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GOVERNANCE STRUCTURES IN ITALIAN FAMILY SMES

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INTRODUCTION

This study deals with corporate governance in a twofold theoretical perspective: the contractual one of agency theory and the relational one of social capital.

Both perspectives resulted to be useful to analyse SMEs, which represent a valuable research object as they are the most diffused type of company in the world. These companies are often supposed not to be complex enough to raise corporate governance issues. In fact, the main focus of most corporate governance studies is big business, and especially the classical enterprise models that have become symbols of different capitalisms or different institutional forms, like the Anglo-Saxon public company, the Japanese Keiretsu, German corporation controlled by industrial and financial companies (Charkham, 1994) or the big and complex family corporation (Ward, 1991, Gersick, Davis, Lansberg and McCollon Hampton, 1997, Lansberg, 1999).

From a contractual point of view, we maintain that SMEs, such as larger companies, make use of their governance structures in such a way as to reduce agency threats, thereby confirming the importance of agency theory to understand governance systems (Gomez-Mejia, Nuňez-Nickel and Gutierrez, 2001; Schulze et al, 2001).

The relational point of view sheds light on differences between SMEs. Specifically, it highlights that family companies make use of "unofficial" governance structures due to the special nature of ties between controlling owners. As these ties are both family and business ones, governance structures are required not only to monitor owners' agents, but also to keep trust, unity and commitment between owners and their agents and between owners themselves (Gallo et al, 2001). So, a relational perspective is also needed to understand family firms in-depth (Mustakallio and Autio, 2001) and, by this means, to offer a contribution to family business research, which is particularly valuable given the absolute prevalence of family firms within the vast population of SMEs all over the world and, at the same time, given the relatively little attention that these firms still receive in academic research (Schulze, Lubatkin, Dino and Buchholtz, 2001).

The paper offers three types of contributions to governance literature.

First, we focus on the breadth of bodies which can be involved in governance and not only on boards of directors. Most research tends to focus on boards of directors but, as a matter of fact, governance structures can be made up by a hierarchy of different bodies and mechanisms that may also substitute one another (Rediker and Seth, 1995). Looking into this variety of bodies, which our study proved to be a big one also in SMEs, the paper identifies some basic archetypes of governance structures.

Second, we explore this breadth of governance structures in terms of both existence and functioning. Literature on governance in SMEs and family business generally assumes that bodies like the shareholders meeting and the board of directors are often just formal ones (Kosnik 1987, Mace 1971, Pearce and Zahra 1991, Corbetta and Tomaselli, 1996), and so does institutional theory (Judge and Zeithaml, 1992, Daily, Dalton and Rajagopalan, 2003). But most studies actually focus on board composition and refrain from going inside the "black box" to see whether and how it is utilized (Huse, 2000); a few ones have researched the relations between measures of board functioning and company performance in companies of various size, but no generalizable findings have been obtained yet (and again, such measures are mostly related to composition rather than to actual functioning: see Johnson, Daily, and Ellstrand, 1996; Dalton, Daily, Ellstrand, and Johnson, 1998). This has led some authors to suggest to broaden the scope of analyses from demography to the actual processes taking place inside boards (Huse, 2000; Huse and Ladström, 2001). Our study highlights - for the first time in Italy - to what extent the various governance structures simply exist and to what extent they are actually utilized, as perceived by company leaders. We posit that increasing ownership complexity and company size induce companies to set up more articulated governance structures in terms of both existence and functioning. Another hypothesis we make is that governance structures are utilized less in family firms than in non-family firms.

Third, family business governance literature shows that governance structures may serve the purpose of either reducing agency threats (which is particularly true for "official" corporate bodies) or creating trust, unity and commitment in the firm (which is especially the case of "unofficial" ones with no legal obligations, e.g. the family council). Our study shows how in family firms official and unofficial bodies can coexist; particularly, it tests the hypothesis that the former are less used than the latter.

THEORETICAL BACKGROUND

Contractual Perspective and Governance Structures

Agency theory is one of the literature mainstreams that look at companies in a contractual perspective, that is as nexuses of contracts where the main counterparts are owners-principals and managers-agents; the key issue is how to align their interests, and particularly how to guarantee that agents behave in the interest of owners and not in their own. To overcome this threat (which is reinforced by a number of contextual and behavioural conditions like self-utility maximization, information asymmetry, bounded rationality, prevalence of economic goals and moral hazard) it is necessary to afford various agency costs in order to perform activities and operating systems that either monitor or bond agents, such as pay incentives, strategic planning, boards of directors, formal control systems, etc. (Jensen and Meckling, 1976; Morck, Schleifer, and Vishny, 1988; Ross, 1973).

For agency theory, small and medium sized firms are considered as the companies where agency problems are minimized, as owners and managers' roles are often played by the same people, which reduces costs related to conflicts (Fama and Jensen, 1983; Jensen and Meckling, 1976). But as long as the company evolves from the "owner-manager" model towards the classical archetype of the corporation featuring complete separation between ownership and control, the typical agency threats re-emerge. Actors and corresponding interests may get articulated even when the company is still small and medium-sized: this happens, for instance, when managers not involved in ownership are hired, or when ownership gets more numerous and differentiated and, by this means, only some owners play management roles.

The family nature that characterizes most SMEs is also traditionally assumed to reduce agency costs for a number of reasons, particularly: in family firms, relations are based on kinship and blood; as such, these relations are made of emotions, sentiments, trust and altruism that are supposed to counter-balance opportunistic behaviours; family firms' long -term horizon reduces moral hazard problems (Daily and Dollinger, 1992; Gomez-Mejia et al, 2001; Harvey, 1999; Kang, 2000). But some studies show that the family nature can actually bring about special agency costs due to problems of incongruity between executives' and family goals, lacking market discipline, self-control, adverse selection, managerial entrenchment and moral hazard (Buchanan, 1975; Gomez-Mejia et al, 2001; Jensen, 1998; Morck et al, 1988). On top of that, many of these problems can be originated by altruism itself (Schulze et al, 2001).

