem of organizational inertia and of creative destruction.

The last and more significant result fosters the diversity advocates, given that it confirms that more diversified NFT with respect of functional background, lead to higher performance.

Thus, the major contribution of this paper is to family business literature. We opened the NFMs black box, adding a further layer of complexity to the TMT dynamics in family businesses. NFTs are not homogeneous, but differ in terms of size, organizational tenure and functional background. As a result the effect they exert on family firm performance depends on the their intrinsic level of diversity.

In this sense, we also enhanced the group diversity theory understanding, demonstrating the efficacy of the multifactor approach, compared with the proportional one. Among the proportional approaches, the faultline model has always been employed in studies analyzing NFMs. However, basing only on the membership status, it missed the potential contribution of relevant factors, such those analysed in this study.

Besides, given the empirical setting adopted to test our hypothesis, we have also demonstrated the potency of Upper Echelon Theory for small and medium family firms. As it was foreseeable, family firms are a reflection of their top management.
Concerning the empirical setting, we further gave a strong managerial contribution to family firms in the Italian Furniture Districts. Given the turbulence and crisis they are facing with, the professionalization of management is considered a key process to undertake in order to maintain the global competitive advantage, they have obtained in the last fifty years. In this sense, we provide a valuable tool for effectively managing such process.
Figure 2 - Theoretical Model

- NFT Size
- NFT Tenure Diversity
- NFT Dominant Functional Diversity

H1, H2, H3
Table 9 - Correlation Matrix

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### Table 10 - Descriptive Statistics

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*p < 0.10, **p < 0.05, ***p < 0.01; standard errors in parentheses.
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CHAPTER 5

Diversity among Non-Family Managers in Family Business: A team-level contingency analyses
Abstract

The purpose of this study is to investigate under which conditions more diverse NFTs (Teams composed by Non Family Managers) in terms of Size, Organizational Tenure and Functional background benefit family firm performance. Building from Upper Echelon theory, we adopt an intra-team contingency lens, arguing that the impact of these NFT specific sources of diversity on family firm performance is moderated by the same sources exhibited at the overall TMT level. Indeed while previous studies have investigated the relationship between the FT (Team composed by Family Managers) diversity and family firm performance, adopting numerous moderating variables (see O’Boyle, Pollack and Rutherford, 2012), the same contingency perspective has never been adopted with respect to NFT diversity. Results, from a survey conducted on the Top 500 Family Firms in the Italian Furniture Industry indicate that for smallest TMT, FT Size positively moderate the relationship between NFT Size and the Family Firm performance, while for largest ones the effect turns into negative. The TMT Organizational Tenure Diversity positively moderates the NFT Dominant Functional Diversity – Performance relationship. Conversely the TMT Dominant Functional Diversity exerts a negative moderating effect on the NFT Dominant Functional Diversity - Performance relationship.

Keywords: Top Management Team, Diversity, Tenure Diversity, Dominant Functional Diversity
5.1 INTRODUCTION

The Upper Echelons Theory asserts that organizations and their strategic behavior reflect the characteristics of their top managers (Hambrick and Mason, 1984). The main issue in this theory is that the top management team (TMT) determines the trajectories of development the firm undertakes in its history (Nielsen, 2010; Carpenter, Geletkanyez and Sanders, 2004). Under this broad theoretical umbrella the most handled aspect is that of diversity (Carpenter et al., 2004; Nielsen, 2010).

Several authors discussed its benefit and drawbacks, founding inconsistent and mixed empirical results (Pelled, Eisendhardt and Xin, 1999; Simons, Pelled and Smith, 1999; Carpenter et al., 2004; Mannix and Neale, 2005). Hence, different approaches have been put in conjunction with Upper Echelon theory with the purpose to capture the causes of this variation in diversity effect. Among these approaches, the most reconciling one is that adopting a contingency lens (Mannix and Neale, 2005; Menz, 2011).

As largely demonstrated, in order to benefit from diversity a firm has to exploit it correctly (Nielsen, 2010; Menz, 2011). Several studies have analyzed multiple contingencies that may influence the effect exerted by diversity. Some authors concentrated on the environmental level, analyzing the interaction of diversity with environmental turbulence and uncertainty or with industry setting and institutional context (Cannella, Park and Lee, 2008), other focused on the firm level, deepening the moderating effect of organizational atmosphere, leadership style and strategic orientation (Bunderson, 2003; Finklestein and Hambrick, 1990), and many others at the individual level, took into consideration the CEO characteristics (Buyl, Boone, Hendricks and Matthyssens, 2011).

Notwithstanding the recognized pivotal role played by interaction processes, very few studies analyze the potential moderating effect of intra-team dynamics (Menz, 2011). Indeed, within the
same team, different categories of managers may emerge (e.g., functional managers and general managers) (Menz, 2011). However, research focusing on different TMT member’s fit with rest of the TMT is still in its infancy (Menz, 2011).

In this paper we focus on TMT diversity in family business. In this context, diversity proposes several sparks of analyses. As claimed by Ling and Kellermanns (2010), the family firm “offers a rich avenue for research on diversity, since the family provides an additional layer of complexity and unique resources of TMT diversity not found in non-family firms”. However very few scholars addressed this issue (Ling and Kellermanns, 2010).

To date, previous studies have mainly concerned with vertical distance among family managers (henceforth FMs) as a specific sources of diversity (Eansley and Pearson, 2005; Ling and Kellermann, 2010; Sciascia, Mazzolla and Chirico, 2012). More precisely they claimed that the generation in charge of the firm and the number of employed generation generate knowledge diversity, that in turn impacts on family firm performance and entrepreneurial orientation.

Further than vertical distance, few studies centered on the horizontal one, that concerns with the relationship between FMs and external NFMs. Indeed, one central issue in family business is the emerging role played by NFMs. Often even if key executive positions are covered by FMs, several managing responsibilities may by partly (or even totally) delegated to NFMs (Klein, 2007; Chua, Chrisman and Sharma, 2003). Furthermore, the effective management of this kind of executives is one of the most crucial challenge that family businesses encounter in their growth process (Ward, 1997; Chua et al, 2003; Klein, 2007; Hall and Nordqvist, 2008).

Notwithstanding this evidence, few studies address this issue (Minichilli, Corbetta and MacMillian, 2010; Barnett and Kellermanns, 2006; Cruz, Gomez-Mejia and Becerra, 2010; Casillas, Moreno and Barbero, 2011).
Specifically, they adopt a conflicting perspective, stressing the differences among FMs and NFMs, treating them as two antithetically and mutually exclusive factions that try to prevail one on the other (Klein, 2007). As a result the so-called professionalization process of bringing in the company NFMs, is considered as a switchover to be completed as quickly as possible in order to avoid schisms and conflicts among the two factions (Hall and Nordqvist, 2008).

In other words, NFMs are perceived as a source of risk and erosion of family values, given that they haven’t any sentimental or hereditary involvement in the firm (Casillas et al., 2011).

Therefore, the dominant view depicts a NFM “as someone with formal management education, no close bonds, industry experience and the ability to take an objective, non-contextual and non-emotional approach to the firm” (Hall and Nordqvist, 2008).

