CORPORATE GOVERNANCE AND FIRM NETWORKS: AN EMPIRICAL RESEARCH BASED ON ITALY

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Abstract

We examine problems of strategic change and innovation in Italian firms which develop cooperative relationships with other firms. The inter-firm network phenomenon has taken on such importance in Italy that, in 2009, the State issued a law (Decreto Legge 5/2009) specifically to regulate the concluding of cooperative contracts for the formation of inter-firm networks. This law offers firms that wish to keep their groups of owners separate the possibility to establish a multiplicity of inter-firm relationships through the signing of just one single contract, named "Contratto di rete", which, in this paper, we will refer to as a "network contract". For historical reasons, all firms in Italy, even those quoted on the stock market (Milan Stock Exchange), exhibit a high level of ownership concentration. The largest class of blockholders is that of families who are active in the family firm. As regards the size of firms that maintain cooperative relationships, data on network contracts show that 95% of the firms stipulating these contracts are small- or medium-sized enterprises (SMEs), so categorised because they have fewer than 50 employees. Through strategic alliances and collaborative relationships, Italian family firms have been able to develop business ideas that, as a consequence of the companies' small dimensions, would have been impossible otherwise. On the basis of this premise, we considered it convenient to analyse small- or medium-sized family firms that developed relationships of cooperation regulated by network contracts in the period between 1/1/2013 and 31/12/2016. With reference to this category of firm, we analysed data on strategic change and innovation for a sample of 391 firms that accepted to be interviewed by us. Some of these firms had opened their top management teams (TMT) and/or their Boards of Directors to the participation of individuals from outside the dominant family, while others had not. The results of this research show that the firm that extends participation in the board or the Top Management Team by involving individuals from outside the dominant family, so as to gain better access to critical resources controlled by partners, creates a more favourable context for strategic change and innovation.

Keywords: Corporate Governance, Board of Directors, TMT, Inter-Firm Networks, Small- or Medium-Sized Enterprises (SMEs)

1. INTRODUCTION

It is possible for firms in Italy that want their groups of proprietors to remain separate from those of other firms to set up a number of inter-firm relationships through the signing of a single contract, subject to national law, known as the network contract. Italian law (article 3, subparagraph 4 *ter*, "Decreto Legge 10 febbraio 2009, n. 5, convertito con Legge 9 aprile 2009, n. 33") states that with the network contract, two or more firms are obliged to carry out together one or

more economic activity with the aim of increasing their reciprocal innovative capacity and market competitivity". In an attempt to encourage firms to adopt the network contract, a specific section focusses on it on the Registro delle Imprese (Company Register) web site (http://contrattidirete.registroimprese.it). In theory, inter-firm networks represent organisational forms (external organisations) that coordinate different firms' productive activities (internal organisations). As a consequence of historical factors, financial infrastructures are weak in Italy (Pagano, Panetta, and Zingales, 1998). To be more specific, all firms, including those listed on the stock market in Milan, exhibit a high degree of concentration in their ownership structures. The family constitutes the largest blockholder grouping in the family firm, whereas the state or other public bodies make up the next largest grouping (Cascino et al., 2010; Corbetta and Minichilli, 2005; Montemerlo, 2000; Soana and Crisci 2017; Scafarto et al., 2017). We concentrate on family firms, which have to deal with an intrinsic capital constraint when attempting to raise external equity given that, for families to remain in control of the firm, they, or people they can trust, need to maintain their possession of property prerogatives and rights (Dyck and Zingales, 2004). Moreover, any difficulties that might exist in the rapport between the family proprietors of the firm and its more distant investors may act as a limit when the firm attempts to acquire external capital, even in cases where the family is prepared to reduce its ownership control (Peng et al., 2008). Indeed, it has been suggested that family firms could experience slower growth (Chandler 1977; 1990) As family owner-managers in Italy have tended to avoid having to depend upon equity when investing on a large scale (in plant, property, equipment and other such assets), the capital constraints of family firms have often restricted their internal growth (Bruno, 1999). On the other hand, these very capital constraints have stimulated external growth as firms have come together in strategic alliances (Bruno, 1999). These strategic alliances and collaborative relationships have permitted family firms in Italy to innovate in ways that might not have been possible otherwise, to the extent that some have become international market leaders (Bruno, 1999; Porter, 1990). The results that family firms in Italy have gained through their processes of external growth can be easily understood by looking at empirical data on network contracts. On 9th January 2017, 2,569 network contacts were listed on the Company registry (http://contrattidirete.registroimprese.it/reti/) and these regarded 13,770 firms which had their headquarters in Italy, employing 167,793 dependent workers. Ninety-five percent of these firms were small- or medium-sized firms (SMEs), with fewer than 50 employees, and the average number of dependent employees at each firm was 12.

Theories on how the ability SMEs have to develop strategic change and innovation is influenced by family ownership-management are provided in Section 2. We formulate hypotheses in Section 3 and present the empirical research, describing the data, variables, and methodology in Sections 4 and 5. Econometric models will be used in the research to measure the consequences of strategic change and innovation brought about by firm governance variables for a sample of 391 SMEs. Section 6 will present the final conclusions.

2. LITERATURE REVIEW

A vision of family goals and behaviour is provided by Stewardship theory (Davis et al., 1997; Donaldson and Davis, 1991). This theory suggests that simple private economic interest is not always sufficient in trying to understand the behaviour of firm owners and managers and that they frequently work for the benefit of the whole company and its stakeholders. In this sense, given that these stewards identify with the firm and its aims, they are often driven by selfless motives and act for the good of the collective. According to the literature (Anderson and Reeb, 2004; Chrisman, Chua, and Sharma, 2005; Corbetta and Salvato, 2004; Miller and Le Breton-Miller, 2006a), family firms fit especially well into stewardship theory because, as a consequence of their good name, sense of identity and wealth being closely related to the firm, family owners are frequently profoundly and emotionally connected to their companies (Bubolz, 2001).

Given that owning families and managers often work more closely and are more committed to the firm, their relationship is considered a positive aspect of the stewardship framework. As managers believe that they will be with the firm for some time, they act as its stewards for the future and attempt to promote its long-term interests (Donaldson and Davis, 1991). Therefore, the performance of the firm in the short-term is not central to managers' actions and is unlikely to motivate a rash opportunistic reaction that could prove itself to have been a mistake and have negative consequences at some subsequent stage of their careers (Miller and Le Breton-Miller, 2006a).