All this leads us to assume that agency threats have to be coped with in both family and non-family SMEs. As the more companies become complex in size and ownership, the more it is necessary to delegate tasks to agents (like directors and managers) at various levels, governance structures need to be articulated accordingly in order to keep agents monitored.

The meaning of "articulation" is worth some ad hoc reflections. In fact, as mentioned above, governance literature points out that bodies like the board of directors are often paper ones; institutional theory assigns governance structures a symbolic role that requires them just to be present in the company (Judge and Zeithalm, 1992, Daily et al., 2003). Other studies focus on governance structures' inertia, showing that they tend to change slowly, and sometimes only from a formal, but not a substantial point of view (Airoldi, 1998). So, we posit that company may articulate their governance structures by just increasing the number of bodies or by utilizing bodies more or by doing both; as a consequence, articulation of governance structures has to be looked at in terms of both the existence and the actual functioning of their composing bodies .

Hypothesis 1. *In family and non-family firms, the bigger the company and the more complex its ownership configuration, the more its governance structure is articulated.*

Relational Perspective and Governance Structures

In family firms, for the reasons mentioned above, agency costs should be lower; but actually, the debate on their level in this type of companies has not yet led to definite results. What emerges, nevertheless, is that agency theory represents a fundamental perspective, but at the same time an insufficient one to understand family firms deeply (Mustakallio, 2002, Corbetta and Salvato, 2004).

The relational perspective integrates the contractual one; within this perspective, the social capital stream of theories seems to be particularly useful. Social capital can be defined as an asset that is rooted in social relations and networks (Granovetter, 1992; Leana and Van Buren, 1999; Nahatapiet and Goshal, 1998); such an asset appears to be critical in family firms, given the strong relational component that contracts feature in this kind of companies (Gomez-Mejia et al, 2001). Nevertheless, application of this conceptual category in studies about governance, and particularly about governance of SMEs, is relatively recent.

As far as family firms are concerned, recently, Mustakallio has offered a comprehensive framework of "social capital including structural, relational and cognitive dimensions" (2002:107). Within the structural dimension, family institutions like family meetings and family councils can play a role in both family and company governance. As to company governance, a few studies have examined family institutions' role in the creation of trust and shared vision (that represent, respectively, the relational and cognitive dimensions of social capital: Gilding, 2000; Habbershon and Astrachan, 1997;

Neubauer and Lank, 1998; Tsai and Goshal, 1998). Trust and shared vision determine unity and commitment of family and non-family actors; together with quality of decisions, unity and commitment are acknowledged by several authors as the key conditions for family firms' success (Davis and Harveston, 1998; Gallo et al, 2001; Lachapelle and Barnes, 1998; Leana and Van Buren, 1999).

When family structures like family councils act as corporate governance bodies, they represent the "unofficial" part of governance structures, as they do not exist either in law or in management practice. In family business governance literature, family councils have been analysed both as complements and as substitutes to "official" bodies and, especially, to the shareholders' meeting (Das and Teng, 1998; Lank and Ward , 2000; Lansberg, 1999; Ward, 1987; Ward, 1991). It has to be noticed that these studies refer to large family firms and that relatively little attention is given to family councils in family SMEs (Moores and Mula, 2000).

We assume that the relational component of family firms does not eliminate agency costs, but makes them lower than in non-family firms, with less need for governance bodies to be functioning, in the sense of actually utilized ones. We also maintain that in family firms "unofficial" governance bodies may replace "official" ones, making them even less used.

Hypothesis 2a. *In family firms, governance structures are utilized less functioning than in non-family firms.*

Hypothesis 2b. *In family firms, "official" governance bodies are utilized less than "unofficial" ones.*

METHODS

Sample and Data collection

The empirical base for the study was drawn from AIDA database (by Bureau Van Dijk Electronic Publishing), containing 1994 to 1999 balance sheet data of about 94,504 incorporated SMEs, representative of the Italian population and operating both in manufacturing and non-manufacturing industries. By small companies we mean firms with less than 250 employees and 50 million EURO's turnover; medium-sized ones are considered to be those employing 251 to 500 employees and totalling 50 to 250 million EUROs' turnover.

15157 companies were randomly extracted in such a way as to be also representative of the reference population by region, range of employees and industries.

A questionnaire was mailed in October 2000 to the companies included in the sampling frame described above and was addressed to the chief executives of the firms. Particularly, the cover letter requested the questionnaire to be completed either by the CEO or by an equivalent senior executive with an overall responsibility on strategic management issues, that is by knowledgeable people whose answers have proved to be reliable, even if reporting self-perceptions, in anonymous surveys (Campbell, 1955, Dillman, 1978, John and Reves, 1982, Starbuck et al, 1988). A single respondent and not multiple ones were used for each questionnaire also because, in such a large sample of SMEs, identifying and obtaining responses from multiple well-informed informants could have been extremely problematic.

Two follow-up letters and one replacement questionnaire were mailed after the initial mailing. The questionnaire consisted of 6 sections and dealt with the following topics: demographics on companies and respondents, ownership, governance structures, company strategy, company performance, and succession.

Responses were collected through January 2001; the final data set includes 546 SMEs; the redemption rate is indicated in table 1 and it is in line with the rates which are normally obtained in Italy. We evaluated non-response biases by comparing the industries represented in our sample with those of the database used and found no differences in the industries represented (see table 1). We also compared early respondents (first half) with late respondents (second half), following the Armstrong and Overton procedure (1977), and differences were not significant as well. The same happened with other variables such as company age, size (employees and turnover), market conditions or industry characteristics. All this suggested that non-response bias might not be a problem and that control variables were not necessary.