The reason at the basis of this conclusion is the use of family status as the only variable to measure diversity within the family firm TMT. Indeed, while several studies have analyzed the specific sources of diversity among FMs (e.g. Eansley and Pearson, 2005; Eddleston and Kellermanns, 2007; Ling and Kellermann, 2010) the same argument within the team composed by NFMs (NFT), is completely neglected.

Actually, a NFT can be composed by diverse members. For instance, it can consist of managers grew up in the family firm, that are likely to be idiosyncratic to the family and the business (Dyer, 1989). Thus, they are not characterized by the objective, formal and non-contextual approach depicted by the dominant view. Instead, they are likely to feel a strong emotional attachment to their job, acting toward the family and the firm, as stewards (Hendry, 2002; Anderson and Reeb, 2003; Klein, 2007). Furthermore FMs and NFMs are not supposed to be antithetical, actually they can extremely push the firm competitive advantage and rapidly foster its growth. Accordingly we seek to enrich the understanding of TMT diversity by focusing on three specific
sources of diversity that are particularly salient for the NFT: the number of NFMs, the Organizational Tenure Diversity and the Dominant Functional Diversity.

However, building from Upper Echelon theory, we argue that in order to benefit from these sources the family firm has to exploit it correctly (Nielsen, 2010; Menz, 2011). Taking this idea in mind, we adopt a contingency lens, proposing that the impact of the aforementioned sources on family firm performance is moderated by the same sources exhibited at the overall TMT level.

Thus, this work is organized around the following research question: how TMT Diversity moderates the relationship between NFT Diversity and Family Firm Performance?

With supportive empirical results, our study offers mainly a twofold contribution. First, we contribute to family business literature, by looking at the conditions under which the NFT diversity is correctly exploited. As a matter of fact, while several studies investigated the relationship between family team (henceforth FT) diversity and firm performance, adopting numerous moderating variables (see O’Boyle, Pollack and Rutherford, 2012), the same contingency perspective has never been adopted with respect to NFT diversity.

Secondly we contribute to Upper-Echelon theory considering interaction processes at an intra-team level (Menz, 2011). In doing so, we add some knowledge on how different TMT members’ fit with the rest of the TMT.

Finally we cautiously aim to give a managerial suggestion, explaining under which conditions family firms can take advantage of mixed top management team. As a matter of fact, the interaction between the NFT and the whole TMT may synergistically resolve into higher-level outcomes.
5.2 NFT SPECIFIC SOURCES OF DIVERSITY

The majority of studies focusing on TMT dynamics in family business literature agree that as family firms become older and more established, the likelihood of bringing a greater numbers of NFMIs into the firm increases (Lussier and Sonfield, 2007; Klein, 2007; Block, 2011). More precisely, as a family firm grows, it tends to evolve from a pure family management to mixed constellation that sees the cooperation of family and non-family executives (Dyer, 1989; Klein, 2007; Sonfield and Lussier, 2004; Hall and Nordqvist, 2008; Block, 2011).

Specifically, NFMIs are defined as executives not having a blood or a marital or adoption relation to the owning family (Klein, 2007). As previously mentioned, the dominant view tends to equate the NFT to an homogeneous group (Hall and Nordqvist, 2011), characterized by a formal style of management, professional knowledge (Klein, 2007), opportunistic behaviour (Cruz, Gomez-Mejia and Becerra, 2010), objective and non-contextual approach, focused on financial performance and not emotionally involved in the future of the company (Sonfield and Lussier, 2009).

Recent works, challenged this notion stating that it contains a number of simplistic and outdated connotations (Hall and Nordqvist, 2008). As a matter of fact whereas certain aspects, such as formal education and professionalism are easy to agree with, other such as objective, impersonal and non-emotional approach are easy to contest (Hall and Nordqvist, 2008).

More precisely, this approach reject several plausible hypotheses, such as that exist FMs who do not feel a strong attachment to the business, that behave opportunistically, or that are formally trained or provided with professional skills and competences. Instead FMs are only see as non-professional, socio-emotionally endowed and attached to the firm. Conversely the same seems to be true for NFMIs, always depicted as professional, detached, objective and opportunistic whatever their previous background and understanding of the firm (Hall and Nordqvist, 2008).
Actually NFMs can show an high cultural competence, understanding the family’s goals, norms and values (Hall and Nordqvist, 2008). They may also be endowed with psychological ownership, displaying positive behaviours and contributing to the firm wealth and growth (Bernhard and O’Driscoll, 2011). NFMs might also act as stewards and regard firm performance as an extension of their own well-being (Klein., 2007). This is not to say that NFMs cannot be characterized by the dominant view aforementioned aspects. Here, the argument is that those aspects are not the only ones recurring in the family business TMT context.

With this assumption in mind, we first discuss how NFT diversity originates from each of the proposed sources. Next we explore the impact of the same sources of diversity at the TMT level on the NFT diversity performance relationship.

**NFT size**

The fact of not belonging to the family system doesn’t infer that NFMs share identical values and attitudes. Variance in capabilities and orientations occurs due to the unique experiences and social network they have faced with (Simsek, Lubatkin and Dino, 2005). Thus, we can expect that the higher the number of NFMs, the higher the differences among their skills, approaches and expertise, that in turn, introduce diversity in the NFT.

As widely demonstrated by previous studies on diversity, as the number of perspectives and approaches within a team increases so will the room for beneficial cognitive conflict, that in turn leads to high-quality decision making, novel insights and better team outcomes (Amason, 1996; Finkelstein and Hambrick, 1996; Certo et al., 2006). Thus when the number of NFMs increases a positive effect on the family firm performance could be predicted. However, in the family context we have to consider, that for highest NFT sizes, the family could start to feel a sense of erosion of traditional values and norms (Mork and Yeung, 2003). This sense of loss, makes the owning family retrenches within its boundaries, giving up to support the innovative ideas brought in by NFMs.
This problem is also known in literature as “creative destruction phenomenon” (Morck and Yeung, 2003).

**NFT Organizational Tenure Diversity**

As proposed by prior studies, a NFT can be composed by NFMs that have been professionalize over time, that have had little or no experience in other types of organization (Dyer, 1989, Klein, 2007, Hall and Nordqvist, 2008). Nevertheless, it can also consists of outside professional managers that entered the family firm in later stages or have been hired for specific purposes (Dyer, 1989).

In this perspective, a NFT with diverse tenure distributions will be composed of individuals likely to have different attitudes toward the family firm and its strategy because of their tenure-stage differences (Boeker, 1997). These differences will create a broader set of information, interpretation and perspectives that in turn, introduces diversity in the NFT (Ling and Kellermanns, 2009).

In the specific case of the NFT, organizational tenure diversity may exert different effects. More precisely, when the diversity is wide spread we can assist to recurring waves of new entries in the team, that leads to two main sets of problems. First, as stated by Upper Echelons Theorists, higher level of turnover within an organization, generates problems of loss in communication processes fluidity (Simsek, Lubatkin and Dino, 2005). As a matter of fact, teams facing such a course of action have to cope with the continuous effort to integrate new managers that do not share the knowledge about the firm policies and practices (Wiersema and Bantel, 1992).

