Family Business and Regional Development

This book explores the relationship between families, firms, and regions and the extent to which these relationships contribute to regional economic and social development.

Although family business participation in economic activities has been a common phenomenon since pre-industrial societies, and its importance has evolved throughout time and across spatial contexts, the book suggests that these factors have often been neglected in family business and regional studies. Taking this research gap into account, the book aims to deepen our understanding of the role family firms play in the regional economy. In particular, it explores two seldom studied questions. Firstly, what role do family firms play in regional development? Secondly, how do different spatial regional contexts shape family firm operations and performance?

Family Business and Regional Development presents a model of "spatial familiness" and uses themes such as productivity, networks and competitiveness to shed new light on family businesses. Moreover, it approaches the juxtaposition between family business and regional studies to encourage the cross-fertilisation of ideas, theories, and research methods between the two fields.

Bringing together leading experts in entrepreneurship, regional economics, and economic geography, this book will be a valuable reading for advanced students, researchers and policymakers interested in family firms, regional studies and economic geography.

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Abbreviations

FE	Fixed Effects
GDP	Gross Domestic Product
LQ	Location Quotient
RE	Random Effects
REL	Relatedness in Formal Skills
SCB	Statistic Sweden
SIM	Similarity in Formal Skills
SME	Small and Medium Enterprise
UNREL	Unrelatedness in Formal Skills

Introduction

Rodrigo Basco, Roger Stough and Lech Suwala

Family Business and Regional Development

Family business participation in economic activities has been a common phenomenon since pre-industrial societies, and its importance has evolved throughout time and across spatial contexts. These factors have often been neglected in family business and regional studies. Taking this research gap into account, this edited collection aims to deepen our understanding of the role family firms play in regional economies. Another objective is to recognise the effect of regional contexts on family firms by encouraging the cross-fertilisation of ideas, theories, and research methods between the two fields. In particular, our collection explores the relationship between families, firms, and regions and the extent to which these connections contribute to regional economic and social development. We therefore invite readers on this collective journey as we explore two seldom studied questions*: (1) What role do family firms play in regional development? (2) How do different spatial regional contexts shape family firms' operations and performance?*

The main rationale is to evaluate what we already know about the juxtaposition and cross-fertilisation between family business and regional studies. This will enable us to discover new lenses and research paths that can strengthen interdisciplinary methods and to envision and propose future lines of research. This edited collection intends to contribute to theory and practice by linking economic, social, and political players, whose interactions at local and regional levels are believed to play a role in their success.

Firstly, by unveiling the correlation between family business and regional studies, this volume explores the merging of families, firms, and regions from an interdisciplinary perspective at different levels of analysis (micro, meso, and macro levels). The connections between family and business have been extensively explored and studied and there is no doubt about the influence family has on firm decision-making. However, less is known about the intensity of these relationships across contexts, territories, and places. At the same time, regional studies have not recognised the role and importance of family firms as idiosyncratic economic and social players in regional development. Therefore, as an added value, this book addresses an

interdisciplinary view of the nexus between family firms and regions. By proposing new theoretical reasoning, this collection challenges existing theories to enlighten researchers, family businesses, and policymakers and help them understand and prepare for the phenomenon.

Secondly, this collection, which brings together researchers across family business studies, regional studies, and policymaking fields, is practical in nature. Connecting both theory and practice is our fundamental goal, so as to add value to our explorative and predictive research. Given that family firms are the most common organisational form around the world in developed, emerging, and transitional economies, our interests transcended basic research to include the sole interaction between family and business. In addition, we included the regional and spatial perspectives to unveil the role that family firms play in boosting or hindering local and regional socioeconomic development. From this perspective, research efforts undertaken here connect business families, family firms, regional developers and planners, and policymakers from both angles, to improve the world we live in. If this book can focus attention on the topic of family firms by initiating political debate at local, regional, national, and multinational levels, our initial goal will be accomplished.

This volume is organised into five segments to accommodate its interdisciplinary interpretation and to guide our readers in approaching the nexus of family business and regional studies. Part I ('Family Business and Regions') aims to introduce the topic of 'Family Business and Regional Development'. *Chapter 1*, by Basco and Suwala, introduces the discussion by examining theoretical fertile grounds between family business and regional studies. Research efforts are carefully approached in terms of both disciplines in the form of a literature review. This review explains and elaborates on the two most integrated models dealing with the nexus of family firms and regions and proposes future lines of research. In *Chapter 2*, Basco and Ricotta present quantitative exploratory research by analysing the persistence of family firms across European regions. In this chapter, the authors address two fundamental research questions: (1) Why are family firms unevenly distributed across regions, and to what extent is this related to the territories in which they exist? (2) Does the presence of family firms affect regional competitiveness, and if so, how and when?

Part II ('Micro-foundation channels') discloses the micro-foundations of the nexus between family businesses and regional development to our readers. In *Chapter 3*, Basco, Amato, Gómez-Anson, and Calabrò theorise—following the regional familiness approach and taking into account the fact that family business research is contextless—that family firms are more advantageous than their non-family counterparts when operating in small municipalities because of their emotional and social connections. The authors empirically demonstrate, in terms of productivity, that large urban settings are sources of diseconomies for Spanish family-managed firms. Hence, they are better suited to exploit highly embedded contexts such as

small municipalities. In *Chapter 4*, Adjei and Eriksson explore the connection between family co-occurrence in firms and the relationship with firm performance in longitudinal quantitative research conducted in Sweden. They demonstrate that family co-occurrence in workplaces influences productivity and that the positive or negative impact of familial relationships on productivity is contingent on the type of family ties, members' skills, and the regional context. This section ends with *Chapter 5*, authored by Amato, Patuelli, and Lattanzi. This chapter, which draws on a sample of firms located in five different Italian industrial districts, suggests that family firms are more engaged in digital innovation than non-family firms. The authors justify their findings due to the stronger firm-specific family social capital and embeddedness in local district networks.

Part III ('Meso-foundation Channels') investigates family firms at the regional level by considering the connections activated and triggered by family firms to stimulate (or not) regional development. In *Chapter 6*, Lenz presents qualitative research that focuses on the regional disembedding process of family firms across generations. Exploring several Basque family firms in Spain, Lenz confirms that the differences between incumbents and successors in terms of personal characteristics, network connections, and beliefs on how to conduct business lead successors to experience weaker regional embedding than their predecessors. In *Chapter 7*, Amato, Backman, and Peltonen answer the question of whether family firms in Finland are more locally embedded than non-family ones. They conclude that firms in Finland rely greatly on enduring and spatially proximate stakeholders, and therefore indicate a stronger link with the socioeconomic milieu in which they dwell. This section concludes with *Chapter 8*, in which Graffenberger and Görmar present the role of hidden champions located in small towns in peripheral regions in Germany from a corporate responsibility perspective. The authors indicate that family firms' commitment to supporting corporate activities is higher than that of non-family firms because of family-related specificities and socio-emotional dimensions of local embeddedness.

Part IV ('Evidence around the World') presents three chapters on family business and regional development in the African, European, and Chinese contexts. In *Chapter 9*, Murithi and Woldesenbet explore the self-perception of family and non-family firms in terms of their contribution to regional development in Kenya. Because of the strategic behavioural differences between family and non-family firms, their contribution varies. In *Chapter 10*, Cappelli, Cucculelli, and Peruzzi further develop our understanding of the topic by analysing whether family firm density and industry scale affects entrepreneurship at regional level. Interestingly, the authors find that entrepreneurship reacts positively to the prevalence of family firms and negatively to the presence of large companies. However, these results only occur in Western European as opposed to Eastern European regions, in which entrepreneurial initiatives are driven significantly by the average firm size. Finally, in *Chapter 11*, Zhang, Dou, and Fang shed light on the connection

between family firms and regional development in China. This exploratory investigation exposes readers to the unique Chinese context to better understand the role of family firms in regions and, conversely, the effects of regional economic and development on family firms.

We conclude the edited collection with Part V ('A Policymaker Perspective') which provides a practical orientation to connect research and practice. *Chapter 12*, authored by Albers and Suwala, explores the link between family businesses and regional development from the spatial corporate responsibility lens in a German context. This practical view presents implications for urban and regional planning on how to perceive the role that family firms could play in regional development. Finally, in *Chapter 13*, Basco and Bartkevičiūtė present and explore the role of family firms in a place-based programme in Lithuania. The authors conclude that the local embeddedness of family members empower family firms to better utilise such place-based programme actions by reconfiguring existing regional resources, developing local social capital, and embracing a sense of regional belonging.

At this point, we would like to inform readers that our editor family shrank during the process of assembling chapters and reviewing manuscripts for this collection. Sadly, our esteemed colleague Roger Stough passed away in September 2019. During his exceptional academic career, Roger not only inspired us, but many other colleagues over the last five decades. He also produced numerous remarkable publications that later set the agenda for all disciplines. We are very honoured to have had the opportunity to work with this prestigious scholar and to form a mutual editorship with him on his probably last edited collection. Naturally, this volume is dedicated to Roger.

Part I

Family business and regions

1 Spatial familiness and family spatialities—searching for fertile ground between family business and regional studies

Rodrigo Basco and Lech Suwala

Introduction

Although family business and regional studies remained unconnected until a few years ago, key thinkers in both fields reminded us early on about the value added by considering space in family firms and the embeddedness of families and their firms in territories. Indeed, just in the second issue of *Family Business Review* in 1988, referring to family firms and community culture, Joseph Astrachan emphasised that space can act as an integrative factor in the family firm's success: 'Family businesses acquired in a manner that is at odds with the local culture will suffer, while firms that are acquired and managed in harmony with the local culture will have a higher level of morale and long-run productivity' (Astrachan, 1988, 165). Walther Isard (considered the father of regional science) formulated thoughts on future directions for the discipline by saying that a general theory of human society (as a response to Masahisa Fujita) should consider

> family, social group, and political decision-making and policy formulation. The optimization type of decision-making involving the family as a basic social organization and the behavior of political groups (parties) [,] which I explored in my *General Theory: Social, Political, Economic and Regional* (1969) from an economist's standpoint would need to be extended greatly to be made much more realistic.
>
> (Isard, 1999, 388)

Family firms are the most common form of organisation around the world, existing in different sizes, sectors, and locations (Basco & Bartkevičiūtė, 2016). Regardless of whether they were investigating gigantic multinational conglomerates in North America, the Middle East, and far-East Asia; small and medium Mittelstand family firms in Germany; or the vast number of family-based micro-businesses in Africa, researchers have observed that family firms (as legal, social, and economic entities) are characterised by family involvement in ownership, governance, and management, which in turn affects firm behaviour and performance (Basco, 2013). In the last

few decades, research in family business studies has extended beyond the aforementioned classical internal variables and has begun considering external and/or surrounding variables (Discua Cruz & Basco, 2018; Gomez-Mejia, Basco, Müller, & Gonzalez, 2020; James et al., 2020; Krueger, Bogers, Labaki, & Basco, 2020). For instance, context plays an important role when understanding the idiosyncrasies of family firms, including their economic positions (Steier, Chua, & Chrisman, 2009), the cultural imprints of society (Astrachan, 1988), their embeddedness in wider social networks (Le Breton-Miller & Miller, 2009), and their integration into institutional and political frameworks (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). Although every economic entity is somehow situated or embedded in different contexts (Granovetter, 1985) and those different contexts (e.g., organisational, cultural, social, institutional) have been analysed by family business scholars in a variety of ways, the spatiality aspect of *context* has received little academic attention in this realm (with some exceptions, such as Seaman, 2012, 2013, 2015; Basco, 2015; Stough et al., 2015; Basco, Stough, & Suwala, 2020; Basco & Suwala, 2020).

On the other hand, in regional studies (including regional science, urban and regional economics, economic geography, urban and regional planning and management, etc.), research on firms has experienced a renaissance in the last 25 years (e.g., Dicken & Malmberg, 2001; Taylor & Asheim, 2001; Taylor & Oinas, 2006). The origins of this interest can be traced back to Robert B. McNee's (1958) seminal contribution 'Functional Geography of the Firm'. The following years were characterised by studies on the increasingly global geography of large inter- and multinational conglomerates (e.g., in the petroleum industry) (Krumme, 1969; Taylor, 1975; Dicken, 1976). The crisis of the Fordist formation in the 1970s and 1980s brought research on firms and regional decline to the fore (Hayter & Watts, 1983; Laulajainen & Stafford, 1984; Malecki, 1985), while paving the way for the resurgence and re-examination of small and medium enterprises in (mature) industrial districts of the Third Italy (Becattini, 1978). Later, firms were seen as a forge of innovation situated in new industrial spaces and technology parks with an accompanied interest in regional entrepreneurship and a new wave of high-tech activities. In this vein, scholars from regional studies also focused on specific types of firms (e.g., new-born, small, medium, large, and foreign firms) when dismantling the role they play in regional and economic development (Scott, 1986; Giaoutzi, Nijkamp, & Storey, 1988; Sternberg, 1989; Fritsch, 1992). Then, the network paradigm took over, which dealt with the increased complexities of horizontal and vertical (dis)integration and the rise of digital firms (Yeung, 2000; Taylor & Oinas, 2006). However, the phenomenon of family firms has not been seriously considered by regional study scholars, who have mainly observed the family (business) as a supporting condition of *spatial contexts* with no systematic approach until recently (Stough et al., 2015; Suwala, 2019).

Considering the aforementioned evolution in each field of research, this chapter takes different theoretical perspectives and searches for a common

fertile conceptual ground between family firm and regional studies. To address this aim, we first provide an overview of studies from the former, dealing with spatial entities, as well as investigations from the latter, dealing with family business issues. Second, we present two conceptual models—the spatial family management model (Suwala & Oinas, 2012; Suwala, 2019) from regional studies and the regional familiness model (Basco, 2015) from family business studies—which are the seedbeds for that fertile ground between both disciplines. Finally, we juxtapose both fields according to different types of *spatial entities*.

Searching for fertile ground between family business studies and regional studies

Family business scholars dealing with spatial entities

Even though mainstream research in the field has focused on the internal aspects of the family-business relationship, family business studies explored topics related to space (context) relatively early in the discipline's formation. For instance, early studies tried to invoke location or spatial distribution as a determining factor when defining family firms. Westhead and Cowling (1998), in a bivariate analysis, found that family firms are over-represented in rural locations and under-represented in resource-rich core regions in the United Kingdom (Westhead & Cowling, 1998, 54).

Probably, the first attempt to deal with spatial entities, or more precisely *spatial factors*, was Kahn and Henderson's (1992) work investigating family firms and locational factors. The general idea underlying this study is that family firms have to balance both the family and business perspectives in strategic decision-making, such as when choosing their location (see also Hollander & Elman, 1988). In a sample comparing family firms and non-family firms, Kahn and Henderson (1992) found only mixed support for the assumption that family firms prefer soft locational factors (e.g., quality of life and amenities, among others) in relation to non-family firms, highlighting the importance of rational hard locational factors in firms' decision-making (e.g., proximity to markets and facility costs among others). However, they found that family firms are more concerned with spatial proximity to their residence than non-family firms (Kahn & Henderson, 1992). In general, family ownership seems to affect business decisions; whether this influence is adverse or beneficial will require further investigation (Scranton, 1993; Getz & Petersen, 2004; Ingstrup, Jensen, & Lüthje, 2016). Today, this research stream mostly investigates locational factors for family businesses in specific countries (e.g., Heinemann et al., 2019).