450 out of the 546 sampled companies (82.4%) resulted to be family businesses. We define family businesses as those companies that meet at least one of the following requirements: i) 51% of equity or more is owned by the family; ii) the family owns less than 51% but controls the company in partnership with friends, other entrepreneurs, employees; iii) respondents perceive the company to be a family business, whatever the family share (which actually happened in 14 cases, see Greenwald, 1995).

Table 1. Mailing list and sample by size and macro-industry

		Mailing list		Sample		Response rate
		Number	%	Number	%	%
Manufacturing	Small	6048	40%	234	43%	3,9%
	Medium	887	6%	40	7%	4,5%
Non-manufacturing	Small	6181	41%	213	39%	3,4%
	Medium	2041	13%	59	11%	2,9%
		15157	100%	546	100%	3,6%

In terms of relative size, as compared to non-family firms, family firms are smaller on average; 93.1% of family firms are small whilst the corresponding percentage of non-family is 86.0%. Moreover, most family firms are concentrated in the lower-size ranges: e.g., 66.5% of family firms and 51.6% of non-family ones have less than 50 employees.

As to industries, presence of family firms is higher in more consolidated ones: particularly, 43.1% of family firms and 30.8% of non-family are manufacturing. This difference seems to be especially due to the stronger presence of non-family firms in service industries: 25% of them operate in such industries versus 15.5% of family firms.

Variables and measures

Governance Structure. We define it as the combination of bodies that can be involved in governance (Rediker and Seth, 1995). They can be divided into three groups:

1) At ownership level, we find the shareholders' meeting (SHAREHOLDERS' MEETING);
2) At board level, we have:
   - the board of directors of the holding company (HOLDING BOARD OF DIRECTORS) in case of groups. Groups can also feature a "two-tier" holding system, composed by a "financial" holding which manages owners' stakes and controls an "industrial" holding which manages the group's business portfolio;
   - the board of directors (OPERATING BOARD OF DIRECTORS) and executive committee (EXECUTIVE COMMITTEE) of operating companies;
   - operating companies' Chairman (CHAIRMAN) and Chief Executive Officer (CEO);

- in alternative to the operating board, a CEO that by Italy law is named "sole CEO" in the sense he/she does not belong to any board (SOLE CEO); in this case, neither the board of directors nor the Chairman exist;

3) At top management level there are:
   - the General Manager of operating companies (GENERAL MANAGER);
   - Managing committees of operating companies (MANAGING COMMITTEE), generally composed by first-line managers.

Each body, in general, may: appoint members of the bodies it delegates tasks to; define their functioning mechanisms; approve their proposals; advise and monitor them; formulate some decisions itself (Huse, 2000). Bodies at levels 1 and 2 are more often devoted to decision control (ratification and monitoring), while at level 3 they are also delegated decision management functions (i.e. initiation and control; see Fama and Jensen, 1983, Rediker and Seth, 1995, Huse, 2000).

The mentioned bodies can be considered as "official" ones, in the sense they are acknowledged as "corporate organs" by law or by practice. In this study, we decided to consider also some "unofficial" bodies, i.e. bodies that normally do not appear in company organization chart, namely:

4) the family council (in case of family business), that is a collegial body composed by adult family members, whether they are owners of the company or not (FAMILY COUNCIL). It can be either formal (that is structured and organized with its own regulation) or informal (family members just meet when they need to);
5) third parties (consultants, chartered accountants, lawyers, etc.); in both family and non-family business, empirical evidence highlights they may have critical influence, especially in advising and monitoring governance decisions but, sometimes, also taking part in their formulation (THIRD PARTIES).

*Archetype of governance structure***.** We define it as a macro-structure encompassing similar governance structures.

Articulation of governance archetype. We define the articulation of every governance structure archetype in terms of both number and relative frequency of its bodies. That is, articulation increases when the number of bodies that compose the archetype is larger, or when the number is the same but at least most of the bodies that make up the archetype feature a higher frequency in terms of existence and/or functioning. Two dichotomised indicators were used to measure these two phenomena, based on the answers given to a question that was asked for each of the 11 official and unofficial bodies listed above. Particularly, the question asked respondents to indicate: i) if the body did exist in the company or not; ii) whether it was functioning, i.e. actually utilized or not (from now on, the terms “functioning”, “actually utilized” and also “used” will be referred to as synonymous).

Company size. We measured it in terms of 1999’ turnover (SALES) and number of employees (EMPLOYEES).

Ownership complexity. We measured it in terms of number of shareholders (N. of SHAREHOLDERS). For family firms, we also used the number of family shareholders (FAMILY SHAREHOLDERS). The basic assumption is that, the higher the number of shareholders, the more difficult it can be to keep unity and commitment. What is more, in family firms the increase in shareholders’ number generally brings about two other changes that make even harder to keep unity and commitment, that is differentiation between managing and non-managing shareholders and decrease in shareholders’ attachment both to the company and to other family members (Corbetta, 1995; Gersick et al, 1997).

Analysis

First, we identified all possible combinations of existence and functioning for all the 11 governance bodies, which resulted to be 77 for non-family firms and 246 for family firms.

Second, we conducted a separate cluster analysis (K-means method) on non-family and family firms’ combinations, weighting each combination with the number of firms which presented a similar pattern. Third, we identified the clusters, which resulted to be 3 for non-family firms and 5 for family ones. For both family and non-family firms, these numbers were chosen as they minimized variation of deviance and co-deviance matrices within single clusters and maximized the one between different clusters (Everitt 1979, 1980; Hartigan 1985; Bock 1985).

Fourth, the clusters identified were studied as archetypes of governance structures within each group of family and non-family SMEs. We also calculated percentages of governance bodies’ existence and functioning for all family and all non-family firms, thereby identifying the “average archetype structure” for the two sub-sets of SMEs.

Fifth, for every archetype of governance structure, we calculated company size and ownership complexity means.

RESULTS

Governance Structures in Italian SMEs

Table 2 shows the average articulation of governance structures in sampled companies. In general, Italian SMEs seem to feature a variety of governance bodies, with a number of differences between non-family and family firms. Particularly, such differences concern the shareholders' meeting, the board of directors, the family council and the sole CEO.