Furthermore the hiring waves and the relative distance in tenure among the NFMs, foster problem of rivalry within the team causing a dysfunctional relationship conflict, that in turn negatively affect firm performance (Pelled et al., 1999, Klein, 2007).
However we can also predict that highest level of tenure diversity may overcome such problems. In other words, when the NFMs are highly differentiated in terms of entry stage, the problem of rivalry is attenuated, given the incomparability of positions within the firm, while the integration problem doesn’t present repeatedly, but only in specific periods, allowing for the maintenance of well-established routines and practices. Furthermore, the coexistence of highly different tenured-managers, may result in beneficial task-oriented conflict (Pelled et al., 1990; Amason, 1996). That is, longer and shorter-tenured NFMs interaction leads to constructive debate, ideas, avoiding the problem of organizational inertia, which family firm often face whit (Kellermans, Eddlestone, Barnett and Pearson, 2008). At the same time the presence of veterans within the NFT impedes the estrangement from the family culture and tradition.

**NFT Dominant Functional Diversity**

Dominant functional diversity detects the extent to which there is an heterogeneous mix of functional experiences within a team (Marcel, 2009; Bunderson 2003). The differences in specialization increases the breadth of knowledge, perspectives and capabilities at disposal, thus introducing diversity in the TMT (Cannella et al. 2008).

In the NFT context, NFMs are not supposed to have gained the same experiences in the same functional areas. On the contrary a NFT can be composed by multifaceted and generalist executives, that have experienced different functional areas, as well as by narrowly specialized managers. By extension, the NFT may avail itself of a limited or varied set of functionally based schema, depending on the functional areas covered by each members.

In this light, NFTs characterized by different mix of functional backgrounds will act toward the family and the organization in different ways, leading to different performance outcomes. In the family firm context, given the strong involvement of the family in the decision-making process, it’s plausible that NFMs could be often delegated to precise functional areas, characterized by low
level of discretion (e.g. sales or distribution) (Escribà-Esteve, Sànchez-Peinado and Sànchez-Peinado, 2009). In other words, NFT often are characterized by lower level of dominant functional diversity. However, through incorporating NFMs specialized in many different and more significant functional areas, family firms can enhance their level of strategic orientation and cognitive conflict, fostering the ability to detect risks and opportunities, and to generate novel patterns of action and innovative ideas (Zahara, Hayton and Salvato, 2004).

5.3 RESEARCH HYPOTHESIS

We have explained how the relationship among the NFMs and the family business may introduces diversity in the NFT. However as before explained, diversity has been defined by Upper Echelon theory as a dual edged sword (Finkelstein and Hambrick, 1990; Simons, Pelled and Smith, 1999; Carpenter et al., 2004).

Diversity advocates argue that more diverse teams are likely to create value and benefit for firm performance. That is because, more diverse team encompass more view points, forcing members to deepen issues and gather new information on problems. As a consequence, they are likely to engage in debate and decision comprehensiveness, considering multiple approaches, courses of action, and decision criteria (Simons et al., 1999). These processes enhance the quality of decision making, promote creativity and innovation and lead to more effective problem solving (Horwitz and Horwitz, 2007).

However, several others authors claimed that diversity in demographic attributes, may lead to negative processes that dampen firm performance. According to this view, dissimilarities result in scarce cohesion and integration, higher turnover, lack of information sharing and exchange (Pfeffer, 1983; O’Reilly, Caldwell and Barnett, 1989). That is, more diverse teams are likely to generate acrimony and negative sentiments (Bantel and Jackson, 1989), because team members who feel threat and anxiety, are resistant to the task-related ideas expressed by other members and waste
much of their energy and time in an ineffective way (Pelled, 1996; Pelled et al., 1999; Simons et al., 1999).

In the light of this reasoning the well-known paradox of strategic decision making states that, in order to take successful decision team members have to produce both quality and consensus (Amason, 1996). Dissimilarities may lead to lack of understanding, hostility and consensus attenuation among team members. However, at the same time attempts to reduce diversity will in turn lessen the quality of the decision, because the decision making process will involve few capabilities, perspectives and alternative solutions (Amason, 1996; Mannix and Neale, 2005).

In the light of this reasoning, a substantive stream of research has focused on the antecedents and consequences of top management team diversity, arguing that it may remain a lying idle resource, depending on the contingencies the firm faces with (Carpenter et al., 2004; Simons et al., 1999). Some researchers found in the environmental context the main moderator of diversity performance relationship. Cannella et al., found that the effect of TMT dominant functional diversity become more positive as environmental uncertainties increases (2008), similarly Keck (1997) found that shorter and longer-tenured homogeneous team are more productive respectively in turbulent and stable environment.

Other researchers have mainly concerned with the internal context, examining the moderating effect of the members colocation or the power centralization (Cannella et al., 2008; Bunderson, 2003). Many others, found in the omission of the team processes moderating effect the main cause of the upper echelons conflicting results. For instance, debate and decision comprehensiveness were found to mediate the diversity performance relationship (Simons et al., 1999). Similarly, information sharing, was discovered to be critical for a team to consider the whole range of information needed and consequently undertake the correct actions (Bunderson and Sutcliffe, 2002). In the wake of this studies, a stream of researches focused on the CEO characteristics, such as his/her functional
background, status as a founder, leadership style and experience in operational activities (Finkelstein and Hambrick, 1996; Hambrick and Cannella, 2004; Buyl et al. 2011).

Notwithstanding, this rich avenue of past researches, several authors pointed out that one of the most critical question is still how different TMT members come together to make team-level decisions (Nielsens, 2010). In other words, how different categories of managers within the same team interact effectively and reach higher level outcomes, can open a promising area of research (Nielsen, 2010, Menz, 2011).

Given the presence of FM and NFMs, the family business context is the most suitable, in order to disentangle the hearth of this matter. That is, several authors in this field centered their attention mainly on the relationship between the family involvement and the firm performance, arguing for the moderating effect of several variables, such as the firm size (Chrisman et al., 2005), the public vs private ownership (Anderson and Reeb, 2004), the collectivistic culture (Hall and Nordqvist, 2008), the dynamism ostility (Casillas et al., 2011) or the information exchange frequency (Ling and Kellermann, 2010; Boyle et al., 2012). However, this contingency lens has never been applied to the Non-Family involvement in order to investigate under what conditions the firm can benefit from the NFT diversity. As précised above, the NFT level of diversity can exert different effects depending on the same level of diversity exhibited by the whole TMT.

Drawing upon these arguments the present section is dedicated to the discussion of the influence the three identified NFT specific sources of diversity exert on family firm financial performance, through the adoption of a contingency lens. Specifically we argue that the FT Size, the TMT Organizational Tenure Diversity and the TMT Dominant Functional Diversity moderate the relationship between the same sources of diversity in the NFT and the family firm performance. Figure 3 depict our core arguments.
Number of Family Managers (FT Size)

As stated above, when the number of NFM s comes to be excessive, the positive effect of creativity and innovativeness, due to the multiple perspectives and approaches incorporated by the NFT can be replaced by a detachment from the family values and norms, leading to the so-called “creative destruction” phenomenon (Morck and Yeung, 2003). Indeed, when the family feels NFM s cracking its values and norms, it removes its support toward the initiatives brought in by NFM s (Lussier and Sonfield, 2007; Sonfield and Lussier, 2009).

In such a case when the number of FM s also increases variance with respect to multiple aspects arises (Ling and Kellermann, 2010). That is the NFT is not supposed to be homogeneous. Indeed, drawing from socialization literature, several authors pointed out that, the family is only one of the several systems through that impact on TMT members behaviors and cognitive schemes (Ling and Kellermanns, 2010). In this light Ling and Kellermanns (2010) argued that family members may belong to different social networks, bringing diverse experiences and information to the firm. Given this, it is expected that as the number of FM s increases, so will the differences among them, that in turn introduce diversity in the FT (Kellermanns and Eddlestone, 2007; Ling and Kellermanns, 2010).

