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

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Abstract

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

***Keywords**: Top Management Team, Team Diversity, Tenure Diversity, Dominant Functional Diversity*

4.1 INTRODUCTION

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

Indeed, a part from Dyer (1989) seminal article, family business literature has mainly be concerned with the specific mechanisms arising among the family managers, assessing the typologies of conflicts, ties and relationships that characterize this subgroup (e.g Eansley and Pearson, 2005; Eddleston and Kellermanns, 2007; Ling and Kellermanns, 2010). However, research explicitly focusing on NFMs is still scarce. More precisely, recent articles addressed the topic laterally to other main issues, or through the use of anecdotal or conceptual method, rather than via empirical investigation (Klein, 2007). Besides, few exceptions, conducting an empirical investigations (Minichilli et al., 2010; Berrone and Minichilli, WP), focused on the conflicts arising in integrating NFMs into the family context, basing their reasoning on the TMT Family Ratio, rather than on the top managers specific characteristics. Stressing the differences between FMs and NFMs and adopting a so-called *faultine model*, they predict the emergence of schism and conflicts

when both the subgroups are present (Minichilli et al., 2010; Minichilli and Berronw WP; Gomez-Mejia, et al. 2007). In this light NFMs are considered as an homogeneous group (Hall and Nordqvist, 2011), characterized by a formal style of management, professional knowledge (Klein, 2007), objectivity, focused on financial performance (Dyer, 1989; Klein, 2007) and not emotionally involved in the future of the company (Sonfield and Lussier, 2009). Thus, this approach assumes that all the members adopt the same opportunistic behaviour toward the family and the business, undertake the same actions and show the same relational dynamics with the FMs and with the other NFMs. However, NFMs also show an higher understanding of the family's goals, norms and values, feel a strong psychological ownership and emotional attachment to their job (Dyer, 1989; Klein, 2007; Hall and Nordqvist, 2008; Bernhard and O'Driscoll, 2011). Actually a non-family team (NFT) is not supposed to be homogeneous, thus, showing a greater level of diversity.

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

Accordingly we focus on three specific sources of diversity, relevant for the NFT: the number of NFMs (NFT Size), the NFT Organizational Tenure Diversity and the NFT Dominant Functional Diversity. Firstly, investigating on the role of NFT size implies that as the number of NFMs increases variance in capabilities and orientations occurs due to the unique experiences and social network they have faced with. That is, the fact of not belonging to the family system doesn't infer that NFMs share identical values and attitudes. Secondly, focusing on the organizational tenure diversity, several scholars pointed out, that a NFT can be composed by NFMs that have been

professionalize over time and by outside professional managers that entered the family firm in later stages (Dyer, 1989). Thus, a NFT characterized by an higher level of organizational tenure diversity will be composed of individuals likely to have different attitudes toward the family firm and its strategy because of their tenure-stage differences (Boeker, 1997). Lastly, since dominant functional diversity detects the extent to which there is an heterogeneous mix of functional experiences within a team (Marcel, 2009), NFMs are not supposed to have gained the same experiences in the same functional areas. Conversely a NFT may avail itself of a limited or varied set of functionally based schema, depending on the functional areas covered by each members.

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

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

4.2 THEORETICAL BACKGROUND

4.2.1 TMT Diversity and Family Firms Performance

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

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

On the other hand, more recent studies have reached the conclusion that TMT composed by diverse members have a positive impact on TMT behavioural integration and thus on firm

performance (Ling and Kellermanns, 2010). From this standpoint, Ling and Kellermanns gave a specific definition of family firm TMT diversity (2010). Differently from previous researches, they argued that family members within the TMT are not supposed to be homogeneous. In particular they recognized three different sources of family firms diversity such as the generation in charge, the number of family employees and the number of employed generation (2010). As a result, they concluded that "familiar diversity" positively impacts on family firm performance.