Table 2. Governance structures in SMEs*

Number of firms	Total sample	Non-family firms	Family firms
	546	96	450
FAMILY COUNCIL	28.8%	0.0%	34.9%
	26.7%	0.0%	32.4%
SHAREHOLDERS' MEETING	100.0%	100.0%	100.0%
	59.5%	79.2%	55.3%
HOLDING BOARD OF DIRECTORS	7.7%	16.7%	5.8%
	6.8%	15.6%	4.9%
OPERATING BOARD OF DIRECTORS	75.1%	86.5%	72.7%
	32.1%	55.2%	27.1%
CHAIRMAN	62.3%	68.8%	60.9%
	49.1%	56.3%	47.6%
CEO	63.7%	61.5%	64.2%
	41.0%	38.5%	41.6%
SOLE CEO	24.9%	13.5%	27.3%
	19.0%	9.4%	21.1%
EXECUTIVE COMMITTEE	7.0%	12.5%	5.8%
	6.6%	11.5%	5.6%
GENERAL MANAGER	24.7%	34.4%	22.7%
	17.6%	25.0%	16.0%
MANAGING COMMITTEE	9.0%	11.5%	8.4%
	8.1%	10.4%	7.6%
THIRD PARTIES	25.6%	24.0%	26.0%
	24.7%	24.0%	24.9%

*For each governance body, percentages indicate existence (white cell) and functioning (grey cell).

Archetypes of Governance structures in SMEs.

Correspondingly to the identified clusters, 3 archetypes were found for non-family firms and 5 for family ones. In both family and non-family firms, archetypes appeared to be variously articulated. It is worth noticing there is always a gap between existence and functioning percentages, confirming that governance bodies are sometimes "just" existing ones.

Archetypes of Governance structures in non-family SMEs

Table 3 summarizes the characteristics of governance structures' archetypes in non-family Italian SMEs, moving from the least to the most articulated.

Table 3. Archetypes of Governance structures in non-family SMEs*

Archetype	1	2	3
Number of firms	34	52	10
Percentage	35.4%	54.2%	10.4%
SHAREHOLDERS' MEETING	**100.0%**	**100.0%**	**100.0%**
	64.7%	**86.5%**	**90.0%**
HOLDING BOARD OF DIRECTORS	8.8%	17.3%	40.0%
	5.9%	17.3%	40.0%
OPERATING BOARD OF DIRECTORS	**64.7%**	**100.0%**	**90.0%**
	38.2%	**61.5%**	**80.0%**
CHAIRMAN	41.2%	**82.7%**	**90.0%**
	26.5%	**69.2%**	**90.0%**
CEO	14.7%	**96.2%**	40.0%
	0.0%	**69.2%**	10.0%
SOLE CEO	35.3%	0.0%	10.0%
	26.5%	0.0%	0.0%
EXECUTIVE COMMITTEE	5.9%	0.0%	**100.0%**
	5.9%	0.0%	**90.0%**
GENERAL MANAGER	20.6%	36.5%	**70.0%**
	5.9%	28.8%	**70.0%**
MANAGING COMMITTEE	2.9%	7.7%	**60.0%**
	2.9%	7.7%	**50.0%**
THIRD PARTIES	5.9%	32.7%	40.0%
	5.9%	32.7%	40.0%

*For each governance body, percentages indicate existence (white cell) and functioning (grey cell). Percentages of 50% and more are indicated in bold.

Archetype 1. “Active owners and …?”.

Archetype 1 is the simplest one and is featured by 35.4% of non-family SMEs. The shareholders’ meeting is always present by law and is actually utilized in about two thirds of cases (64.7%).

A few other bodies are frequently present at board level, but they do not appear to be very much used. It may be the “sole” CEO, present in 35.3% of companies; in three quarters of the cases in which it is there, it is also functioning (26.5%). Alternatively to the sole CEO (that is in all the other cases: 64.7%,) there is a board, but it is functioning in 38.2% of non-family SMEs; two third of these boards have a chairman, existing in 41.2% but utilized in 26.5% of cases. Other bodies’ presence is quite low (with the exception of the general manager, present in 20.6% but actually used only in 5.9% of companies).

The high difference in functioning percentages between the shareholders’ meeting and the other bodies might reflect a situation in which the board and the Chairman or the sole CEO just implement owners’ will. In other words, the shareholders’ meeting might somewhat “substitute” the other bodies.

Archetype 2. “Active ownership and board in a single company”.

This is the most common archetype in non-family firms. It is present in 54.2% of cases and is composed by:

- the shareholders’ meeting, always present and very often functioning (86.5% of companies);
- the BOD of the operating company (always present, also utilized in 61.5% of cases);
- the Chairman, existing in 82.7% of companies and used in over two-thirds (69.2%), and the CEO, almost always present and functioning with the same frequency as the Chairman (with whom it might also overlap).

It can be noticed that this archetype features a higher articulation as it includes more cases of holding, general managers and third parties with respect to archetype 1. And, in general, given the higher utilization at ownership and board levels, governance activity seems to be more diffused among various bodies.

Archetype 3. “All active in single companies and groups”. This is the most articulated archetype at all levels including top management; it characterizes 10.4% of cases. In 40% of these cases, there is not a single company but a group with a holding firm, whose boards is always present and always utilized. The other parts of governance structures are mostly present and functioning as well, with the exception of the CEO (who, again, might also overlap with the Chairman). Percentages related to third parties are not majority ones, but reach 40% for both existence and functioning.

Archetypes of Governance structures in family SMEs.

Governance structures' archetypes for family SMEs are represented in table 4; again, they are ordered according to their articulation.