Besides biggest FTs are stretched in horizontal distance (Howorth and Hamilton, 2010). Indeed, such FTs are more likely to encompass FM s belonging to different family branches (Gersik et al., 1999). In this sense we can observe what Gersik et al. called cousin consortium family firms (1997).

In such a situation family business literature has always stressed the emergence of conflicts within numerous FTs. The reason at the basis of this argument is that the involvement of multiple family branches may lead to competing goals and values (Dyer, 2006). FM s may disagree on both the content and the priority of the tasks to be performed (Sciascia and Mazzolla, 2008).
Furthermore, the presence of siblings, belonging to different branches, may lead to conflicts due to fights for power and control, with different FMs supporting different strategic plans (Lubatkin et al., 2005). Even the level of cohesion, consensus and group potency may reduce among FMs linked by parental instead of familial ties (Eansley and Pearson, 2005).

However, in order to take advantage from a largest NFT and avoid the creative destruction problem, the FT must be able to transmit clear and explicit business goals, from both the operative and the strategic perspectives (Lambrecht and Arijis, 2005). NFMs needs to comprehend effectively the family value system, they must be prepared for the achievement of the so-called cultural competence (Hall and NOrdqvist, 2008). However, when the number of NFMs is high the inconsistency among the norms and values and the strategic plans to be supported make the achievement of such objective more difficult. When both the teams are numerous different FMs are more likely to support different conflicting NFMs initiatives. Thus we might argue that the negative effect of creative destruction is exacerbated.

When there are few FMs, they are more likely to provide a clear set of values, direction and standards for the NFMs, avoiding the estrangement from the family culture. More precisely, when smallest FTs are present, the new insights and perspectives brought in by the NFMs are shared by FMs either because they reflect the firm organizational culture or because the new insights are considered as valuable. Furthermore these novel ideas can be rooted in the family values, norms and history. In other words, behavioral integration and communication fluidity are fostered, because NFMs do not perceive a dissonant message from the FMs.

Nevertheless, this negative effect might be softened when both the teams are small, or rather when the whole TMT is small. In such a case, on one side the problem of goals and values uniqueness to be retained and transmitted, is lowered because of the presence of few, close and cohesive FMs. On the other side, given the small size of the TMT, the process of brain storming and
idea sharing brought in by NFMs is more easy to manage, leading to innovative and creative solutions that embank the organizational inertia problem with which family business often face.

Thus we can predict that:

\( H1 \) – The FT size initially positively moderates the relationship between NFT size and firm performance. After a certain threshold the moderating effect turns into negative.

**TMT Organizational Tenure Diversity**

The intrinsic nature of the family firm and its succession process through multiple generations implies that FMs are likely to enter the business at different stages (Gersik et al., 1999; Sonfield and Lussier, 2004). As a matter of fact, when the succession process starts, new family members enter the company and thus multiple generations FMs, with different tenure level, work together (Ling and Kellermanns, 2010). Several studies have suggested that different generations tend toward different commitment, orientations, values and objectives (Kellermanns and Eddlestone, 2006; Salvato and Melin, 2008; Zahra et al. 2004). These different orientations will be captured by the FT, thus promoting diversity among its members (Ling and Kellermanns, 2010).

According to prior literature family firms are likely to be managed over a long period of time by family members belonging to the same generation, thus lowering the level of Tenure Diversity within the FT (McConaughy, Walker, Henderson and Mishra 1998).

As stated above, as the NFT tenure diversity increases problems of rivalry and integration among NFMs may arise. When we observe an highest level of TMT Tenure diversity it means that FMs whose tenure positions are similar to the NFT extremes add to the TMT. In other words, the whole TMT is characterized by a polarization toward the highest and lowest tenures. In such a situation, both the problems of rivalry and integration are softened.
Specifically, the coexistence of FMs and NFMs with almost the same high tenure level, strengths NFMs position, because it is endorsed in years by peer (in terms of tenure) FMs, thus the sense of frustration of lower-tenured NFMs is softened. More precisely, family firms are often exposed to a sort of selection processes that make NFMs either to accept FMs long-lasting decisions or to leave (Bernhard and O’Driscol, 2011). In this sense, middle-tenured NFMs that decided to stay in the company accept higher-tenured positions, that are validated by FMs willingness.

At the same time, the entry of new NFMs in the firm along with that of young FMs reduces the problem of integration. As a matter of fact, FMs independently form their tenure stage, possess a business idiosyncratic knowledge, because they begin to understand the nature of the business, its customers and its competitors at a very early age (Dyer, 2006). In this sense they might help peer NFMs to understand the business and the family and take their place in the firm, fostering team play process (Lee, Lim and Lim, 2003).

Nevertheless, as previously explained NFT diversity may also exert positive effects when NFMs are highly differentiated in terms of tenure. In such a case, given the incomparability of positions within the team and the sporadic nature of the entry waves, the problems of rivalry and integration are attenuated. We also argued that, the complementary characteristics of longer and shorter-tenured NFMs might lead to creative debate, idea sharing, in a word to beneficial task-oriented conflict (Pelled et al., 1990; Amason, 1996). This conflict helps to overcome the organizational inertia problems without incurring in the creative destruction phenomenon, because family values and norms are retained by higher-tenured NFMs.

When this situation is associated also with higher level of whole TMT Tenure Diversity the FT composition reflects that of the NFT. In other words, it means that highly distant (in terms of organizational tenure) FMs coexist within the TMT. In such a case, the effect of complementarity is amplified. On one side, lower-tenured FMs that tend to bring in the family different perspectives and groundbreaking behaviors, find support in the innovative approach of peer NFMs (Ling and
Kellermanns, 2010). At the same time, similarly to their non-family colleagues they are rooted in the family routines and norms by higher-tenured FMs and NFMs, avoiding to undertake innovative, but inappropriate actions (Gersik et al., 1999).

On the other side, higher-tenured FMs benefit from the trust instituted in years with peers NFMs, trusting their endorsement to lower-tenured FMs and NFMs. Indeed, as prior works pointed out, higher-tenured FMs are more likely to have defined the initial mission of the firm, set its specific goals and strategic paths (Gersik et al. 1999; McConaughy et al. 1998). From this perspective they tend to be more conservative and to undertake old-fashioned actions, losing their entrepreneurial edge (Gersik et al. 1999; Kellermanns et al., 2008). In such a situation, they are often reluctant to give up the control of the company to lower-tenured FMs (Sonfield and Lussier, 2004). The presence of a TMT polarized in terms of tenure, might soften this potential conflict between higher and lower-tenured FMs. More precisely, the presence of external NFMs, not embedded with familial ties, but at the same time characterized by almost the same experience in the firm, help FMs to better understand their reciprocal perspectives. Thus, the managerial succession processes is smoothed, obtaining the objective of both maintaining and rejuvenating the firm. Besides, this tricky process is facilitated by the higher difference in terms of tenure between both the FT and the NFT, because it occurs as a natural course of action and not in a forced way.