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

However, further than diversity among FMs, another significant issue is that related to the diversity between FMs and NFMs, and within the NFT itself. Only few scholars have investigated the possible dynamics that the relationship between FMs and NFMs may originate (Klein, 2007; Minichilli et al., 2010). Building on organizational behaviour theory, Minichilli et al. recognized that a mixed top management team leads to a behavioural disruption, and consequently hurts performance, when a *faultline* among family and non-family executive occurs (2010). That is the case arising when the proportion of both factions increases in the corporate elites, on the contrary when there are few members of one or the other faction, conflicts are lowered because the minority faction has less power to contest decisions (Minichilli et al., 2010). Although dealing with the interaction between FT and NFT, Minichilli et al. neglect the role played by the intrinsic diversity of the these two subgroups. While a stream of literature have recognized the role played by the TMT diversity in the FT, analysing its specific sources, on the other side, the same specific sources

for the NFT have been disregarded. The dominant view depicts NFMs as subjects external to the family, that show the same objective, not emotionally involved and self-interested behaviors (Dyer, 2989; Klein, 2007; Hall and Nodrqvist, 2008; Sonfield and Lussier, 2009). The tendency is, thus to equate NFMs with bringing in outsiders, and to look at NFMs and FMs as two different antithetical breeds, that are mutually exclusive (Hall and Nordqvist, 2008).

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

4.2.2 Non-Family Managers in Family Firms

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

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

on behavioural integration and, in turn on firm performance (Chua, Chrisman and Sharma, 2003; Minichilli et al., 2010).

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

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

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

In the light of this reasoning, here a *multifactor approach* is employed. Consistently with the theoretical framework adopted, we follow the Upper Echelons tradition, which focuses on TMT demographic characteristics (Hambrick and Mason, 1984; Hambrick, 1989; Finkelstein and

Hambrick, 1996). In particular, we employ the three TMT Demographic indicators that have received substantial conceptual and empirical attention in the extant literature: the number of NFMs (or NFT size), the NFT organizational tenure diversity and the dominant functional diversity of NFMs. Therefore, a NFT could be more or less effective depending on the intrinsic differences that emerge among its members. With this assumption in mind, the next section explores the impact each of the proposed specific sources exert on the family firm performance.

4.3 RESEARCH HYPOTHESIS

Number of Non–Family Managers (NFT Size)

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

However, when the NFT size becomes disproportionate, the effect exerted by the cognitive conflict, may ultimately turns into the so-called "creative destruction" phenomenon (Morck and Yeung, 2003; Morck, Strangeland and Yeung, 2000). That is, when the number of NFMs comes to be excessive, the positive effect of creativity and innovativeness is replaced by a decrease in the level of familiness, from which the firm draws its competitive advantage, (Habbershon and

Williams, 1999). In other words a detachment from the family values and norms, instituted by the founder and rooted in the family and its history, may arise. Indeed, the initial effect exerted on the performance by the cognitive conflict, make the family fosters NFMs profitable initiatives. However when the family feels NFMs cracking the familiness status-quo or passing over its values and norms, it removes its support toward those initiatives. Fear for such a loss in control and in family values lead the family blocking or discouraging NFMs creativity and innovation and thus stifle family firm performance (Lussier and Sonfield, 2007; Sonfield and Lussier, 2009). This reasoning argues for the existence of an inverted U-shaped relationship. In other words, as the number on NFMs increases a positive impact on performance, due to the emergence of cognitive conflict, occurs. However, when the limit of familiness is overcome this positive impact turns into negative, because of the "creative destruction" effect.

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

NFT Tenure Diversity

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

Higher tenured NFMs bring a set of advantages to the family firm, given that they are likely to share with familiar members the same private language, routines and organizational culture (Klein, 2007; Eddleston and Kellermanns, 2006; Kellermanns and Eddleston, 2007).

On the other hand, shorter tenured NFMs, given their open and not parochial mindset, are more likely to bring in the family firms innovative and creative ideas, breaking with previous patterns and practices, thus enhancing family firm performance.

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

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

So, we can initially predict a negative effect of NFT tenure diversity on family firm performance. However, when , the differences in tenure among the NFMs are much extended and not so nearby, that is when a NFT is characterized by highest level of organizational tenure diversity, the effects on performance turns into positive. In such a case longer-tenured NFMs can introduce NFMs with shorter one to the organizational culture, language and routine, behaving as mentors. On the other hand, shorter tenured NFMs, enable NFMs with higher tenure to escape from the boundaries of organizational inertia. In this sense longer-tenured NFMs might route shorter

tenured NFMs novel ideas into the family firm rules and routines, enabling their adaptation to the organizational tissue and avoiding the firm to fall into the "creative destruction problem". Higher tenure diversity increases the likelihood of beneficial task-oriented conflict, that is a beneficial kind of conflict that involve constructive debate, creative ideas, novel insights, simultaneously retaining the organizational culture and the family values. At the same time, the relationship conflict originated by the rivalry among NFMs is softened, because NFMs characterized by such different and not comparable positions, in terms of tenure, don't perceive one another as a threat. Therefore, the NFT organizational tenure diversity exerts a negative effect on family firm performance, because of the relationship conflict problem, however beyond a certain point, this effect turns into positive, because of the complementarities showed by NFMs that originate functional task-oriented conflict.