Table 4. Archetypes of Governance structures in family SMEs*

Archetype	**1**	**2**	**3**	**4**	**5**
Number of firms	123	79	143	76	29
Percentage	27.3%	17.6%	31.8%	16.9%	6.4%
FAMILY COUNCIL	26.8%	**50.6%**	0.7%	**100.0%**	24.1%
	23.6%	45.6%	0.0%	**100.0%**	17.2%
SHAREHOLDERS' MEETING	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	41.5%	21.5%	**69.9%**	**81.6%**	**65.5%**
HOLDING BOARD OF DIRECTORS	0.0%	2.5%	7.0%	6.6%	31.0%
	0.0%	1.3%	4.9%	6.6%	31.0%
OPERATING BOARD OF DIRECTORS	0.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	0.0%	13.9%	43.4%	40.8%	**62.1%**
CHAIRMAN	0.0%	49.4%	**97.9%**	**93.4%**	**82.8%**
	0.0%	3.8%	**91.6%**	**80.3%**	**65.5%**
CEO	0.0%	**83.5%**	**90.2%**	**96.1%**	**72.4%**
	0.0%	22.8%	**64.3%**	**76.3%**	**65.5%**
SOLE CEO	**100.0%**	0.0%	0.0%	0.0%	0.0%
	77.2%	0.0%	0.0%	0.0%	0.0%
EXECUTIVE COMMITTEE	2.4%	3.8%	4.2%	13.2%	13.8%
	1.6%	3.8%	4.2%	13.2%	13.8%
GENERAL MANAGER	14.6%	11.4%	22.4%	19.7%	**96.6%**
	5.7%	5.1%	15.4%	15.8%	**93.1%**
MANAGING COMMITTEE	4.9%	1.3%	5.6%	10.5%	**51.7%**
	4.1%	1.3%	4.2%	9.2%	**51.7%**
THIRD PARTIES	17.1%	2.5%	23.1%	44.7%	**93.1%**
	14.6%	2.5%	23.1%	42.1%	**93.1%**

*For each governance body, the two percentages indicate existence (white cell) and functioning (grey cell). Percentages of 50% and more are indicated in bold.

Archetype I. “Single leader”. This is family firms’ simplest archetype, present in 27,3% of companies, where the shareholders’ meeting is always there but it is actually used in less than half the cases (41.5%). Actually, the family council is existing in 26.8% and utilized in 23.6% of companies.

The stronger body in this archetype is the “sole” CEO, always present, and almost always functioning (77.2%). Presence of the other bodies is very small, with limited exceptions for the general manager (whose role might be played by the sole CEO) and third parties.

Archetype 2. “Family council over official collective bodies”.

This archetype accounts for 17.6% of cases.

The stronger body appears to be the family council, present in half companies (50.6%) and almost always utilized (45.6%). The family council might partially act as a substitute of the shareholders’ meeting (actually used in 21.5% of cases) but also of other bodies like the board of directors (which is also there in all cases, but is functioning only in 13.9%).

The Chairman and CEO are quite frequent (49.4% and 83.5% respectively) but not much used (3.8% and 22.8%, respectively)

All other bodies feature a very low presence.

Archetype 3. “Active ownership and board in a single company”. Archetype 3 is quite similar to archetype 2 in non family-firms (and is the most common archetype within its sub-set of companies as well, as it accounts for 31.8% of cases). Particularly, the main bodies that compose it are the same as in non-family firms, that is shareholders’ meeting, operating board, Chairman and CEO, but they feature lower percentages of actual utilization; only the Chairman is more frequently present and functioning in family firms than in non-family firms.

With respect to archetype 1 and 2 of family firms, archetype 3 features a prevalence and a higher utilization of official bodies. The family council is almost absent and never used; the shareholders’ meeting is utilized in 69.9% of cases; the board of the operating company plays an actual role in less than half companies (43.4%); the Chairman and CEO are mostly frequent (97.9% and 90.2% respectively) and functioning (91.6% and 64.3% respectively) with prevalence of the former; again, overlaps are possible.

Other bodies feature a very small presence, with partial exception for the general manager (existing in 22.4% but functioning in 15.4% of cases) and third parties (present and utilized in 23.1% of companies).

Archetype 4. “Active ownership, board and unofficial bodies in a single company”. This archetype accounts for 16.9% of cases. It is quite similar to archetype 3 but for a greater articulation due to a higher utilization of the family council and third parties. Particularly, the family council is always present and used and might partially substitute the board of directors, which is always there, but is functioning only in 40.8% of cases.

Archetype 5 “All active, both official and unofficial bodies, in single companies and groups”. This is the most articulated archetype, including governance bodies at all levels; particularly, holding boards, top management bodies and third parties are much more utilized than in previous archetypes. This one accounts for 6,4% of cases and is quite similar to archetype 3 in non-family firms, with two basic differences. First, in one fourth of family businesses featuring the archetype a family council exists and functions. Secondly, all bodies are less present and also less used than in non-family firms, with exception of the CEO and, to a lesser extent, of the general manager (but again, overlapping between Chairman, CEO and general manager might mitigate this difference).

Test of Hypothesis 1.

In non-family firms, the hypothesis was partially verified (see table 5 for data).

Companies with increasingly articulated archetypes feature increasing turnover and employees, but not an increasing number of shareholders.

This might question the assumption that also SMEs must afford agency costs. But, as part of the hypothesis is verified, it might also be due to the fact that non-family firms are used to addressing separation between ownership and management. So it could be natural for them to articulate governance structures to cope with larger size and not with increasingly fragmented ownership, especially beyond a certain number of owners: to this regard it has to be noticed that, even in the simplest archetype featured by the smallest companies, the average number of owners is quite high (5.9).

