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Governance Systems in Family SMEs: The Substitution Effects between Family Councils and Corporate Governance Mechanisms

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The main objective of this paper is to explore the role of family councils vis-à-vis corporate governance mechanisms. Particularly, the paper explores whether family councils perform only their distinctive family governance role or if they also substitute for the roles performed by corporate governance control mechanisms. Based on a sample of 243 Italian family SMEs, our research findings show that the family council partially substitutes the shareholders' meeting and the board of directors in playing their respective corporate governance roles of ownership and monitoring. These findings are interpreted in the light of both agency and relational perspectives.

Introduction

This paper considers governance systems in family small and medium-sized enterprises (SMEs), *governance system* meaning the set of governance mechanisms—both individual and collective—in charge of directing and controlling an organization (Charkham 1994).

Corporate governance systems are typically hierarchical (Johnson and Scholes 2002), and they are based on agency theory assumptions about the need for contractually assigning distinct governance roles to governance mechanisms at different levels (Jensen and Meckling 1976). There are three basic corporate governance roles and mechanisms from this perspective: the ownership role, the monitoring role, and the leading role. The shareholders' meeting plays the ownership role of control over the board of directors (Charkham and Simpson 1999); the shareholders' meeting also delegates to the board a monitoring role over the CEO and his/her team (Charkham and Simpson 1999; McNulty and Pettigrew 1999); and the CEO is assigned the role of leading the company (Fayol 1949; Finkelstein and Hambrick 1996; Minichilli, Corbetta, and MacMillan 2010). Every role implies different tasks to be performed by each mechanism (Huse 2003; Zahra and Pearce 1989).

Corporate governance systems can be quite articulated, and not only in large firms, but in SMEs as well (Brunninge, Nordqvist, and Wiklund 2007; Gnan and Montemerlo 2006; Gubitta and Gianecchini 2002; Zahra, Neubaum, and Huse 2000). Still, and despite

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most firms being small and medium-sized and family-owned, the topic of governance in family SMEs is relatively recent, and it mostly focuses on boards of directors (BODs). In particular, studies show that the BODs of these firms have peculiar characteristics (Corbetta and Tomaselli 1996; Fiegener 2005; Forbes and Milliken 1999; Pieper, Klein, and Jaskiewicz 2008) and they may contribute strongly to value creation (for example Castaldi and Wortman 1984; Huse 2000; Van den Heuvel, Van Gils, and Voordeckers 2006).

Our study takes a broader perspective, as it investigates family SMEs' governance systems and their various mechanisms at both the corporate level—that is, looking at the agency-based hierarchy—and the family level. Governance systems, mechanisms, and roles are relevant concepts at the family level as well as in firms, as the family has to be directed and controlled to protect both its intangible assets (unity, trust, values, and so on) and its tangible ones; when the tangible assets include company ownership, the focus of family governance is the relationship between family and business. The most important family governance mechanism is the family council, that is, regular gatherings of adult family members (sometimes all the family members; at other times a group of family representatives) entitled to design and manage the family–firm relationship in a certain generation and to plan it for the next generation (Carlock and Ward 2001; Gallo and Kenyon 2004).

The family council is generally analyzed from a relational perspective. Particularly, stewardship studies highlight that family councils facilitate social interaction, which develops a common sense of stewardship and consequently unity in family ownership and the commitment of each individual member to protect the business continuity and pursue the family owners' common interests (Mustakallio and Autio 2001; Salvato 2002). This is one of the few studies on family councils in SMEs, as they are generally analyzed in the context of large families owning large groups (Gnan and Montemerlo 2006; Suàre and Santana-Martìn 2004).

This is also one of the few studies that examine the interaction between corporate governance mechanisms and family governance mechanisms. Particularly, the paper's main objective is to explore the roles and tasks of family governance mechanisms like family councils vis-à-vis corporate governance mechanisms such as shareholders' meetings, BODs, and chief executive officers (CEOs). Based on an exploratory survey of 243 Italian family SMEs, we found that a substitution effect operates and makes the family council exceed its family governance role by taking on some roles of the corporate governance hierarchy, notably some ownership roles of the shareholders' meeting and some monitoring roles of the board of directors. The findings are interpreted in the light of both relational theories and agency theory, joining the theoretical conversation on the importance—to which scholars are more and more sensitive—of matching the relational perspective of stewardship and the contractual one of agency to go deeper into shedding light on family business governance (Braun and Sharma 2007; Corbetta and Salvato 2004; Dyer 2006; Miller and Le Breton-Miller 2006). The exploratory nature of the study is mainly due to the survey's low response rate (and also to some missing information about the overlapping of governance roles played by individual family members that is typical of SMEs and that will be addressed in the discussion and limitations sections). Also, in Italy BODs are not mandatory, as they are in other countries, thus limiting the findings' generalizability. However, as not much empirical evidence is available on family and corporate governance in SMEs, we found that even an exploration could make a contribution, and so it was worth pursuing with the available data.

As regards contributions, the paper makes empirical as well as theoretical and practical ones.

Empirically, the paper contributes to a deeper understanding of governance in family SMEs, as it explores governance systems with regard to their family and corporate articulation, the roles that various mechanisms play, and the extent to which they play them.

Theoretically, the paper contributes to the conversation on agency and relational perspectives, showing that they complement each other. In fact, on one side, corporate governance systems are agency-based in terms of the hierarchical mechanisms they feature and the roles these mechanisms are assigned legally and contractually. On the other side, we suggest that the family council might intervene in the corporate governance hierarchy and replace part of its control roles for relational, stewardship-based reasons.

A practical contribution of the study is that it reflects on the possible pros and cons of the substitution of corporate governance mechanisms by the family council and on the implications for the family and the firm; thereby, it may help SME-owning families design and implement their governance systems.

The paper proceeds in four sections. First, the reference theories and concepts are presented and the hypotheses are derived. In the second section we describe the research methods and the sample used to test the hypotheses. The main findings are shown in the third section. In the fourth section we discuss these findings, reflecting on the limitations, implications for family firms, and directions for future research.

Agency and Relational Perspectives: Literature Review and Hypotheses

In this section we present our theoretical framework and derive three hypotheses on the relations between the family council and some corporate governance mechanisms.

The Agency-Based Contractual Perspective

Agency theory is one of the literature mainstreams that looks at corporations from a contractual perspective. The key issue is how to align the interests of owner–principals with those of manager–agents, overcoming the agency threat that brings about various agency costs for performing ad hoc monitoring activities and operating systems (Eisenhardt 1989; Fama 1980; Fama and Jensen 1983; Jensen and Meckling 1976). This is achieved through a clearly defined principal–agent hierarchy of corporate governance mechanisms with distinct roles. The shareholders' meeting, the BOD, and the CEO are the key corporate governance mechanisms in this hierarchy, and they take on three basic corporate governance roles, each one with specific tasks. First, the shareholders' meeting has an ownership role of shareholders' control over the board; that is, the main ownership tasks include the choice of board members and the control and evaluation of the board and its performance (Charkham and Simpson 1999). Second, the BOD is assigned a monitoring role on behalf of the owners, which implies control over strategy and management (Charkham and Simpson 1999; McNulty and Pettigrew 1999). So the monitoring tasks include, in essence, choosing the CEO, controlling and evaluating the CEO and his/her team, taking strategic decisions, and approving strategic plans (Hillman, Cannella, and Paetzold 2000; Hillman and Dalziel 2003; Johnson, Daily, and Ellstrand 1996; Nicholson and Kiel 2004). Third, the CEO is delegated his/her own role of leading the firm by elaborating the strategy and by coordinating and controlling how the organization executes it, which includes such tasks as choosing and evaluating managers, formulating strategic plans, and formulating and controlling budgets to organize and monitor strategy implementation on an annual basis (Fayol 1949; Finkelstein and Hambrick 1996; Minichilli, Corbetta, and MacMillan 2010). External corporate governance mechanisms, such as regulations, markets for managers, and markets for control, are also considered by agency theory, but they are typical of public corporations and they might be either absent or not developed in SMEs (Fama and Jensen 1983).