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

NFT Dominant Functional Diversity

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

As stated above, as TMT dominant functional diversity increases as does the breadth of knowledge, perspectives, experience and capabilities that the overall team can bring to bear in a decision situation (Cannella et al., 2008). As Cannella et al. pointed out more diverse team, in terms of functional background can generate more alternatives to creatively solve complex problem, reduce "groupthink" and increase decision effectiveness (2008).

In the particular case of NFT a higher level of dominant functional diversity helps to go through the organizational inertia problem with which the majority of family firms often face (Chirico and Nordqvist, 2010). Therefore, as several studies have highlighted the effect of the generational shadow shed by the founder and casted over the organization throughout subsequent generation, exerts a detrimental effect on the firm performance (Davis and Harveston, 1999; Sonfield and Lussier, 2004). In this light the aforementioned core capability of familiness is likely to become a core rigidities, and thus to make family firms less able to adapt and cope with the challenges of a changing environment (Chirico and Nordqvist, 2010).

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

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

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

4.4 METHODS

Sample and Data Collection procedure

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

The choice of the furniture industry has multiple motivations primarily related to the role it plays in the whole national economy and the peculiar organization of the production in Industrial Districts (IDs). With respect to the former argument the Italian Furniture industry represents an important contributor to the whole Italian GDP and exports. Indeed, with a share of 10% of the total worldwide production, Italy is the third largest player in the furniture industry (BNP Paribas Economic Research, 2011). Over the past 10 years, Italy has maintained its leadership as the major exporter with a share of the total close to 9 percent (BNP Paribas Economic Research, 2011). Furthermore, in the first 10 months of 2011, exports showed a 4,4 percent increase, with respect to the previous year.

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

Besides, several authors stated that the most important IDs in Italy have often developed in a successful way, because of the leading role played by family firms. The furniture districts are not an exception. For instance, well-known examples are Natuzzi, Calia and Nicoletti in the upholstery district of Matera (Morrison, 2004; Belussi, 1999; Borga et al., 2009), Flou, Molteni and Misuraemme in the furniture district of Brianza (Borga et al, 2009; Chiarvesio et al., 2010),

Scavolini in the kitchen district of Marche and Snaidero in the Triveneto one. This makes pertinent, therefore, to examine family firm management issues in this traditional industry.

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

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

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

For the hypothesis testing, we sent an electronic survey to all CEOs and Chairpersons of the 500 firms sampled, to gather information on their TMTs' characteristics. Given that most of the

information required in the questionnaire refers to objective data, we considered it proper to have at least one respondent as a key informant in the TMT for each of the firms involved in the survey.

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

MEASURES

Dependent variable

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

Independent Variables

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

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

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

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

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

This increases the ecological validity compared to only considering one function, which is the standard approach in measuring functional background diversity. However, the downside of this approach is that obtaining a 'pure' index of functional diversity becomes more complicated, since we measured two types of information jointly: the extent of expertise-overlap of the team members, as well as the number of functions indicated by each of the team members (i.e. whether the team member is a generalist or a specialist). Ideally, it should be measured the distribution of unique functional expertise between TMT members, i.e. between-member functional diversity net of intrapersonal functional diversity (for details, see Bunderson and Sutcliffe, 2002), since theory emphasizes the information exchange and integration problems of people with non-overlapping knowledge working together (Brodbeck et al., 2007).

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

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

$H_X = \sum^i p_i \log(1/p_i)$ where *i* stands for any functional category

$H_Y = \sum^j p_j \log(1/p_j)$ where *j* stands for any team member

$H_{XY} = \sum^{ij} p_{ij} \log(1/p_{ij})$ where *i* stands for any functional category and *j* for any team member.