Table 5. Test of hypothesis 1 for non-family SMEs

Archetype		**1**	**2**	**3**
Number of firms		34	52	10
Percentage		35.4%	54.2%	10.4%
SALES (000/EURO)	Mean	4,777.7	10,025.4	16,609.5
	Std. Dev.	3,169.7	1,728.6	6,239.9
EMPLOYEES	Mean	21.9	56.0	151.5
	Std. Dev.	18.4	10.7	44.4
N. OF SHAREHOLDERS	Mean	5.9	7.1	31.5
	Std. Dev.	6.1	4.7	12.8

T values for means differences*

SALES	**Archetype 1**	**Archetype 2**	**Archetype 3**
Archetype 1	**-**	**43.724**	**43.724**
Archetype 2	**43.724**	**-**	**28.804**
Archetype 3	**43.724**	**28.804**	**-**
EMPLOYEES	**Archetype 1**	**Archetype 2**	**Archetype 3**
Archetype 1	**-**	**18.013**	**15.938**
Archetype 2	**18.013**	**-**	**6.624**
Archetype 3	**15.938**	**6.624**	**-**
N. OF SHAREHOLDERS	**Archetype 1**	**Archetype 2**	**Archetype 3**
Archetype 1	-	1.589	1.101
Archetype 2	1.589	-	0.440
Archetype 3	1.101	0.440	-

* **All T values** in bold feature a $p<0.005$.

In family firms, the hypothesis is also partially verified (see table 6 for data)

More articulated archetypes also correspond to higher turnover and number of employees (even if employees' trend is not regular). As it happened in non-family firms, greater articulation of governance archetypes cannot be associated with a larger number of shareholders. But the larger the number of family owners, the more articulated the archetype. So, it seems to be family ownership, and not ownership *tout court*, to ask for more articulated governance structures. This might be due to the fact that family owners tend to play a larger variety of roles than owners of non-family firms, which could foster activation of governance bodies at different levels. In other words, agency costs stemming from the family nature of the company (Schulze et al,

2001) might require special monitoring of family owners as long as their number grows, which would suggest that agency costs are not lower than in non-family firms.

Table 6. Test of hypothesis 1 for family SMEs

Archetype		**1**	**2**	**3**	**4**	**5**
Number of firms		123	79	143	76	29
Percentage		27.3%	17.6%	31.8%	16.9%	6.4%
SALES (000/EURO)	Mean	5,879.2	8,544.2	15,029.8	17,760.8	35,482.6
	Std. Dev.	14,352.7	9,917.3	17,578.4	22,853.8	43,702.0
EMPLOYEES	Mean	45.9	39.7	79.9	77.0	143.2
	Std. Dev.	68.3	69.1	87.4	79.4	132.2
N. OF SHAREHOLDERS	Mean	2.9	3.0	5.4	4.4	4.3
	Std. Dev.	0.9	1.3	5.3	2.3	4.6
FAMILY SHAREHOLDERS	Mean	2.4	2.8	3.1	4.0	4.2
	Std. Dev.	0.9	1.2	1.9	1.9	4.3

T values for means differences*

SALES	**Archetype 1**	**Archetype 2**	**Archetype 3**	**Archetype 4**	**Archetype 5**
Archetype 1	-	**4.736**	**8.162**	**6.733**	**9.172**
Archetype 2	**4.736**	-	**8.162**	**6.733**	**9.172**
Archetype 3	**8.162**	**8.162**	-	**6.732**	**9.172**
Archetype 4	**6.733**	**6.733**	**6.732**	-	**9.172**
Archetype 5	**9.172**	**9.172**	**9.172**	**9.172**	-
EMPLOYEES	**Archetype 1**	**Archetype 2**	**Archetype 3**	**Archetype 4**	**Archetype 5**
Archetype 1	-	**6.240**	**6.176**	**7.474**	**9.097**
Archetype 2	**6.240**	-	**6.105**	**7.417**	**9.035**
Archetype 3	**6.176**	**6.105**	-	**7.418**	**9.043**
Archetype 4	**7.474**	**7.417**	**7.418**	-	**8.945**
Archetype 5	**9.097**	**9.035**	**9.043**	**8.945**	-
N. OF SHAREHOLDERS	**Archetype 1**	**Archetype 2**	**Archetype 3**	**Archetype 4**	**Archetype 5**
Archetype 1	-	0.310	**3.736**	0.368	1.314
Archetype 2	0.310	-	1.852	0.356	0.679
Archetype 3	**3.736**	1.852	-	1.668	0.630
Archetype 4	0.368	0.356	1.668	-	0.430
Archetype 5	1.314	0.679	0.630	0.430	-
FAMILY SHAREHOLDERS	**Archetype 1**	**Archetype 2**	**Archetype 3**	**Archetype 4**	**Archetype 5**
Archetype 1	-	0.467	**4.213**	**2.822**	**3.085**
Archetype 2	0.467	-	**2.058**	1.550	1.617
Archetype 3	**4.213**	**2.058**	-	**4.811**	**5.382**
Archetype 4	**2.822**	1.550	**4.811**	-	**4.524**
Archetype 5	**3.085**	1.617	**5.382**	**4.524**	-

* **All T values** in bold feature a $p<0.005$.

Test of Hypothesis 2a

Hypothesis 2a was partially verified as well. Table 7 reports its test, which was conducted on the average governance structures featured by family and non-family firms.

Table 7. Test* of hypothesis 2a**

	Family firms	Non-family firms	T value
N. of firms	450	96	
Percentage	82.4%	17.6%	
FAMILY COUNCIL	32.4%	0%	
SHAREHOLDERS MEETING	55.3%	79.2%	**5.005**
HOLDING BOARD OF DIRECTORS	4.9%	15.6%	**2.794**
OPERATING BOARD OF DIRECTORS	27.1%	55.2%	**5.117**
CHAIRMAN	47.6%	56.3%	1.557
CEO	41.6%	38.5%	0.550
SOLE CEO	21.1%	9.4%	**3.313**
EXECUTIVE COMMITTEE	5.6%	11.5%	1.723
GENERAL MANAGER	16.0%	25.0%	1.897
MANAGING COMMITTEE	7.6%	10.4%	0.852
THIRD PARTIES	24.9%	24.0%	0.193

* All T values in bold feature a $p<0.005$.