Apart from family firms' locational preferences, some studies have focused on the *spatial structure and distribution* of family firms and their impact on local and regional economies (Pérez & Raposo, 2007; Spiegel & Block, 2011; Scholes, Wilson, Wright, & Noke, 2012). Exploring West Germany at the district level (NUTS-3), Spiegel and Block (2011) emphasised that family

firms tend to be located in rural areas in proximity to regional metropoles. They found that North Rhine-Westphalia and Baden-Württemberg (two economic powerhouses in Germany) have the highest densities of family firms, confirming the assumption that they are located in economically strong regions (Spiegel & Block, 2011). Taking the spatial distribution of 245 large Spanish family firms into account, Pérez and Raposo (2007) confirmed the hypothesis that family firms are located in the most important economic centres (traditional industrial areas) with headquarters in Catalonia, Madrid, Aragon, the Basque Country, and Valencia.

The third and probably most popular research stream up to today focuses on family firms' internationalisation, which could be considered a *spatial processes*. Starting with Gallo and Sveen's (1991) seminal study on factors hindering and favouring this process, the topic of internationalisation has become popular among family business scholars. Most studies have focused on either searching for key determinants or ideal pathways (process view) to explain it (e.g., Gallo & Pont, 1996; Okoroafo, 1999; Graves & Thomas, 2008) or analysing the influence of family resources, ownership, heterogeneity, and networks (Calabrò, Campopiano, Basco, & Pukall, 2017) (for a detailed literature overview, see Kontinen & Ojala, 2010; Pukall & Calabrò, 2014, and for a review of theoretical frameworks, see Kraus et al., 2016; Reuber, 2016; Arregle, Duran, Hitt, & Van Essen, 2017) on family firms' internationalisation.

The fourth research stream, which is a bit far-flung, focuses on family firms across various *spatial contexts*. Studies on spatial contexts encompass different perspectives by considering emerging markets (Basco, 2018; Suwala, Kulke, & Gade, 2018; Rienda, Claver, Quer, & Andreu, 2019), transition economies (e.g., Donckels & Lambrecht, 1999; Banalieva, Eddleston, & Zellweger, 2014; Stangej & Basco, 2017), home regions (Banalieva & Eddleston, 2011; Pongelli, Calabrò, & Basco, 2019), urban versus rural locations (Backman & Palmberg, 2015; Baù et al., 2019), specific countries (e.g., Kowalewski, Talavera, & Stetsyuk, 2010; Daszkiewicz & Wach, 2014), and specific regions (e.g., Müller, Botero, Cruz, & Subramanian, 2018). The main rationale behind these investigations is that context can be related to family firms' wellbeing, functional logic, and success factors. Context leads to idiosyncratic practices. Therefore, it is not surprising that family firms are often tied to a specific spatial entity, such as their home region (e.g., Hennart, Majocchi, & Forlani, 2019). For example, Donckels and Lambrecht (1999) found that the re-emergence of family firms in East Central Europe in the 1990s was mostly driven by firms' implementation of crucial management functions and their growth aspirations. In other words, these studies account for spatial varieties of family firms.

The fifth research stream highlights the *spatial scales* of family firms, such as local (Seaman, McQuaid, & Pearson, 2017; Baù et al., 2019), regional (Chang, Chrisman, Chua, & Kellermanns, 2008; Bird & Wennberg, 2014),

and global (De Massis, Frattini, Majocchi, & Piscitello, 2018). Most newer studies have considered these different scales not solely as passive surroundings but rather as active spatial frames that provide unique embeddings enabling family firms to thrive. The recursive relationship between family firms and location can have many dimensions: local embeddedness; family corporate local responsibility; family firm-led place leadership (Albers & Suwala, 2020a–c; Graffenberger & Görmar, 2020); family firm-led regional economic growth and development (Basco, 2015); and family firm-led local persistence, resilience, and sustainably (Brewton, Danes, Stafford, & Haynes, 2010; Ljungkvist & Boers, 2016). Therefore, local (i.e., socio-spatial) embeddedness is a particularly important feature of family firms (Basco, 2018; Selcuk & Suwala, 2020). In this realm, Bird and Wennberg (2014, 424) conclude that 'family businesses are more embedded within the regional community than their non-family counterparts'.

The sixth research stream deals with family firms' *spatial settings*. This refers to the spatial configurations that make places unique. For instance, the territorial innovation models (i.e., industrial districts, local networks, clusters, or regional innovation systems) (e.g., Block & Spiegel, 2013; Cucculelli & Storai, 2015; Lopes, Branco, Parejo, & Rangel, 2016; Basco & Calabrò, 2016; Seaman et al., 2017; Konsti-Laakso et al., 2019; Amato, Basco, Backman, & Lattanzi, 2020). All territorial innovation models 'emphasize the importance of spatial proximity … in generating production, knowledge, learning processes and/or innovation in certain locales' (Brinkhoff, Suwala, & Kulke, 2015, 129). With regard to industrial districts in the Italian manufacturing industry, Cucculelli and Storai (2015) concluded that the family effect and the district effect both act as substitutes and complements depending on the size of Italian manufacturing firms. Block and Spiegel (2013) investigated the effect of family firms and regional innovation systems, finding evidence that the higher the density of family firms, the higher the level of innovation outputs, which in turn enhances regional patent outputs. Apart from that, Seaman et al. (2017) showed that family-owned firms make considerable contributions towards local economies through manifold linkages manifested via family, business, and friendship networks.

The seventh research stream comprises thoughts about *spatial concepts*. Seaman (2012 and 2013) developed an interesting framework of four types of spaces for business development that combines three types of inner space and one type of outer. Conceptual space refers to a cognitive superstructure that includes the idea of the family firm as a desirable activity as well as initial ideas supporting business development. Cultural space refers to the space created within the family by social and financial capital. Contingency space is about the help the family provides to the firm during the start-up phase, including both hands-on assistance and a pool of individuals with tacit knowledge and emotional commitment to the business. As a result of these different types of spaces, families and businesses create idiosyncratic

knowledge that is deeply interwoven and mediated through networks in an additional space—called community space—and thus facilitates (regional) development.

Additionally, different topics related to *spatial policies and planning* have been investigated with less research intensity (Glassop & Graves, 2010; Basco & Bartkevičiūtė, 2016). Even though family firms play an important role in regional and national economies, studies on regional policy have generally only focused on policies aimed at supporting family business, such as tax benefits or advice about ownership and management succession (Basco & Bartkevičiūtė, 2016). This poor state of scientific studies exists despite policymakers' knowledge of family firms' idiosyncratic needs and challenges in terms of intergenerational business transfer, financial obligations, business-family balance, lack of specific education, access to finance for growth, and ability to maintain a skilled workforce (Glassop & Graves, 2010). Ricotta, Golikova, and Kuznetsov (2017) found no notable differences affecting the innovative performance of family firms *versus* non-family firms in seven European countries and Russia despite different development phases of the economy and institutional environments among countries (as a proxy for spatial policies). For South Asia, Samphantharak (2019) reported that ownership and control are concentrated among a handful of prominent families that have formed business groups. These family business groups maintain extensive connections with politicians and bureaucrats and therefore indirectly exert power over relevant local and regional policies in favour of family businesses (e.g., 'guanxi capitalism' and 'bamboo networks') (Samphantharak, 2019).

Regional studies scholars dealing with family businesses

Although regional studies scholars emphasised early on that the family is a crucial factor when an individual firm's locational choice is at stake (Townroe, 1969), the phenomenon of the family firm was mostly disconnected from spatial scales and from any internal and idiosyncratic spatialities (Taylor & Asheim, 2001). Since space (and time) are abstract variables that dominate the discourse in regional studies, it is not surprising that the family has been a less important and often neglected dimension. The contributions of regional studies scholars in relation to family firms are scarce and fragmented in term of *zeitgeist*, research methods, theoretical concepts, and policy interventions.

The first research stream we can highlight, probably the strongest attempt to broach the subject of the family in regional studies, was the (re-)discovery of the Marshallian industrial districts (MIDs)—a particular *spatial setting* (Bagnasco, 1977; Becattini, 1978). Industrial districts are 'clusters of small family- and craft-based firms in the rural areas of the Third Italy … with petit bourgeois traditions, community-wide social and economic rules, and municipal mercantilist traditions, which are historically sedimented

in particular areas' (Trigilia, 1990, 199). These family firm–based spatial settings were viewed as a new regional remedy in the Fordist crisis of the 1970s and 1980s (Paci, 1980; Pyke, Becattini, & Sengenberger, 1990). In this sense, the link between economic spaces and family firms emerges when one considers that 'the spatial integration of productive and reproductive spheres also permits artisans to rely on the casual labour of family members, particularly women and pensioner[s]' (Lazerson, 1990, 121). Family in business is the crucial argument for family-based spatial settings, with Marshallian theory initially being extended to analyse the successful performance of regionally concentrated systems of production based on family-owned and highly specialised small and medium-sized enterprises. Moreover, industrial districts orchestrate market mechanisms and social institutions, such as families, kinship networks, and local communities, capitalising on external economies of scale (Trigilia, 1986). However, the family as an important ingredient in spatial settings was picked up randomly in studies investigating the spatial organisation patterns of post-Fordist formation in relation to new business formation (Garofoli, 1994) and the advantages of small and medium-sized enterprises (Bryson, Wood, & Keeble, 1993) due to cooperation, trust, and reciprocity among spatially proximate economic entities (Hansen, 1992).

Apart from the Italian industrial district, the Wenzhou model (Yeung, 2000; Wei et al., 2007) and the Gnösjo Spirit (Wigren, 2003) became popular research frameworks for exploring family firm–driven regional development, wherein business, family, and spatial context were heavily intertwined. In these frameworks, family firms or kinship ties serve as the 'glue' for socio-spatial proximity, holding together spatial arrangements and localized social relationships in so-called territorial innovation models (innovative milieus, clusters, regional innovation systems, and new industrial spaces) (Sforzi, 1989; Pypłacz, 2013; Brinkhoff et al., 2015). Therefore, in regional studies, the firm is frequently considered 'an organisational unit bringing together diverse social relations in which actors are embedded … [and] these relationships may be inter-personal relationships, family linkages or simply social ties' (Yeung, 2000, 311). In other words, the firm and its (family) management orchestrate spatial locations and networks, all of which are stabilised by family ties (Suwala & Oinas, 2012; Suwala, 2019).

A second research stream considers the family and family firms as (un-)favourable *spatial factors or structures* in local decisions. While Malecki (2000) subsumed the family as a soft factor in regional science, Zhou (1996) and Suwala and Kitzmann (2019) emphasised the benefits of spatially-concentrated ethnic and migrant family firms. Moreover, research has shown that founders/owners tend to locate near their families and friends in general (Schamp, 2005; Stam, 2007; Martyniuk & Gierusz, 2016) as these soft locational factors are important for firm performance and survival (Martyniuk-Pęczek, Martyniuk, Gierusz, & Pęczek, 2017; Suwala, 2019). Based on a study of 251 Polish firms, Martyniuk and Gierusz (2016) confirmed that in the case of family business, when deciding on the location for their business activity, the majority of owners choose a location near their home/residence.

The increased availability and accessibility of family business-specific and regionally dis-aggregated data has enabled new research on the *spatial structures* of family-based economic activities and their recursive relationship with the context (e.g., Adjei et al., 2016; Berlemann & Jahn, 2016; Majocchi, D'Angelo, Forlani, & Buck, 2018; Amato, 2019). Amato (2019) provided a fine-grained look into the generally positive association between family-managed firms and employment growth within a large panel dataset of Spanish manufacturing firms during the economic recession between 2007 and 2008. He concluded that when location is considered, municipality size positively affects employment growth within family-managed firms. Moreover, the results reveal that during the economic crisis, the reduction in employment level was less pronounced for family-managed firms located in small municipalities due to their stronger socioeconomic ties than for those in larger urban settings (Amato, 2019). The rationale here is that spatial structures make a difference for family firms.

A third research stream takes the availability of new data to explore the phenomenon of family firm at different *spatial scales*, ranging from local (e.g., Yanagisako, 2002; Baschieri, Carosi, & Mengoli, 2017) to global (e.g., Yeung & Soh, 2000; Majocchi et al., 2018). Interestingly, the widely acknowledged local home bias of family firms could not be confirmed in the study by Baschieri et al. (2017). Using a dataset of Italian firms (half of them family firms) over the 1999–2011 period, they concluded that local home bias was not a common phenomenon among the entire sample and mainly occurred in family firms in which the founder led the business. Local home bias did not occur in non-family firms and in family firms in which the owner had acquired control through a market transaction. Moreover, the results suggest that locally committed family firms elicit investor preference for local stocks and, in doing so, exploit local clientele to lower the cost of funding. This means that family firms' social contributions to their local communities may have an opportunistic effect (Baschieri et al., 2017).

A fourth research stream links family firms to *spatial processes* such as regional learning, innovation, and internationalisation (Yeung, 2000; Wei et al., 2007; Berlemann & Jahn, 2016; Adjei, Eriksson, Lindgren, & Holm, 2019; Amato, 2019). This stream mostly investigates different dimensions of social capital and proximities that influence firm performance and thus regional prosperity (Karakayaci, 2013; Pucci, Brumana, Minola, & Zanni, 2017; Suwala & Micek, 2018). For example, studies have shown that the family and different forms of entrepreneurial family relationships can be considered sources of effective learning or skills and thereby contribute to differences in firm performance across regions (Adjei et al., 2016, 2019). With regard to innovation, for Italy, Pini (2019) showcased that while external management significantly affects firms' propensity for innovation in the more advanced area (centre-north), in the less developed area (south), it requires an additional simultaneous investment in research and development to drive firms' innovation in family management. However, it is unclear whether a strong presence of family firms in certain spatial settings always

leads to prosperity. Schamp (2005) concluded that the lack of flexibility in regions dominated by traditional family branches, which often have a high density of family firms, might result in regional cognitive lock-in, regional sclerosis, and/or regional decline.

A fifth research stream comprises *spatial policy and planning* approaches, where family firms have been considered complementary additional actors in the development of local and regional economies (Albers & Suwala, 2018, 2020a–c; Graffenberger & Görmar, 2020). Albers and Suwala (2018 and 2020) differentiated between different intensities of so-called 'corporate spatial responsibility'—a spatial extension of the traditional concept of corporate social responsibility—and the impact on regional development. As shown in some cases, family firms' local commitment became so intensive that they coined these family firm initiatives as family firm–led local and regional economic development. In these cases, family firms took over former sovereign and administrative districts as well as county and state tasks necessary for local and regional governance and exerted genuine place leadership through holistic local future plans and master plan initiatives (Albers & Suwala, 2018, 2020c; Suwala et al., 2018).

Spatial familiness and family spatialities

The contemporary re-discovery of space in family business research studies and families within territories have connected family business studies with regional studies. Not until recently did both these research streams start the cross-fertilisation process. While scholars like Basco (2015) and Stough et al. (2015) from family business studies raised the question of whether the mere presence of family firms is good or bad for regional economic development, Suwala and Oinas (2012) from the regional studies field almost simultaneously examined the micro-foundations of the spatial management of (family) firms.

To explore each of the aforementioned streams, we first present the conceptual model of spatial family management, which aims to interpret how different spaces affect family management (Suwala & Oinas, 2012). Second, we re-visit the regional familiness model (Basco, 2015), which aims to capture family firms' embeddedness in social, economic, and productive structures within the spatial context to explain family firms' role in regional development. For both approaches, we shed light on the spatial entities we discussed in the previous sections—namely, factors and structures, processes, contexts, scales, settings, policies, and concepts.