The other way around, when a NFT exhibiting an highest level of tenure diversity is associated with a lower level of whole TMT Tenure Diversity the polarization among the tenure positions is reduced. It means, for instance that FMs show middle-tenure positions while the extremes (the lowest and the highest) are held by NFMs. In this context, the beneficial effect brought in the TMT by the complementarities between the NFMs is undermined by middle-tenured FMs actions. That is, middle-tenured FMs that stayed in the company long periods with their predecessors, often had to cope with the parent’s criticism, judgement, conservatorism and lack of support (Handler, 1991). As a result, a pressure accumulation process starts because they resent
from their lack of discretion (Dyer, 1986; Davis and Harveston, 1999). The so-called developmental pressure (Gersik et al., 1999), accumulates in those years, making FMs resisting to change for as long as possible. However as soon as the succession process starts, all the gathered pressure is activated, giving the middle-tenured FMs the opportunity to disengage from previous patterns (Dyer, 1986; Gersik et al., 1999; Sharma, 2004). In such a situation middle-tenured FMs desire autonomy and recognition from the cohort of prior generation NFMs and thus are reluctant to interact with them, because they exemplify the generational-shadow of prior generation (Davis and Harveston, 1999; Gersik et al., 1999; Sharma, 2004). The same dynamic is also exacerbated if FMs with highest tenure add to the TMT, because it is plausible that middle-tenured FMs feel in strict competition for power with higher-tenured NFMs, that have followed the prior-generation FMs for much years. That is, what in literature is known as seat-warmer dynamic (see Lee, Lim and Lim, 2003).

In the light of this reasoning, we can predict that TMT Organizational Tenure Diversity positively moderates the effect of the NFT Tenure Diversity on the family firm performance.

\textit{H2 – TMT Tenure Diversity positively moderates the relationship between the NFT Tenure Diversity and the Family Firm performance.}

\textbf{TMT Dominant Functional diversity}

The interest alignment among FMs, pointed out by the majority of scholars in family business literature, doesn’t imply that they will share identical talents and attitudes (Wanous et al., 1984; Ling and Kellermanns, 2010). Therefore, FMs might experience different managerial positions, in different functional areas within the family company. For instance, one FM may be highly receptive to new technologies, dedicating to the R&D functional area, while another may be interested in customer’s habits and new product developments, occupying marketing positions. Thus, similarly to a NFT, a FT can show high level of Dominant Functional Diversity when it includes a wider
breadth of knowledge, perspectives, experience and capabilities that the overall team can bring to
bear in a decision situation (Cannella et al., 2008).

As stated above an highly diversified NFT in terms of dominant functional diversity enhance
family firms’ level of strategic orientation, fostering the ability to detect risks and opportunities, and
to generate novel patterns of action and innovative ideas (Zahara, Hayton and Salvato, 2004). However, when an highly diversified NFT is associated with a TMT that is highly diversified as well, it means that FMs characterized by overlapping functional backgrounds add to the TMT (Cao,
Simsek and Zhang, 2010). Such an overlap leads to redundancy in perspectives, approaches and
knowledge included in the TMT, that in turn undermine the positive effect of cognitive conflict.

Said differently, the beneficial effect of NFT dominant functional diversity is strengthened as
the functional complementarity between the FT and the NFT increases. For instance, when an
highly diversified NFT is associated with a TMT showing a low level of functional diversity, it
means that that the NFT is counterbalanced by a FT that exhibits a lower level of dominant
functional diversity. In such a situation, FMS are specialized almost in the same functional areas.
This specialization level may lead the firm to be bounded by its standard policies and routines, built
over its history. As a result, the firm is likely to show low ability to adapt and face with a changing
environment and to be trapped with the rigidities of the familial organizational tissue. As a
consequence, the likelihood to incur in the aforementioned organizational inertia problem increases.
In such a situation, the beneficial effect of the NFT Dominant Functional Diversity is strengthened.
That is, because the lack of expertise and perspectives that characterized FMs is complemented by a
NFT that includes the missing knowledge and capabilities. Such complementation leads to the
achievement of higher quality decision-making and novel solutions, allowing for the embankment
of the organizational inertia. In the opposite way, the beneficial effect brought by a NFT highly
diversified from the functional background perspective, is softened when it interacts with a TMT
that is in turn highly diversified. Thus, we argue that:

5.4 METHODS

Sample and Data Collection procedure

The analysis is based on an original dataset covering the entire population of Italian family-controlled firms in the Furniture industry. According to the quali-quantitative definition by “IL Club dei Distretti”, the companies operating in the Furniture Districts can be identified through the ATECO 2007 classification of economic activities. These firms fall under the compartment 31.000 “Furniture Manufacture”.

The choice of the furniture industry has multiple motivations primarily related to the role it plays in the whole national economy and the peculiar organization of the production in Industrial Districts (IDs).

With respect to the former argument the Italian Furniture industry represents an important contributor to the whole Italian GDP and exports. Indeed, with a share of 10% of the total worldwide production, Italy is the third largest player in the furniture industry (BNP Paribas Economic Research, 2011). Over the past 10 years, Italy has maintained its leadership as the major exporter with a share of the total close to 9 percent (BNP Paribas Economic Research, 2011). Furthermore, in the first 10 months of 2011, exports showed a 4.4 percent increase, with respect to the previous year.

With respect to the organization in IDs, the majority of previous empirical studies agree that they are mainly composed by family managed firms, that are often overcoming the second or the third generation (Belussi, 1999; Belussi and Sedita, 2009; Belussi, 2010; Chiarvesio et al., 2010).
Besides, several authors stated that the most important IDs in Italy have often developed in a successful way, because of the leading role played by family firms. The furniture districts are not an exception. For instance, well-known examples are Natuzzi, Calia and Nicoletti in the upholstery district of Matera (Morrison, 2004; Belussi, 1999; Borgia et al., 2009), Flou, Molteni and Misuraemme in the furniture district of Brianza (Borgia et al, 2009; Chiarvesio et al., 2010), Scavolini in the kitchen district of Marche and Snaidero in the Triveneto one. This makes pertinent, therefore, to examine family firm management issues in this traditional industry.

The entire population is composed by more than eighteen thousand firms. Further, out of this population, we considered only those firms that fall under the definition of family firm. In the matter of this argument, although there are several possible definitions (Anderson and Reeb, 2003; Villalonga and Amit, 2007; Chua et al., 2003; Minichilli et al.2010; Prencipe et al., 2010), we identified as family firms those in which one or more families is linked by kinship, close affinity, or solid alliances and holds a sufficiently large share of risk capital to enable members to make decisions regarding strategic management (Prencipe et al.2008; Minichilli et al, 2010).

Specifically, we adopted the Minichilli et al. (2010) classification, according to which a firm is defined as a family firm, when the same dominant family (or families) owns (directly or indirectly through subholdings) more than 50 per cent of the shares. The threshold is reduced to 30 per cent for listed companies, which is reasonable given the features of the Italian stock exchange. This definition is in line with previous studies on family firms TMTs, according to which family control can be identified as the fractional equity holding by family members (founding or descendants), which allows ownership control over the company (Anderson and Reeb, 2003; Lee, 2006; Minichilli et al., 2010). To collect data on ownership we used public sources such as AIDA (Italian Digital Database of Companies) – the Italian branch of Bereau van Dijk European Databases.
Once identified the family firms within the Ateco 31.000 section, given the peculiar structure of the industry, that is extremely fragmented in a large number of micro-firms, we included into the final sample the top 500 firms with respect to revenues.