Various agency scholars (for example Eisenhardt 1989; Fama and Jensen 1983; Jensen and Meckling 1976) argue there are no relevant agency costs in owner-managed firms, that is, in many family SMEs (Gersick et al. 1997; Ward 1987 and 2004). In fact, in these firms the owners' and managers' roles are often played by the same people, which naturally aligns their interests and makes the principal–agent hierarchy much less defined, mixing up different governance roles and tasks (Fama and Jensen 1983, p. 307). Nevertheless, internal corporate governance mechanisms remain subject to agency-based norms that must be accomplished, whether such mechanisms are working or not. What is more, as soon as the company evolves from the pure "owner–manager" model, the typical agency threats reemerge, and so does the need to make the principal–agent hierarchy work. This happens, for instance, in family firms (including SMEs) when nonfamily managers are hired, or when ownership becomes differentiated between managing and nonmanaging family owners with generational transitions (Chua, Chrisman, and Sharma 2003; Corbetta and Montemerlo 2003; Gnan and Montemerlo 2006; Gubitta and Gianecchini 2002).

The family nature of firms is also traditionally assumed to reduce agency costs, as the

family relations between the key decision-making actors imply higher interest alignment and fewer information asymmetries between owners and managers. Besides, these relations develop over a long-term horizon and they are based on kinship, sentiments, trust, and reciprocal altruism, which are supposed to counterbalance the opportunistic, profit-maximizing behaviors assumed to be intrinsic by agency; all this is supposed to reduce the moral hazard and related monitoring requirements (Fama and Jensen 1983; Harvey 1999; Jones 1983; McConaughy 2000). However, other studies show that the family nature can actually bring about family-specific agency problems that may stem from asymmetric altruism (Anderson and Reeb 2003; Chrisman, Chua, and Litz 2004; Schulze, Lubatkin, and Dino 2003; Schulze et al. 2001), conflicts of interest between family members in different roles (Chrisman, Chua, and Litz 2004; Schulze et al. 2001), conflicts of interest between family and non-family members (Chrisman, Chua, and Litz 2004; Daily and Dollinger 1993; Villalonga and Amit 2006), and conflicts of interest between family (majority) and family or nonfamily (minority) shareholders (Villalonga and Amit 2006). Specific agency problems include nepotism, incongruity between the executives' and the family's goals, a lack of market discipline, self-control, adverse selection, managerial entrenchment, and moral hazard (Bruce and Waldman 1990; Buchanan 1975; Gomez-Mejia, Nuňez-Nickel, and Gutierrez 2001; Jensen 1998; Morck, Schleifer, and Vishny 1988).

In summation, agency theory still remains a reference theory for family SMEs. Not all of them are "purely" owner-managed despite their small and medium size; that is, agency issues might be sometimes, but not always, reduced, as a small or medium size can coexist with articulated ownership and management. Moreover, family-specific agency problems may exist anyway. Also, agency theory inspires the hierarchical form and the legal obligations of governance systems, regardless of size, in most countries. However, no definite conclusions have yet been reached about the "net effect" of size and family factors on the overall agency costs and on the consequent corporate governance needs. Besides, the extant research shows that corporate governance mechanisms are often held "on paper," questioning the actual efficacy of agency-based systems (Corbetta and Tomaselli 1996; Huse 2000; Melin and Nordqvist 2000). In addition, agency theory is generally acknowledged not to venture deep into the family nature of firms—which far exceeds its contractual-based logic—and particularly not to capture all the distinctive traits of family ownership and their implications for family business governance and management.

To contribute to solving such controversies, it is essential to check the extent to which corporate governance mechanisms such as shareholders' meetings, BODs, and CEOs play their agency-based control roles. In any case, agency can hardly be considered the only theoretical reference for family business governance. A relational perspective, and particularly a stewardship one, is required as a complement, and we deal with it in the following section.

The Relational Perspective

The relational perspective focuses on common interests as purposes for which human beings are intrinsically motivated and on how to accomplish them by means of governance systems that operate by a cooperative, noncontractual logic. As this logic is prominent in family firms, the relational perspective has emerged as a particularly interesting one through which to integrate agency into family business studies (Corbetta and Salvato 2004; Mustakallio and Autio 2001; Miller and Le Breton-Miller 2006).

The relational perspective encompasses various theories, such as stewardship, social capital, and resource dependence. We focus on stewardship theory, which traditionally describes agents' behavior in terms opposed to agency theory. In fact, it represents agents with cooperative and pro-organizational attitudes and with a natural propensity to align their goals with those of the principal, due to a number of conditions like intrinsic personal features, needs and motivations; identification with the company and commitment to company values; power intended as a service; a collectivistic company culture; and a participative and trust-oriented management philosophy (Donaldson and Davis 1991; Miller and Le Breton-Miller 2006; Salvato 2002). Stewardship-based values and behaviors are acknowledged to favor family firms' success in the long run (Aronoff and Ward 1992; Salvato 2002).

To develop stewardship-based values and behaviors, family governance mechanisms are fundamental, as they keep the interface

between family and business healthy by facilitating social interaction among family members. The most important family governance mechanism, as stated above, is the family council; other mechanisms may be present, especially in large and complex family groups, such as family assemblies, family committees, and family offices (Carlock and Ward 2001; Gallo and Kenyon 2004; Lank and Ward 2000; Lansberg 1999; Ward 2004). Given their limited diffusion in family SMEs, we did not consider them.

The family governance role is composed of two tasks typically assigned to family councils (Carlock and Ward 2001; Gallo and Kenyon 2004). One task relates to designing and managing the relationship between family and business in the controlling generation. The other one involves planning the family–firm relationship for the next generation: in essence, it is about planning generational transition. These two tasks encompass a number of more detailed and interdependent activities (which may take place jointly and thereby be difficult to isolate in practice), such as discussing and updating the family values; setting principles and policies about family, ownership, and business for leading and the next generation; carrying on educational and recreational initiatives for present and future family owners; managing communication within the owning family; formulating the owning family's shared vision of the family business and communicating it to the BOD; and keeping spouses, who are not owners but who groom future owners, informed about the business (Carlock and Ward 2001; Gallo and Kenyon 2004; Lansberg 1999).

In performing the mentioned tasks, family councils act as relational contexts that allow family members to express and discuss opinions, develop mutual trust, share values and visions, and translate them into collective plans and actions more effectively than might happen with corporate governance mechanisms formally regulated by law and practice, like shareholders' meetings and BODs (Habbershon and Astrachan 1997; Mustakallio and Autio 2001; Miller and Le Breton-Miller 2006). In turn, trust, shared values, and vision nurture the unity and commitment of family and nonfamily actors, considered by scholars to be key conditions for family firms' success in the long run (Gallo et al. 2001; LaChapelle and Barnes 1998).

It has to be noticed that the studies mentioned mostly analyze family councils in large families in control of large firms, showing a progressive institutionalization process of such mechanisms (Melin and Nordqvist 2007), whereas hardly any research exists on family councils in SMEs. However, the very few exploratory studies available suggest that family SMEs often make use of family councils for family governance (Gnan and Montemerlo 2006; Suàre and Santana-Martìn 2004), which makes them worth investigating for this type of company as well.

In addition, the literature suggests that, due to their relational strengths, family councils may exceed their family governance role and become involved in corporate governance (Gersick et al. 1997; Lansberg 1999; Lank and Ward 2000; Ward 1987 and 1991). This makes it essential to check which governance control roles are actually played by corporate governance mechanisms and to explore whether family councils may act as partial substitutes for these mechanisms in family SMEs as well. We maintain that substitution occurs when a governance role (like ownership) is totally or partially covered by governance mechanisms that are not the correspondingly entitled ones (for ownership, by the family council and not by the shareholders' meeting). Substitution is total if a governance role is not played at all by its entitled mechanism but by others; it is partial if a governance role is played partly by its entitled mechanism and partly by others. In our case we assume that in the presence of a family council, the corporate governance control role diminishes and that the substitution of corporate governance mechanisms by the family council can only be partial, as the family council has no legal standing and so some form of agency-based hierarchy must always be in place, at least to ratify the family council's decisions.