The fact that shareholders with a controlling interest usually intend to maintain their involvement over time is another important aspect of family-run firms and, in many ways, families that founded firms represent "a unique class of investors. The combination of undiversified family holdings, the desire to pass the firm onto subsequent generations, and concerns over family and firm reputation suggest that family shareholders are more likely than other shareholders to value firm survival over strict adherence to wealth maximization" (Anderson et al., 2003, p. 265).

The concept of stewardship means that the goal of the firm's future survival should be guaranteed through the careful management of its capital and investment in assets which will produce such long-term benefits as social capital and reputation (Miller and Le Breton-Miller, 2006a), which will benefit all stakeholders.

Given that CEOs who belong to controlling families may foresee a long-term career for themselves within the firm, they will probably make long-term decisions in terms of investment in training, research and development, and modern machinery and equipment. Indeed, it has been shown how non-family businesses often spend less

than family firms on capital investments in such areas as information technology, plant, and equipment (Kang, 2000) and on research and development (Miller and Le Breton-Miller, 2006b).

Distinctive core capabilities are more likely to be developed by family firms as a consequence of these stewardship considerations and the preparedness to invest in and focus on the long-term rather than the short.

It has been posited that when firms develop unique, rare and valuable resources which have no easily-obtained substitutes, they are in a position of competitive advantage (Barney, 1991). These resources and capabilities are the consequence of coordinated long-term investments in assets like research and development, infrastructure and training, as indicated by Dierickx and Cool (1991) and Teece et al. (1997). The establishing of on path dependencies through such a farsighted, focused approach to investment guarantees cumulative growth of a firm's capabilities, so rendering any duplicating of its learning trajectory by its competitors particularly difficult (Miller, 2003). It would be difficult for any executive whose tenure with the firm is only short-term to programme investments in such a way. It is not simply the separating of ownership and control, but also it's unifying that characterises family governance, with great flexibility towards investing being a result of the personal aspect of its organisation. On the other hand, the investing of a firm's resources with no consideration for external and internal accountability procedures would constitute opportunistic behaviour. Precise, formal accounting methods are not necessary for owner-managers, who might just scribble down their investment analysis on a scrap of paper, make rule-of-thumb based decisions or perform calculations in their heads (Carney, 2005). Such working procedures allow choices to be made rapidly and render it easier to grasp those momentary opportunities where time is short or it is "better to be always first than always right" (Williamson, 1997, p. 55). Owner–managers are more flexible when investments are made according to "animal spirits" or "gut feeling", or decisions are taken on the basis of purely particularistic or intuitive criteria (Carney, 2005). An owner-manager in a context of family governance personally incorporates authority and it is precisely this personalisation of authority that permits the family to guide the firm according to its own business vision (Chua, Chrisman, and Sharma, 1999). On the other hand, the authority structure is relatively impersonal, divided, and dependent upon the role when a firm exhibits managerial governance (where there is a clearer distinction between ownership and management) or "rational-legal authority", as Weber (1947) described it.

It is emphasised by agency theory that the firm's ownership and governance structures the degree to which it will become involved in or avoid actions of risk (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). Following the logic of this theory, as they gain greater ownership of the firm, managers will develop greater risk aversion (Beatty and Zajac, 1994; Denis *et al.*, 1997) as a result of their equity ownership influencing their propensity to take risks (Eisenhardt, 1989; Zajac and Westphal, 1994).

The taking of risks is a typical aspect of strategic change. It is difficult for firms with concentrated ownership structures to bear risk bearing and this may reduce strategic dynamism (Chandler, 1990; Meyer and Zucker, 1989; Schulze et al., 2002). Consequently, a highly concentrated ownership structure might give rise to risk avoidance when making strategic decisions (Chandler, 1990). What is more, as Schulze et al. indicated in 2002, the fact that family and business affairs may become intertwined when strategic decisions are to be made in the family firm could create inertia, for instance when such important company choices as a generational succession are put off by a CEO due to family welfare considerations. Schulze et al. (2002) went on to hypothesise that such actions of strategic dynamism as risk-taking, innovation, and strategic renewal might be hindered by family ownership due to concentrated ownership's aversion to risk, altruistic incentives and self-control problems. Within the literature on the family-run firm, such companies are sometimes portrayed as being conservative and avoiding change, (Aronoff and Ward, 1997; Kets de Vries, 1993; Sharma et al., 1997), introverted (Poutziouris *et al.*, 2004) or immobile due to conflict within the family (Barach, 1984).

An avoidance of risk and involvement in actions of strategic change, such as participation in new international markets, corporate diversification or product innovation, maybe some of the consequences of ownership being concentrated amongst the firm's top management (George et al., 2005; Hill, Snell, 1988; Hoskisson et al., 2000).

Sometimes, controlling owner-CEOs consider their firms to be almost personal fiefdoms. Given that they are in a position that allows them to take or stall, actions without board or TMT intervention, risky decisions may be made or, in a case where nothing changes for some time, strategic stagnation may occur (Finkelstein, Hambrick, 1996; Miller, Le Breton-Miller, 2006a), both of which may be hazardous.

External investors, and other such monitors, who require such practices as strategic renewal, transparency and accountability, which may bring about the development of a defensive, reactionary *modus operandi* that might threaten efficiency and longevity, can, very often, only apply limited pressure to managers who are family members due to ownership concentration and the fact that ownership and management are united (Carney, 2005)

3. FORMULATING HYPOTHESES

The upper echelon theoretical perspective (Hambrick, Mason, 1984) indicates that firms might be aided by their Top Management Team (TMT) to augment their strategic change and innovation potential. According to this perspective, a firm's performance is conditioned by the makeup of the firm's central managerial team, the TMT, and how it acts. In line with past research, we argue here that a particularly important component in a firm's success is that of its TMT's human capital (Cooper,

Gimeno-Gascon, Woo, 1994; Herron, Robinson, 1993; Thakur, 1999).

In general, the level of a firm's management which upper echelon research analyses is that of its top executives. This level is considered as a group and, consequently, there is an implicit assumption that power is spread evenly across this elite echelon of corporate actors (Dalton, Dalton, 2005). On the other hand, some research suggests that the CEO's characteristics are of greater relevance than group characteristics (Cannella, Holcomb, 2005; Kalyanaraman, 2015), especially in family-controlled firms where corporate decisions and outcomes are particularly highly influenced by a CEO from the main owner family.

In Italy, there is frequently a single administrator or a small sized board (Marchini et al., 2017), that nominates the managing director internally at small- and medium-sized companies (Società per Azioni and Società a Responsabilità Limitata). We refer to this single administrator or managing director as the CEO (*chief executive officer*).

Responsibilities and tasks within the Top Management Team are mainly controlled by the CEO (Haleblian, Finkelstein, 1993), who is, in effect, the team leader (Wu et al., 2005).