For the hypothesis testing, we sent an electronic survey to all CEOs and Chairpersons of the 500 firms sampled, to gather information on their TMTs’ characteristics. Given that most of the information required in the questionnaire refers to objective data, we considered it proper to have at least one respondent as a key informant in the TMT for each of the firms involved in the survey.

To ascertain the comprehensiveness of the questionnaires, an in-depth pre-test to streamline the questionnaire on 2 influential family firm of the industry was carried on. About 2 hour-long semi-structured interviews with the CEO or other key informants were administered. Additional archival data have been collected for firms in the larger sample frame in order to check for the non-respondent bias, using the Kolmogorov–Smirnov procedure. A total of 97 out of 500 firms responded to the survey, providing data on 97 different TMT’s. A total of 584 questionnaires were retained.

MEASURES

Dependent variable

The dependent variable is family firm performance. Following Minichilli et al. (2010) and taking into account that the sample is constituted also of small and not listed companies we used as a measure of the dependent variable (P) the ROA. Furthermore ROA is a well understood and common measure used in several studies on the impact of TMT’s characteristics (Minichilli et al., 2010).
Independent Variables

A definition of top management team (TMT) was included in the questionnaire to avoid misunderstandings. It considers a TMT to consist of the CEO; CFO and the Chair Person, and all the other top executives on the management board and/or reporting directly to the CEO of the firm (Minichilli et al., 2010).

Accordingly the Non Family Team (NFT) is defined as a team composed by Top Management Team Members, not related to the controlling family, reporting directly to the firm’s chief executive (Boeker, 1997).

**NFT Size** – Measured as the total number of NFMs in the company’s TMT, as reported by the CEO (Simsek et al., 2005)

**NFT Organizational Tenure Diversity** – Team tenure is measured by taking the average of the aggregate organizational tenure of all NFMs within the NFT. NFT Tenure diversity was measured using the coefficient of variation, defined as the standard deviation divided by the mean. Wiersema and Bantel (1992), following Allison (1978), noted that the coefficient of variation, because it is a scale-invariant measure, is preferred to the standard deviation or variance for interval-level variables.

**NFT Dominant Functional Diversity** – It’s the breadth of exposure to different functional areas. Measured by asking respondents to indicate the functional specialty of each NFT member into one of eight tracks (finance; accounting and auditing; human resources; marketing and sales; law; production-operations; R&D and engineering; administration and general management). Team members will be allowed to indicate up to three categories, taking into account that many people gain experiences outside their dominant career track (Buyl et al., 2011).
This increases the ecological validity compared to only considering one function, which is the standard approach in measuring functional background diversity. However, the downside of this approach is that obtaining a ‘pure’ index of functional diversity becomes more complicated, since we measured two types of information jointly: the extent of expertise-overlap of the team members, as well as the number of functions indicated by each of the team members (i.e. whether the team member is a generalist or a specialist). Ideally, it should be measured the distribution of unique functional expertise between TMT members, i.e. between-member functional diversity net of intrapersonal functional diversity (for details, see Bunderson and Sutcliffe, 2002), since theory emphasizes the information exchange and integration problems of people with non-overlapping knowledge working together (Brodbeck et al., 2007).

The mostly-used Shannon–Wiener measure of information and the analogous Herfindahl or Blau index do not disentangle both sources of diversity. Therefore, in this context, the Attneave’s (1959) entropy-based, so-called ‘transmission measure’ Txy, is the most correct indicator. This measure can be derived from three types of information contained in any two-dimensional “team member (dimension Y with members from 1 to j) – functional category (dimension X with functional categories from 1 to i)” frequency table:

- the proportional distribution of the number of team members over the functional categories summarized by the marginal entropy measure Hx (i.e. the standard Shannon–Wiener measure);
- the proportional distribution of the number of functional categories over the team members summarized by the marginal entropy measure Hy; and
- the total entropy of the frequency table indicated as Hxy.

\[
H_x = \sum^i p_i \log\left(\frac{1}{p_i}\right) \quad \text{where } i \text{ stands for any functional category}
\]

\[
H_y = \sum^j p_j \log\left(\frac{1}{p_j}\right) \quad \text{where } j \text{ stands for any team member}
\]
\[ H_{xy} = \sum_{ij} p_{ij} \log(1/p_{ij}) \]

where \( i \) stands for any functional category and \( j \) for any team member.

\( T_{xy} \), or transmission, equals \((H_x + H_y - H_{xy})\) and can be interpreted as a measure of association between the two dimensions of a frequency table, i.e. team members and functional categories in our study (Attneave, 1959). Note that a large value of \( T_{xy} \) implies high functional background diversity, with expertise being uniquely distributed over team members.

**Moderating Variables**

*FT Size* – Measured as the total number of FMs in the company’s TMT, as reported by the CEO (Simsek et al., 2005)

*TMT Organizational Tenure Diversity* - Team tenure is measured by taking the average of the aggregate tenure of all TMT members. The TMT Tenure diversity was measured using the coefficient of variation, defined as the standard deviation divided by the mean (Allison, 1978; Wiersema and Bantel, 1992).

*FT Dominant Functional Diversity* - Measured by asking respondents to indicate the functional specialty of each TMT member into the same eight tracks asked to for the NFT. Team members will be allowed to indicate up to three categories (Buyl et al., 2011). Then the Transmission Index \( T_{x,y} \) is employed in order to capture dominant functional diversity at the team level.

**Control Variables**

*Firm Level*  

*Firm size* – measured as a logarithmic transformation of sales as reported from the respondents (Boeker, 1997), checking it with other publicly available sources.
**Firm age** – measured by asking the number of years since the company was established, as it has been associated with the institutional routines and norms that affect firm performance (Ling and Kellermanns, 2010). Another check has been carried on with other publicly available sources (e.g. Aida)

**Generation in charge of the firm** – measured by asking which generation of the family controls the firm’s ownership (Ling and Kellermanns, 2010). Answers ranged from “first generation”, “second generation”, “third generation”, “fourth generation”, “fifth generation”, “beyond the fifth generation”. Of the firms in our sample, 29 per cent are controlled by the first generation (coded as 1), 57 per cent by the second generation (coded as two), 13 per cent by the third generation (coded as 3) and only one firm was controlled by the fourth generation (coded as four).

A definition of generation as the latest generation of family members who are active in the firm as officer, directors, blockholders relative to the generation of the founder, was included in the questionnaire (Villalonga and Amit, 2010).

**The number of employed generations** – measured by asking how many generations of the family are employed at the firm (Ling and Kellermanns, 2010). In total, 23 per cent indicated one generation, 71 per cent indicated two generations, and only 5 per cent indicated three generations.

*Pre-performance* - was controlled as the average ROA between year $t-4$ and $t-1$ (Marcel, 2009).

**Team Level**

**TMT Educational Background Diversity** – obtained by classifying each executive into one of five categories based on the highest degree awarded (arts, science, engineering business and
economics, law). A variants of the HH index calculated as $1 - \sum S_i^2$, where $S_i$ is the proportion of a TMT in the $i$th category, will be employed (Blau, 1977).