Spatial family management model

Despite being a central topic in regional studies, neither the firm nor the manager have been properly acknowledged, due to the rather macro perspective used to develop models of spatial economies (e.g., von Thünen, Weber, Christaller, Lösch, Isard). Moreover, these models assume a passive interpretation of the individual as *homo economicus* (Suwala, 2020). Despite

novel and promising developments in the field, the (family) manager is still considered rather lonesome or, more precisely, a fragmented maverick (Suwala & Schlunze, 2019). The management geography[1] research stream (Schlunze, Baber, & Agola, 2012; Suwala & Oinas, 2012) attempts to explain managerial agency across and within spaces when businesses have to decide on appropriate locations, local or international operations, strategic relationships with suppliers and customers, and internal and external images. In other words, this research stream aims to analyse the management of economic, social, and cognitive spatial domains in multi-scalar configurations and their influence on corporate performance through concentration, interaction, and perception (Suwala & Oinas, 2012). Family managers have to address three spatialities—economic, social, and cognitive spaces—spatialy-influenced self-reinforcing (dis-) and each of them can be seen as a continuum between different types of economies versus diseconomies of scale i.e., spatialy-influenced self-reinforcing (dis-) economies (Suwala, 2014).

First, the economic space can be thought of as a location. Space retains economic meaning as a location due to the simple fact that transport and transaction expenses occur over distance; hence, location is relative (against other locations), and spatial costs (e.g., transaction and transportation costs) can be calculated (Suwala, 2020). Within this domain, the family manager has to address different problems related to location, such as the firm's locational strategy, the optimal spatial choice regarding locational factors, and internationalisation-related decision making (e.g., liabilities of foreignness) (Suwala & Kulke, 2017). Managerial tasks have to optimise self-reinforcing

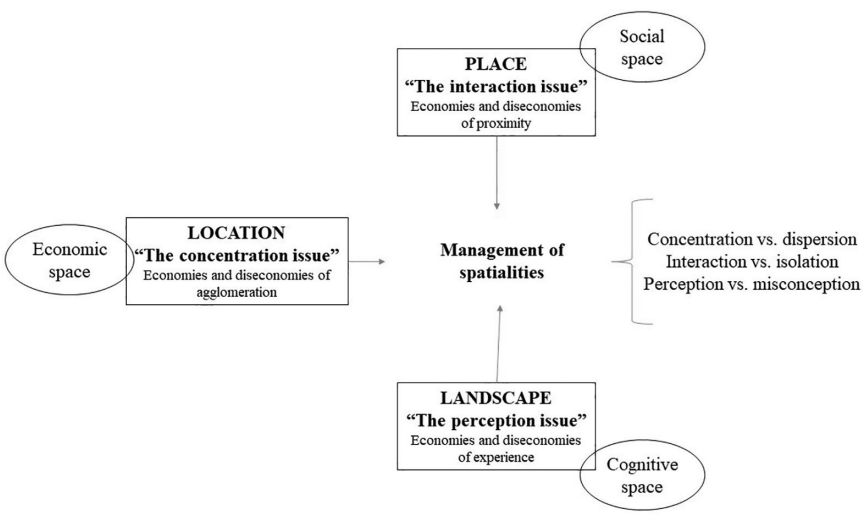

Figure 1.1 Spatial family management model (adopted and refined further from Suwala and Oinas [2012], Suwala [2019]).

spatial mechanisms arising from agglomeration economies that are internal (e.g., economies of scale and scope) and external (e.g., localisation and urbanisation economies) to the firm. Here, *spatial factors* (importance of locational factors), *spatial structures* (relative location of the business), and partly *spatial processes* (expansion and internationalisation of the firm) are important. Managers have to optimally balance the concentration and dispersion of economic activities within space (Suwala, 2019).

Second, the social space is perceived as a place. A place is constructed through social ego-centric relationships between individuals; hence, it is relational. In other words, 'social space involves the network of functional relationships and social interactions' (Trip & Romein, 2010, 5). Places are about context, and they can only be understood through actors' social and relational embeddedness (Selcuk & Suwala, 2020). Within this domain, the family manager has to balance family relationships, internal and external firm ties (suppliers, customers, etc.), and friendship networks (Suwala, 2019) to provide solutions to the fundamental problem of coordinating relationships between economic actors. These relationships are characterised by different dimensions of proximities (e.g., spatial, cognitive, organisational, institutional, and cultural) (Knoben & Oerlemans, 2006). Proximities may become proximity economies when fuelled by power, trust, and reciprocity, resulting in place-based knowledge and learning processes (by means of face-to-face meetings) (Storper & Venables, 2004). However, not only is being there (spatial proximity, physical presence) important but so is being aware (cognitive proximity) (Grabher et al., 2018). Managers have to orchestrate the firm's networks its interaction and isolation while being situated in particular *spatial contexts* and *spatial settings* (e.g., industrial districts, migrant communities) (Suwala, 2019).

Finally, the cognitive space can be visualised as a landscape. Landscapes are the result of individuals' topo-centric relationships with space. Individuals (e.g., employees) are bound together not only by (ego-)relationships among themselves (relational view) but also through topical-relationships directly with space (Suwala, 2020). The result is a topical field in which individuals collectively share similar cognitive images, spatial mindsets, and particular atmospheres without necessarily knowing each other personally (Brinkhoff et al., 2015). Within this domain, the family manager lays out firm ethics or a family charter in order to establish a long-lasting firm culture that is reinforced by manifold images related to the family name, house symbols, and logos and in which the environment or workplace design plays a crucial role. This cognitive space is about a 'stockpile of knowledge, traditions, memories and images' (Scott, 2010, 123), which helps create a (mutual) atmosphere to stimulate particular perceptions and holistic experiences. The cognitive space as landscape may result in experience economies (e.g., entertainment, educational, aesthetic, and escapist experiences) (Suwala, 2014) depending on the intensity of attention and the memorability of extraordinary events and may arise from overlapping perceptions among individuals (Lange, Power, & Suwala, 2014; Pfeufer & Suwala, 2020). Therefore,

managers have to set up and balance between perceptions and misconceptions of economic actors' experiences with family firms creating a certain *spatial context—spatial processes* like local learning, creativity, and innovation.

Extending these ideas from management geography to the family business field, managerial decisions in the context of family firms have to balance three different spatialities—economic, social, and cognitive spaces—and each can be interpreted as a continuum between different types of (dis-) economies arising from concentration/dispersion, interaction/isolation, and perception/misconception. Each of these spatialities comprises different managerial roles, such as the concentration role as a locational explorer (relative view, economic space, concentration), the interactional role as an embedded gatekeeper (relational view, social space, interaction), and the informational role as an experienced preceptor (topic view, cognitive space, perception) (Figure 1.1).

Regional familiness model

Since family involvement in the firm affects the way an organisation is owned, governed, and managed, consequently, it is a source of heterogeneity among family firms and between them and non-family firms. The micro-foundations of the spatial family management model should be linked to the meso- and macro-foundations in order to theoretically and empirically interpret the effect of family firms at different *spatial scales* (e.g., local or regional). In this sense, the regional familiness model aims to connect the meso- and macro-foundations of family firms in regional studies.

Following Basco (2015), we define regional familiness as the consequences of family businesses' embeddedness in the *spatial context* that alter regional or *spatial factors* (i.e., tangible and intangible factors) and regional or *spatial processes* (e.g., spill-overs, information exchange, learning processes, social interactions, competition dynamics, and institutional dynamics) through proximity dimensions (i.e., relational, institutional, organisational, social, and cognitive proximities). In this sense, the family firm is not only an important actor due to its mere presence but also a driver of heterogeneity for regional factors and processes and their associated proximity dimensions.

The first connection that the regional familiness model proposes is the effect of family firms on regional factors (*spatial factors)*. Regional or *spatial factors* are the aggregate resources (tangible or intangible, endogenous or exogenous) in an adopted spatial entity. They include not only traditional neoclassical resources related to capital and labour but also human factors (knowledge embedded in the labour force), social factors (networks and access to networks through which information flows), and entrepreneurial factors (ability and willingness to discover and exploit opportunities). The distinctive characteristics of family involvement in economic activities develop and create aggregate factors that, because of their endogenous

characteristics, represent basic elements that may determine the quantity, quality, and pace of economic and social development. It is important to recognise that the aggregate effect of family firm activities could alter existing regional factors, imprinting them with specific properties, such as patient capital, local re-investment, and long-term commitment, but could also create additional unique and difficult-to-imitate regional factors, such as labour commitment, collective knowledge transfer across generations, stock of kinship and social relationships, and collective entrepreneurial spirit (see the literature on territorial innovation models—Brinkhoff et al., 2015).

However, understanding the effect of family firms on regional factors is necessary to unpack family firms' connection to the meso-level; regional factors need regional processes that are responsible for exploiting and allocating them. The main regional or *spatial processes* include spillovers, information exchange, learning processes, social interactions, competitive dynamics, and institutional dynamics. The quality of regional processes can accelerate or slow the productivity of regional factors and can thus have consequences for regional economic and social development. By recognising the existence of regional processes, it is possible to move the concept of space from an absolute and relative perspective to a relational perspective.

The efficient functioning of regional processes lies on the dimension of proximity. Proximity refers to the state, quality, sense, or fact of being near or next to in space, time, or relationship (Torre & Wallet, 2014; Basco, 2015). However, just 'being there' is not sufficient for regional processes to function effectively. According to Boschma (2005), proximity is more than simple geographical proximity related to the physical distance between economic actors and between economic actors and regional factors. The concept of proximity has different dimensions. Cognitive proximity refers to 'the similarity of the subjective mental framework of actors and the tacit and codified knowledge owned by actors' (Westlund & Adam, 2010, 112). Social proximity can be defined as the socially embedded relationships among agents based on trust derived from friendship, kinship, and experience (Brinkhoff et al., 2012). Finally, while organisational proximity refers to the individual relationships within the boundaries of an organisation itself and the relationships among organisations, institutional proximity is the general macro-level (political) framework.

Because family businesses are locally embedded and have historical roots in certain places, the regional familiness model proposes that the thickness and quality of proximity—in other words, the *spatial context*—are affected by the aggregate effect of family businesses. For instance, family firms generally intend to stay where they dwell (belong) even during difficult times like crises (Zhou, He, & Wang, 2017). In this sense, family firms stabilise geographical proximity and therefore *spatial structures* across generations. The most promising and necessary aggregate effect of family firms is on cognitive and social proximity due to the intrinsic relationship between the family, the firm, and the local community (see already Astrachan,

1988; Brinkhoff et al., 2012; Seaman et al., 2017). This relationship is pronounced in family firms since they are active actors in the regional socialisation process, in which economic, social, and emotional connections are not only generated between the family and the firm but also extended to the rest of the local community, creating a 'local atmosphere' (cf. original Marshallian ideas, Marshall, 1890, 198). Additionally, the kinship and friendship relationships within and beyond firm boundaries contribute to establishing a particular trust-based society (see also Paci, 1980). In this sense, the organisational nature of family firms stimulates organisational proximity by developing communication channels among firms (within and outside the region) and by establishing cooperation and competition. Finally, to a certain extent, family firms are responsible for developing institutional proximity—that is, the implicit and explicit values, cultural norms, ethical principles, and formal rules that frame local and regional economic activities.

In sum, the regional familiness model is a box of theoretical tools for analysing and interpreting the role family firms can play in regional development. It goes beyond the simple statement that the importance of family firms stems from the fact that the family business is the most common form of organisation and unpacks the meaning of their presence in economic space. Moreover, the model links *spatial factors*, *spatial contexts*, and *spatial processes* (consequences) and enables researchers to operate across various *spatial scales* (from meso- to macro-foundations) (see Figure 1.2).

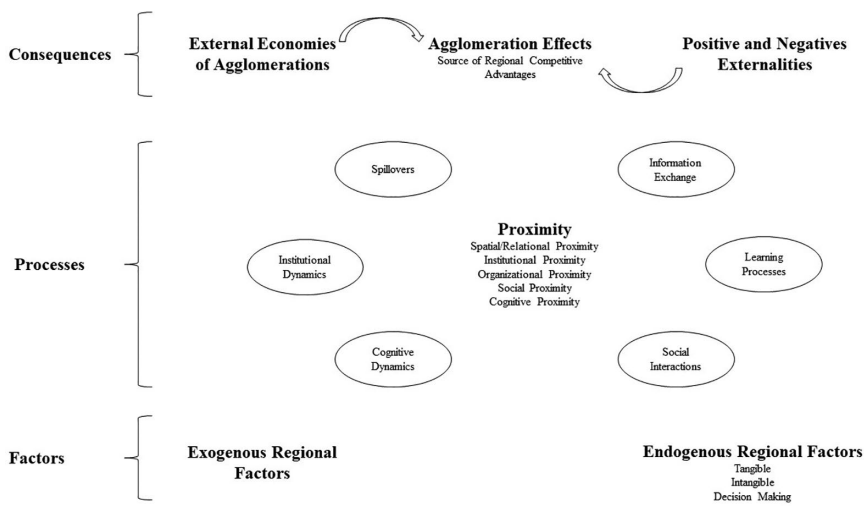

Figure 1.2 Regional familiness model (Basco, 2015).

Concluding remarks for fertile ground between family business studies and regional studies

The spatial family management and regional familiness models can be combined to create a big picture that links all *spatial scales* (micro-, meso-, and macro-levels of analysis) and connects family business studies and regional studies. While the spatial family management model incorporates spatialities into family management decision making (family spatialities), the regional familiness model unpacks the role family firms play in regional economic and social development. What a combined model might look like is subject to further research in the near future (see also Basco & Suwala, 2020). Table 1.1 summarises the main outcomes of the stock-taking studies in both disciplines and their relationships with the analysed spatial entities—*factors*, *structures*, *processes*, *contexts*, *scales*, *settings*, *policies*, and *concepts*.

Table 1.1 Key findings linking the fields of family business studies and regional studies

	Family business studies	*Regional studies*
Spatial factors	Family firm founders choose locations closer in proximity to their residences than non-family firm owners (Kahn & Henderson, 1992).	Family firm owners tend to locate near their families and friends (Schamp, 2005; Martyniuk & Gierusz, 2016) and favour soft locational factors (Martyniuk-Pęczek et al., 2017; Suwala, 2019).
Spatial structures	Family firms are located in rural and economically strong regions (Pérez & Raposo, 2007; Spiegel & Block, 2011).	Family firms and specific business functions are located inside founding regions (Röhl, 2008; Ermann, Lang, & Megerle, 2011; Mahr, 2017).
Spatial scales	Spatial scales serve as active frames: local (Seaman et al., 2017; Amato et al. 2020), regional (Chang et al., 2008; Bird & Wennberg, 2014), global (De Massis et al., 2018), and home region (Banalieva & Eddleston, 2011).	There is mixed evidence regarding family firms' local (e.g., Yanagisako, 2002) and global structures (e.g., Yeung & Soh, 2000; Majocchi et al., 2018). The widely acknowledged home bias of family firms loses significance (Baschieri et al., 2017).
Spatial contexts	Spatial context can be related to family firms' well-being, functional logic, and success factors (Backman & Palmberg, 2015; Basco, 2018; Baù et al., 2019).	Spatial context is seen as socio-spatial embeddedness interwoven in personal networks (Mahr, 2017; Selcuk & Suwala, 2020).

(*Continued*)

Table 1.1 Continued

	Family business studies	*Regional studies*
Spatial settings	There is mixed evidence for the 'family effect' and the 'spatial setting effect' in networks, districts, and clusters (Cucculelli & Storai, 2015; Basco & Calabrò, 2016; Lopes et al., 2016; Seaman et al., 2017).	Family firms and family ties serve as the 'glue' for socio-spatial proximity in territorial innovation models (Bagnasco, 1977; Yeung, 2000; Wigren, 2003).
Spatial processes	There is mixed evidence regarding the pathways family firms' internationalisation (Gallo & Sveen, 1991; Graves & Thomas, 2008; Calabrò et al., 2017; Amato, Basco, Gómez-Ansón, & Lattanzi, 2020).	There is mixed evidence regarding family firms' regional learning, innovation, and internationalisation (Wei et al., 2007; Berlemann & Jahn, 2016; Adjei et al., 2019; Amato, 2019; Felzensztein, Deans, & Dana, 2019; Lenz, 2020).
Spatial policies	Family firms are under-represented in regional policies based on their importance in economies (Glassop & Graves, 2010; Basco &Bartkevičiūtė, 2016) and their commitment towards their home regions (Kim, Haider, Wu, & Dou, forthcoming).	Family firms have corporate spatial responsibilities related to educational, social, and cultural issues (Jahn, 2015; Albers & Suwala, 2018; Graffenberger & Görmar, 2020).
Spatial concepts	The conceptual space, cultural space, community space, and contingency space in family firms are linked by networks (Seaman, 2012, 2013, 2015).	The existing research is focusing on management of the relative space, relational space, and topical space in family firms (Suwala, 2014, 2020; Amato, 2019).
Multiple spatial entities	The regional familiness model explains the spatial factors, contexts, and processes (consequences) necessary to enhance regional development across different spatial scales (Basco, 2015).	The spatial family management model explains multi-spatial coordination tasks incorporating spatial factors, structures, contexts, settings, and processes in decision making (Suwala & Oinas, 2012; Suwala, 2019).