The board and TMT frequently coincide in family-run SMEs, where it is common to find the same individuals, or members of the same family, holding positions at various different levels of governance (Mustakallio et al., 2002; Nordqvist and Melin, 2002). Consequently, any analysis of management in family-controlled SMEs looks at the way management, the board and ownership work together to produce such essential organisational results as innovation and strategic change.

In this paper, the company is governed by the CEO, a member of the controlling family, and the top management team includes at least one other member of the family. However, the size of either the board or the TMT may grow as a result of individuals from outside the controlling family becoming involved.

The potential a firm has for strategic change and innovation might also grow due to the assistance of the board of directors. An important service function is carried out by the board of directors, whose role it also is to provide the firm with resources of various types, including knowledge and external third-party relationships (Gabrielsson and Huse, 2005; Huse, 2005, Forbes and Milliken, 1999; Sirmon and Hitt, 2003). If the firm's environment alters in a way which is significant, any such resources might assume an essential role when the firm makes a change in its strategy (Pfeffer, 1972; Pfeffer and Salancik, 1978; Gales and Kesner, 1994).

According to Moran and Ghoshal (1996) and Tsai and Ghoshal (1998), in terms of the firm's processes of innovation, new resources have to be exchanged and combined or new methods have to be found to use existing ones, so that new or improved products and services are developed. A variety of resource inputs (e.g. Kanter, 1988) and abilities to combine them (Kogut and Zander, 1992) is necessary for innovation. As a consequence, if individuals in possession of experience, knowledge and/or the ability to combine resources are included on the board, albeit they are not members of the owning-controlling family, this might generate innovation, so indicating value creation (Tsai and Ghoshal, 1998).

The innovation and strategic change initiatives that a family-member manager undertakes (good stewardship) might be enhanced by the actions of a board that attempts to aid management rather than just control it (Gonzales-Bustos et al., 2017). In such a scenario, the board may also limit or combat the stagnation and lack of strategic dynamism that a family-member manager's risk aversion might tend towards.

3.1. The TMT contribution

The ability of family firms to innovate is affected by factors regarding their top management teams, which often have an impact on firms of this type. Indeed, it has been suggested that one way in which the natural parsimonious propensities (financial caution) that these firms have manifests itself in their attempts to limit TMT participation to family members Carney (2005).

There is a strong negative relationship between such propensities and the capacity for innovation, since parsimonious propensities may encourage an efficient operational environment which roots out some of those slack resources that Nohria and Gulati (1996) describe as necessary for successful experimentation and innovation (Gedajlovic and Carney, 2010). Furthermore, the greater altruism, loyalty, and commitment that it is believed would emerge if many members of the same family made up a top management team, that is if there was a high level of "familiness", should lead to greater strategic consensus within the TMT (Ensley and Pearson, 2005). However, it is not necessarily positive for a firm's processes of innovation if its TMT comes to an agreement on the strategic direction to be taken quickly and it has been observed that, although such an agreement may be soon reached when a firm's top management team is controlled by members of the owning family, constructive discussion and effective evaluation of new ideas might be lacking (Gedajlovic and Carney, 2010; Essen et al., 2015). Hence,

H1: Non-family member participation in the top management team has a positive effect on innovation of the firm belonging to a network.

Other researchers have noted how the tendency to restrict the top management team to family members inhibits the development of absorptive capacity, and reduces access to outside sources of information that are needed to calibrate and refine the complex systems which often constitute the base for important innovation (Cabrera-Suárez et al., 2001; Pollak, 1985).

Cohen and Levinthal (1990) consider the concept of absorptive capacity to be the firm's capacity to assess, assimilate and apply knowledge from outside the firm to its business objectives. Furthermore, on the basis of such analysis as that of Allen (1984), they suggest that the firm's Research and Development (R&D) activities are the source of

its absorptive capacity. On the other hand, it is not certain that absorbed knowledge will then be put to economic use. The more effort an organisation makes in the area of R&D, the greater is its consequent capacity to create knowledge and assess that created by others. However, it has been observed that, for various organisational motives, absorbed knowledge is not always utilised, be its source an individual or an organisation (Davenport and Prusak, 1998). As this aspect is clearly connected with the role a top management team plays in an SME, it is of great importance in this work.

In fact, the participation of the TMT in everything the firm does is enhanced by small, flexible organisational structures. One instance of this is the fact that, in SMEs, there are fewer specialised product development and marketing departments (Cowling, 2003) and TMTs greatly influence the decision making of those that are to be found (Van Doorn et al., 2017).

An organisation's knowledge base acquires greater diversity and scope when people from outside the controlling family are recruited to the TMT (Gedajlovic and Carney, 2010; Carney *et al.*, 2015) and this enables the firm to make use of knowledge obtained from outside sources and adapt it to its own product portfolio (innovation). Hence:

H2: Participation in the top management team by non-family members improves the relationship between absorptive capacity and the generation of innovation of the firm belonging to a network.

The resource-based view "*perceives the firm as a unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize value through the optimal deployment of existing resources and capabilities, while developing the firm's resource base for the future"* (Grant, 1996) and, in line with this perspective, recent research has found that firms' strategic behaviour is influenced by their absorptive capacities. If a market is dynamic, the source of a firm's competitive advantage lies within its manager's ability to "integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al., 1997, p. 516) and, in markets of this type, the ability to manipulate knowledge resources is of particular importance (Grant, 1996; Kogut B., and Zander U., 1996). On the basis of their research into the firm's dynamic capabilities, Eisenhardt and Martin (2000) and Raff (2000) venture that dynamic capabilities lie within organisational processes and are utilised to facilitate organisational change and evolution (Zott, 2003). By using these dynamic capabilities, the firm is able to restructure its resource base and obtain a competitive advantage by adapting to the conditions of a dynamic market. Zhara and George (2002) have suggested reconsidering absorptive capacity as a form of a dynamic capability which regards the creation and use of knowledge as elements that extend the capacity a firm has to integrate, restructure, acquire and release resources so as to deal with, or even bring about market change. Consequently, if the environment is changing, those firms that have a higher capacity to absorb will be able to adapt their resource and knowledge bases more quickly and cheaply than their rivals (Zahra and George, 2002, p. 195-196). From this point of view, strategic change is powered by absorptive capacity (Pingying, 2010; Van Doorn et al., 2017).

According to agency theory, the tendency that top managers have to modify strategy is connected to the firm's ownership structure (Bethel and Liebeskind, 1993; Saravia and Saravia-Matus, 2016). This is due to the fact that any increase in their wealth is not a consequence of the company's total equity value, but rather its growth and diversification. Given that ownership and control are often united in SMEs, this type of behaviour becomes less likely.