Hypotheses about Substitution Effects between Family Councils and Corporate Governance Mechanisms

Based on our literature analysis, we propose three hypotheses about whether family councils may partially substitute the shareholders' meeting, the BOD, and the CEO in performing their respective corporate governance control roles.

As regards the possible substitution of the shareholders' meeting by the family council, the shareholders' meeting is sometimes considered as an owners' council acting as a subset of

the broader family council. At other times, it is highlighted as an ownership control mechanism that may either formally ratify some decisions taken by the family council or in any case consult the family council before taking its governance decisions, that is, decisions about choosing, controlling, and evaluating the board and its performance (Charkham and Simpson 1999; Lansberg 1999; Lank and Ward 2000). In family SMEs, ownership is most often closely held and concentrated within the family (Gersick et al. 1997; Ward 2004), so ownership issues are closely and almost "naturally" related to family governance ones: for instance, board and company performance issues are directly connected to family wealth ones; new board members' appointment and control issues are often intertwined with the education of the next generation to govern. Moreover, SMEs' entrepreneurs hardly perceive ownership as a distinct role, as they "mix it up" with management; when they have to play the role in shareholders' meetings, they often feel "outside" the firm (Melin and Nordqvist 2000). In this context, following stewardship theory, a family council may be a better place for all the family shareholders to take corporate governance decisions, leading to partial substitution as follows:

H1a: When a family council is present, the corporate governance role of ownership played by the shareholders' meeting diminishes.

Substitution between the family council and the BOD might occur as, due both to firm size and to family ownership concentration and involvement, corporate governance mechanisms often overlap in family SMEs (Johnson and Scholes 2002). In particular, the shareholders' meeting tends to feature the same composition as the BOD (Corbetta and Montemerlo 1999; Fama and Jensen 1983; Gersick et al. 1997; Melin and Nordqvist 2000; Ward 1991). Thus, the corporate governance roles of both ownership and monitoring might be played at the same table, and the family might not only control as the shareholder, but also direct the firm by approving the strategy and plans, choosing and evaluating the CEO, and controlling the whole executive team's behavior (Corbetta and Tomaselli 1996; Huse 2000; Melin and Nordqvist 2000; Ward 1991). Moreover, when a BOD copes with firm complexity and/or ownership evolution, entrepreneurs may feel outside their normal business activity and, again, perceive the board as closer to the family than to the firm. According to stewardship, family councils could then be preferred by family directors to BODs—also because boards are subject to a number of legal obligations as well as shareholders' meetings—for taking corporate governance decisions in a less formal context that facilitates information exchange and discussion. Thus follows:

H1b: When a family council is present, the corporate governance role of monitoring played by the BOD diminishes.

Finally, family owners–directors are often so involved in the business that they share as co-CEOs the leading role of choosing and evaluating managers, formulating strategic plans, and defining and controlling budgets (Melin and Nordqvist 2000; Minichilli, Corbetta, and MacMillan 2010; Sharma 2004). Again, for stewardship-based reasons, the family council might be used for taking CEO-level governance decisions as well, leading to:

H1c: When a family council is present, the corporate governance role of leading the company played by the CEO diminishes.

Methods

Research Design and Definitions of "Family Firm" and "SME"

To test our hypotheses, we investigated the governance roles played by various governance mechanisms of family SMEs with family councils compared with family SMEs without family councils. We used a quantitative deductive design, and the hypotheses were tested through questionnaires from a sample of 243 Italian family SMEs. The respondents were in most cases the CEOs, and 94.3 percent of them belonged to the owning family. We used a broad, control-based definition of family firms—that is, more than 50 percent of the shares had to belong to the owning family (Astrachan and Shanker 2003; Corbetta 1995; Sharma 2004)—to investigate the largest variety of ownership structures, and thereby of governance systems. Analogous criteria were applied to define size ranges: we used a definition of SMEs broader than that of the European Union to increase the likelihood of embracing a varied range of ownership structures and governance systems and of obtaining a better response rate. So, based on

the North American parameters of Canada and the United States (U.S. Small Business Administration and Canadian Ministry of Industry), we assumed small firms to be companies with fewer than 250 employees and turnover of 50 million euros and medium-sized ones to be those employing 251 to 500 employees and turnover totaling 50 to 250 million euros.

Sample

Italy features a very relevant presence of family SMEs, which represent around 84 percent of incorporated companies (Gnan and Montemerlo 2008). By civil law, Italian businesses can take either the incorporated or the unlimited form. The first one includes joint stock companies and companies with limited liability, whereas the second one implies unlimited liability of the owners. We conducted our survey by sending a questionnaire to Italian incorporated SMEs, as these are more likely to feature articulated governance systems, and they represent a significant player in the Italian economy (49.1 percent of the total Italian employment; Istituto Nazionale di Statistica 2004).

The empirical base for the study was drawn from the AIDA database (Bureau Van Dijk Electronic Publishing), containing data on manufacturing and nonmanufacturing incorporated SMEs, representative of the Italian population. A total of 15,157 firms were randomly extracted to be representative of the population by region, range of employees, and industries. The questionnaire was mailed in October 2000; it was addressed to top executives, and particularly to either the CEO or an equivalent senior executive, that is, to knowledgeable people who must have an in-depth understanding of the governance system and whose answers have proved to be reliable, even if reporting self-perceptions, in anonymous surveys (Dillman 1978; Starbuck and Milliken 1988). Two follow-up letters and one replacement questionnaire were mailed after the initial mailing. The questionnaire consisted of six sections on firms' demographics, ownership, governance systems, strategy, performance, and succession.

The responses were collected throughout January 2001. The final data set includes 480 SMEs; the response rate was 3.2 percent, which is low in absolute terms, but in line with those normally obtained in Italy (Corbetta and Montemerlo 1999; Giacomelli and Trento 2005). We conducted two tests that reassured us regarding the absence of sample biases. First, we evaluated nonresponse biases with chi-square tests between our sample and the mailing list, finding no significant differences for industries ($\chi^2 = 0.025835$, $df = 5$), turnover ($\chi^2 = 0.047543$, $df = 4$), or employees ($\chi^2 = 0.073285$, $df = 3$). Moreover, across industries, classes of turnover, and classes of employees, the response rates vary, but the proportions of respondents are not statistically different (Fisher's exact test) in the sample and in the mailing list (industries vs. turnover, $p = .0234$; industries vs. employees, $p = .3751$; turnover vs. employees, $p = .03228$). Second, we compared the early respondents (first half) with the late respondents (second half) (Armstrong and Overton 1977), finding no significant differences in industries, size (employees and turnover), firm age, or market characteristics.

Among the 480 firms responding to the survey, the median number of employees was 22 and the mean number was 58 with a standard deviation of 89 (see Tables 1 and 2). The median turnover was €3 million. Almost half of

Table 1
Sector and Size of Firms in the Mailing List and the Sample

		Mailing List		Sample		Response Rate (Percentage)
		Number	Percentage	Number	Percentage	
Manufacturing	Small	6,048	39.9	197	41.0	3.3
	Medium-Sized	887	5.9	33	6.9	3.7
Nonmanufacturing	Small	6181	40.8	190	39.6	3.1
	Medium-Sized	2041	13.5	60	12.5	2.9
Total		15157	100.0	480	100.0	3.2

Table 2
Number of Employees of Firms in the Mailing List and the Sample

Number of Employees	Mailing List		Sample	
	Number	Percentage	Number	Percentage
From 1 to 10	6,513	43.0	211	44.0
From 11 to 20	3,261	21.5	103	21.5
From 21 to 50	3,234	21.3	102	21.3
From 51 to 100	1,194	7.9	35	7.3
From 101 to 150	391	2.6	11	2.3
From 151 to 200	200	1.3	6	1.3
From 201 to 350	266	1.8	8	1.7
From 351 to 500	99	0.7	4	0.8
Total	15,157	100.0	480	100.0

the sample was composed of manufacturing firms. Out of the 480 sample firms in total, 398 firms (82.9 percent) were classified as family SMEs.