Concerning the research on *spatial factors*, we see a great deal of coherence in the results between both disciplines. The main idea is that family firm owners tend to locate near their families and friends and favour soft locational factors in comparison to non-family firm owners, who tend to make locational decisions based on rational cost-benefit considerations. In addition, family business research reveals the complicated relationship

between the family's perspective and the business's perspective in locational choices. With regard to research on *spatial structures and distribution*, there is also an overlap between both streams. Family firms and their accompanying business functions are generally located inside founding regions, which indicates the spatial persistence of family firms. Moreover, family firms often provide both stability and breeding grounds for prosperous economic and social development. All of this happens not only in urban centres but also in rural areas in proximity to metropoles and outside of high-tech agglomerations (e.g., Germany's so-called 'hidden champion' firms). Furthermore, *spatial scales* are perceived as active surroundings in both disciplines rather than passive frames. Although unlimited in variety depending on the research interest at hand, home region (i.e., local region) bias still dominates the research, albeit with declining intensity. *Spatial contexts* still act as a lens to investigate family firms' wellbeing, functional logic, and success factors. This selection mechanism makes spaces and family firm practices unique. There is no 'one location fits all' approach, as both disciplines agree, because family firms, their locational imprints, their people, their practices, and their images are embedded in particular spaces. Here, research interests in both disciplines differ. Whereas regional studies scholars consider family firms and family ties the 'glue' necessary for socio-spatial proximity in territorial innovation models, there is mixed evidence within family business studies concerning the 'family effect' and the 'spatial settings effect' in networks, districts, and clusters.

There are also pertinent research approaches with regard to *spatial processes*. Whereas family business scholars mostly deal with the capabilities and pathways necessary for family firms to internationalise, regional studies scholars focus on regional learning and innovation processes. Research on *spatial policies* and *planning measures* is predominantly in the early stages in both disciplines, with various approaches treating family firms as both targets and initiators of policy interventions. In terms of *spatial concepts*, research has focused on both internal and external aspects: 'spaces of familiness' and 'family spatialities'.

Finally, the two presented models bridge multiple spatial entities: the regional familiness model, which outlines the spatial factors, contexts, and processes (consequences) necessary to enhance regional development by family firms across different spatial scales, and the spatial family management model, which suggests multi-spatial coordination tasks incorporating spatial factors, structures, contexts, settings, and processes into family firm managers' decision processes. Both models complement each other quite well since the latter describes the micro-foundations of managerial decision making that can be scaled upward through aggregated views by the former. Both research streams have overlaps but also idiosyncrasies originating from their fields. Therefore, we call for more interdisciplinary work to address research gaps and exchange insights on theoretical, empirical, and practical grounds to better investigate the phenomena of 'spatial familiness' and 'family spatialities'.

Note

1 Sometimes also called 'managerial geography' (Laulajainen, 1998) or 'economic geographies of management' (Jones, 2016).

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2 A regional perspective of family firms

Evidence from Europe

Rodrigo Basco and Fernanda Ricotta

Introduction

One important characteristic of capitalism, as an economic and political system, is the fact that its productive structure is formed by a large number of private owners who embrace economic activities through small, medium-sized, and large firms. However, there are two questions that require further investigation: (1) who are these owners and (2) how are private owners distributed across geographical space? To a certain extent, capitalism has been recognised as family capitalism because of the high participation of families in businesses, with family businesses representing the most common form of organisation in developed (Adjei, Eriksson, Lindgren, & Holm, 2019) and emerging economies (Basco, 2018). Family firms dominate national productive structures (Astrachan & Shanker, 2003; Bjuggren, Johansson, & Sjögren, 2011) in today's societies. Indeed, they exist in all size categories from micro to large firms (Basco & Bartkeviciute, 2016), and families own a substantial portion of listed firms around the world (Faccio & Lang, 2002; La Porta, Lopez-De-Silanes, & Shleifer, 1999; Martinez-Garcia, Boubakri, Gomez-Anson, & Basco, 2020). These stylised facts regarding the prevalence of family firms across national contexts have been subjected to an intensive economic history debate (Berghoff, 2006; Burkart, Panunzi, & Shleifer, 2003; Chandler, 1990) about the benefits and drawbacks of having them embedded in national and regional productive structures.

However, the debate about the prevalence and importance of family firms at the regional level is still in its infancy. The empirical evidence about the regional importance of family firms is contradicting (Stough et al., 2015). Whereas family firms are located in less developed regions in the United States (Chang, Chrisman, Chua, & Kellermanns, 2008) and in countries with high level of economic entrenchment (Morck & Yeung, 2004), they are important players in Germany and Italy, usually considered the most industrial countries in Europe (Arrighetti & Ninni, 2012). For instance, the Italian industrial sector is characterised by a large presence of family firms and, in the German context, small and medium-sized firms (i.e., Mittelstand), most of which are family owned and managed, are the backbone of the regional economy, employing 60% of all employees subject to social security contributions (BMWi, 2013).

To continue with the abovementioned debate, this chapter focuses on exploring the prevalence of family firms across European regions. Our findings present a general descriptive picture of their prevalence in industrial productive structures across seven European countries (Austria, France, Germany, Hungary, Italy, Spain, and the United Kingdom). Additionally, we analyse the two-way relationship between family firms and regional context, and while we do not find full support for the argument that family firms are overrepresented in regions with low-quality institutions, we find that the aggregate relationship between family firms and regional competitiveness (i.e., productivity, exports, and innovation) varies across regions within each analysed country.

Our chapter contributes to the endeavour to link the fields of family business and regional studies. In doing so, we attempt to analyse family firms across regions by mapping the prevalence of family firms in European regions. We find that even though family firms are highly prevalent in European regions, they are unevenly distributed. This evidence reveals the importance of further exploring the connection between family firms and the territories in which they dwell. While the family business field has traditionally focused on the relationship between the family and the firm and has failed to contextualise the family business phenomenon (i.e., historical, geographical, and institutional contexts) (Gomez-Mejia, Basco, Müller, & Gonzalez, 2020), regional studies research has focused on the relationship between the firm and the region and has omitted firms' heterogeneity by considering the specificities of family firms. Therefore, our chapter attempts to recognise family firms as economic actors and to link them to their regional context by presenting empirical evidence that could further motivate new research in the fields of family business and regional studies.

Family firms and European regions

In this section, we describe the prevalence of family firms in the manufacturing sector across seven European countries: Austria, France, Germany, Hungary, Italy, Spain, and the United Kingdom. We use the EFIGE (European Firms in a Global Economy) dataset, which is a by-product of the European Union project called 'European Firms in a Global Economy: Internal Policies for External Competitiveness'. This dataset contains data from a survey carried out in 2010 that provides comparable cross-country data on approximately 15,000 manufacturing firms in the seven European countries mentioned above. The information in the survey mostly refers to the three-year period of 2007 to 2009 or, in some cases, to 2008 (for a detailed description, see Altomonte and Aquilante [2012]). Survey samples were constructed based on the Bureau van Dijk AMADEUS database. The sampling design was structured with three strata: industry (11 NACE-CLIO industry codes),[1] region (at the NUTS 1 level of aggregation), and size class (10–19, 20–49, 50–250, more than 250 employees).[2] Therefore, the EFIGE database is a firm-level dataset of representative samples of manufacturing

firms (with a lower threshold of 10 employees) across the aforementioned seven European countries (for more information, see Altomonte and Aquilante [2012]).[3]

Our exploratory research focuses on family firm prevalence across 55 NUTS 1 European regions.[4] The criterion to distinguish family firms from non-family firms is based on respondents' self-perceptions of whether their businesses are family firms (this specific self-perception option has been used in other studies, such as Pongelli, Calabrò, and Basco [2018]). To dig deeper into the analysis, we first provide a descriptive picture of the data by considering the prevalence of family firms in terms of demographic firm characteristics (e.g., firm size and firm age) and family characteristics (e.g., family involvement in ownership and management). Second, we attempt to relate the distribution of family firms across regions by considering the quality of regional institutions. Finally, we close the section by exploring and analysing the prevalence of family firms and its relationship with regional competitiveness (i.e., regional productivity, regional export, and regional innovation).

Descriptive analysis of family firms across European regions

Prevalence of family firm in the national and regional context

We begin our exploratory analysis by describing the importance of manufacturing family firms in Austria, France, Germany, Hungary, Italy, Spain, and the United Kingdom. Table 2.1 shows their prevalence in the manufacturing productive structures of these seven European countries. This evidence indicates that the prevalence of family firms is dispersed across national contexts. For instance, the lowest shares of manufacturing family firms are in Hungary (56%) and France (58%), while the highest shares are in Germany (84%) and Austria (82%). Our first conclusion is that even though family firms are the most important economic actors in European manufacturing productive structures, they are unevenly distributed across European countries. The national disparity in this prevalence could be related to the context in which family firms are born, compete, and die. Future studies

Table 2.1 Percentage of family firms at the national level—manufacturing industry

Country	*Share of family firms (%)*
Austria	82
France	58
Germany	84
Hungary	56
Italy	76
Spain	77
United Kingdom	64

should further investigate the connection between them and contextual dimensions (for more information, see Basco & Suwala, 2020; Gomez-Mejia et al., 2020; James et al., 2020; Krueger, Bogers, Labaki, & Basco, 2020). Beyond the multiple dimensionality of context and level of analysis, we wonder if this uneven distribution persists within each country across regions.

To show the regional distribution of family firms within each of the seven European countries, Figure 2.1 illustrates the regional share of family firms across regions, evidencing that they are not only unevenly distributed across countries but are also unevenly distributed across regions within national

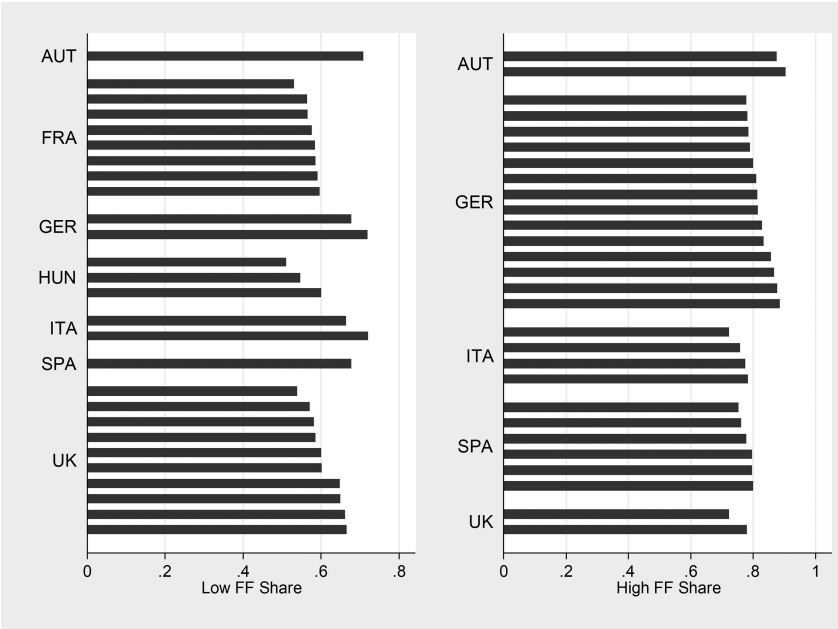

Figure 2.1 Regional share of family firms (under/upper median).

Table 2.2 Regional distribution of family firms across the seven European countries

	Regions	*Mean*	*Std. Dev.*	*Min.*	*Max.*
Austria	3	0.83	0.10	0.71	0.90
France	8	0.57	0.02	0.53	0.60
Germany	16	0.81	0.05	0.68	0.88
Hungary	3	0.55	0.04	0.51	0.60
Italy	6	0.74	0.04	0.67	0.78
Spain	7	0.77	0.04	0.68	0.80
United Kingdom	12	0.63	0.07	0.54	0.78

geographical contexts. For a better interpretation, Table 2.2 contains information about the maximum and minimum values of the regional share of family firms. For instance, the United Kingdom's share of family firms is 64%, but while the lowest regional share is a little more than 50% in some regions, the highest is almost 80%.

Prevalence of family firms across industrial sectors

Taking a closer look at the distribution of family firms across industrial sectors, Table 2.3 shows the share of family firms in terms of the analysed European countries and 11 sub-industrial sectors. When taking into account the whole sample, they are highly represented in the sub-industrial sector of 'wood and wood products' but are represented less in the 'coke, refined petroleum products, and nuclear fuel' sector. To explain the differences, we speculate that each country has different competitive advantages in specific industries that attract/favour family firms. These differences could also be a consequence of specific regional path-dependent processes that cause family firms to have a higher presence in some sectors than others. Finally, the presence of family firms in specific industrial sectors could be a consequence of public policies favouring local business families (political connections). For instance, the share of family firms in the 'chemical and chemical products' sector in Germany—one of the largest in the country, with a long-lasting tradition of families in business—is higher than in France or Hungary. This empirical evidence challenges further research to better understand how national competitive advantages, regional path dependence, and active public policies are linked to the regional prevalence of family firms. Even more, future research should explore how the regional distribution of family firms within each country is linked to particular geographical/territorial characteristics and industries.