Within upper echelon theory on the other hand, it has been suggested by Hambrick and Mason (1984) that the cognitive aspects of the top management team, ie. values, norms and interests, have a great impact on the methods firms adopt when processing and evaluating data on their markets and clients and, therefore, these aspects also influence the ability of management to identify and apply strategic change. The characteristics of top management teams, particularly the connection between their demographic makeup and performance, have been analysed in previous studies (Amason, 1996; Amason and Sapienza, 1997; Govender and Parumasur, 2016).

Strategic change in SMEs will probably be especially highly influenced by TMT characteristics due to the small dimensions and flexible company structures of SMEs which render TMT activity more intense throughout the firm. When the TMT includes members from outside the owner family, the diversity and scope of the firm's knowledge base is extended. As a consequence, the larger the TMT, the greater the range of resources and competencies it will probably have to call upon when making decisions. Greater cognitive diversity, allowing alternative possibilities to be assessed in strategy-making, is another consequence of a larger TMT. A functional TMT will practice cognitive conflict, a structured disagreement in which participants express and share their different ideas and points of view with the aim of developing a strategic consensus (Amason and Sapienza, 1997). What is more, diversity will be added, given that TMT members will probably be responsible for diverse tasks, i.e. they will work in different areas of the firm's operations. This extending of cognitive diversity through the creation of a bigger, functionally more varied group should augment creative decision-making and identify alternative ways in which the firm might develop (Forbes and Milliken, 1999). Furthermore, the dominant position that family-managers might have in terms of strategic direction may be counterbalanced to some extent if a larger TMT includes more managers from outside the family. It is to be expected that an individual manager who does not belong to the controlling family will be more prepared to voice his alternative ideas if there are several other non-family members in the TMT. Therefore, the larger a TMT is, the greater the willingness to accept change and the number of possible alternatives for such a change should be. Hence,

H3: Non-family member participation in the top management team has a positive effect on the strategic change of a firm belonging to a network.

3.2. Board contribution

Boards of directors often perform a central function in their firms' strategic decision making (Pugliese et al., 2009) in terms of the methods the firm follows when it makes its most important strategic decisions (Pugliese et al., 2009). Indeed, by interacting with TMTs, boards are involved in different steps of the strategic decision-making process (Judge and Dobbins, 1995; Forbes and Milliken, 1999; Rindova, 1999).

The central role board insiders and outsiders have in deciding upon the firm's innovation strategies has been described in the international literature on various occasions, with Hill and Snell (1988) and Baysinger et al. (1991) presenting some of the first studies to indicate how the firm's innovation activity can be influenced by its board.

In 1983, Fama and Jensen described the board as the ''apex of the firm's decision control system''. In small- and medium-sized family firms, on the other hand, owners have direct access to details of the closely held and owner-managed firm's internal processes (Cowling, 2003). The fact that there exists little, if any, the risk of management adopting opportunistic behaviour in such closely held firms means that the board has a different function and is able to concentrate on such service functions as strategic development and stewardship rather than concerning itself with control.

This means that it is essential that the board carries out such service functions as being an advisor to the owner-manager family member, while it is less important for the board to exercise its control function (Brunninge and Nordqvist, 2004; Ford, 1988; Huse, 2000). In the course of the last twenty years, our comprehension of the strategic tasks the board performs has been extended by researchers adopting various approaches. Fama and Jensen, for instance, have suggested that the board should carry out its function as "*the apex of the firm's decision control system*", in line with agency theory, by controlling, assessing and approving strategies (Kouki and Dabboussi, 2016). By applying resource dependency theory, Zahra and Pearce (1989) indicate that any involvement directors have in strategic decision making normally involves initiating strategic analysis and proposing alternatives. In adopting a practical point of view regarding a board's participation in strategic decision making, other researchers have emphasised the essential function of strategy implementation (Huse, 2005; Zahra, 1990). In other words, the board's strategic activities may range from the initiating to the implementing of these strategies.

Anderson and Reeb (2004) suggest that there should be outsider board members who can to tell an entrenched family boss the truth. These outsiders would neither work for the company on too frequent a basis nor be members of the main owning-controlling family. Fiegener (2005) highlights the fact that there are also cases of outside members of SME boards who are active in strategy development. Insiders might consider their participation in board activities to be simply another part of their managerial duties, but, the outsider will tend to see management as being different from if complemented by, the board's activities (Forbes and Milliken, 1999; Mace, 1986; Nfawor, 2016). An outsider should have a more open mind and be less constrained than insider board members when evaluating the firm's strategic alternatives due to not being involved in the firm's day-to-day activities (Forbes and Milliken, 1999). Consequently, within closely held family firms, outsider board members are in a position to indicate alternative strategic directions and give counsel and information when a change is in the course (Borch and Huse, 1993). Outsiders can also make use of their personal contacts to introduce the company to important stakeholders who are active within the same environment (Borch and Huse, 1993; Zahra and Pearce, 1989) and, thus, may assist the firm in resource acquisition (Goodstein and Boeker, 1991), improve its reputation and increase its legitimacy (Hung, 1998; Johannisson and Huse, 2000; Pfeffer and Salancik, 1978), so creating a favourable environment for change.

According to the literature referred to above, it is probable that changes in strategy in general and strategies of innovation, in particular, would receive a positive impact from the involvement on the board of individuals from outside the dominant family.

Joseph Schumpeter argued that innovation represented the possibility for a firm to substitute its out-dated combinations of resources (Schumpeter, 1934) and, following this line of thinking, new resources have to be combined, or existing ones have to be combined differently, so that firms can produce new or improved goods and services (Moran and Ghoshal, 1996; Tsai and Ghoshal, 1998). Innovation is generated through a variety of resource inputs (e.g. Kanter, 1988) and capacities for combination (Kogut and Zander, 1992). These requirements can be satisfied through the inclusion on the board of outsiders who possess knowledge and experience that is not otherwise available to the family member-manager (Zona F. *et al.*, 2018). Indeed, such an inclusion would allow new knowledge resources (provided by the outside members) to be exploited and combined with those already in the firm's possession, as well as the division of new methods for existing resources to be combined through the use of that knowledge and experience that outsiders have provided.

The rules and self-regulatory codes that oblige stock market listed companies to employ outsiders do not apply to SMEs. Thus, given that such employees "*will come to support the organization, will concern themselves with its problems, will variably present it to others, and will try to aid it*", SMEs will probably employ outsiders (Pfeffer and Salancik, 1978, p. 163) and, in such a situation, primary benefits like (1) information and counsel, and (2) channels permitting information to be communicated between external organisations and the firm will be provided by the board (Pfeffer and Salancik, 1978).