**TMT Level of Studies Diversity** – obtained by classifying each executive into one of five categories based on the level of degree awarded (primary school degree, medium school degree, high school degree, college degree (master or bachelor) and PhD degree). Like in educational background diversity, a variants of the HH index calculated as $1 - \sum S_i^2$, where $S_i$ is the proportion of a NFT in the $i$th category, will be employed (Blau, 1977).

**TMT Gender** - at the individual level the gender ($1= female, 0= male$) has been captured for each executive. (Blau, 1977).

**TMT Age** – at the individual level the age has been captured for each executive. The team level age will be measured with the coefficient of variation, as the standard deviation divided by the means of the age of each executive within the NFT (Allison 1978)

**TMT Average TMT Tenure** – at the individual level the tenure in the TMT has been captured for each executive. At the team level the TMT tenure was measured as the mean number of years of employment in the TMT of all the TMT members in year $t$ (Allison 1978)

**Individual Level**

**CEO Tenure** – computed as the number of years in office the CEO served in the firm, as reported in the questionnaire (Minichilli et al., 2010). This is important in family-controlled firms, where CEOs tend to remain in office longer and are more difficult to remove than in publicly controlled firms.

**Specialist CEO** – operationalized as a dummy variable that equals to 1 when the CEO has a functional experience in only one of the eight functional categories proposed, and 0 otherwise.
*CEO Gender* – is a dummy variable that equals 1 if the CEO is a female and 0 otherwise.

*CEO Age* – Measured by asking the CEO his/her age through the questionnaire.

*CEO Founder* – is a dummy variable that equals 1 if the CEO is the founder of the firm

### 5.5 RESULTS

The descriptive statistics used in this study are reported in Table 13 and correlations of variables in Table 12. None of the correlation coefficients raises potential problems of multicollinearity. The ultimate number of observations (92) resulted from the removal of 5 cases for which there were unavailable or incomplete data. The size of the sample is consistent with previous studies on TMT and mainly on Family Firms TMT (Minichilli et al., 2010; Ling and Kellermanns, 2010). We tested the hypotheses through hierarchical multiple regression analyses, entered in multiple steps. The variables used as components of interaction terms were centered to minimize the problem of multicollinearity between interaction terms and their components (Aiken and West, 1991). The results of the moderation analyses are reported in Table 14.

--- INSERT TABLE 12 ABOUT HERE ---

--- INSERT TABLE 13 ABOUT HERE ---

Model 1 of Table 14 reports the control variables for the Performance valuation estimates. Firm Pre-performance and the presence of a Specialized CEO are positively associated to it. The independent variable NFT Size, its quadratic term and the moderator, FT Size were added in Model 2 to test whether there was a significant effect on performance. NFT size shows a positive and statistically significant (β= 2,16, p < 0.01) coefficient and its quadratic term shows a negative and statistically significant (β=-0,26, p < 0.01) coefficient, suggesting for an inverted U-shaped relationship between the NFT size and the performance. The moderator didn’t significantly affect
firm performance, however the insertion of the three variables produces a significant increment in the multiple squared correlation coefficient ($\Delta R^2 = 0.04, p < 0.05$).

--- INSERT TABLE 5.3 ABOUT HERE ---

Model 3 introduces the cross-products between NFT and FT size. Hypothesis 1 proposed that FT size initially positively moderates NFT size performance relationship, however after a certain point the moderating effect turns into negative, such that NFT size will be more positively related with family firm performance when FT size is low. Model 3 supports the hypothesis, because the interaction term has a negative and significant coefficient ($\beta = -0.57, p < 0.10$). No change is observed in the sign for NFT size and its quadratic term compared with model 2, that are still significant (respectively $\beta = 3.50, p < 0.01$ and $\beta = -0.21, p < 0.05$).

Figure 4 depicts the interaction. Following Aiken and West (1991), values representing plus and minus one standard deviation from the mean were used to plot the regression lines. As predicted by Hypothesis 1 we found that for smallest TMT ($0<FT<3$ and $0<NFT<3$) higher level of FT size positively moderates the relationship between NFT size and Family Firm performance. The crossing point, suggests that when the NFT size overcome 3 units, the moderating effect of the FT size turns into negative. The insertion of the interaction term produces a significant increment in the multiple squared correlation coefficient ($\Delta R^2 = 0.02, p < 0.10$).

Hypothesis 2 states that the relationship between NFT Organizational Tenure Diversity and the family firm performance is positively moderate by the whole TMT Organizational Tenure Diversity. This hypothesis obtains strong support. Model 5, shows that the interaction term has a significant and positive coefficient ($\beta = 14.84, p < 0.01$). Besides, when the interaction term is introduced a significant increment in the multiple squared correlation coefficient emerges ($\Delta R^2 = 0.04, p < 0.01$).
Model 6 introduces NFT and TMT Dominant Functional Diversities, the first shows a positive and significant coefficient (β=2.11, p < 0.05), suggesting that it positively impacts on family firm performance. Model 7 introduces the interaction term in order to test Hypothesis 3. The presence of a negative and statistically significant coefficient (β=-2.56, p < 0.05) for the interaction term confirms that TMT Dominant Functional Diversity exerts a negative moderating effect on the NFT Dominant Functional Diversity-performance relationship. No change is observed in the sign for NFT Dominant functional Diversity compared with model 6, that is still significant (β=5.90, p < 0.01). Model 7 shows a significant increment in the multiple squared correlation coefficient with respect to Model 6 (ΔR² = 0.02, p < 0.05), and the same occurs for model 6 with respect to model 1 (ΔR² = 0.04, p < 0.05).

Figure 5 depicts the interaction. As suggested by hypothesis 3 higher level of performance are associated with higher level of NFT Dominant Functional Diversity, when the whole TMT Dominant Functional Diversity is low.

To verify that results were not distorted by multicollinearity, variance inflation factors (VIF) have been calculated for all the models presented. The maximum VIF found within our models was below the commonly used rule-of-thumb cut-off of 10 (Cohen et al., 2003), indicating that multicollinearity is not an issue in the analysis.

5.6 DISCUSSION AND CONCLUSIONS

The primary purpose of this paper was to enrich the understanding of diversity within the family firm context. While previous studies have mainly be concerned with diversity originated by family members, we shift our focus on another type of diversity relevant for family business, that is the one related to NFM. Differently from prior researches, that looked at the NFT as an homogeneous group characterized by almost the same characteristics, we argued for the presence of three specific sources that may originate diversity within the NFT.
However, given the debate among scholars about the ambiguous effect diversity can exert on firm performance, we adopted a contingency lens. Thus, we argued that the effect of NFT Diversity is moderated by the Diversity exhibited by the whole TMT. Carrying on the contingency analysis from an intra-team perspective, we also contributed to Upper Echelons Theory. Indeed, notwithstanding the recognition of the crucial role played by interaction effects in the Upper Echelons field, very few studies analyzed the potential moderating effect of intra-team dynamics (Menz, 2011). However, within the same team, different categories of managers may emerge and this feature is particularly highlighted in the family firm context where FMs and NFM coexist.

Thus, the effect of the NFT Diversity cannot be evaluated without looking at the characteristics of the whole TMT, because they reflect also those of the FT. In doing so, we aimed at understanding under which conditions the family firm might fully take advantage from the NFT Diversity, analyzing how it fits with rest of the TMT.