Looking at the industrial sectors from a different angle, Table 2.4 shows the share of family firms in terms of the Pavitt sectors by country. When taking into consideration the whole sample, family firms are highly prevalent in traditional industries, as expected, because of the competitive advantages that families may bring to their firms, such as patient capital, family human capital, and social capital, among others. Additionally, the presence of family firms in specialised sectors is also high. On the other hand, the prevalence drops in economies-of-scale sectors, in which family firms seem to have fewer competitive advantages because of the way they finance investments (i.e., based on re-investing profits and avoiding external investors who may jeopardise their control) and manage risk (i.e., more conservative strategies). Additionally, the lower presence of family firms in high-tech sectors seems to confirm the notion that family firms are less prepared to navigate highly dynamic sectors because firms in these sectors may require competitive advantages other than those generated by family involvement. The presence of family firms in high-tech sectors follows a common pattern across the seven European countries. Future research should explore the

Table 2.3 Share of family firms by sub-industrial sector and country

Sector	*Seven countries*	*Austria*	*France*	*Germany*	*Hungary*	*Italy*	*Spain*	*United Kingdom*
Basic metals and fabricated metal products	0.77	0.87	0.58	0.88	0.56	0.79	0.80	0.68
Food products, beverage, and tobacco	0.76	0.85	0.62	0.87	0.55	0.72	0.79	0.67
Rubber products and plastic	0.72	0.75	0.58	0.86	0.61	0.74	0.80	0.57
Textiles, wood, and paper products	0.74	0.78	0.58	0.84	0.49	0.78	0.79	0.66
Other manufacturing n.e.c.	0.75	0.91	0.55	0.82	0.64	0.79	0.78	0.68
Chemical, chemical products, and man-made fibres	0.63	0.62	0.52	0.70	0.31	0.72	0.66	0.50
Transport equipment	0.66	0.53	0.53	0.75	0.81	0.72	0.62	0.56
Wood and wood products	0.82	0.98	0.72	0.91	0.95	0.82	0.77	0.78
Coke, refined petroleum products, and nuclear fuel	0.59	–	0.67	0.57	–	0.71	–	0.34
Leather plus other non-metallic mineral products	0.70	0.75	0.51	0.77	0.43	0.73	0.76	0.53
Machine and equipment n.e.c.	0.72	0.77	0.55	0.85	0.52	0.70	0.69	0.67

Table 2.4 Share of family firms by Pavitt sector and country

Pavitt sector	*Seven countries*	*Austria*	*France*	*Germany*	*Hungary*	*Italy*	*Spain*	*United Kingdom*
Economies of scales	0.69	0.72	0.52	0.79	0.49	0.74	0.70	0.59
High tech	0.67	0.68	0.50	0.76	0.25	0.64	0.77	0.45
Specialised	0.73	0.75	0.58	0.84	0.54	0.71	0.72	0.65
Traditional	0.78	0.91	0.61	0.88	0.61	0.79	0.81	0.68

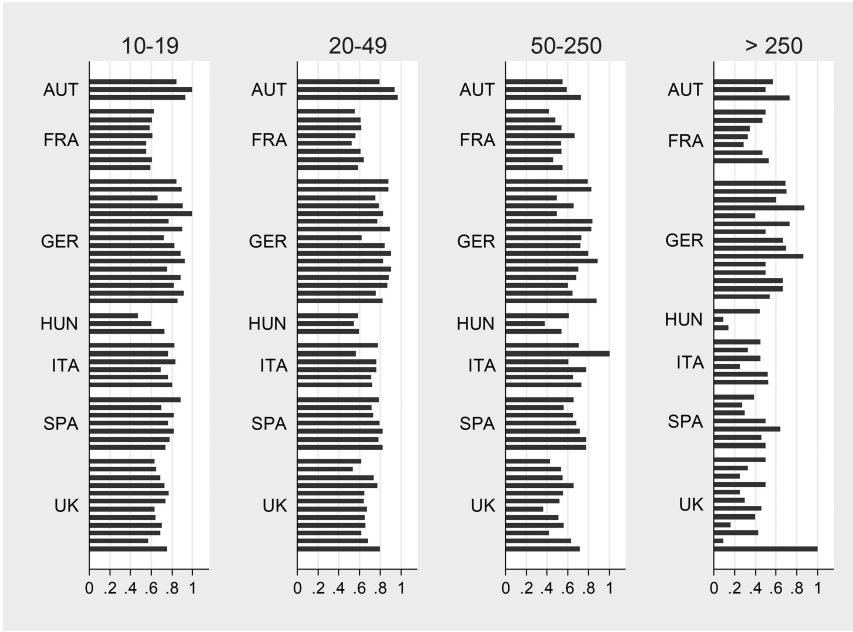

Figure 2.2 Share of family firms by firm size, country, and region.

aforementioned patterns to explain why family firms are highly represented in traditional and specialised sectors, whether they have competitive advantages to operate in these sectors, what these are, and whether these patterns are the consequence of a natural selection process.

Prevalence of family firms based on their demographic characteristics

Beyond the aforementioned analysis presenting the share of family firms across countries, regions, and industries, an interesting image emerges when analysing their size and age distribution across countries and regions. Family firms are more common in the small and medium-sized firm categories than in the large firm category (see Figure 2.2). However, the share of family

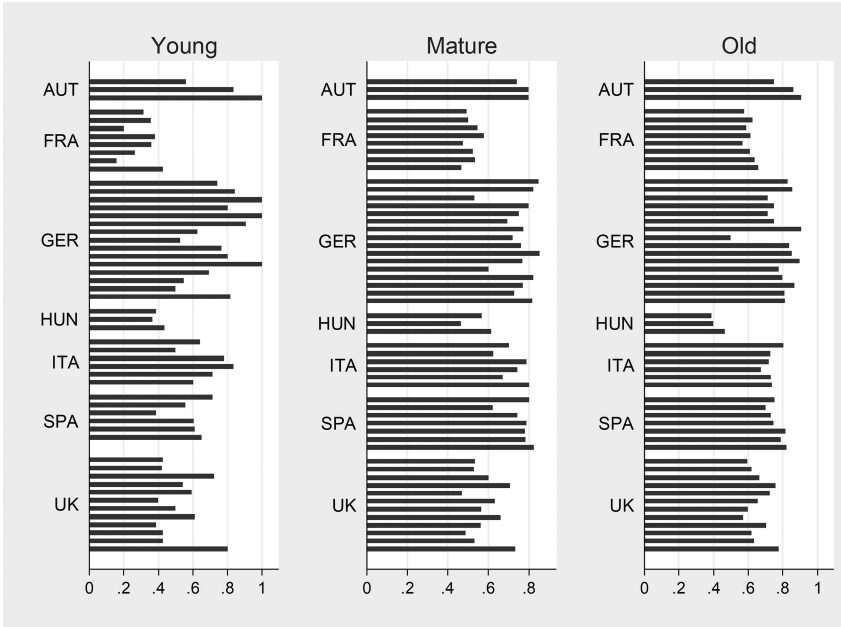

Figure 2.3 Share of family firms by firm age, country, and region.

firms is high in the large firm category in some regions (e.g., in Germany, Austria, and Spain). These findings open the door for further research investigating whether a particular relationship exists between regions and the size of family firms. Regarding firm age, Figure 2.3 shows three firm age classifications: young firms (younger than 6 years old), mature firms (between 6 and 20 years old), and old firm (older than 20 years). Most family firms belong to the mature and old firm categories. However, there is a high dispersion of the share of family firms in terms of age across regions within each country. This descriptive information leads us to call for more research investigating the possible relationships between the age of family firms, the characteristics of regions, and the industries in which family firms dwell.

Finally, we analyse family involvement in the firm, measured as the average number of family managers, across regions in each European country. The aim of this analysis is to visualise whether there is an uneven distribution of family involvement in managerial positions across regions. Table 2.5 shows the extent to which family involvement in managerial positions varies across regions within countries. These differences imply that the level of 'familiness' (i.e., family involvement) of family firms is not the same across regions. For instance, while the dispersion of the average number of family members in German regions is high, ranging from less than 1 (.89) to almost 4 (3.84) family members, the dispersion of the

Table 2.5 Average number of family managers in family firms

	Regions	*Mean*	*Std. Dev.*	*Min.*	*Max.*
Austria	3	1.53	0.16	1.35	1.66
France	8	1.67	0.21	1.46	2.13
Germany	16	1.59	0.64	0.89	3.84
Hungary	3	2.58	0.59	1.94	3.1
Italy	6	1.95	0.19	1.66	2.11
Spain	7	2.21	0.38	1.48	2.72
United Kingdom	12	2.15	0.19	1.81	2.47

average number of family members in Austrian regions is low, ranging from 1.35 to 1.66. This evidence opens the door for future research to explain the possible connection between the degree of familiarity of family firms and regional characteristics.

In sum, from the aforementioned analyses, our main conclusion is that the phenomenon of family firms is unevenly distributed across European regions. This also seems to be related to industrial sector and, to certain extent, to firm characteristics, such as firm size, firm age, and degree of family involvement. The empirical evidence raises two general research questions that may deserve further investigation among family business and regional science scholars: '*Why is the prevalence of family firms unevenly distributed across regions?'* and *'Why do family firm characteristics (business related and family related) vary across regions?'* In an attempt to address these questions and unveil some preliminary evidence, in the next sub-sections, we explore the relationship between the prevalence of family firms and the quality of regional institutional contexts.

Prevalence of family firms and regional characteristics

Prevalence of family firms and region size

Following our intention to visualise patterns underlying the relationship between family firms and regions, Figure 2.4 plots the relationship between the share of family firms and region size, measured by the number of firms in the EFIGE dataset.[5] The majority of UK and German regions are concentrated in the quadrants representing a below-average share of family firms and a below-average number of regional firms. For Germany, only three regions have an above-average share of family firms and an above-average number of regional firms. Four of the six Italian regions have the same characteristics. French regions have a low share of family firms, but the majority of them are larger than average. This preliminary evidence opens the door for further investigations of the relationship between family firm prevalence and regional characteristics, specifically in terms of external agglomeration.

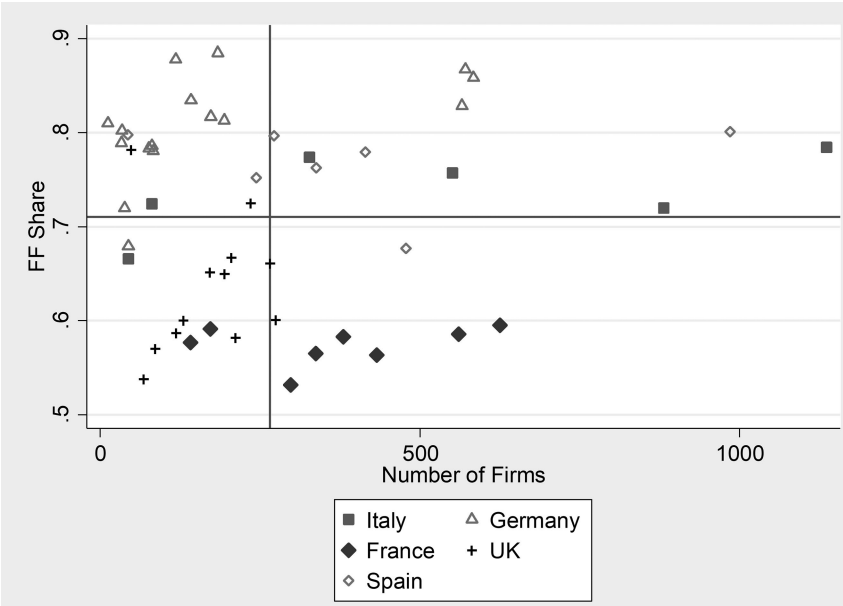

Figure 2.4 Relationship between share of family firms and region size (proxied by total number of firms using the EFIGE dataset).
Note: $y = 0.70 + 0.0003x$ (p-value = 0.63).

Quality of regional institutions and prevalence of family firms

The current debate in the academic sphere is whether there is a relationship between the presence of family firms and the quality of institutional contexts. The most well-known hypothesis, at least in explaining the prevalence of family firms in developing countries (Khanna & Palepu, 2000), is that the presence of family firms is higher in low-quality institutional contexts because families and their economic and social networks are able to fill institutional voids. To test whether there is an association between the quality of institutions and the presence of family firms in European regions, we use Charron, Dijkstra, and Lapuente's (2014) European 'quality of government' indicator (EQI) calculated at the regional level. This indicator is based on responses to a survey aimed at capturing average citizens' perceptions of and experiences with corruption and the extent to which they rate public services provided by local authorities as impartial and of good quality. In Figure 2.5, we use the scores of the three pillars that comprise this indicator—namely, corruption, impartiality, and quality (for more information, see Charron et al., 2014).

When we correlate the regional share of family firms and the quality of regional institutions in the European context, we observe contradicting results that both support and reject the argument linking family firms and

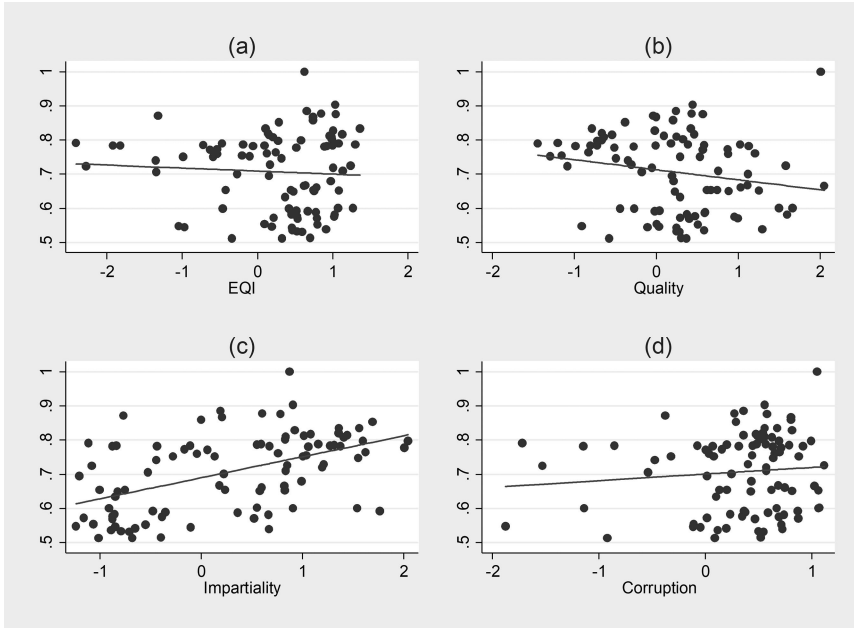

Figure 2.5 Relationship between share of family firms and EQI.
Note: Panel a: $y = 0.71 - 0.009x$ (p-value = 0.55); Panel b: $y = 0.71 - 0.029x$ (p-value = 0.06); Panel c: $y = 0.69 + 0.061x$ (p-value = 0.00); Panel d: $y = 0.70 - 0.019x$ (p-value = 0.33).

low-quality institutional contexts. While Panel a in Figure 2.5 shows that there is no association between the quality of government index and the prevalence of family firms, the analysis considering each dimension comprising the quality of government index shows differences. There is negative relationship between the quality dimension and the regional share of family firms (Panel b in Figure 2.5). This means that the lower the quality of services, the higher the percentage of family firms in the region, supporting the argument that family firms may replace formal institutions. However, the dimension of impartiality (i.e., the impartiality of institutions that exercise government authority) has a positive association with the regional share of family firms (Panel c in Figure 2.5). This means that the higher the impartiality, the higher the percentage of family firms in the region, which goes against the previous argument. For the last dimension, corruption, we do not find any association (Panel d in Figure 2.5). This preliminary evidence indicates that the prevalence of family firms in regions is complex and requires further attention. If formal institutions create conditions for individuals to exploit economic opportunities and incentives to use specific business forms (i.e., family firms), we wonder—and future studies should further investigate–what combinations of formal institutional dimensions favour family firms and other types of organisational forms.

Family firms and regional competitiveness across European regions

In this sub-section, following recommendations from Stough et al (2015), we focus on the aggregate effect of family firms across European regions on regional competitiveness in terms of productivity, exports, and innovation. While we implicitly argued in the previous sections that the family firm phenomenon is a consequence of regional context, in this section, we unveil an alternative contribution of family firms for regional development—namely, the economic and social impacts of having high- or low-level family firm prevalence. In other words, we wonder if the aggregate presence of family firms affects regional competitiveness.