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

Control Variables

Firm Level

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

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

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

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

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

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

Team Level

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

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

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

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

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

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

Individual Level

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

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

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

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

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

4.5 RESULTS

The descriptive statistics used in this study are reported in Table 2 and correlations of variables in Table 1. None of the correlation coefficients raises potential problems of multi-collinearity. We tested the hypotheses through hierarchical multiple regression analyses, entered in multiple steps. The ultimate number of observations (92) resulted from the removal of 5 cases for which there were unavailable or incomplete data. The size of the sample is consistent with previous studies on TMT and mainly on Family Firms TMT (Wiersema and Bantel, 1992; Pelled et al., 1999; Minichilli et al., 2010).

--- INSERT TABLE 1 ABOUT HERE ---

--- INSERT TABLE 2 ABOUT HERE ---

The results of the regression analyses are reported in Table 3. Model 1 of Table 3 reports the control variables for the Performance valuation estimates. Firm Pre-performance, TMT average TMT Tenure and the presence of a Specialized CEO are positively associated to it, while TMT Educational Background Diversity and TMT Average Organizational Tenure are negatively associated to it.

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

--- INSERT TABLE 3 ABOUT HERE ---

In order to test if NFT Tenure Diversity has a U-Shaped effect on the firm performance, Model 4 introduce the NFT Tenure Diversity quadratic term. In this model, the main term effect is negative and statistically significant (β= -10.31, $p<0,05$) and the quadratic term effect is positive and statistically significant (β= 8.68, $p<0.05$). This result suggests that the negative effect of NFT Tenure Diversity, after a certain threshold turns into a positive one. No change is observed in the sign for NFT size compared with model 3, that is still significant. In Model 5 the NFT Dominant Functional Diversity has been introduced. The coefficient is positive and significant (β=3.27, $p < 0.01$).

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

4.6 DISCUSSION AND CONCLUSIONS

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

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

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

With respect to the second hypothesis, the U-Shaped relationship between the NFT Tenure Diversity and the Family Firm performance, was confirmed. That is, the NFT Tenure Diversity

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

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

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

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

Besides, given the empirical setting adopted to test our hypothesis, we have also demonstrated the potency of Upper Echelon Theory for small and medium family firms. As it was foreseeable, family firms are a reflection of their top management.

Concerning the empirical setting, we further gave a strong managerial contribution to family firms in the Italian Furniture Districts. Given the turbulence and crisis they are facing with, the professionalization of management is considered a key process to undertake in order to maintain the global competitive advantage, they have obtained in the last fifty years. In this sense, we provide a valuable tool for effectively managing such process.