We reduced the number of family SMEs from 398 to 243 firms by identifying the sampled family firms with a BOD, based on whether the respondents declared that the firm had a board or not. In fact, having a BOD is not mandatory in Italy, as owners of incorporated firms can appoint a sole CEO instead of a board (whereas having a shareholders' meeting is compelled by law). It is interesting to notice that the subsamples of firms with a BOD and firms without a BOD feature no significant differences, as reported in Table 3.

Our analysis proceeded by dividing the 243 sampled firms with a BOD into two groups: (1) family SMEs with a BOD and a family council (108 cases); (2) family SMEs with a BOD but no family council (135 cases). Descriptive statistics of both groups are presented in Table 4.

The existence of a family council was also based on whether the respondents declared that the firm had a family council or not. Following the definition of a family council, we asked the respondents to acknowledge the presence of a family council in the case that regular gatherings took place involving adult family members and were recognized as a family council.

Firms with a family council represent 27.1 percent of the total sample of family SMEs (108 out of 398 cases) and 44.4 percent of family firms with a BOD (108 out of 243 cases). In Italy, no other empirical data exist about family councils in SMEs, but qualitative empirical references suggest that these percentages are reasonable. Moreover, similar data are reported by a survey on Spanish family firms, featuring 25 percent of cases with a family council (Suàre and Santana-Martìn 2004), regardless of whether a BOD is present or not; given the similarities between the family business systems in the two countries, we were reassured about the family council incidence we found.

Firms with family councils are on average older than those without family councils ($p = .1$) and have more family shareholders ($p = .01$). No other significant differences exist between the two groups of firms with respect to the number of employees, generation involved, number of shareholders, percentage of family ownership, percentage of shares held by the largest shareholder, number of board members, number of family board members, number of shareholders' meetings, or number of board meetings. Particularly, the mean number of board members in family firms with and without a family council is 3.8, which is comparable with figures on the number of board members in other countries' SMEs (Fiegener, Brown, and Derux 2000; Gabrielsson and Winlund 2000).

Variables and Measures

Dependent Variables. The three dependent variables are the *ownership role of the shareholders' meeting*, the *monitoring role of the BOD*, and the *leading role of the CEO*. We chose

Table 3
Characteristics of Sampled Family Firms without and with a Family Council

	Without Family Council (135 cases)					With Family Council (108 cases)				
	Mean	Median	Standard Deviation	Minimum	Maximum	Mean	Median	Standard Deviation	Minimum	Maximum
Year of Foundation	1970	1965	22.28	1900	1997	1967*	1959	32.15	1807	1995
No. of Employees	27.00	74.0	102.04	1.00	500.00	30.00	67.0	98.95	2.00	496.00
Generation Involved	2.10	2.0	0.85	1.00	5.00	2.26	2.0	0.94	1.00	6.00
No. of Shareholders	4.19	3.00	3.75	2.00	26.00	3.81	4.00	1.52	2.00	9.00
No. of Family Shareholders	2.50	3.00	3.27	1.00	25.00	3.46**	4.00	1.50	1.00	18.00
Percentage Owned by Family	90.45	100.00	16.55	50.00	100.00	97.58	100.00	8.53	54.00	100.00
Percentage of Shares Held by the Largest Shareholder	44.62	44.00	23.69	5.00	99.60	41.04	39.00	18.88	10.00	91.00
No. of Board Members	3.78	3.00	1.57	2.00	11.00	3.80	4.00	1.21	2.00	8.00
No. of Family Board Members	2.91	3.00	1.33	1.00	8.00	3.50	3.00	1.13	1.00	7.00
No. of Shareholders Meetings	1.88	2.00	1.09	1.00	6.00	2.76	2.00	2.82	1.00	12.00
No. of Board Meetings	2.98	3.00	2.03	1.00	12.00	3.26	2.00	2.99	1.00	12.00
No. of Family Council Meetings	0.00	0.00	0.00	0.00	0.00	12.71	6.00	27.54	1.00	18.00

*Two-tailed $p < .1$.
**Two-tailed $p < .001$.

Table 4
Characteristics of Sampled Family Firms without and with a Board of Directors

	Without a Board (155 cases)					With a Board (243 cases)				
	Mean	Median	Standard Deviation	Minimum	Maximum	Mean	Median	Standard Deviation	Minimum	Maximum
Year of Foundation	1980	1974	18.96	1874	1995	1969	1962	27.23	1807	1997
No. of Employees	22.30	42.1	73.93	1.00	479.00	27.50	70.9	100.52	1.00	500.00
Generation Involved	1.82	2.0	0.83	1.00	6.00	2.17	2.0	0.90	1.00	6.00
No. of Shareholders	2.87	3.00	1.30	2.00	17.00	4.02	3.00	2.97	2.00	26.00
No. of Family Shareholders	2.54	2.00	1.22	1.00	15.00	3.55	3.00	2.63	1.00	25.00
Percentage Owned by Family	93.40	100.00	14.45	50.00	100.00	93.62	100.00	14.01	50.00	100.00
Percentage of Shares Held by the Largest Shareholder	54.21	50.00	29.15	1.00	100.00	43.12	40.00	21.83	5.00	99.60
No. of Board Members	0.00	0.00	0.00	0.00	0.00	3.79	3.00	1.42	2.00	11.00
No. of Family Board Members	0.00	0.00	0.00	0.00	0.00	3.18	3.00	1.27	1.00	8.00
No. of Shareholders' Meetings	2.71	1.50	3.52	1.00	12.00	2.36	2.00	2.24	1.00	12.00
No. of Board Meetings	0.00	0.00	0.00	0.00	0.00	3.10	3.00	2.48	1.00	12.00
No. of Family Council Meetings	4.93	4.50	30.58	1.00	22.00	5.12	5.00	18.51	1.00	18.00

role coverage as the measure of our variables in order to explore how much each governance mechanism plays its distinctive role, independently of both the process by which the role is played (for example, in terms of frequency) and the relative importance of the tasks that are included in the role itself. The variables were built up through the following steps. First, for each of the three governance roles, we categorized the corresponding governance tasks based on the literature analysis presented in section 1. Second, using dummy coded questions in an ad hoc section of the questionnaire, the respondents were asked to indicate whether or not each governance mechanism (the shareholders' meeting, the BOD, and the CEO) performed all the tasks composing the governance role. Every performed task was coded as 1 and every unperformed task was coded as 0. Third, we calculated every role's coverage as the mean of the number of performed tasks out of the total tasks composing every governance mechanism's role. In particular:

- Regarding the *ownership role of the shareholders' meeting*, two items were related to this variable based on the ownership role's tasks: Q1 on choosing board members; Q2 on controlling and evaluating the board and its performances (Charkham and Simpson 1999). The variable is calculated as follows: the mean of Q1's and Q2's performed tasks = (Q1 + Q2)/2 (Cronbach's $\alpha = 0.74$).
- Regarding the *monitoring role of the BOD*, four items were related to this variable based on the monitoring role's tasks: Q3 on taking strategy decisions; Q4 on approving strategic plans; Q5 on choosing and evaluating the CEO; Q6 on controlling the CEO and managers (Charkham and Simpson 1999; Hillman, Cannella, and Paetzold 2000; Hillman and Dalziel 2003; Johnson, Daily, and Ellstrand 1996; McNulty and Pettigrew 1999; Nicholson and Kiel 2004). The variable is calculated as follows: the mean of Q3's, Q4's, Q5's, and Q6's performed tasks = (Q3 + Q4 + Q5 + Q6)/4 (Cronbach's $\alpha = 0.88$).
- Regarding the *leading role of the CEO*, three items were related to this variable based on the leading role's tasks: Q7 on formulating strategic plans; Q8 on defining and controlling annual budgets; Q9 on choosing and evaluating the management (Fayol 1949; Finkelstein and Hambrick 1996; Minichilli, Corbetta, and MacMillan 2010). The variable is calculated as follows: the mean of Q7's, Q8's, and Q9's performed tasks = (Q7 + Q8 + Q9)/3 (Cronbach's $\alpha = 0.93$).[1]