Regional productivity

Taking the whole sample, it looks like there is no relationship between regional total factor productivity (TFP) and the share of family firms.[6] As we can see in Figure 2.6, German regions are mainly positioned in the top-right quadrant, characterised by a high share of family firms and high regional TFP. On the contrary, French and UK regions are positioned in the lower-left quadrant characterised by a low share of family firms and low regional TFP. Finally, Italian and Spanish regions share a similar pattern: most of their regions are positioned in the lower-right quadrant characterised by a high

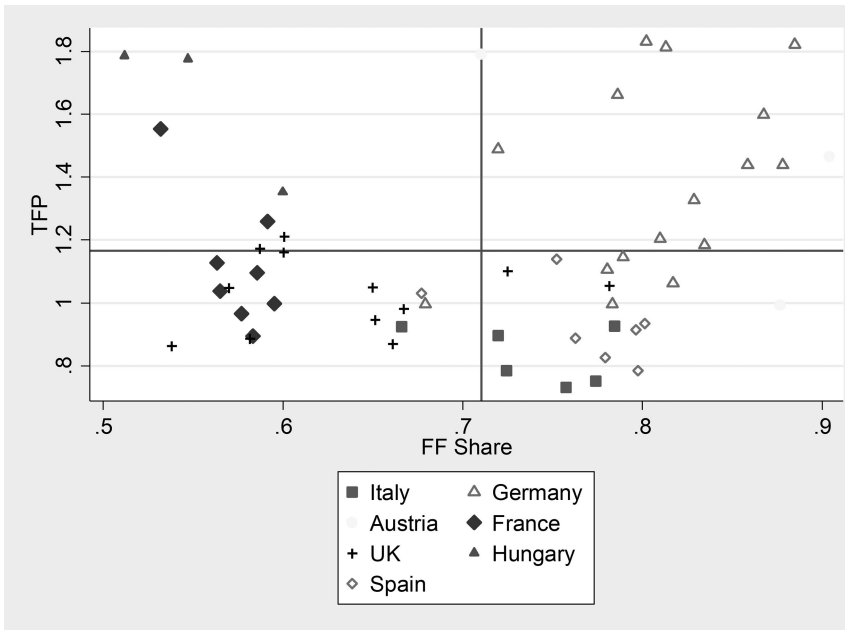

Figure 2.6 Relationship between share of family firms and TFP by region.
Note: $y = 0.66 + 0.041x$ (p-value = 0.396).

share of family firms and low regional TFP. Based on this preliminary findings, future studies should deeply explore whether, when, and how family firms contribute to regional productivity.

Regional exports

Our analysis shows that there is no relationship between the share of regional exporters and the prevalence of family firms across European regions.[7] Only in the UK context does the relationship seem to be positive—that is, the higher the presence of family firms, the higher the exporters in the region. Even though it is widely recognised that exports and productivity are generally correlated at the firm level (i.e., the most productive firms are more likely to become exporters), we wonder if this effect can be extrapolated to the regional level. As shown in Figure 2.7, the majority of German regions are in the quadrant characterised by a high share of family firms and a below-average share of exporters, while three out of the six Italian regions are in the quadrant characterised by a high share of family firms and a high share of exporters. In this sense, further studies should investigate the possible connection between regional exports and productivity and the regional prevalence of family firms.

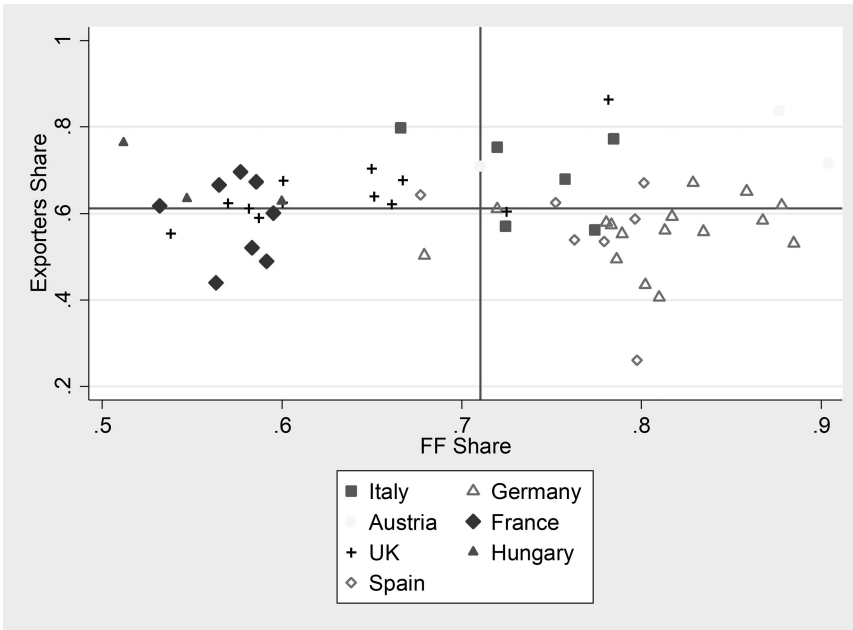

Figure 2.7 Relationship between regional share of family firms and regional exporters.

Note: $y = 0.662 - 0.069x$ (p-value = 0.598).

Regional innovation

There seems to be a slightly positive relationship between the share of family firms and regional innovation.[8] The majority of German regions are located on the right side of Figure 2.8, indicating a high share of family firms, but these areas have near- or below-average regional innovators (calculated for all European regions). In the case of Italian regions, four out of six are characterised by both a high share of family firms and above-average regional innovators. This preliminary evidence opens the door for future research exploring the relationship between innovation and tradition in family business and its contribution to regional innovation systems.

Combining family firm exporters and innovative behaviour across regions

Focusing on family firms, we classify regions in terms of family firms' exporting and innovation activities. Indeed, Figure 2.9 combines the measures of regional family firm exporters and innovators,[9] forming four quadrants: less dynamic regions, exporter regions, dynamic regions, and innovator regions.[10] Most Italian and Austrian regions fall into the dynamic quadrant in which the share of family firm exporters and innovators is high. In contrast,

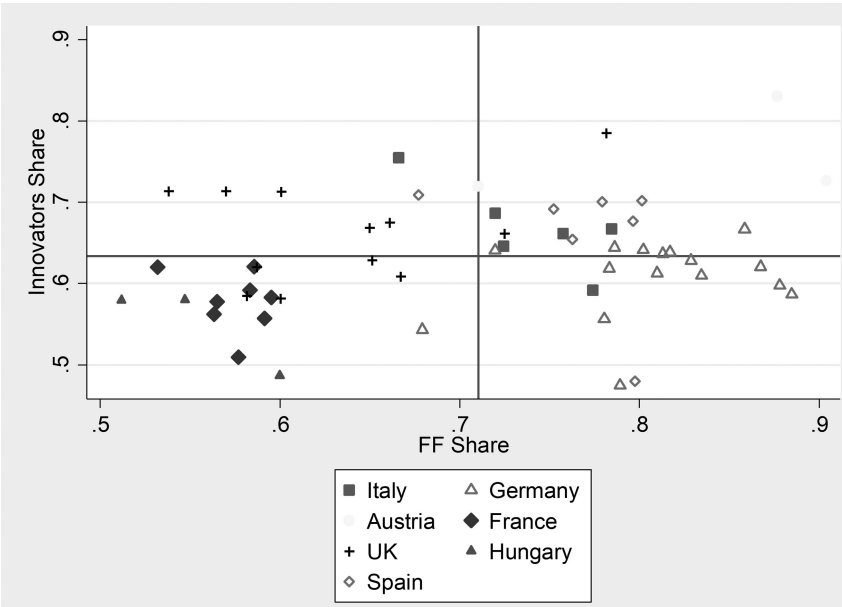

Figure 2.8 Relationship between regional share of family firms and regional innovators.

Note: $y = 0.524 + 0.154x$ (p-value = 0.081).

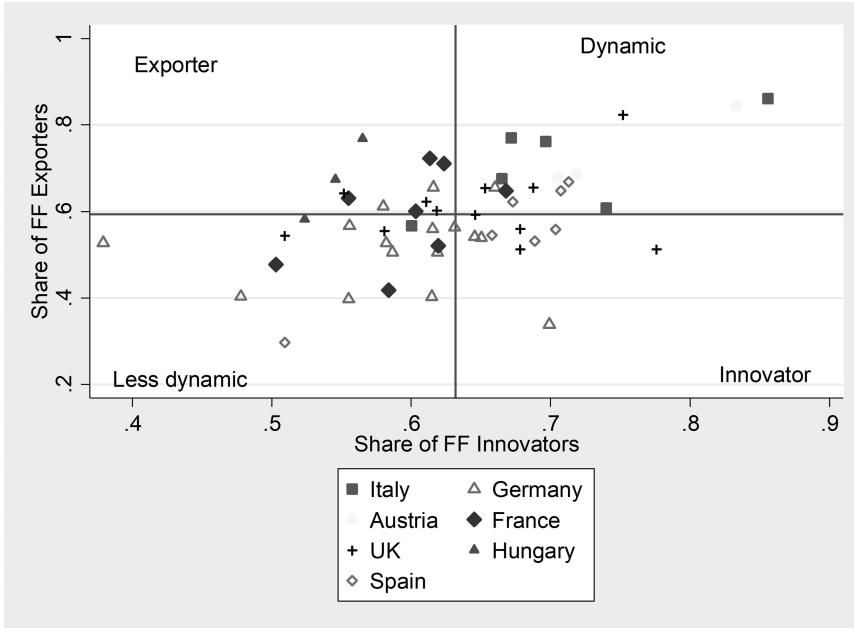

Figure 2.9 Regional share of family firms combining innovators and exporters.
Note: $y = 0.167 + 0.675x$ (p-value = 0).

most German regions fall into or are close to the quadrant characterised by less dynamic regions in which the share of family firm exporters and innovators is low. The preliminary finding for Germany may require further research because of the importance of family firms as the backbone of innovation and internationalisation in German regions. However, this general perception may be based on only a few firms, so the same pattern may not necessarily hold for other family firms that form the regional productive structure. French regions follow a similar pattern to that of German ones, and Spanish regions are distributed between dynamic and innovator regions.

The case of Italy

To further explore the prevalence and importance of family firms across regions, in this section, we focus our analysis on the Italian context. Italy is an interesting case study for two main reasons. First, it has high geographical heterogeneity in economic conditions that has created large and persistent disparity between the south and the rest of the country (Iuzzolino, Pellegrini, & Viesti, 2011). Second, the backbone of its productive system is characterised by a large number of small and medium enterprises (SMEs)

that are often organised within industrial districts and by the progressive disappearance of large firms in strategic sectors (Amatori, Bugamelli, & Colli, 2011). A large portion of these SMEs are run as family businesses or have family shareholders present who are able to influence company decisions (Cucculelli & Micucci, 2008).

Data for our analysis come from the Xth UniCredit-Capitalia survey (2008), which covers the period 2004–2006 and was compiled using information collected through a questionnaire sent to a representative sample of Italian manufacturing firms. While the survey covers the universe of manufacturing firms in Italy with more than 500 employees, it uses a representative sample of manufacturing companies with 10–500 employees considering three strata: four geographical areas, four Pavitt sectors, and five firm size classes.[11]

Following the structure we used in the previous section, we start the analysis with a descriptive view of the prevalence of family firms across Italian geographical areas and regions.[12] For the sake of completeness, in the tables, we leave regions with few firms, such as Calabria, Basilicata, and Molise.[13] For these regions, the results are only representative of the firms reported in the sample. Additionally, we focus on family firm prevalence by considering business and family characteristics, such as industry, firm size, firm age, and family involvement at the firm level. Second, we analyse the relationship between the prevalence of family firms and the quality of regional institutions. Finally, we reveal the importance of family firms in terms of regional productivity, regional exports, and regional innovation.

Descriptive analysis of family firms across Italian regions

In this descriptive analysis, a firm is considered to be a family firm if the respondent declared in the UniCredit-Capitalia questionnaire that the company is controlled or owned by an individual or a family. The average share of family firms in Italy is 66%. The four geographical areas (northeast, northwest, centre, and south) have a similar average share of family firms, ranging from 65% for the northeast to 68% for the south. All Italian regions have a high presence of family firms, and the share of family firms across regions varies from approximately 50% in the region of Sardegna to more than 70% in Sicilia (see Table 2.6). These findings confirm our argument in the previous section that family firms are unevenly distributed across regions.

Prevalence of family firm across industries

The prevalence of family firms across sectors is high in almost all subsectors except for ‘coke, refined petroleum products, and nuclear fuel’, for

Table 2.6 Share of family firms across Italian regions

Region	*Number of firms*	*Share of family firms*
Emilia Romagna	578	0.61
Friuli Venezia Giulia	140	0.67
Trentino Alto Adige	66	0.59
Veneto	610	0.65
Northeast	*1,394*	*0.65*
Liguria	50	0.54
Lombardia	1,533	0.68
Piemonte	490	0.64
Valle D'Aosta	6	0.74
Northwest	*2,079*	*0.66*
Lazio	121	0.70
Marche	194	0.67
Toscana	387	0.62
Umbria	77	0.66
Centre	*779*	*0.65*
Abruzzo	108	0.64
Basilicata	12	0.81
Calabria	29	0.82
Campania	152	0.69
Molise	11	0.55
Puglia	119	0.70
Sardegna	55	0.55
Sicilia	70	0.74
South	*556*	*0.68*
Italy	4,808	
Mean (*)		*0.66*
Std. Dev. (*)		*0.08*
Min. (*)		*0.53*
Max. (*)		*0.83*

(*) Statistics calculated considering regional values for the share of family firms.

which the percentage is less than 50% (see Table 2.7). The distribution of the share of family firms oscillates between 57% for 'medical, precision and optical instruments, watches and clocks' and 76% for 'office machinery and computers'. In terms of Pavitt sectors, the prevalence of family firms is evenly distributed across traditional, high-tech, specialised, and economies-of-scale sectors (Table 2.8). However, when looking at the share of family firms across sectors and regions, we observe that in the northwest, they are highly represented in traditional sector, whereas in the south, they are highly represented in the high-tech sector. However, it is worth noting that only 13 firms in the south are in the high-tech sector. These results for Italy challenge what we found in the previous section when analysing all seven European regions. It seems that the relationship between family firms and industries requires further research.

Table 2.7 Share of family firms by sector and geographical area

Sector	*Northwest*	*Northeast*	*Centre*	*South*	*Italy*
Food products, beverages, and tobacco	0.66	0.67	0.73	0.68	0.68
Manufacture of textiles	0.67	0.67	0.60	0.72	0.66
Manufacture of wearing apparel, dressing, and dyeing of fur	0.73	0.57	0.71	0.60	0.65
Leather and leather products	0.56	0.56	0.60	0.87	0.61
Wood and wood products	0.75	0.65	0.73	0.63	0.68
Manufacture of pulp, paper, and paper products	0.70	0.62	0.68	0.83	0.68
Publishing, printing, and reproduction of recorded media	0.59	0.53	0.64	0.55	0.58
Coke, refined petroleum products, and nuclear fuel	0.21	0.50	1.00	0.26	0.41
Chemicals, chemical products, and man-made fibres	0.62	0.66	0.67	0.47	0.63
Rubber and plastic products	0.61	0.55	0.79	0.72	0.63
Other non-metallic mineral products	0.79	0.66	0.65	0.65	0.69
Manufacture of basic metals	0.63	0.77	0.59	0.68	0.67
Metal products, except machinery and equipment	0.70	0.62	0.60	0.72	0.66
Machine and equipment n.e.c.	0.64	0.62	0.72	0.81	0.65
Office machinery and computers	0.79	0.53	1.00	0.82	0.76
Electrical machinery and apparatuses n.e.c.	0.61	0.60	0.62	0.66	0.61
Radio, television, and communication equipment and apparatuses	0.68	0.55	0.60	0.77	0.64
Medical, precision and optical instruments, watches, and clocks	0.57	0.66	0.34	0.52	0.57
Motor vehicles, trailers, and semi-trailers	0.70	0.45	0.46	0.64	0.58
Other transport equipment	0.70	0.53	0.75	0.75	0.68
Other manufacturing n.e.c.	0.76	0.72	0.64	0.66	0.71

Table 2.8 Share of family firms by Pavitt sector and geographical area

Pavitt sector	*Northwest*	*Northeast*	*Centre*	*South*	*Italy*
Traditional	0.69	0.63	0.65	0.69	0.66
High tech	0.62	0.61	0.66	0.82	0.64
Specialised	0.64	0.61	0.65	0.71	0.64
Economies of scale	0.64	0.69	0.66	0.62	0.66

Table 2.9 Share of family firms across firm size categories and Italian regions

Region	*Firm size categories*			
	11–20 employees	*21–50 employees*	*51–250 employees*	*More than 250*
Emilia Romagna	0.64	0.58	0.59	0.61
Friuli Venezia Giulia	0.61	0.77	0.62	0.70
Trentino Alto Adige	0.67	0.55	0.52	0.54
Veneto	0.68	0.67	0.59	0.59
Northeast	*0.65*	*0.64*	*0.59*	*0.61*
Liguria	0.45	0.66	0.46	0.70
Lombardia	0.69	0.68	0.67	0.49
Piemonte	0.68	0.63	0.63	0.50
Northwest	*0.68*	*0.67*	*0.66*	*0.49*
Lazio	0.77	0.64	0.73	0.68
Marche	0.71	0.61	0.69	0.67
Toscana	0.61	0.62	0.70	0.30
Umbria	0.82	0.63	0.51	0.58
Centre	*0.67*	*0.62*	*0.68*	*0.58*
Abruzzo	0.66	0.62	0.65	0.51
Basilicata	0.76	0.75	1.00	–
Calabria	0.80	0.86	0.82	–
Campania	0.68	0.77	0.61	0.37
Molise	0.45	0.50	0.67	0.00
Puglia	0.68	0.76	0.59	0.61
Sardegna	0.55	0.58	0.50	0.47
Sicilia	0.65	0.79	0.81	–
South	*0.67*	*0.73*	*0.65*	*0.47*

Prevalence of family firms based on their demographic characteristics

Regarding the share of family firms considering the size of firms across Italian regions, the empirical evidence shows mixed results (Table 2.9). Looking at the different geographical areas, in the northeast, the presence of family firms is similar across all three firm size categories; however, in the remaining geographical areas, their prevalence in the large firm category is lower than in the other size categories. Focusing on regions, there are regions in

which the prevalence of family firms is lower in the medium and large firm categories than in the small firm category, such as in Campania and Umbria, and there are other regions in which the prevalence remains stable across all three firm size categories, such as in Emilia Romagna. Even though these results may partially support the general belief that family firms are more prevalent in the small and medium firm categories, this is not the case in all regions. It is important to highlight that Emilia Romagna is well known for hosting clusters of firms related to mechanical engineering, automotive manufacturing, and agrifood. Thus, one could assume that there might be a relationship between family firm prevalence and external localisation economies that could be explored further. Future studies should thus investigate what regional mechanisms can explain the uneven/even regional distribution of family firms across different size categories.