This level of moderation is was also fundamental in order to understand if the two teams actually are antithetical and mutually exclusive factions, as previous works have claimed (Minichilli et al, 2010; Minichilli and Berrone WP; Cruz et al., 2010).

Empirical results show that all three hypothesized interactions are significant. This demonstrates how important is to take into consideration the interactions among TMT members in order to effectively understand the impact of NFT diversity in family firms.

With respect to Hypothesis 1 we found that for smallest TMTs, the FT size positively moderates the NFT Size performance relationship. This founding is particularly relevant, because it means that for small TMTs the presence of balanced factions of FMs and NFM augments the firm performance. Thus, the two teams are not antithetical and mutually exclusives, but instead they can synergistically resolve into higher-level outcomes.
Besides, as predicted in Hypothesis 1, this positive effect turns into negative as the NFT size increases. In such a case, the effective management of a larger NFT, implies that the family transmits a clear and unique set of norms and values. However, when numerous FMs are present, multiple perspectives and multiple family branches are more likely to be encompassed into the TMT. This involvement may lead to conflicts among FMs, that in turn reflect in inconsistent goals and strategies. On the contrary when there are few FMs, they are more likely to provide a clear set of values and direction for the NFMs, at the same time avoiding the estrangement from the family culture.

Concerning Hypothesis 2, we found that the TMT organizational tenure diversity positively moderates the relationship between the NFT Organizational Tenure diversity and the family firm performance. Differently from the former hypothesis we didn’t find support for the trend of the base relationship, while the interaction effect is the most significant among the three taken into consideration.

Hypothesis 3 is verified as well, validating that the beneficial effect exerted by differences in functional backgrounds among NFMs, can be correctly exploited only if they do not overlap with those of the FMs (i.e. when the overall TMT Functional Diversity is higher). In such a case, the beneficial effects exerted by different knowledge and perspectives incorporated in the NFT is undermined by the effect of redundancy in the whole TMT. In the opposite way, when the functional expertise of the NFT complement those of the FT (i.e. when the overall TMT Functional Diversity is lower), the positive impact exerted on the performance is strengthened.

Furthermore our findings can be interpreted in a complementary way with respect to other recent works in the family firm literature. For instance, our study is in line with that by Ling and Kellermanns on the specific sources of diversity in the family firm. In this sense, while they focused on the vertical distance within the TMT, we deepened the horizontal one, adopting the same contingency approach. Furthermore our study contributes to the works focused on the
Professionalization process of the family firm (Dyer, 1986; Klein, 2007; Stewart and Hitt, 2011). Further than analyze the modes of professionalization in family business our study explain under which conditions this modes are more or less effective.

Lastly one further contribution is provided by the empirical setting employed. In this sense we aimed at providing a valuable managerial tool to the family firms that belong to the Italian Furniture Districts, so that they can effectively manage the composition of their TMT.
Figure 3 - Theoretical Model

- NFT Size
- TMT Tenure Diversity
- TMT Dominant Functional Diversity

H1, H2, H3

NFT Tenure Diversity

NFT Dominant Functional Diversity

FF Performance
Figure 4 - FT Size Moderating Effect

Figure 5 - TMT Dominant Functional Diversity Moderating Effect
Table 12 - Correlation Matrix

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<td>0.34*</td>
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<td>0.05</td>
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<td>0.09</td>
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<td>3. FT Size</td>
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Table 13 - Descriptive Statistics

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APPENDIX

I. Glossary

**Family Firm:** Firm where the same dominant family (or families) owns (directly or indirectly through subholdings) more than 50 per cent of the shares (the threshold is reduced to 30 per cent for listed companies). All the persons tied by familial, parental or kin ties with the founder’s family, as well as those linked by marital or adoption relation are considered as Family Members.

**Top Management Team:** It consists of the CEO; CFO and the Chair Person, and all the other top executives on the management board and/or reporting directly to the CEO of the firm.

**Generation in charge of the firm:** the latest generation of family members who are active in the firm as officer, directors, blockholders relative to the generation of the founder.

**Number of employed generations:** how many generations of the family are active and employed at the firm.
II. QUESTIONNAIRE A – Headed for the CEO

Name ______________________        Surname ______________________

Gender  □ F    □ M

Age ______________________

1. Would you define the firm you manage as a family firm?

□ Yes □ No

2. Which generation of the family is in charge of the business today?

□ 1° □ 2° □ 3° □ 4° □ 5° □ 6° □ 7° □ 8° □ 9° □ 10°

3. How many generations of the family are employed in the firm today?

□ 1 □ 2 □ 3

4. Are you a member of the owning family?

□ Yes □ No

5. Are you the founder?

□ Yes □ No

6. How long (number of years) have you been working in the company? ________

7. How long (number of years) have you been the CEO of the company? ________

8. In which of the following areas of study did you reach your highest degree?

□ Arts and Literature  □ Science  □ Engineering

□ Economics and Business Administration  □ Law
9. Highest level of degree awarded:

☐ Primary School  ☐ Middle School  ☐ High School  ☐ Bachelor Degree/Master  ☐ PhD

10. In which of the following functional areas are you specialized (you can indicate up to three categories)?

☐ Finance  ☐ Accounting and Auditing  ☐ Human Resources

☐ Marketing and Sales  ☐ Law  ☐ Production and Operations

☐ R&D and Engineering  ☐ Administration and General Management

11. Number of family members active in the business:

☐ 0  ☐ 1  ☐ 2  ☐ 3  ☐ 4  ☐ 5  ☐ 6  ☐ 7  ☐ 8  ☐ 9  ☐ 10  ☐ >10

12. Number of nonfamily managers in the business:

☐ 0  ☐ 1  ☐ 2  ☐ 3  ☐ 4  ☐ 5  ☐ 6  ☐ 7  ☐ 8  ☐ 9  ☐ 10  ☐ >10
III. QUESTIONNAIRE B – Headed for the TMT members

Name ______________________  Surname______________________

Gender  □F  □M

Age ______________________

Your Position in the Business ______________________

1. Are you a member of the owning family?
   □Yes  □No

2. How long (number of years) have you been working in the company? ________

3. How long (number of years) have you been in the TMT of the company? ________

4. In which of the following areas of study did you award your highest degree?
   □ Arts and Literature  □ Science  □ Engineering
   □ Economics and Business Administration  □ Law

5. Highest level of degree awarded:
   □ Primary School  □ Middle School  □ High School  □ Bachelor Degree/Master  □ PhD

6. In which of the following functional areas are you specialized (you can indicate up to three categories)?
   □ Finance  □ Accounting and Auditing  □ Human Resources
   □ Marketing and Sales  □ Law  □ Production and Operations
   □ R&D and Engineering  □ Administration and General Management
IV. On Line Guide

1. Clicked on the link www.osservatoriodelmobile.it/questionari.html

2. Write Username and Password and access to the portal

3. Click on “Questionnaires”
4. Select “Questionnaire A” for the CEO

5. Click on “Filling the questionnaire”

6. Select “Questionnaire B” for the Top Management Team Members

7. Click “Filling the questionnaire” and fill a questionnaire for each TMT Member

8. Fill in the questionnaire
9. Save the questionnaire, once completed

10. Create a “New Questionnaire B” for each member of the Top Management Team

11. Create the new questionnaire
12. Select the new questionnaire

13. Fill in by clicking on “Filling the questionnaire”.