Figure 1 -Theoretical Model

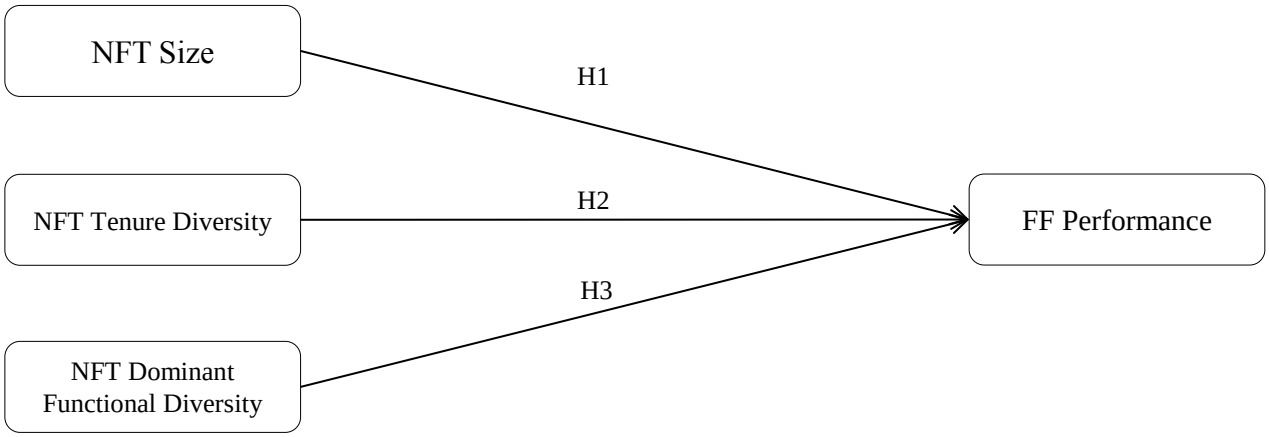

Table 1 - Correlation Matrix

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.
1. Performance	1.00																				
2. NFT Size	0.12	1.00																			
3. NFT Organizational Tenure Diversity	0.12	1.34*	1.00																		
4.NFT Dominant Functional Diversity	0.31*	0.80*	0.40*	1.00																	
5. Firm Size	0.20	0.53*	0.24*	0.41*	1.00																
6. Firm Age	0.01	0.15	0.06	0.12	0.05	1.00															
7. Generation in charge	-0.09	-0.06	0.12	0.00	-0.12	0.46*	1.00														
8. Number of employed generation	0.11	0.12	0.18	0.13	0.06	0.00	-0.01	1.00													
9. TMT Educational Background Diversity	0.11	0.33*	0.31*	0.42*	0.20	0.05	-0.02	0.29*	1.00												
10. TMT Level of Studies Diversity	-0.12	0.10	-0.18	0.06	-0.02	0.09	0.05	-0.02	0.11	1.00											
11. TMT Gender	0.07	-0.08	-0.01	-0.08	0.00	-0.04	-0.05	0.06	-0.14	0.03	1.00										
12. Preperformance	0.71*	-0.01	-0.07	0.08	0.13	-0.12	-0.11	0.10	0.12	0.07	0.07	1.00									
13. TMT Age	0.13	0.05	0.15	0.08	0.03	0.01	-0.02	0.20*	0.25*	0.06	-0.11	0.11	1.00								
14. TMT Average Organizational Tenure	-0.09	-0.24*	-0.21*	-0.20*	-0.21*	0.22	0.13	0.29*	-0.13	-0.07	0.17	0.03	-0.20	1.00							
15. TMT Average TMT Tenure	0.05	-0.17	-0.20	-0.14	-0.21*	0.18	-0.05	0.32*	0.10	0.03	0.11	0.06	-0.16	0.86*	1.00						
16. Ceo Tenure	0.03	0.09	0.07	0.09	0.11	0.16	0.03	0.18	-0.02	0.02	0.01	0.07	-0.02	0.58*	0.45*	1.00					
17. Specialized CEO	0.05	0.08	0.25*	0.20	0.03	0.05	0.05	0.05	0.16	-0.03	0.02	-0.14	-0.11	-0.05	-0.03	-0.02	1.00				
18. Ceo Gender	0.06	-0.01	-0.18	-0.12	0.11	-0.10	-0.13	0.01	-0.17	0.23*	0.22*	0.19	0.04	0.08	0.09	0.16	-0.02	1.00			
19. Ceo Age	0.07	0.02	-0.02	0.07	0.14	0.06	-0.10	0.24*	0.08	-0.04	-0.02	0.10	0.13	0.49*	0.41*	0.82*	0.00	0.27*	1.00		
20. Founder Ceo	0.19	0.06	-0.04	0.09	0.07	-0.32*	-0.49*	0.04	0.15	0.01	-0.05	0.19	0.15	-0.02	0.10	0.32*	-0.07	0.20	0.44*	1.00	
21. Family Ceo	0.05	-0.08	-0.01	-0.05	-0.22*	-0.04	-0.03	0.00	-0.10	-0.06	-0.11	0.11	0.00	0.09	0.07	0.27*	-0.21	-0.09	0.09	0.24*	1.00

*($p < 0.05$); n = 92

Table 2 - Descriptive Statistics

	Mean	St.Dev	Min	Max
1. Performance	2,70	5.70	-12.45	21.85
2. NFT Size	3.08	1.62	0.00	9.00
3. NFT Organizational Tenure Diversity	0.45	0.33	0.00	1.44
4.NFT Dominant Functional Diversity	1.14	0.68	0.00	2.41
5. Firm Size	9,82	0.92	7.16	13.04
6. Firm Age	36.09	20.68	4.00	129.00
7. Generation in charge	1.85	0.65	1.00	4.00
8. Number of employed generation	1.82	0.51	1.00	3.00
9. TMT Educational Background Diversity	0.55	0.17	0.00	0.86
10. TMT Level of Studies Diversity	0.51	0.20	0.00	0.98
11. TMT Gender	0.80	0.16	0.50	1.00
12. Preperformance	3.30	5.80	-5.21	36.62
13. TMT Age	0.21	0.08	0.03	0.59
14. TMT Average Organizational Tenure	17.81	7.03	3.40	39.50
15. TMT Average TMT Tenure	14.60	7.35	1.66	39.50
16. Ceo Tenure	28.37	13.35	2.00	60.00
17. Specialized CEO	0.36	0.48	0.00	1.00
18. Ceo Gender	0.95	0.23	0.00	1.00
19. Ceo Age	56.57	11.50	36.00	83.00
20. Founder Ceo	0.41	0.49	0.00	1.00
21. Family Ceo	0.88	0.32	0.00	1.00