When considering family firm prevalence across age categories (Table 2.10) in the Italian regional context, we also observe that family firms tend to belong to the mature (between six to 20 years old) and old (more than 20 years old) firm age categories. This result may support the argument that with time, firms become family firms by incorporating family members and by developing founders' intention to transfer ownership and/or management to upcoming generations. In general, the percentage of family firms in the new firm category (less than 6 years old) is lower than in the other categories

Table 2.10 Share of family firms across firm age categories and regions

Region	*Less than 6 years (young)*	*Between 6 and 20 years (mature)*	*More than 20 years (old)*
Emilia Romagna	0.51	0.58	0.63
Friuli Venezia Giulia	0.60	0.70	0.67
Trentino Alto Adige	0.32	0.65	0.63
Veneto	0.59	0.64	0.67
Northeast	*0.54*	*0.62*	*0.66*
Liguria	0.00	0.45	0.64
Lombardia	0.52	0.67	0.70
Piemonte	0.54	0.55	0.69
Northwest	*0.52*	*0.63*	*0.69*
Lazio	0.32	0.71	0.79
Marche	1.00	0.59	0.67
Toscana	0.57	0.61	0.64
Umbria	0.33	0.57	0.75
Centre	*0.60*	*0.62*	*0.68*
Abruzzo	0.64	0.69	0.54
Basilicata	–	0.78	0.83
Calabria	1.00	0.70	0.88
Campania	0.77	0.68	0.69
Molise	–	0.88	0.14
Puglia	0.94	0.73	0.59
Sardegna	0.37	0.64	0.50
Sicilia	0.72	0.79	0.69
South	*0.76*	*0.71*	*0.63*

Table 2.11 Family involvement across Italian regions (average number of family managers)

Region	*Family managers*
Emilia Romagna	1.85
Friuli Venezia Giulia	2.34
Trentino Alto Adige	1.52
Veneto	1.59
Northeast	*1.77*
Liguria	4.84
Lombardia	2.08
Piemonte	1.39
Northwest	*1.98*
Lazio	1.87
Marche	1.21
Toscana	1.84
Umbria	1.35
Centre	*1.64*
Abruzzo	1.61
Basilicata	–
Calabria	0.92
Campania	1.63
Molise	1.25
Puglia	1.27
Sardegna	1.31
Sicilia	0.97
South	*1.35*

across almost all Italian regions (with some exceptions, such as Campania and Puglia). It is important to highlight the high presence of young family firms in regions located in the south. This geographical area has the highest share of young family firms. One reason for this high prevalence of young family firms could be the incentives provided in this part of the country for new start-up firms. Further research should investigate the phenomenon of entrepreneurial families that seems to have emerged in the south of Italy in contrast with the presence of mature family firms in the north of Italy and the consequences for future regional economic and social development.

Finally, Table 2.11 shows the familiarity of family firms (measured as the average number of family managers) across Italian regions. There are regions with an average of two family managers or higher, such as in Friuli Venezia Giulia and Liguria, while regions in the south all have an average number of family managers lower than the national mean (1.78). As expected due to the higher presence of mature and old family firms, in the north of Italy we have more family members involved than family firms in the south.

Prevalence of family firms and quality of Italian regional institutions

Following the aim to relate the prevalence of family firms and the quality of institutions for the Italian sample, we use Golden and Picci's (2005) corruption indicator as a proxy for the quality of regional institutions. This

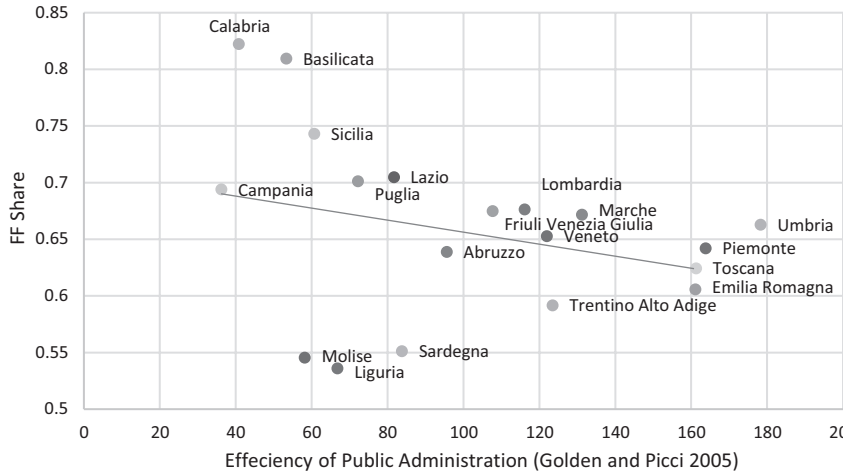

Figure 2.10 Quality of Italian regional institutions and share of family firms.
Note: $y = 0.7191 - 0.00058x$ (p-value = 0.169).

index was created in 1997 by focusing on the difference between the total amount of financial resources allocated to build infrastructure in regions and the physical inventory of public capital that has effectively been built after controlling for regional differences in the cost of public construction. The intuition underlying this indicator is that, all else being equal, if the difference between these measures is large, that means the focal government is not getting the infrastructure it has paid for due to the presence of corruption (Golden & Picci, 2005). The indicator is based on the ratio between the aforementioned two measures and is expressed as ratio to the national average. A higher value implies lower corruption and therefore higher-quality regional institutions.

Even though it is not significant, Figure 2.10 shows a preliminary pattern indicating that the prevalence of family firms decreases with the efficiency of public administration, supporting the arguments that family firms are better equipped to survive in less developed formal institutional contexts. Even though this theory has been used to explain the presence of family firms in emerging economies, it looks like it can also be applied to developed economies by considering the different stages of regional development.

Family firms and regional competitiveness across Italian regions

Regional productivity, regional exports, and regional innovation

To explore the possible relation between the prevalence of family firms and regional competitiveness, we use three aggregate regional measures: labour productivity, exports, and innovation.[14] First, there is no evidence that the

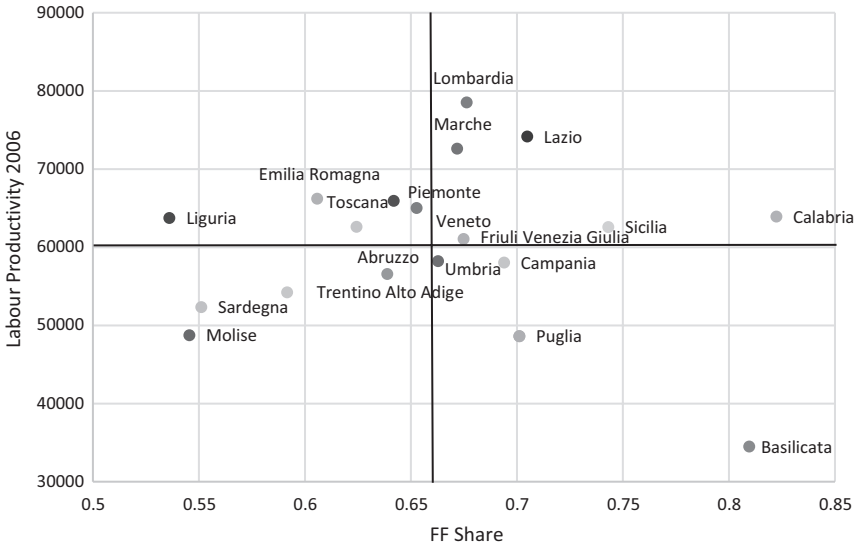

Figure 2.11 Share of family firms and labour productivity across Italian regions.
Note: $y = 65{,}473.45 - 7{,}685.174x$ (p-value = 0.809).

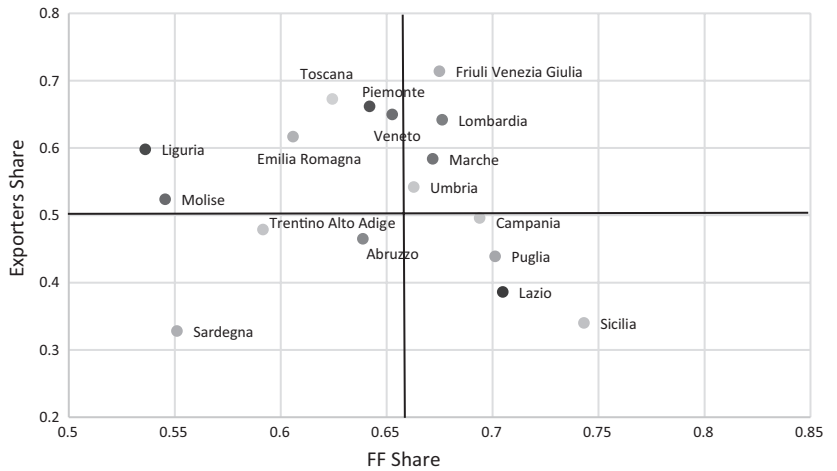

Figure 2.12 Share of family firms and regional exports across Italian regions.
Note: $y = 1.246 - 1.13x$ (p-value = 0.013).

prevalence of family firms is positively or negatively related to regional labour productivity (Figure 2.11). When analysing regional exports, there is preliminary evidence that the relationship is negative. However, there is a group of regions (Friuli Venezia Giulia, Lombardia, Marche, and Umbria) characterised by a high presence of family firms and a high share of exporters

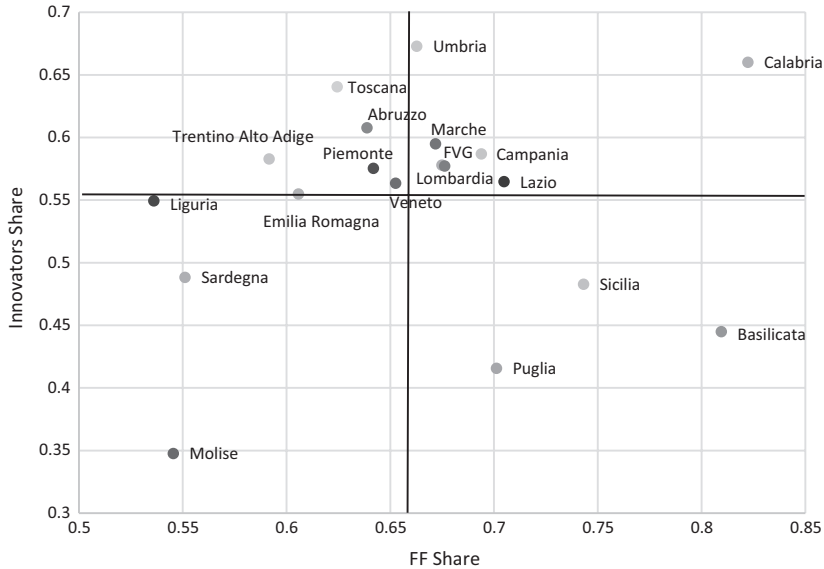

Figure 2.13 Share of family firms and regional innovation across Italian regions. Note: $y = 0.45 + 0.15x$ (p-value = 0.552).

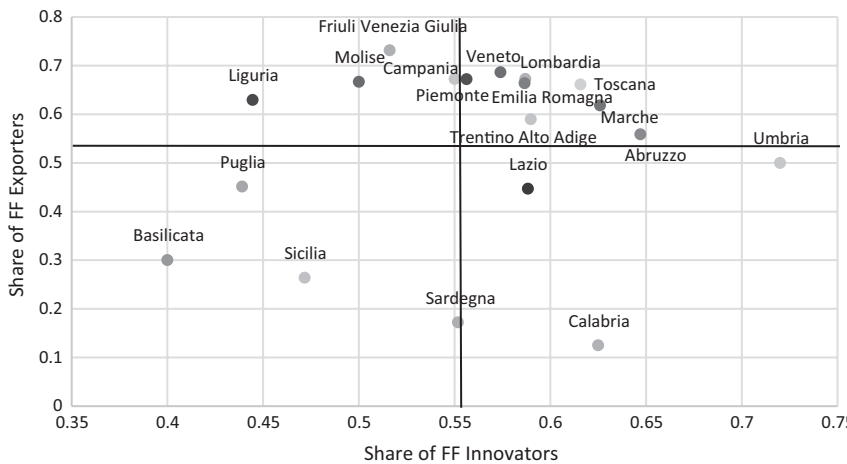

Figure 2.14 Share of family firm innovators and family firm exporters across Italian regions.

(Figure 2.12). Finally, the share of regional innovators does not seem to have a relationship with the regional prevalence of family firms (Figure 2.13). In line with findings from Stough et al. (2015), our results show the need to further investigate the aggregate effect of family firms on regional competitiveness to uncover their contributions to regional development.

Finally, to explore the possible combination of family firm exporters and family firm innovators across regions, Figure 2.14 shows the position of Italian regions in four quadrants combining the share of regional family firm exporters and the share of regional family firm innovators.[15] It seems that in some Italian regions, there is an interesting combination of a high level of family firm exporters and a high level of family firm innovators. These regions are positioned in the 'dynamic' quadrant.