**For each governance body, percentages indicate its functioning.

A few governance bodies resulted to be less utilized in family firms than in non-family firms, and particularly the shareholders' meeting, the holding company board and the operating company board. The same differences were found out when comparing family business archetypes with non-family ones (respectively, number 3 with number 2 and number 5 with number 3).

Contrary to test of hypothesis 1, this might lead to suppose that agency costs are somewhat lower in family firms; but it could be also due to a greater inertia of family owners. They might be aware of agency problems, but family involvement in agency problems could make it more difficult to address them, especially by working on the upper part of the governance structure.

Viceversa, the sole CEO appeared to be less functioning in non-family firms, maybe because he/she is less frequently a controlling owner in this kind of companies, where the average number of owners is higher than it is in family business (7,8 versus 4,1).

Test of Hypothesis 2b

Hypothesis 2b is partially verified, especially as far as family councils are concerned: see table 8 for testing.

In archetypes 1 and 3 the hypothesis is not verified (in archetype 3 the family council is absent). Considering all family firms and archetype 1, the family council is the second collegial functioning body after the shareholders' meeting.

In archetypes 2 and 4, the family council is more utilized than all other bodies. This might be due to a substitution effect (Charkham, 1994, Rediker and Seth, 1995), by which the family council might take over some of the tasks delegated to official bodies. The substitution effect might support the relational perspective; as agency problems are lower and trust and shared vision are critical factors for family business success, governance bodies with a relational rather than a contractual purpose could be preferred. As to third parties, they are declared to be used more than any other body (except the general manager) only in archetype 5, maybe because they gave an important contribution to build up the governance archetype. In other archetypes and in the overall sub-set of non-family firms, functioning percentages are only higher than those of minor bodies, and particularly of managing committees, general managers (except in archetypes 2 and 3), executive committees (with exception of archetype 2) and holding boards (but only in the whole sub-set and in archetype 3).

DISCUSSION AND CONCLUSIONS

Synthesis of main findings

This paper intended to identify archetypes of governance structures, and it offers for the first time a statistically significant picture of Italian small and medium-sized firms, showing how their governance structures are articulated. Results show that archetypes may be quite articulated even in SMEs, while they are generally supposed to feature very simple structures in governance literature. It also emerged that there is always a gap between existence and actual utilization, which confirms that governance bodies may be present, but not functioning ones.

Archetypes of governance structures have been analyzed in a twofold theoretical perspective: agency and relational.

Consistently with the agency perspective, SMEs increase the existence and actual use of governance bodies as long as their size gets larger. Going along this evolutionary path, they seem first to work on bodies at ownership and especially at board level, and then to introduce bodies at top management level. Likely, when only the board, Chairman and CEO exist and function they can be expected to encompass the tasks that, in further stages, will be delegated to separate top management bodies.

Increasing size resulted to be the main driver of governance structures' articulation in non family firms. In family firms another drive exists, that is increase in number of family owners. Fragmentation of total owners is not a driver in either sub-set of companies. All this seems to support those studies which maintain that family ownership might bring about additional agency costs.

The relational perspective is supported, as some governance bodies are utilized less in family firms than in non-family firms; but it could also be a matter of difficulty to address agency problems connected to family rather than a matter of less agency problems due to family.

In family businesses, support to the relational approach is also given by the presence and importance of the family council, on which our study offers a few insights. First, it shows that family councils do exist also in SMEs. Second, it highlights that also in these companies family councils may sometimes substitute the shareholders' meeting, consistently with the "classical" literature on large family business governance (Gersick et al, 1997; Lank and Ward, 2000; Lansberg, 1999; Ward, 1991). In fact, in some archetypes (see 1, 2 and 5 in table 4) the family council is actually used in almost all the cases in which it exists, while the shareholders' meeting features a large gap between existing and functioning percentages. This suggests that this gap might be filled by the family council. Third, our findings also show that the family council might also fill an analogous gap between existing and functioning percentages of boards of directors (see archetypes 2 and 4 in table 4). In this case, family councils might be much more involved in company operations than in the "classical" studies mentioned above.

Table 8. Test of hypothesis 2b*

Functioning % in each archetype	Number of firms	Family Council	Shareholders' Meeting	Holding Board of Directors	Operating Board of Directors	Chairman	CEO	Sole CEO	Executive committee	General Manager	Managing committee	Third parties
Family firms	450	32.4%	55.3%	4.9%	27.1%	47.6%	41.6%	21.1%	5.6%	16.0%	7.6%	24.9%
Archetype 1	123	23.6%	41.5%	0.0%	0.0%	0.0%	0.0%	77.2%	1.6%	5.7%	4.1%	14.6%
Archetype 2	79	45.6%	21.5%	1.3%	13.9%	3.8%	22.8%	0.0%	3.8%	5.1%	1.3%	2.5%
Archetype 3	143	0.0%	69.9%	4.9%	43.4%	91.6%	64.3%	0.0%	4.2%	15.4%	4.2%	23.1%
Archetype 4	76	100.0%	81.6%	6.6%	40.8%	80.3%	76.3%	0.0%	13.2%	15.8%	9.2%	42.1%
Archetype 5	29	17.2%	65.5%	31.0%	62.1%	65.5%	65.5%	0.0%	13.8%	93.1%	51.7%	93.1%