Non-family members should bring to the board the fruits of their experience outside the firm in the

shape of greater cognitive variety, alternative points of view and new ideas (Zona F. et al., 2018). The result of this greater cognitive variety will be that board members will be able to provide a range of differing methods for the collection, analysis, and assessment of information. When a board includes active outsider members with a variety of methods for acquiring and assessing data on the firm's rivals, clients, operations, and market, it is probable that information from a wide range of sources will be taken into consideration (Keck, 1997; Leonard and Sensiper, 1998), so resulting in SMEs being more able to recognise any innovation or strategic change possibilities or necessities.

The various works referred to above suggest that if executives from outside the controlling family participate on the board, the board's ability to assess changes in the firms environment will improve, the range of skills the firm can employ in developing its new resources will be extended and it will become clearer how innovation and/or strategic change can be attained by employing existing resources differently. Hence,

H4: The presence of outside directors on the board has a positive effect on strategic change of the firm belonging to a network.

H5: The presence of outside directors on the board has a positive effect on innovation of the firm belonging to a network.

4. METHODS: SAMPLE SELECTION, VARIABLES, AND MEASUREMENTS

4.1. Sample selection

In selecting the firms, in the form of companies, a method was adopted that might help evaluate the formulated hypotheses. Initially, we made use of the information provided in:

- the Company Register (Registro delle Imprese), whose web site includes a specific section on firms which had signed a network contract (http://contrattidirete.registroimprese.it),
- Bureau van Dick's AIDA data base (https://aida.bvdep.com),

cross-checked the data for 15th February 2017 and found those companies (SpA and SRL) which had signed up to network contracts and figured in the ATECO classification of industrial activities. A list of 7,401 companies fulfilling these requisites was elaborated. Unfortunately, though, AIDA only provided directorship data for 2,379 companies in the section which focussed upon "Esponenti di questa Società" (Exponents of this Company). To begin with, we excluded those companies that had been operating for less than 6 years and then those which did not have a board of directors, but just a single administrator. At this point, we were left with 893 firms to analyse.

AIDA was the source of a great deal of company data, such as addresses, telephone numbers, and e-mail addresses. Those firms whose e-mail addresses had been acquired previously through AIDA were contacted to gather information. First of all, we asked whether there were at least two shareholders from the same family and whether the CEO and at least one other manager were also members of that family. If these two parameters were satisfied, we considered the companies to be "family businesses". This definition of the family firm is one of the most restrictive. However, by using this particular definition, we avoided the error that a number of studies of family firms have committed, that of not distinguishing "between entrepreneur-controlled businesses (ECBs) and family-controlled businesses (FCBs)" (Lester and Cannella, 2006). The fact that, by definition, ECBs are run by an individual owner-manager renders any idea of the company's being left to following generations rather improbable. Our study does not consider ECBs to be "family businesses", albeit it is quite common for ECBs to become FCBs when a founder leaves the firm to eventual heirs (Miller et al., 2005). In the mail we sent asking for information on shareholders and TMT composition, we also asked:

- in those cases where the board or TMT included no outsider members, for a telephone number which would allow us to contact the CEO, or a direct assistant/collaborator, to conduct an interview of a maximum of ten minutes in length.
- in those cases where the board or TMT included at least one outsider member, for, besides the CEO's telephone number, one through which the outsider member, or a direct assistant/collaborator, could be contacted to conduct an interview of a maximum of twenty minutes in length.

391 firms replied to our request. To begin with, even before the interviews, these firms were classified according to the Ateco 2007 classification of economic activities sector to which they belonged. The Ateco classification separates "Industrial Activities" into 24 sectors (see: http://www3.istat.it/strumenti/definizioni/ateco/ateco.html?versione=2007.3&codice=C), although, just 16 of the 24 Ateco 2007 defined sectors were represented by those firms that said that they were prepared to give an interview.

On one hand, the interviews provided us with information on the dependent variables of innovation and strategic change and, on the other, data regarding other variables which the former may depend upon, for instance, control and independent variables. Something that should be emphasised is that the dependent variable data refers to 2016 and 2015 whereas, as indicated above, the control and independent variable data refer to the years 2014 and 2013. There were two main reasons for choosing this two-year delay, both of which were well explained in earlier literature (Melin and Hellgren, 1994; Pettigrew and Whipp 1991). Any risk due to inverse causality is prevented by such a delay between independent and dependent variables. Moreover, a reasonable delay between independent and dependent variables is necessary because time is required to allow efforts in innovation and strategic change to come to fruition.

4.2. Gathering data, variables, and measures

4.2.1. Dependent variables

The innovations that each enterprise introduced during the reference period (2016-2015) are measured using the "*Innov*" variable.

Innovation in the firm is of central importance in the creation of value (Hitt et al., 1996; 1997). Therefore, it was decided that product and process innovation should be evaluated and interviewees were asked about the number of innovations the firm had introduced during the previous two years. In line with Tsai and Ghoshal (1998), product and process innovation were assessed by using the following aspects as indicators: (1) quantity of introductions of or developments of new materials; (2) quantity of introductions of or developments of new intermediate products; (3) quantity of introductions of or developments of new components; (4) quantity of introductions of or developments of new product attributes; (5) introductions of or developments of new equipment; (6) improvements in the level of automation; (7) quantity of new organisational methods in the area of production, and (8) use of new sources of energy. The variable was measured by summing the quantity of innovations for each aspect reported for the considered period of time. Cronbach's alpha was run to check the aggregation of the aspects.

The Cronbach's Alpha of the scale was 0.57, which was within the tolerance limits indicated in the literature (Nunnally, 1978; Malhotra, 1997). Therefore, the coherency and feasibility of the scales were considered to be valid.

Then, so that each firm's strategic changes during the period considered could be measured, the *"Change"* variable was used (2015-2014).

The majority of a firm, together with its relationship to the environment, is involved in its strategic change process and, consequently, the measuring of this process should be performed using a comprehensive scale (Johnson, 1988; Melin and Hellgren, 1994; Pettigrew and Whipp, 1991). Strategic change is perceived of in different ways with a narrow approach being adopted in the majority of governance and strategic change studies. These normally consider a strategic change to be either the switch from one comprehensive strategy to another, in other words to using different methods of strategic orientation (Boeker, 1989), or simply service additions, divestitures and/or industry changes (e.g. Golden and Zajac, 2001; Goodstein et al., 1994).