Table 3 - Full Model

N = 92	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
Performance	OLS	OLS	OLS	OLS	OLS	OLS
NFT Size		0.18	1.56**	1.48*	2.58***	0.46
		(0.32)	(0.75)	(0.81)	(0.93)	(1.15)
NFT Size squared			-0.20**	-0.19*	-0.25**	-0.10
			(0.10)	(0.10)	(0.10)	(0.11)
NFT Organizational Tenure Diversity				0.46	-10.32**	-10.69**
				(1.64)	(5.13)	(4.88)
NFT Organizational Tenure Squared					8.69**	9.06**
					(3.92)	(3.74)
NFT Dominant Functional Diversity						3.27***
						(1.13)
Firm Size	0.53	0.40	0.80	0.78	0.18	-0.10
	(0.52)	(0.57)	(0.59)	(0.60)	(0.64)	(0.62)
Firm Age	0.08	0.03	0.03	0.03	0.02	0.03
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Generation in charge	0.67	0.70	0.73	0.70	1.06	0.72
	(0.80)	(0.81)	(0.79)	(0.81)	(0.80)	(0.77)
Number of employed generation	0.61	0.53	0.44	0.40	0.08	0.24
	(0.90)	(0.92)	(0.90)	(0.92)	(0.90)	(0.86)
TMT Educational Background Diversity	-5.30*	-5.63*	-6.09**	-6.23**	-5.11*	-6.02**
	(2.85)	(2.92)	(2.87)	(2.93)	(2.90)	(2.78)
TMT Level of Studies Diversity	-2.90	-2.96	-2.85	-2.67	-4.04*	-4.06*
	(2.17)	(2.18)	(2.14)	(2.25)	(2.28)	(2.17)
TMT Gender	3.15	3.20	3.26	3.24	3.25	2.92
	(2.61)	(2.63)	(2.57)	(2.60)	(2.52)	(2.40)
Preperformance	0.74***	0.74***	0.71***	0.71***	0.70***	0.68***
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
TMT Age	3.90	4.09	2.81	2.67	4.22	5.15
	(5.43)	(5.46)	(5.40)	(5.45)	(5.35)	(5.10)
TMT Average Organizational Tenure	-0.53***	-0.52***	-0.45***	-0.45***	-0.51***	-0.56***
	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.14)
TMT Average TMT Tenure	0.40***	0.39***	0.37***	0.37***	0.39***	0.42***
	(0.12)	(0.12)	(0.12)	(0.12)	(0.11)	(0.11)
Ceo Tenure	0.04	0.36	0.03	0.02	0.03	0.05
	(0.06)	(0.07)	(0.06)	(0.07)	(0.07)	(0.06)
Specialized CEO	1.86**	1.86***	1.46	1.42	1.31	0.96
	(0.87)	(0.88)	(0.88)	(0.90)	(0.87)	(0.84)
Ceo Gender	-2.93	-2.96	-2.58	-2.56	-2.55	-1.60
	(2.05)	(2.06)	(2.02)	(2.04)	(1.98)	(1.92)
Ceo Age	0.00	0.00	0.01	0.01	0.02	0.00
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.06)
Founder Ceo	0.91	0.88	0.93	0.95	0.63	0.39
	(1.15)	(1.16)	(1.13)	(1.14)	(1.12)	(1.07)
Family Ceo	-0.38	-0.35	0.09	0.08	0.30	-0.17
	(1.46)	(1.48)	(1.46)	(1.47)	1.44	(1.37)
Const	-2.94	-2.32	-8.77	-8.56	-3.54	2.02
	(7.22)	(7.34)	(7.84)	(7.93)	(8.05)	(7.09)
Observations	92	92	92	92	92	92
R-Squared	0.65	0.65	0.67	0.67	0.69	0.72
Change in R-Squared	-	0.00	0.02**	0.00	0.02**	0.03***
F-statistic	8.09	7.59	7.72	7.24	7.51	9.07
Prob (F-statistic)	***	***	***	***	***	***

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

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