All the measures of role coverage have Cronbach's αs above the 0.6 value. The measures were also evaluated in terms of individual item reliability, internal consistency, and discriminant validity (see Appendix 1). The psychometric properties of the multi-item measures (ownership role, monitoring role, and leading role) were assessed simultaneously in one confirmatory factor analysis (CFA)[2] using LISREL 8.53. We interpreted the goodness of fit using the comparative fit index (CFI), the normed fit index (NFI), and the standardized root-mean-square residual (SRMR) (see Hair et al. 1998; Hu and Bentler 1999). Additionally, we used the commonly accepted cutoff values (CFI < 0.90, NFI < 0.90, and SRMR < 0.06) as indicative of poor fit (for example, Hair et al. 1998; Zhao et al. 2007). The model presents a

[1]For completeness's sake, we also measured the *family governance role*, that is, how the family council covers its governance role. Two items were related to this variable based on family governance tasks: Q10 on designing and managing family–firm relationships and Q11 on planning generation transition (Carlock and Ward 2001; Gallo and Kenyon 2004; Lansberg 1999; Mustakallio and Autio 2001). The variable was calculated as follows: mean of Q10's and Q11's performed tasks = (Q10 + Q11)/2 ($\alpha = 0.91$). In addition, we measured how each of the three corporate governance roles and the family governance role were covered by all the other, noncorresponding mechanisms (for example the monitoring role by shareholders' meetings and the CEO). Actually, multiple responses were allowed, so that the same task could be attributed to different governance mechanisms. In other words, each respondent was asked each of the eleven questions (Q1–Q11) four times, that is, once for each of the four family and corporate governance mechanisms considered (family council, shareholders' meeting, BOD, and CEO).

[2]We also proceeded to test the CFA. No signs of problems (for example nonconvergence, nonpositive definite matrices, unreasonable standard errors, and so on) emerged. The model is empirically identified as shown by a converged solution, by the absence of any out-of-bounds or unexpected parameter estimates and by the absence of any warning or error messages.

root-mean-square error of approximation (RMSEA) value of 0.057 and an SMSR of 0.032. The goodness-of-fit index values are as follows: $\chi 2 = 64.31$, $df = 24$; CFI = 0.78, NFI = 0.76. We assessed the reliability by calculating a composite reliability for each construct (Fornell and Larcker 1981). Along with the reliability calculations, we also examined the parameter estimates and their associated t-values as well as the average variances extracted (Anderson and Gerbing 1988). The factor loadings range from 0.45 to 0.88 ($p < .05$), and the average variances extracted range from 73 to 85 percent. The items were also found to be reliable and valid when evaluated based on each item's error variance, modification index, and residual covariance. We established discriminant validity by calculating the shared variance between each pair of constructs and verified that it was lower than the variances extracted for the involved constructs (Fornell and Larcker 1981). The shared variances between the pairs of all possible scale combinations indicated that the average variances extracted were higher than the associated shared variances in all the cases.

Independent Variable. The independent variable was the presence of a family council in the family firm (FAMILY COUNCIL). The existence of a family council was coded as 1; nonexistence was coded as 0.

Control Variables. In order to account for potential biases, several control variables were adopted in the analysis:

- The year of foundation, as family firms might confuse governance roles and mechanisms and make substitutions because they are younger, that is, they have little governance experience and few governance needs; conversely, older family firms might be more familiar with both family councils and the agency-based hierarchy as well as having a greater need to respect their distinctive roles (Lank and Ward 2000; Ward 1987)
- The number of employees, as smaller family firms—young or not—might face little complexity in the family and company and so might devote less attention to governance and especially to the agency-based hierarchy (Fama and Jensen 1983; Melin and Nordqvist 2000)
- The industry, as a proxy for complexity such as the number of employees (Fama and Jensen 1983)
- The generation involved, as a proxy for governance experience such as the year of foundation (Gersick et al. 1997; Lansberg 1999; Ward 2004)
- The number of shareholders, also as a proxy for experience such as the year of foundation and the generation involved. In fact, the number of shareholders tends to increase over time and generations (Gersick et al. 1997; Lansberg 1999; Ward 2004)
- The number of family shareholders, for the same reasons as the number of shareholders
- The number of board members, as too high or too small a number might make it difficult for the board to work properly and thereby encourage substitution (Corbetta and Salvato 2004; Corbetta and Tomaselli 1996)
- The percentage of family ownership, as the higher the percentage of shares, the greater the power of the family and the more discretion the family might apply in using (and substituting) governance mechanisms (Miller and Le Breton-Miller 2006)
- The number of family board members, as a proxy for family power like the percentage of family ownership

Analyses and Results

We tested the hypotheses by comparing the governance roles as covered by various governance mechanisms in the two groups of family firms composed, respectively, of those without family councils and those with family councils.

We expected that if a substitution effect is present, all things being equal, the corporate governance roles' coverage by their correspondingly entitled mechanisms (for example the ownership role's coverage by the shareholders' meeting) would diminish when the family council exists. The univariate test results are presented in Table 5, which shows the extent to which each corporate governance mechanism plays its role. That is, for each combination of corporate governance mechanism and governance role, the mean percentages of role coverage featured in group 1 (family firms without family councils) and in group 2 (family firms with family councils) are compared, and the significance levels of the differences are reported. In addition, the table

reports the percentage of corporate governance roles covered by the family council.

Hypothesis 1a

The corporate governance role of ownership played by the shareholders' meeting is significantly diminished from coverage of 36.9 percent in group 1 to almost half, that is, 18.9 percent, in group 2, in which the family council is present.

We also looked at the ownership role's coverage by the family council (53.9 percent) in group 2; this shows that the family council not only replaces the shareholders' meeting in performing the role of ownership, but is also much more involved in this role than the shareholders' meeting itself. The other corporate governance mechanisms partly cover the ownership role as well, with percentages that diminish from group 1 to group 2. In particular, BODs' coverage of the ownership role passes from 12.7 percent (when there is no family council) to 7.0 percent (when the family council is present) and the CEO's coverage of the ownership role passes from 14.5 percent (with a family council) to 9.8 percent (without a family council). Thus, Hypothesis 1a is supported.

Hypothesis 1b

The monitoring role's coverage by the BOD is significantly diminished when the family council appears, from coverage of 19.3 percent in group 1 to coverage of 8.8 percent in group 2.

Besides, the research findings show that the family council is the biggest performer of the monitoring role, as it covers it at a rate of 42.7 percent in group 2. As we did for ownership, we also measured whether other corporate governance mechanisms cover the monitoring role, and we found that in this case such coverage also occurs with decreasing percentages from group 1 to group 2. In particular, the monitoring role's coverage by the shareholders' meeting passes from 16.7 to 10.1 percent and the monitoring role's coverage by the CEO passes from 26.8 to 23.6 percent in group 1 and group 2, respectively. So, Hypothesis 1b is supported as well.

Hypothesis 1c

This hypothesis is not supported. The leading role's coverage by the CEO actually diminishes from 32.8 percent in group 1 to 23.8 percent in group 2, but the difference between the two percentages is not significant.

Table 5
Governance Mechanisms and Governance Roles in Family Firms without Family Councils (Group 1) and Family Firms with Family Councils (Group 2) (Mean Percentage)

Corporate Governance Roles	Shareholders' Meeting		Board of Directors		CEO		Family Council	
	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2
Ownership Role	36.9[a]	18.9**[a]	12.7	7.0**	14.5	9.8	0.0	53.9
Monitoring Role	16.7	10.1*	19.3[b]	8.8**[b]	26.8	23.6	0.0	42.7
Leading Role	13.3	8.3	16.6	9.2**	32.8[c]	23.8[c]	0.0	38.8

*Two-tailed $p < .1$.
**Two-tailed $p < .05$.
[a]Figure used to test H1a.
[b]Figure used to test H1b.
[c]Figure used to test H1c.

It has to be noticed that the family council partly covers this role as well (38.8 percent), and so do the BOD and the shareholders' meeting, always in percentages that are reduced passing from group 1 to group 2. Specifically, the shareholders' meeting's coverage of the CEO's role passes from 13.3 to 8.3 percent and the BOD's coverage of the CEO's role passes from 16.6 to 9.2 percent, in group 1 and group 2, respectively.