These definitions of strategic change are rather narrow for Italian SMEs, limiting the number of events that could be looked at. Consequently, we adhere to a broader vision and use a wider definition, of strategic change which is consistent with the work of Mintzberg et al. (1998), Ansoff (1965), Robbins and Pearce (1992), and Melin and Hellgren (1994). To be specific, we enquired whether changes had been made over the two previous years in 11 dimensions, following a simple yes/no answer format. The dimensions we looked at were: (a) conscious reductions or increases in staff; (b) large reductions in cost; (c) reduction, sale or closure of ineffective businesses; (d) introduction of more sophisticated methods of cost control; (e) the company's opening of business operations with a country it had not previously dealt with; (f) opening business operations in a new area of Italy; (g) initiating new methods of marketing; (h) early performance of tasks that, sooner or later, the company would have had to perform anyway; and (i) performing change in order to gain an advantage over competitors; (j) markedly altering what is offered to clients through the introduction of an new product or service; (m) initiating the elaboration of an important, entirely-new product, service or similar. The final two of these aspects regard strategies of diversification, rather than changes to a product that customers already have access to (innovation). Hence, changes which have no impact upon measurement of the *Innov* variable are included in the analysed strategic change operations.

The procedure for the aggregation of the above-listed dimensions which was used in measuring the *Change* variable was the following: each dimension was attributed flag "1" if at least one change along this dimension had been introduced by the firm; flag "0" was attributed when this was not the case. The *Change* variable was gauged for each firm in the sample by totaling the flags ("0" and "1") which had been accredited to the 11 dimensions.

Next, Cronbach's alpha was run in order to check the aggregation of the aspects. The Cronbach alpha of the scale was 0.62 and, given that the alpha value was within the tolerance limits suggested in the work of Nunnally (1978) and Malhotra (1997), the feasibility and coherence scales were considered to be valid.

4.2.2. Independent variables

As mentioned above, the following variables were measured by using data for 2013 and 2014.

As we wanted to find out whether there were any outside directors on the board, interviewees were asked whether any board members were neither members of the owner-controlling family nor worked for the company every day. The responses we received indicated that there were no outside directors on the board in nearly half the sampled firms and, where there was, just one outsider on the board was most common. As a result of this skewed variable distribution, the variable was dummy coded ''0'' for firms with no outsider directors and ''1'' for those with at least one. The name "*Outsider*" was given to this dummy variable.

Subsequently, the degree to which people from outside the main owner-controlling family could enter the TMT was assessed. This was evaluated through the question: ''does the firm have an active decision-making top management team?'' Given a positive answer, we then asked how many TMT members there were. Where at least one TMT member was not a member of the main owner-controlling family, the variable was given ''1'', if not, it was "0". This dummy variable was given the name *OpenTMT*.

Lastly, the R&D variable, often seen as a proxy of a firm's absorptive capacity, was gauged by using

data on the capitalised applied research and development costs. Indeed, as Cohen and Levinthal (1989, p. 569) asserted: "*while R&D obviously generates innovations, it also develops the firm's ability to identify, assimilate, and exploit knowledge from the environment-what we call a firm's 'learning' or 'absorptive' capacity*". When firms invest in R&D, this increases their capacity to absorb the requisite knowledge to innovate in the future (Cohen and Levinthal, 1990). The AIDA database was the source of our information and, in particular, the *R&D* variable was a dummy variable coded "0" when, for 2013 and 2014, firms had not recorded any increase in their capitalised R&D costs.

4.2.3. Control variables

Other variables may also influence the firm's ability to innovate. Thus, for the years 2013 and 2014, the following control variable was also included in the analysis:

- *Age*, a firm's product, and process innovation may be influenced by its life cycle (Johnson, 1988). Therefore, a firm's age was controlled for by asking in what year it was founded and the answer was recorded into the firm's number of years of age.
- *Orientation*, a control variable for entrepreneurial orientation was included given that it had emerged from previous research that the firm's level of entrepreneurial orientation can have a marked impact upon its ability to innovate (Lumpkin and Dess, 1996; Al Hares et al., 2018). A six-item scale, based upon the one Covin and Slevin (1986, 1989) developed, was used. To be specific, a CEO was asked to evaluate firm behaviour by applying a seven-point Likert scale for each item, where 1 represented the minimum and 7 represented the maximum, as can be seen in the table below. The sum of the six items in the table showed a Cronbach's Alpha of 0.7.

Table 1. Entrepreneurial orientation

	Minimum=1	***Maximum=7***
In general, the top managers of my firm favour…	a strong emphasis on the marketing of tried and true products or services	a strong emphasis on R&D, technological leadership, and innovations
In reference to new lines of products or services, has your firm marketed in the past 5 years …	changes in product or service lines have been mostly of a minor nature	changes in product or service lines have usually been quite dramatic
In dealing with its competitors, my firm . .	typically responds to actions which competitors initiate	typically initiates actions which competitors then respond to
In general, the top managers of my firm have…	a strong proclivity for low-risk projects (with normal and certain rates of return)	a strong proclivity for high-risk projects (with chances of very high returns)
In general, the top managers of my firm believe that	owing to the nature of the environment, it is best to explore it gradually via timid, incremental behaviour	owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives
When confronted with decision-making situations involving uncertainty, my firm.	typically adopts a cautious, wait-and-see posture in order to minimise the probability of making costly decisions	typically adopts a bold, aggressive posture in order to maximise the probability of exploiting potential opportunities

Note: The items are adapted to the needs of our work and taken from those originally used by Covin and Slevin (1986, 1989).

- *Size*, the firm's size might influence its governance, capacity for strategic change and innovation (Altuwaijri and Kalyanaraman, 2017). Thus, the firm's total number of employees was included as a control variable.

Two control variables regarding the firm's governance were also included. The interviewed CEOs were asked to indicate:

- *Bd_size*, gauged in terms of the number of directors on the board
- *Bd_meetings*, measured as the number of board meetings per annum. In fact, board meeting frequency might influence the performance of the firms (Ju Ahmad et al. 2017).

Lastly, 16 industry categories were constructed, with dummy variables included for each, on the basis of the Ateco 2007 "Industrial Activities" classification for the16 sectors the sampled firms belonged to. These dummy variables were: "food", "drinks", "textiles", "clothing", "leather goods", "wood", "paper", "chemical products", "pharmaceutical preparations", "plastic materials", "metallurgy", "metal products", "electronic products", "domestic appliances", "machinery", and "furniture production".