T value of the % difference between FAMILY COUNCIL and other bodies*	Number of firms	Family Council	Shareholders' Meeting	Holding Board of Directors	Operating Board of Directors	Chairman	CEO	Sole CEO	Executive committee	General Manager	Managing committee	Third parties
Family firms	450	0.000	**7.110**	**11.341**	1.752	**4.683**	**2.843**	**3.871**	**10.944**	**5.867**	**9.821**	**2.515**
Archetype 1	123	0.000	**3.050**	**6.160**	**6.160**	**6.160**	**6.160**	**9.974**	**5.496**	**4.102**	**4.622**	1.796
Archetype 2	79	0.000	**3.311**	**7.715**	**4.637**	**6.960**	**3.110**	**8.133**	**6.960**	**6.616**	**7.715**	**7.325**
Archetype 3	143	0.000	**18.236**	**2.713**	**10.462**	**39.511**	**16.061**	0.000	**2.503**	**5.099**	**2.503**	**6.550**
Archetype 4	76	0.000	**4.143**	**32.851**	**10.503**	**4.323**	**4.857**	0.000	**22.396**	**20.133**	**27.370**	**10.223**
Archetype 5	29	0.000	**4.282**	1.244	**3.926**	**4.282**	**4.282**	**2.458**	0.363	**8.981**	**2.964**	**8.981**

T value of the % difference between THIRD PARTIES and other bodies*	Number of firms	Family Council	Shareholders' Meeting	Holding Board of Directors	Operating Board of Directors	Chairman	CEO	Sole CEO	Executive committee	General Manager	Managing committee	Third parties
Family firms	450	**2.515**	**9.802**	**8.781**	0.760	**7.279**	**5.393**	1.348	**8.382**	**3.326**	**7.256**	0.000
Archetype 1	123	1.796	**4.907**	**4.592**	**4.592**	**4.592**	**4.592**	**12.660**	**3.843**	**2.347**	**2.895**	0.000
Archetype 2	79	**7.325**	**3.836**	0.584	**2.664**	0.455	**4.019**	1.432	0.455	0.834	0.584	0.000
Archetype 3	143	**6.550**	**8.997**	**4.593**	**3.728**	**16.248**	**7.734**	**6.550**	**4.839**	1.658	**4.839**	0.000
Archetype 4	76	**10.223**	**5.482**	**5.606**	0.165	**5.245**	**4.577**	**7.435**	**4.217**	**3.738**	**5.012**	0.000
Archetype 5	29	**8.981**	**2.758**	**6.337**	**3.053**	**2.758**	**2.758**	**19.786**	**9.981**	0.000	**3.977**	0.000

* All T values in bold feature a p<0.005.

Limitations

As mentioned above, a first limitation of this study is the redemption rate, which is quite low if compared with North-American and other countries' surveys, but it is in line with the rates which are normally obtained in Italy.

A second problem is the study has been conducted on Italian SMEs; studies on other countries might show different archetypes of governance structures and/or give different results to hypotheses' testing, due also to the influence of national culture. Particularly, the very close relationship between family and firm that is typical of the Italian context might give unofficial governance bodies like the family council a superior importance with respect to other countries (Corbetta and Montemerlo, 1999).

Another limitation is related to the analysis of governance structures. To keep the questionnaire not too heavy for respondents, we could not ask whether the same or different people played governance roles at different levels (ownership, governance and top management) and also in different positions (Chairman, CEO, co-CEO, general manager), which is typical of family firms. Presence of the same people in various bodies might question our findings about the articulation of archetypes.

Implications for practice

Studies on small and medium-sized companies often highlight how the internal and external environment is getting harder and harder, which requires SMEs to strengthen their governance structure and, particularly, family companies to adopt a more "professional" relationship between family and company.

Our study shows that, on one side, Italian SMEs do make efforts to keep their governance structures be consistent with their size and ownership structure. On the other side, especially in family firms, the upper part of the "official" structure (shareholders meetings and boards of directors) is still not utilized in many cases. This is likely due to the fact that, in this kind of firms, ownership is generally concentrated (3,1 on average) and very much involved in the company (75% on average). But in the future, ownership complexity will increase: the number of shareholders is expected to grow, bringing about more non-managing owners; at the same time, a number of family owners' exit processes and of non-family owners' entry processes will have to be managed (Gnan and Montemerlo, 2001). Consequently, the need to govern agency relationships through a more active role of shareholders' meetings and boards could increase as well.

But to cope with this need might be problematic, especially in companies where the family council cuts across the official structure, replacing the shareholders' meeting and the board and, by this mean, likely mixing up company and family issues. In these cases, the family council might represent a strength point from a relational point of view, creating trust and shared vision in the owning family. But it might also be a weakness point as it could lead family owners to neglect agency problems: for instance, mixing family and company through the family council might not be good to govern increasingly complex family ownership, and particularly ownership groups composed by both managing and non-managing shareholders; also, it might make the company less attractive to qualified contributions of external actors like managers and partners, who might feel excluded from company governance.

So, the big challenge for owning families and their leaders could be to use unofficial bodies like the family council in a complementary way rather than alternatively to official corporate ones (Corbetta and Montemerlo, 2003). Given their influence, this is a big challenge for third parties as well.

Directions for Future Research

A number of issues could be further explored in our study. We find some of them to be particularly interesting.

A first one concerns the substitution effect that was posited for family councils over other bodies. To go deeper and verify it, it would be useful to analyze what sort of decisions are taken by various official and unofficial governance bodies.

Another challenging issue is relation between governance structures and company performances, which has not been identified so far but would be fundamental to assess different archetypes.

Another topic is agency costs and their measures, which would be worth working on to go deeper into the open issue of whether these costs are lower or not in family firms.

A fourth issue concerns archetypes' structure. As stated above, it was not possible to analyze such phenomena as Chairman and CEO duality, presence of co-CEOs and overlapping of Chairman, CEO and general managers. On the contrary, they would be worth further exploration.

Finally, it would be interesting to go deeper into group structures. Non-family firms seem to be more often organized in groups, as it can be noticed by the higher presence of holding company boards of directors, probably because they are often owned by foreign companies. Previous studies have reported a higher incidence of groups (Bank of Italy, 1994), due also to the fact that the same shareholders can own various companies without a common holding, thereby giving origins to *de facto* groups which are hard to be caught by surveys. As groups can represent an important tool to manage relationship between family ownership and company, a more accurate picture of them might be very useful.

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