We also conducted multivariate analyses of variance (MANOVA, with Wilks's lambda test) to control for possible sources of heterogeneity in the two groups (see Table 6), using the control variables mentioned above. The MANOVA confirmed the univariate results, finding no impact from the control variables. Only the presence of a family council introduces significant differences concerning the ownership role of the shareholders' meeting and the monitoring role of the board of directors ($p = .000$), that is, the dependent variables of H1a and b.

Follow-Up Analyses

To follow up the results reported so far, we carried out further analyses of which tasks are taken over by family councils within corporate governance roles. These analyses, presented in Table 7, show in more detail how extensively the family council goes beyond its own family governance role.

In fact, the family council partly covers the ownership role, both choosing board members (at 60.3 percent) and controlling and evaluating the board (at 52.4 percent). As for the monitoring role, the family council especially covers two out of the three tasks within this role: choosing the CEO (at 66.0 percent) and taking strategic decisions (at 45.4 percent). The family council also plays some of the leading role of the CEO by formulating strategic plans (44.7 percent). It is noticeable that it is exactly for these roles and tasks that their corresponding corporate governance mechanisms mostly diminish their coverage in the presence of the family council. That is, when the family council exists, the shareholders' meeting reduces both its ownership tasks, falling from coverage of 43.4 percent to coverage of 24.1 for choosing board members and from 39.7 percent to 16.5 percent for controlling and evaluating them. The board mostly diminishes its coverage of taking strategic decisions (from 37.2 to 12.0 percent) and choosing and evaluating the CEO (from 15.5 to 6.1 percent). The CEO also loses some of his/her roles, especially in formulating strategic plans (from 31.2 to 7.9 percent). These results reinforce H1a and 1b, both verified, and give some support to H1c, although it was not verified.

Robustness Checks

In order to check the possible bias related to the low response rate of our sample, we conducted two different checks: (1) two separate MANOVA analyses in two different subsamples, (a) manufacturing family firms and (b) nonmanufacturing family firms; and (2) two separate MANOVA analyses in two different subsamples, (1) family firms in which the most important shareholder owns more than 50 percent and (2) family firms in which the most important family shareholder owns 50 percent of equity or less.

These four MANOVA analyses confirm the hypothesis tests, and they do not significantly differ in terms of results (see Tables 8 and 9), except for the following:

- The year of foundation and the number of employees introduce a significant difference concerning the monitoring role of BODs in manufacturing family firms. That is, the monitoring role of the board does not only depend on the presence of a council; in particular, the larger the number of employees and the younger the company, the more active and focused we may expect the BOD to be. Size might make it necessary to have a BOD that adequately copes with complexity; a young age might help in setting up such a board without the constraints of a long family tradition of governance undistinguished from management;
- The generation involved and the number of family shareholders introduce a significant difference concerning the ownership role of shareholders' meetings in family firms in which no shareholder owns more than 50 percent of equity. Again, the ownership role of the shareholders' meeting is not only influenced by the presence of the family council; in particular, the later the generation and the more numerous the family owners, the less "substituted" we may expect the shareholders' meeting to be by other mechanisms. This might be explained by the need of the shareholders' meeting to be accountable enough to represent the

Table 6
MANOVA Results for Comparison of Family Firms without Family Councils (Group 1) and Family Firms with Family Councils (Group 2)

	Wilks's Lambda	*F*	*p*	Ownership Role of the Shareholders' Meeting (H1a)			Monitoring Role of the Board of Directors (H1b)			Leading Role of the CEO (H1c)		
				Type III Sum of Squares	*F*	*p*	Type III Sum of Squares	*F*	*p*	Type III Sum of Squares	*F*	*p*
Corrected Model				2.487	2.171	0.022**	1.742	2.091	0.027**	2.564	1.425	0.172
Intercept	0.967	2.013	0.114	0.013	0.112	0.738	0.027	0.321	0.572	0.926	5.148	0.024**
Family Council	0.901	6.419	0.000**	1.221	10.661	0.001**	0.477	5.724	0.018**	0.374	2.078	0.151
Year of Foundation	0.968	2.010	0.115	0.000	0.000	0.991	0.029	0.345	0.558	0.456	2.534	0.124
No. of Employees	0.992	0.499	0.684	0.013	0.117	0.732	0.099	1.188	0.277	0.014	0.077	0.782
Manufacturing	0.997	0.183	0.908	0.003	0.023	0.880	0.030	0.363	0.547	0.018	0.102	0.750
Generation Involved	0.988	0.707	0.549	0.083	0.721	0.397	0.024	0.292	0.590	0.247	1.371	0.243
No. of Shareholders	0.994	0.350	0.789	0.033	0.292	0.590	0.058	0.698	0.404	0.037	0.205	0.651
No. of Family Shareholders	0.989	0.629	0.597	0.027	0.240	0.625	0.120	1.444	0.231	0.087	0.482	0.489
No. of Board Members	0.974	1.582	0.196	0.065	0.568	0.452	0.156	1.873	0.178	0.029	0.159	0.691
Percentage Owned by Family	0.966	2.012	0.113	0.334	2.916	0.190	0.000	0.002	0.967	0.273	1.519	0.219
No. of Family Board Members	0.967	2.013	0.114	0.249	2.177	0.142	0.234	2.809	0.119	0.001	0.007	0.933
Error				20.275			14.742			31.845		
Total				37.563			20.556			50.500		
Corrected Total				22.762			16.484			34.410		

*Two-tailed $p < .1$.
**Two-tailed $p < .05$.
***Two-tailed $p < .001$.

Table 7
Governance Mechanisms, Roles and Tasks in Family Firms without Family Councils (Group 1) and Family Firms with Family Councils (Group 2) (Mean Percentage)

		Shareholders' Meeting		Board of Directors		CEO		Family Council	
		Group 1	Group 2	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2
Ownership Role	Choosing Board Members	43.4[a]	24.1[a]	16.7	10.1	17.0	8.3	0.0	60.3
	Controlling and Evaluating the Board and its Performance	39.7[a]	16.5[a]	8.7	10.1	12.0	8.3	0.0	52.4
Monitoring Role	Taking Strategy Decisions	12.9	8.5	37.2[b]	12.0[b]	37.0	28.9	0.0	45.4
	Approving Strategic Plans	12.9	10.1	16.1[b]	13.9[b]	36.7	26.4	0.0	39.5
	Choosing and Evaluating the CEO	29.2	14.0	15.5[b]	6.1[b]	19.7	6.3	0.0	66.0
	Controlling CEO and Managers	11.8	7.8	6.0[b]	5.6[b]	13.8	32.7	0.0	28.6
Leading Role	Formulating Strategic Plans	14.0	8.3	20.9	11.2	31.2[c]	7.9[c]	0.0	44.7
	Defining and Controlling Annual Budgets	11.1	7.4	11.8	8.2	16.0[c]	24.5[c]	0.0	31.9
	Choosing and Evaluating Management	14.8	9.2	17.1	8.2	31.4[c]	23.5[c]	0.0	41.3
Family Governance Role	Designing and Managing Family–Firm relationships	25.8	7.8	8.7	5.9	15.6	8.7	0.0	66.8
	Planning Generation Transition	23.4	7.8	7.1	2.9	10.2	8.7	0.0	68.8

[a]Figure used to test H1a.
[b]Figure used to test H1b.
[c]Figure used to test H1c.