Table 2. Descriptive statistics delle variabili selezionate

Variable	***Mean***	***Median***	***SD***
Innov	14.351	13	8.91
Change	5.132	4	4.021
Outsider	.371	0	.403
OpenTMT	.411	0	.507
R&D	.521	1	.671
Orientation	28.159	28	2.914
Age	36.1	34	16.145
Size	11.7	10	4.520
Bd_size	4.3	4	2.198
Bd_meetings	5.9	4	2.945

Note: Observations 391

Table 3. Correlation matrix

		10	9	8	7	6	5	4	3	2	1
1	Innov										1
2	Change									1	.017
3	Outsider								1	.169*	.069†
4	Open_tmt							1	.009	.0101*	.099*
5	R&D						1	.023	.007	.065†	.073†
6	Orientation					1	.97*	.062†	.101*	.209**	.201**
7	Board_Meetings				1	.044	.29	.030	.078†	.029	.075†
8	Age			1	.011	.051	.019	.89*	.022	.018	.031
9	Size		1	.048	.038	.038	.101*	.303**	.113*	.049	.098*
10	Bd_Size	1	.021	.025	.044	.021	.91*	.99*	.104*	.069†	.073†

Notes: Pearson's product-moment correlation coefficients.
*N = 391; 1-tailed: † p < .10; * p < .05; ** p < .01*

5. ANALYSIS AND RESULTS

In Table 2, the descriptive statistics are given for the variables. In Table 3, the correlation statistics for the variables are given. Some significant correlations can be seen in Table 3. *Outsider* correlates significantly with *Change*; as do *Innov* with *Size*; *Outsider* with *Orientation*; *Outsider* with *Size*; *Bd_Size* with *Outsider, Open_tmt* with *Innov*; *Open_tmt* with *Change* (p< 0.05). *Size* correlates strongly with *Open_tmt*; as do *Orientation* with *Innov*; *Orientation* with *Change*; (p<0.01). *R&D* correlates weakly with *Change; as do Innov* with *Outsider*; *Outsider* with *Board_Meetings*; *Board_Meetings* with *Innov*; *Bd_Size* with *Innov*; *R&D* with *Innov*; *Bd_Size* with *Change* (p<0.1).

Besides the univariate tests giving preliminary proof of hypothesised relationships, a multivariate regression model is used to look at the dynamic interaction between the variables and the connection they have with strategic change and innovation.

To this end, two different hierarchical regression models were run.

The first model, presented in Table 4, tests hypotheses *3* and 4, focusing on strategic change, by using *Change* as a dependent variable. The second model, shown in Table 5, tests hypotheses *1, 2* and 5, focusing on innovation, by using *Innov* as a dependent variable.

In Table 4, first of all, just the control variables were placed in *Model I* (results reported in column one of table 4). Around 14% of the variance with *F,* equal to 2.90 (significance at 0.001 level), is explained by this model. *Size* (significance at $p < 0.05$) and *Bd_Meetings* (significance at $p < 0.01$) have a positive influence, implying that larger firms and boards which meet frequently have a positive impact on strategic change. Furthermore, the *Orientation* variable also influences innovation positively (significance at $p < 0.001$). Next, by including the independent variables, which corresponded to the tests of hypotheses 3 and 4, *Model II* was analysed. Column two of Table 4 presents the results. *Model II* improves significantly on *Model I* and this improvement in model fit is expressed by ΔR^2= 2%, where *Fchange* is equal to 4.051, significance at $p < 0.01$. When the regression coefficients in *Model II* are analysed, the results indicate that the presence of individuals from outside the main owner family in the TMT (*OpenTMT* variable), is linked to more strategic change in the firm within a network, which supports hypothesis 3 (p < 0.01). What is more, as foreseen by hypothesis 4, the presence on the board of outside directors (*Outsider* variable) correlates with the firm within a network adopting more strategic change. Hypothesis 4 was also supported by the data (p < 0.05). Lastly, the variance inflation factor (VIF) of each independent variable in the regression model was analysed so that any potential problems with multicollinearity might be detected. Values of VIF were especially low in models I and II (range 1.3–1.9) indicating that multicollinearity does not really represent a problem in our study.

Table 4. Results of hierarchical regression analysis of the Change dependent variable

	Model I	Model II
Control variables		
Food	.011	.017
Drinks	.09	.07
Textiles	-.18	-.13
Clothing	.09	.07
Leather Goods	.32	.25
Wood	.05	.07
Paper	.09	.37
Chemical Products	.028	.021
Pharmaceutical Preparations	.038	.15
Plastic Materials	.021	.10
Metallurgy	.015	.19
Metal Products	.018	.041
Electronic Products	.019	.023
Domestic Appliances	.037	.038
Machinery	.041	.021
Furniture Production	.009	.040
Orientation	.23***	.15***
Age	.008	.011
Size	.12*	.16*
Bd_size	.37	.49
Bd_meetings	.41**	.34**
Independent variables		
Outsider		.935*
OpenTMT		.858**
ANOVA		
F sign	2.90***	3.02***
R^2	.14	.17
Adj R^2	.09	.11
ΔR^2	.14	.02
F change	2.90**	4.05**

Note: Standardised regression coefficients are displayed in the table.
*N = 391; 1-tailed: † p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001*

Table 5. Hierarchical regression models of the Innov dependent variable

	Model I	*Model II*	*Model III*
Control variables			
Food	.012	.07	.016
Drinks	.039	.071	.051
Textiles	-.17	-.23	-.12
Clothing	.11	.12	.10
Leather Goods	.19	.15	.21
Wood	.09	.07	.08
Paper	.44	.47	.40
Chemical Products	.033	.039	.031
Pharmaceutical Preparations	.021	.19	.22
Plastic Materials	.018	.13	.15
Metallurgy	.019	.17	.21
Metal Products	.034	.029	.42
Electronic Products	.022	.021	.25
Domestic Appliances	.028	.024	.30
Machinary	.035	.030	.22
Furniture Production	.015	.019	.13
Orientation	.17***	.12***	.19***
Age	.015	.014	.019
Size	.19*	.15*	.12*
Bd_size	.29	.31	.41
Bd_meetings	.44**	.27**	.27**
Independent variables			
Outsider		3.65*	2.72*
R&D		1.99†	1.179†
OpenTMT		4.501**	3.243**
interaction			
OpenTMT × R&D			0.971*
ANOVA			
F sign	2.10**	2.40**	2.50**
R^2	0.11	0.14	0.15
Adj R^2	0.06	0.08	0.09
ΔR^2	0.11	0.03	0.01
F change	2.10**	4.05**	7.01**

Note: Standardised regression coefficients are displayed in the table.

