Relationship between Governance, Performance and Solvency: An Empirical Test in Italian Unlisted Family SMEs

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ABSTRACT

The Italian manufacturing sector is largely made up of family businesses where the founder-entrepreneur is the main asset to guarantee success. The importance of these corporate categories has led many experts to study the characteristics of governance, especially from the perspective of agency theory. This work belongs to the typical studies that analyze the relationships between governance and economic-financial performance in family businesses, but it differs from the others because: 1) it analyzes a sample of small and medium-sized unlisted companies; 2) businesses are located in a region, Campania, which is suffering the economic crisis more than other regions. In particular, this research aims at demonstrating the critical importance of the resource represented by the founder-entrepreneur, both in terms of profit performance and in terms of solvency: at the time of succession it is therefore necessary that the power of command is given to a descendant who can make specific contributions to the process of value creation.

Keywords: Campania, Governance, Performance, Solvency, Succession

1. INTRODUCTION

The Italian manufacturing sector is largely made up of family businesses where the founder-entrepreneur is the main asset to guarantee success. The importance of these corporate categories has led many experts to study the characteristics of governance, especially from the perspective of the agency theory.

In fact, it is widely believed that the coincidence between ownership, governance and management may solve the issues connected with information asymmetries, such as the moral hazard and the adverse selection, typical of governance, especially from the perspective of the agency theory.

DOI: 10.4018/ijsesd.2013100101
of the widespread ownership companies. As a result, the economic-financial performance of the family businesses are expected to be better than that of widespread ownership companies.

Lots of empirical studies have therefore concentrated on the relationship between family businesses’ governmental and managerial structure and economic-financial performance in order to demonstrate the theoretical assumptions about the edge of these companies on the others.

However, it must be stressed that, although most of the existing companies are unlisted, these studies have focused on samples of listed companies. This is particularly true of Italy, where family businesses are culturally closed to the risk capital market. According to some experts, it is questionable whether to extend the results of this research to unlisted family businesses, because of the considerable differences between the listed and the unlisted companies’ governance.

Like the largest part of the studies on family businesses, this work analyzes the relationships between governance and economic-financial performance, but it differs from the others because:

1. It analyzes a sample of small and medium-sized unlisted companies;
2. Businesses are located in a region, Campania, which is suffering the economic crisis more than other regions.

The article is divided into six sections besides the introduction. The following section discusses the main theoretical models and empirical studies concerning the relationship between the governance structure of family businesses and their economic and financial performances, while the third section describes the objectives and the research hypotheses. In the fourth section we find a description of the sample, of the methodology and of the analysis model. In the fifth and sixth sections we discuss the results of the descriptive and regression analyses, while in the final part we draw conclusions about the assumptions made.

2. THEORIES AND EMPIRICAL EVIDENCE ABOUT THE RELATIONSHIP BETWEEN GOVERNANCE, PERFORMANCE AND SOLVENCY IN FAMILY BUSINESSES

Corporate governance, according to a largely shared vision, can be defined referring to two different levels: the internal level, as a system of decision-making power allocation, designed to overcome the impossibility of clinching complete deals between the various stakeholders; the external level, as a set of rules, institutions and procedures designed to protect investors from the opportunistic behaviour of entrepreneurs and managers, ensuring a reasonable return of the investment and influencing the activity of the entrepreneurs themselves through a series of mechanisms and incentives (Mustilli, 2008, Cadbury, 1992; Monks, Minow, 1995). The common element between the internal and the external perspective is the object, represented by the corporate stakeholders; and the goal, which lies in the promotion of fairness, transparency and accountability (Mustilli & Mazzoni, 2007). The mechanisms of the corporate governance - I mean the tools that make it possible to implement or condition the two above-mentioned perspectives- would be based on the type of ownership, the board of directors’ structure and organization, on the nature of the incentives offered to the management and on the system of controls.

In the agency theory perspective, the governance structures are crucial in solving the problems of moral hazard and adverse selection associated with the information asymmetries between “principal-agent” and “principal-principal” that are particularly evident in widespread ownership companies (Jensen & Meckling, 1976, Fama & Jensen, 1983).

A good governance, which involves solving relational problems with internal and external stakeholders through a correct use of resources, is a means to create value and to distribute it equitably among stakeholders.
On Value and Price of Environmental Resources
(2014). *Sustainability Science for Social, Economic, and Environmental Development* (pp. 24-32).
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