Table 8
MANOVA Results for Manufacturing Family Firms and Nonmanufacturing Family Firms

Nonmanufacturing

	Wilks's Lambda	*F*	*p*	Ownership Role of the Shareholders' Meeting (H1a)			Monitoring Role of the Board of Directors (H1b)			Leading Role of the CEO (H1c)		
				Type III Sum of Squares	*F*	*p*	Type III Sum of Squares	*F*	*p*	Type III Sum of Squares	*F*	*p*
Corrected Model				2.181	2.367	0.018**	1.870	2.222	0.029**	0.731	0.386	0.949
Intercept	0.963	1.262	0.292	0.030	0.294	0.589	0.047	0.627	0.430	0.505	3.058	0.083*
Family Council	0.865	5.101	0.003**	0.681	6.655	0.011**	0.336	4.467	0.053*	0.256	1.549	0.217
Year of Foundation	0.952	1.638	0.186	0.055	0.535	0.466	0.045	0.597	0.442	0.646	3.909	0.051*
No. of Employees	0.981	0.646	0.588	0.151	1.472	0.228	0.009	0.118	0.732	0.048	0.291	0.591
Generation Involved	0.961	1.334	0.268	0.081	0.791	0.376	0.048	0.638	0.438	0.016	0.096	0.757
No. of Shareholders	0.985	0.503	0.681	0.015	0.143	0.707	0.051	0.679	0.412	0.162	0.980	0.325
No. of Family Shareholders	0.979	0.705	0.551	0.011	0.104	0.747	0.072	0.963	0.329	0.239	1.445	0.232
No. of Board Members	0.976	0.808	0.492	0.033	0.320	0.573	0.159	2.115	0.149	0.002	0.013	0.908
Percentage Owned by Family	0.954	1.589	0.197	0.157	1.535	0.218	0.011	0.140	0.709	0.408	2.469	0.119
No. of Family Board Members	0.962	1.307	0.277	0.238	2.324	0.131	0.123	1.633	0.204	0.009	0.055	0.815
Error				10.237			7.522			16.528		
Total				20.875			10.667			29.000		
Corrected Total				12.418			8.339			20.264		

Table 8
Continued

Manufacturing												
Corrected Model				2.063	2.327	0.019**	1.830	2.214	0.031**	0.631	0.356	0.952
Intercept	1.000			0.000			0.000			0.000		
Family Council	0.890	2.756	0.049**	0.639	4.684	0.034**	0.385	4.196	0.044**	0.063	0.320	0.574
Year of Foundation	0.928	1.733	0.169	0.087	0.635	0.428	0.292	3.184	0.079*	0.160	0.815	0.370
No. of Employees	0.947	1.248	0.299	0.016	0.119	0.731	0.276	3.008	0.087*	0.068	0.347	0.558
Generation Involved	0.952	1.134	0.342	0.000	0.000	0.982	0.107	1.161	0.285	0.364	1.849	0.178
No. of Shareholders	0.982	0.414	0.744	0.101	0.739	0.393	0.050	0.546	0.463	0.000	0.001	0.981
No. of Family Shareholders	0.973	0.631	0.598	0.069	0.509	0.478	0.138	1.505	0.224	0.007	0.036	0.850
No. of Board Members	0.978	0.492	0.689	0.000	0.003	0.956	0.138	1.508	0.224	0.004	0.022	0.882
Percentage Owned by Family	0.977	0.525	0.667	0.187	1.367	0.246	0.026	0.288	0.593	0.030	0.153	0.697
No. of Family Board Members	0.969	0.708	0.551	0.022	0.159	0.691	0.179	1.953	0.167	0.012	0.063	0.802
Error				9.418			6.336			13.578		
Total				16.938			9.889			21.500		
Corrected Total				10.386			8.166			14.209		

*Two-tailed $p < .1$.
**Two-tailed $p < .05$,
***Two-tailed $p < .001$.

Table 9
MANOVA Results for Manufacturing Family Firms with a Largest Family Shareholder with More than or at Least 50 Percent of the Shares and Manufacturing Family Firms with a Largest Family Shareholder with Less than 50 Percent of the Shares

Largest Family Shareholder with More than or at Least 50 Percent of the Shares

	Wilks's Lambda	*F*	*p*	Ownership Role of the Shareholders' Meeting (H1a)			Monitoring Role of the Board of Directors (H1b)			Leading Role of the CEO (H1c)		
				Type III Sum of Squares	*F*	*p*	Type III Sum of Squares	*F*	*p*	Type III Sum of Squares	*F*	*p*
Corrected Model				2.835	2.310	0.018**	1.930	2.293	0.028**	1.334	0.732	0.693
Intercept	0.973	0.867	0.461	0.027	0.219	0.641	0.141	1.495	0.224	0.105	0.574	0.451
Family Council	0.934	2.184	0.095*	0.575	4.686	0.033**	0.456	4.838	0.030**	0.019	0.103	0.749
Year of Foundation	0.974	0.811	0.491	0.004	0.033	0.856	0.136	1.444	0.233	0.120	0.661	0.418
No. of Employees	0.978	0.694	0.558	0.047	0.384	0.537	0.024	0.256	0.614	0.274	1.502	0.223
Manufacturing	0.995	0.163	0.921	0.044	0.355	0.553	0.011	0.113	0.737	0.014	0.076	0.784
Generation Involved	0.985	0.458	0.712	0.028	0.226	0.635	0.001	0.006	0.938	0.218	1.195	0.277
No. of Shareholders	0.975	0.794	0.500	0.153	1.248	0.267	0.036	0.379	0.539	0.206	1.132	0.290
No. of Family Shareholders	0.969	0.986	0.403	0.142	1.159	0.285	0.067	0.710	0.402	0.292	1.603	0.209
No. of Board Members	0.994	0.190	0.903	0.010	0.080	0.778	0.001	0.011	0.917	0.097	0.532	0.467
Percentage of Family Ownership	0.946	1.734	0.166	0.233	1.900	0.171	0.003	0.035	0.852	0.166	0.912	0.342
No. of Family Board Members	0.989	0.356	0.785	0.010	0.079	0.779	0.005	0.052	0.820	0.174	0.955	0.331
Error				11.534			8.854			17.128		
Total				22.500			12.111			26.750		
Corrected Total				13.050			9.774			18.462		

Table 9
Continued

Largest Family Shareholder with Less than 50 Percent of the Shares												
Corrected Model				2.476	2.018	0.020**	1.867	2.219	0.029**	3.492	1.912	0.061*
Intercept	0.924	1.552	0.211	0.091	0.783	0.380	0.033	0.437	0.511	0.742	4.060	0.048**
Family Council	0.849	3.373	0.024**	0.587	5.036	0.029**	0.325	4.304	0.042**	0.094	0.532	0.458
Year of Foundation	0.913	1.805	0.157	0.122	1.047	0.310	0.033	0.434	0.513	0.845	4.627	0.036**
No. of Employees	0.901	2.091	0.111	0.145	1.246	0.269	.017	0.226	0.636	0.099	0.542	0.464
Manufacturing	0.967	0.653	0.584	0.129	1.104	0.298	0.015	0.197	0.659	0.091	0.498	0.483
Generation Involved	.940	1.207	0.315	0.377	3.234	0.077*	0.068	0.899	0.347	0.005	0.026	0.872
No. of Shareholders	0.951	0.974	0.411	0.317	2.721	0.104	0.006	0.076	0.784	0.066	0.361	0.550
No. of Family Shareholders	0.942	1.180	0.326	0.383	3.286	0.075*	0.010	0.133	0.717	0.002	0.011	0.918
No. of Board Members	0.917	1.718	0.173	0.240	2.057	0.157	0.103	1.365	0.247	0.194	1.063	0.307
Percentage Owned by Family	0.985	0.290	0.832	0.029	0.248	0.621	0.000	0.005	0.946	0.122	0.666	0.418
No. of Family Board Members	0.927	1.490	0.227	0.266	2.280	0.136	0.080	1.063	0.307	0.108	0.590	0.446
Error				6.873			4.450			10.779		
Total				14.375			7.222			22.500		
Corrected Total				8.661			5.697			14.271		

*Two-tailed $p < .1$.
**Two-tailed $p < .05$.
***Two-tailed $p < .001$.

various interests of an extended group that might be composed of family owners from different generations and with different positions (managing and nonmanaging) in the family business.

Discussion and Conclusions

Contributions and Implications

Our study reveals that family councils do exist in family SMEs and that they partly substitute corporate governance mechanisms, and particularly the shareholders' meeting and the BOD.