*N = 391; 1-tailed: † p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001*

In Table 5, we started by putting the control variables alone in *Model I,* which explains about 11% of the variance with *F,* equal to 2.10 (significance at 0.01 level), and the results of this are presented in column one. A significant, positive effect can be seen for *Orientation* (at p < 0.001 level) and *Bd_Meeting* (at p < 0.01 level), which suggests that if the Board has a more active role, this will improve future expectations and lead to more innovation by SMEs. *Model II* was analysed in the next step, with the inclusion of independent variables representing the tests of hypothesis 1, 2 and 5 and the results are presented in column two of Table 5. *Model II* makes a more meaningful contribution than *Model I*, i.e. the base model. To be precise, this marked improvement in model fit is presented by ΔR^2= 0.03%, with *Fchange* equal to 4.05 and significance at $p < 0.01$. With analysis of the regression coefficients, the findings within *Model II* suggest that:

- there is a clear correlation ($p < 0.05$) between innovation and the presence of outsiders on the board (*Outsider* variable), thus, this analysis supports hypothesis 5;
- There is an even more significant correlation ($p < 0.01$) between the presence of outsiders in the TMT (*OpenTMT* variable) and innovation, thus, this analysis supports hypothesis 1.

In terms of hypothesis 2, it is important to ascertain what influence on regression analysis the interaction between R&D (a proxy of the firm's absorptive capacity) and *OpenTMT* variables has. Within a hierarchical approach, if, and only if, the interaction term makes a more significant contribution than *Model II* does an interaction effect exist (Cohen and Cohen, 1983). In this sense, the interaction term (corresponding to hypothesis 2) is added to the equation; the consequences are presented in column 3 *(Model III)* of Table 5. These data show that when the term for TMT openness interaction with R&D, i.e. *OpenTMT* × *R&D*, is added, there is a statistically significant improvement in model fit. Addition of the interaction term gives a statistically significant improvement in model fit in that variance increases of 1% are explained and this constitutes a statistically significant increase (*Fchange* = 7.01, p < 0.01). Therefore, if individuals from outside the dominant family are recruited into the TMT and the R&D dummy variable is "1", that is when the firm invests in research and development; this will have a particularly powerful, positive effect on family firm innovation. Consequently, strong support for hypothesis 2 is given by this empirical analysis. Lastly, the variance inflation factor (VIF) of each independent variable in the regression model was analysed in an attempt to find any potential multicollinearity problems. In models, I, II and III (range 1.6–2), VIF values were very low meaning that multicollinearity is not really a problem in our study.

6. DISCUSSION AND CONCLUSIONS

Some of the tendencies which small- and medium-sized family firms have might hinder strategic change and innovation. Through their parsimonious inclinations, family firms could facilitate an operational environment which is efficient in limiting waste, but that inhibits the creation of the conditions that Nohria and Gulati (1996) suggest are fundamental for experimentation and innovation to be successful. It has also been discovered that family firms follow cautious policies of investment and that these may also inhibit growth (Mustakallio, Autio and Zahra, 2002; Carney et al., 2015). Moreover, the firm's capacity for growth and innovation may be limited by this risk aversion (Cho and Pucik, 2005; Essen et al., 2015) as it might lead to resistance to change (Beatty and Zajac, 1994; Denis et al., 1997) and conservative behaviour in general (Aronoff and Ward, 1997; Kets de Vries, 1993; Sharma et al., 1997).

This work is based upon the research question of whether it is possible for firms within inter-firm networks to offset negative ownership consequences through their active use of governance mechanisms.

This is the thrust of this entire paper and directs the formulation of its basic hypotheses.

The central hypothesis is that the inclusion of individuals from outside the dominant family on the board and in the TMT facilitates strategic change and innovation in SMEs.

All of the hypotheses are supported by the results gathered from the empirical analysis performed. It would appear that firms' preparedness to innovate and be strategically flexible is probably affected by their governance. What is more, it seems that an unwillingness to change and to innovate is

probably not a sufficient explanation for the strategic inertia found in some small- or medium-sized family firms. Strategy-making is challenging and requires the ability to evaluate a complicated environment and to find and manage adequately the resources needed to deal with the business challenges which have been recognised (Van Doorn et al., 2017). Sometimes the resources and competences are necessary to bring about change and innovation lacking, especially in SMEs where a single individual often controls strategic leadership. Our results show that facilitating strategic change and innovation is possible by making use of governance mechanisms that augment the firm's strategic capacity and competence. Our hypothesis, that including individuals from outside the controlling family in the TMT influences the capacity of the family firm within inter-firm networks to create net value through innovation (hypotheses 1 and 2) and strategic change (hypothesis 3), is supported by the results of the empirical research. Consequently, some important conclusions can be drawn. Difficult environmental conditions or the emergence of new opportunities often require strategic change or innovation and sometimes family owner-managers find it difficult to accomplish such change and innovation. Our suggestion is simple. These problems will be alleviated by extending the group of individuals within the firm who are involved in decision-making. The ability family firms in inter-firm networks have to create strategic change is particularly highly influenced by the presence of directors from outside the owner-controlling family on the board (hypothesis 4). The involvement of outside directors in decision-making means that strategic leadership no longer lies in the hands of just one individual. These additional outsider strategists promote change by increasing cognitive variety (Amason, 1996; Amason and Sapienza, 1997; Forbes and Milliken, 1999), acting as a link between the company and important external stakeholders (Borch and Huse, 1993; Huse, 2000; Zahra and Pearce, 1989), and furthering the organisation's legitimacy (Johannisson and Huse, 2000; Pfeffer and Salancik, 1978; Zona et al., 2018). From the static point of view inherent to the simple composition of many company boards, the analysis particularly indicates that non-family members', i.e. outsiders', participation on the board has a marked impact on the capacity family firms in inter-firm networks have to innovate (hypothesis 5).

There are, of course, limitations to our study. First and foremost, the models used can only explain some of the complexity of the whole phenomenon (R^2 assumes values of between 11% and 17 %. These are, however, within the limits of significance). Indeed, it should not be forgotten that strategic change and innovation within inter-firm networks are complex phenomena and that governance mechanisms are just a limited part of the variables that influence strategic change and innovation in a firm belonging to an inter-firm network. Lastly, the data for this study refer to Italy and, as a consequence, we should think carefully before using them to make some generalisation about other national contexts. What is more, data on the variables were obtained through interviews with the CEOs of the sampled firms, meaning that this study has to deal with the limits which are inherent to those studies which make use of interviews and questionnaires in their gathering of data. For a review of the principle limits to such studies see, for example, Duncan and Hill (1985).

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