From the empirical point of view, this study is one of the very first to depict corporate governance systems and family councils in family SMEs. On one hand, we found that a family council exists in about 27 percent of the cases in our sample, which shows how this governance mechanism is not typical of only large family firms. Moreover, the family council not only features high coverage of its own family governance role, but it also covers a large part of the ownership and monitoring roles, to the extent of being the governance mechanism with the highest coverage of these roles. It even covers—although to a lesser extent—the leading role of the CEO. On top of that, we expected all this to be stronger the higher the percentage of family ownership; instead, we found that the percentage of family ownership does not make any difference. Thus, family councils are actually both family and corporate governance mechanisms that cut across the agency-based hierarchy (which is reflected in the numerous meetings they hold per year with respect to other mechanisms; see Table 4) whatever the percentage of family ownership. On the other hand, the presence of family councils and the related substitution effect characterize only a minority percentage of family SMEs, which highlights how family SMEs are articulated and varied in terms of governance systems. We assume that the presence of family councils and the related substitution effect might take place more often when either the same or most family members are both owners and directors. In these situations, the use of family councils could be especially appreciated, as decisions might be taken more efficiently using one mechanism only, in a family atmosphere and with no legal procedures to fulfill. In fact, we found that the overlap between family membership, ownership, and board membership is high, but not total. In this respect, we asked some questions about adult family members' roles with respect to the company, and we found that 83.9 percent of all family members are also shareholders of the family company, 68.9 percent of all family members are also BOD members in the family company, and 59.5 percent of all family members are at the same time shareholders and BOD members in the family company.

From a theoretical point of view, our findings confirm the need to match agency with stewardship in family business governance studies (Johannisson and Huse 2000; Miller and Le Breton-Miller 2006). Agency seems to be applied little in family SMEs, given the low coverage the shareholders' meeting, the BOD, and the CEO respectively perform of their agency-based roles; moreover, we found that most CEOs (94.3 percent) belong to the owning family, which reduces the agency threats due to the owner–manager separation. The relational perspective of stewardship seems to be very helpful in explaining this low coverage vis-à-vis the diffusion of family councils and the partial substitution effect that may often bring them to replace the shareholders' meeting and the BOD in playing the ownership and monitoring roles. This does not mean that agency ceases to be relevant. Firstly, it inspires the legal setting up of corporate governance systems, which implies that corporate governance mechanisms must, even if partially, work, and in the presence of a family council's substitution effect they must ratify the family council's decisions. Secondly, and even more importantly, agency issues might be intensified in the future of family SMEs, as the ownership complexity will increase: the number of family shareholders is expected to grow, bringing about more nonmanaging owners; at the same time, a number of family owners' exit processes and nonfamily owners' entry processes will have to be managed, and the managerialization processes might increase as well (Corbetta and Montemerlo 1999; Gnan and Montemerlo 2008). Last, but not least, family business relational-based studies might broaden their focus and direct attention to family councils in family SMEs, and not only in large family groups.

Moving from the empirical and theoretical contributions to the practical implications, our study's findings offer some hints on the design and functioning of governance systems from

the family and business side. In fact, many family firms seem to underutilize their corporate governance mechanisms to give space to less formal family ones, like the family council, for a number of corporate governance tasks. From a stewardship perspective, this may bring a number of advantages, as mentioned above, to keep commitment and unity that are most critical factors for family business continuity (Gallo et al. 2001). On the contrary, disadvantages might occur as long as the overlap between family members, family owners, and family directors is reduced over time, which normally happens from generation to generation, and a clearer distinction of family and corporate governance roles and mechanisms is then required (Gallo and Kenyon 2004; Lank and Ward 2000); our study shows that the overlap of family members' roles is already a partial one. In summation, owning families may run the risk of inertia, that is, they might keep the ownership and monitoring roles covered insufficiently to cope with the intensification of agency problems that might occur in the future of family SMEs (Corbetta and Montemerlo 2003; Gnan and Montemerlo 2006). Besides, substitution is always partial, which might also generate some duplication of governance roles, with consequent inefficiencies. From this perspective, owning families and the professionals who assist them might want to check whether the current design and functioning of their shareholders' meetings and boards of directors are adequately active and focused to address the present, but above all the future, complexity of family and business. This does not mean that family councils need to lose relevance, but as long as complexity increases they will need to be used as complements to corporate governance mechanisms—and so to concentrate on family governance, which is the fundamental basis on which good corporate governance lies in family firms—rather than as substitutes (Corbetta and Montemerlo 2003; Ward 2004). Consistently with what has been recommended since the early phases of the family business literature (Ward 1987), other studies suggest that complementarity can generate important synergies between different governance mechanisms and thereby generate far more positive effects than substitution (Poppo and Zenger 2002). In our case, good family governance would prepare good owners, directors, and leaders, and vice versa; good corporate governance would keep the family satisfied about the business and motivated, united, and committed as the owner.

Limitations and Directions for Future Research

This study stimulates various future research directions, also in relation to some of its limitations.

We conducted the empirical study of Italian family SMEs between 2000 and 2001. In fact, the existence of family councils may vary across different types of family businesses (Corbetta 1995), across countries and also over time. Therefore, our findings would have been stronger if similar results had been found in other contexts as well as more recently.

Another important limitation is that we did not precisely measure the composition and overlap of family and corporate governance mechanisms; we only collected information on family members' multiple roles as mentioned above, which can only be considered as a proxy. So, further developments of our study should study in greater depth how family councils are composed with respect to shareholders' meetings and BODs, as well as the "complexity threshold" beyond which family councils should be clearly differentiated from corporate governance mechanisms and should complement rather than substitute them.

Another direction for future research concerns the impact of family councils' presence. Does such a presence lead companies to take different decisions from companies without family councils? Does it lead to superior performance?

Also, we actually considered the agency-based hierarchy as the reference model for corporate governance roles and definition of tasks. Considering that the functioning procedures that companies have to comply with are agency-based and also that many boards are just held "on paper," we used the stewardship theory to test whether corporate governance control mechanisms may be substituted by family governance mechanisms like the family council, but not to analyze corporate governance roles based on the stewardship perspective. In particular, we did not measure the service and advice roles of the BOD, as they are analyzed by stewardship and other relational theories (Corbetta and Salvato 2004). Are the service and advice roles actually played by family SMEs' boards and does the substitution effect concern these roles as well?

Finally, we suggested above that our study reinforces that agency cannot be a fully explanatory theory. Actually, agency might also work in a "hidden way." That is, the number of meetings of a certain corporate governance mechanism might hide those additional meetings in which board or shareholders' meeting members gather informally. When this happens, board or shareholders' meeting members do take the decisions they are entitled to take, but to make processes more fluid and not to have to comply with all the bureaucracy involved otherwise, they do not take them in their official capacity. In this case, informal meetings feature the same members, but typically exclude the invited members such as auditors. Future research developments might explore the informal functioning of the agency-based hierarchy as well and its impact on the substitution effect involving family councils.

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Appendix 1 Measurement model results for the three governance roles

Latent Variables	Number of Items	Internal Consistency	Average Variance Extracted	Correlations between Latent Variables		
				1	2	3
1—Ownership Role of the Shareholders' Meeting	2	0.917	0.85	0.920		
2—Monitoring Role of the Board of Directors	4	0.914	0.73	0.410	0.855	
3—Leading Role of the CEO	3	0.917	0.79	0.170	–0.010	0.460

Item Measured	Question Number	Unstandardized Estimates	*t*	Error Variance	*p*	Item Reliability
1—Ownership Role of the Shareholders' Meeting						
Choosing Board Members	Q1	0.88	31.30	0.110	***	True
Controlling and Evaluating the Board and Its Performances	Q2	0.78	32.91	0.140	***	True
2—Monitoring Role of the BOD						
Taking Strategy Decisions	Q3	0.62	40.26	0.099	***	True
Approving Strategic Plans	Q4	0.59	40.65	0.100	***	True
Choosing and Evaluating the CEO	Q5	0.45	36.39	0.114	***	True
Controlling CEO, Managers	Q6	0.48	36.61	0.117	***	True
3—Leading Role of the CEO						
Formulating Strategic Plans	Q7	0.54	35.04	0.071	***	True
Defining and Controlling Annual Budgets	Q8	0.56	34.94	0.070	***	True
Choosing and Evaluating Management	Q9	0.48	32.35	0.086	***	True

Values of the critical ratio greater than 1.64, 1.96, and 2.32 are statistically significant at the 90 percent, 95 percent, and 99 percent confidence levels, respectively.
*$p < .1$.
**$p < .05$.
***$p < .01$.