Conclusion

The aim of this chapter was to present a descriptive picture of the phenomenon of family firms across European regions and to analyse its prevalence, its relationship with context, and its consequences for regional competitiveness. Our main conclusion is that the phenomenon of family firms is unevenly distributed across regions. Additionally, our intention was to dig into the relationship between family firms and regional context to provide some empirical evidence of the two-way relationship between family firms and regions—that is, the extent to which the territory determines the existence of family firms and the extent to which family firms contribute to regional

Table 2.12 Future research questions

Research streams	*Research questions*
Share of family firms across industries	Why does the presence of family firms vary across industries and across industries and regions?
	Is there any sector that favours/attracts family firms?
	How do regional competitive advantages in certain industries attract or repel the creation, retention, and survival of family firms?
	What are the competitive advantages that family firms are able to developed to be overrepresented in some industrial sectors?
Share of family firms based on business and family demographics	Why is the presence of family firms unevenly distributed by firm size, firm age, and familiness characteristics?
	Do territorial conditions affect the size of firms and their life span?
	Why is the presence of family firms higher in the mature and old firm categories instead of the young firm category?
	Why do familiness characteristics vary across regions?
Share of family firms and regional characteristics	Is the prevalence of family firms in regions related to any specific type of external agglomeration?
	How does the formal (and informal) institutional context affect the presence of family firms?
	What combinations of formal institutional dimensions favour or hinder the presence of family firms in regions?
Share of family firms and the effect on regional competitiveness	Do family firms contribute to regional competitiveness (regional productivity, regional exports, and regional innovation), and if so, where and how?

competitiveness. Instead of providing definitive answers, this book chapter has raised several research questions that future research should investigate further (see Table 2.12 for a summary of the most important research questions).

Appendix A

UniCredit-Capitalia sample: 2006			*ISTAT census data: 2001*		
Regions	*Number of firms*	*%*	*Regions*	*Number of firms*	*%*
Emilia Romagna	578	12.0	Emilia-Romagna	10,718	11.3
Friuli Venezia Giulia	140	2.9	Friuli-Venezia Giulia	2,582	2.7
Trentino Alto Adige	66	1.4	Trentino-Alto Adige	1,247	1.3
Veneto	610	12.7	Veneto	14,485	15.2
Northeast	*1,394*	*29.0*	*Northeast*	*29,032*	*30.6*
Liguria	50	1.0	Liguria	1,211	1.3
Lombardia	1,533	31.9	Lombardia	24,513	25.8
Piemonte	490	10.2	Piemonte	8,434	8.9
Valle D'Aosta	6	0.1	Valle d'Aosta	88	0.1
Northwest	*2,079*	*43.2*	*Northwest*	*34,246*	*36.0*
Lazio	121	2.5	Lazio	2,811	3.0
Marche	194	4.0	Marche	4,732	5.0
Toscana	387	8.0	Toscana	8,680	9.1
Umbria	77	1.6	Umbria	1,576	1.7
Centre	*779*	*16.2*	*Centre*	*17,799*	*18.7*
Abruzzo	108	2.2	Abruzzo	1,963	2.1
Basilicata	12	0.2	Basilicata	415	0.4
Calabria	29	0.6	Calabria	676	0.7
Campania	152	3.2	Campania	4,065	4.3
Molise	11	0.2	Molise	308	0.3
Puglia	119	2.5	Puglia	3,718	3.9
Sardegna	55	1.1	Sardegna	898	0.9
Sicilia	70	1.5	Sicilia	1,897	2.0
South	*556*	*11.6*	*South*	*13,940*	*14.7*
Total	4,808	100	Total	95,017	100

Notes

1 NACE-CLIO refers to the General Industrial Classification of Economic Activities in the European Communities (*Nomenclature générale des Activités économiques dans les Communautés Européennes*). NUTS stands for 'nomenclature of territorial unit for statistics' and represents European Union statistical regions. For more information, see http://ec.europa.eu/eurostat/web/nuts/overview.

2 Given their relevance in national economies, large firms were oversampled. Since the sample design overrepresents large firms, researchers constructed sampling weights in terms of size-sector cells to make the sample representative of the underlying population (see Altomonte & Aquilante, 2012). All the analyses in this chapter consider these weights.

3 Given the representativeness of the EFIGE database, we are confident that the distribution of family firms in our dataset reflects the distribution in each country.
4 To preserve anonymity, the EFIGE database contains a randomised regional identifier for each country but not the name of the region (Altomonte & Aquilante, 2012).
5 In all the figures in this chapter, horizontal and vertical lines identify the average value of the variables on the y- and x-axes of the considered regions, respectively.
6 TFP was calculated for 2008 by the researchers involved in the EFIGE project and was made available by Bruegel. TFP was estimated by applying the Levinsohn and Petrin (2003) approach and by considering sectoral production functions. The estimates also control for country and year fixed effects over the 2001–2009 period. To estimate TFP, the EFIGE survey was matched with the Amadeus archive. However, the matching procedure involved a lot of missing values for TFP due to missing data in Amadeus (for more information, see Altomonte & Aquilante, 2012).
7 A firm is considered to be an exporter if it was declared a direct exporter in 2008 or had been actively exporting prior to 2008. The share of regional exporters is calculated as the number of exporting firms among the total firms in a region.
8 Information on innovation comes from the firms' answers to specific questions on whether they introduced a product/process innovation during the survey period. The share of regional innovators is calculated as the number of innovative firms among the total firms in a region.
9 For each region, the share of family firms that are exporters (innovators) is calculated considering the number of family firms that were declared to be an exporter (innovator) out of the total number of family firms.
10 In the figure, the horizontal reference line identifies the average share of family firm exporters out of the 55 European regions, while the vertical line represents the average share of family firm innovators. The figure divides regions into four groups. The first group, in the first quadrant (bottom left), includes less dynamic regions characterised by a below-average share of both family firm innovators and exporters. In the second group, the second quadrant (top left), are regions with a high share of family firm exporters. The third group (top right) includes the most dynamic regions characterised by a high share of family firm innovators and exporters. The last group (bottom right) includes innovative regions with an above-average share of family firms that innovate.
11 The original Capitalia-Unicredit data encompassed 5,100 firms. After cleaning the data and excluding firms that did not answer the question used to classify firms as family firms, the number was reduced to 4,808.
12 In Appendix A, we compare the distribution of our sample by region with data provided by the Italian National Institute of Statistics (ISTAT). As can be seen, the distributions are very similar. Northern firms are slightly over-represented in the sample, especially firms located in Lombardy, while the opposite holds for firms located in southern regions.
13 Too few firms are in the sample for Valle d'Aosta, so we excluded this region from all the tables (except Table 2.5) and figures.
14 Labour productivity is defined as value added over employment and refers to 2006. A firm is considered an exporter if it answered yes to the question 'Has the enterprise sold abroad some or all of its products in 2006?' A firm is considered an innovator if it introduced a product and/or process innovation in the 2004–2006 period. Regional values are calculated by aggregating firm values by region.
15 For information about definitions, see Notes 8, 9, and 10.

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Part II

Micro-foundation channels

3 Urbanization economies, proximity dimensions and productivity

A family firm perspective

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Introduction

After more than three decades of research on family businesses, one of the main unresolved research questions revolves around why family and non-family firms differ in terms of behaviour and performance. The most common answer is that family involvement in business affects the way an organisation is owned, governed, and managed, thereby causing family and non-family firm behaviour, performance, and survival to differ. Even though extensive research has attempted to explain, justify, and predict firm performance differences between family and non-family firms, the results are still contradictory (Basco, 2013; Mazzi, 2011).

Family business researchers have built a new body of knowledge to explain differences between family and non-family firms by investigating the family's effect on the firm. More specifically, these scholars have argued that the dominant coalitions in family and non-family firms have different goals (Williams, Pieper, Kellermanns, & Astrachan, 2019). In the former, owner families imprint their unique goals on their firms, such as their intentions to transfer the ownership from one generation to another, to embrace and support family members around economic projects, and to preserve and sustain their family image and reputation across time (Aparicio, Basco, Iturralde, & Maseda, 2017). Even though some of the differences between family and non-family firms originate from the interrelationship between the family and business domains, family business research is still *contextless* (Gomez-Mejia, Basco, Müller, & Gonzalez, 2020; Krueger, Bogers, Labaki, & Basco, 2020), with context being defined as 'circumstances, conditions, situations, or environments that are external to the respective phenomenon and enable or constrain it' (Welter, 2011, 167). Specifically, scholars have given insufficient attention to how and to what extent family and non-family firms are affected by and able to affect context. Consequently, a future challenge for the field is to explore and interpret how contextual dimensions (e.g., spatial, social, institutional, and temporal), insofar as they are accounted for, shed new light on family firms' heterogeneity.

Focusing on differences in productivity between family and non-family firms, we explore the contingent effect of the size of the municipalities in which firms dwell. We focus on urban settings for two main reasons. First, municipalities conflate spatial and social relationships in administratively bounded areas, hence creating well-defined territories (Bathelt & Gluckler, 2003). Second, urban areas are a source of externalities (i.e., urbanisation economies) for the firms located within them, as reflected in these firms' static (e.g., higher profitability, productivity) and dynamic (e.g., higher innovative capacity) advantages compared to firms located elsewhere (Capello, 2002). Our main conjecture is that due to different family and non-family firm specificities, neither is a superior form of organisation in terms of productivity; however, for both types, productivity depends on firms' ability to exploit economies of proximity and urban agglomerations. Following the so-called 'regional familiness approach' (Basco, 2015), we argue that family firms, which are more locally embedded in their home territories than non-family firms, are better positioned to exploit proximity dimensions as vectors of territorial competitiveness because they can create particular economic, social, and emotional connections within their local socioeconomic *milieus* (Boschma, 2005). Therefore, the specificities of family firms give them locational advantages over their non-family counterparts when operating in small municipalities. In small municipalities, the embeddedness relationships developed business families both internally (i.e., among family members) and outside their organisational domains (i.e., in their local settings) substitute for the lack of spatial agglomerations.

We test our conjecture on a large panel dataset of Spanish manufacturing firms covering the 2002–2015 period. Our empirical evidence reveals a negative association between municipality size and the productivity of family-managed firms. In particular, being located in a large urban setting is a source of diseconomies of agglomerations for family-managed firms. As such, they are better suited to exploit highly embedded contexts, such as small municipalities. Accordingly, we address the call made by Stough et al. (2015) to link the research fields of regional development and family business by exploring the relationship between spatial-temporal context and the nature of the firm to better understand firm growth in terms of productivity. In particular, by emphasising the spatial dimension of embeddedness (Hess, 2004)—that is, by anchoring economic action in territorially bounded networks of social relationships—our book chapter offers new evidence on how family firms are distinctively affected by their immediate surroundings.

Theoretical background

Family business research has mainly focused on the family-business relationship to explain differences in firm behaviour and firm performance between family and non-family firms. The primary argument to explain the specificities comes from the family firm goal approach (Aparicio et al., 2017;

Basco, 2017). According to this approach, family firms are able to pursue multiple goals that combine economic and non-economic orientations as well as business and family orientations. Since organisation goals alter the reference point for decision making, we expect that the reference point used by family firms is different than that used by non-family firms (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Beyond extensive research taking an internal view (i.e., how the interplay between the family and business domains shapes firms' behaviour) to explain family and non-family performance differences, existing empirical evidence is still contradictory, and there is no clear understanding of whether the family firm is a superior form of organisation (Mazzi, 2011). The main issue is that family business research is *contextless* (James et al., 2020)—that is, the spatial, social, institutional, and temporal dimensions of context have usually been overlooked in favour of the traditional internal view. To address this research gap, Amato, Basco, and Lattanzi (2020) recommend accounting for context to better interpret differences between family and non-family firms.

Context is a dimension that can both constrain and bolster firm competitive advantages and performance while simultaneously explaining firm heterogeneity (Amato, Basco, & Lattanzi, 2020). This line of research is gaining importance in family business studies, and recent research has shown that firm differences in terms of performance and behaviour vary across socio-spatial contexts, such as rural and urban areas (Backman & Palmberg, 2015; Baù et al., 2019), municipalities (Amato, Basco, Gómez-Ansón, & Lattanzi, 2020), and regional settings (Adjei, Eriksson, & Lindgren, 2016). Consequently, context matters.

Regional familiness: an urban perspective

Context matters because family and non-family firms differ in the extent to which they are 'anchored' to the territories in which they dwell (Backman & Palmberg, 2015). While the economic link with territory defines how firms behave to exploit economic opportunities, family firms also usually develop specific social and emotional connections with their home territories (Smith, 2016). However, family firms' social and emotional attachments to their territories are not necessarily what make them perform differently from non-family firms; rather, these performance differences stem from family firms' ability to either exploit the advantages offered by or overcome the constraints inherent to a given location (Capello, 2002). The regional familiness approach, which encompasses 'the embeddedness of family businesses in social, economic, and productive structures within a spatial context' (Basco, 2015, 260), provides a theoretical explanation to link the study of family firms and regions.

The interpretation of space as 'diversified-relational' has restored the concept of external (or agglomeration) economies as sources of territorial

competitiveness (Capello, 2009). The concentration of economic activity in spatially bounded areas gives rise to advantages for firms in the form of reduced production and transaction costs, enhanced efficiency of production factors, and increased innovative capacity. The term 'external' means that agglomeration economies are beyond firms' control and typically result from the presence of collective action among other firms and institutions, thus making them external to a focal firm but internal to either the industry or urban concentration (Parr, 2002).

Urban spaces are generally regarded as localities in which agglomeration economies occur. In particular, the local diversity of cities facilitates access to a qualified and diversified workforce, various infrastructure, a variety of facilities, and—even more importantly—to complementary knowledge, with industry diversification fostering firms' productivity and innovation performance (Galliano, Magrini, & Triboulet, 2015; Jofre-Monseny, Marín-López, & Viladecans-Marsal, 2014). Hence, a diversified spatial setting typically leads to increasing returns by giving rise to so-called 'urbanisation economies', or 'Jacobs externalities'. A city arises as a spatial cluster of productive and residential activities (Parr, 2007). The concentration of a mix of sectors and diversified activities, the density of contacts that develop within them, and the easy access to advanced information and knowledge are clear advantages arising from being located in an urban setting that affect the productivity of the firms situated therein (Capello, 2002). At the same time, cities are able to generate 'dynamic' advantages (Jofre-Monseny et al., 2014). In particular, urban settings are characterised by shared values, common codes of behaviour, a sense of belonging, and mutual trust—all of which play a significant role in reducing uncertainty and in the socialisation process of knowledge development and collective learning that affects the innovativeness of co-located firms (Capello & Faggian, 2005).

Urbanisation economies are generally regarded as being dependent upon the overall scale of the respective city (Fu & Hong, 2011), with urban size being closely related to industrial diversity (Gao, 2004). That said, it is reasonable to ask whether firms benefit equally from urbanisation economies or, conversely, whether being located in an urban setting is a source of differential advantages or disadvantages for some firms and not for others. For instance, while city size has been found to affect small firms' productivity due to their higher reliance on a more diversified external environment than larger enterprises (Fu & Hong, 2011; Henderson, Kuncoro, & Turner, 1995), in small spatial settings, where access to agglomerations is more restricted, firm performance is strongly dependent upon proximity dimensions as conduits of interactive learning, cooperation, and knowledge exchange (Gordon & McCann, 2000). However, particular types of firms (e.g., family-managed firms) may have a greater ability than others to leverage proximity dimensions in certain spatial contexts, such as cities.

Geographical proximity, which refers to the physical distance between economic actors (e.g., customers and suppliers) and regional factors (e.g., raw materials for production processes), seems to be important for any firm,

including family and non-family ones. Being close to raw materials, customers, suppliers, and sources of knowledge could be considered an advantage that any firm can exploit. In particular, research has argued that geographical proximity is a key element for the promotion of externalities (Martin & Simmie, 2008). However, not all firms are able to capitalise on the condition of being geographically close to each other, which is a necessary but insufficient condition to improve communication and trust among economic actors and which ultimately affects the efficiency of economic activity. Geographical proximity has to be lubricated with additional dimensions of proximity, such as cognitive and social proximity, which mirror feelings of similarity with and belonging to a given location, respectively (Lähdesmäki, Siltaoja, & Spence, 2019).

While cognitive proximity refers to 'the similarity of the subjective mental framework of actors and the tacit and codified knowledge owned by actors' (Westlund & Adam, 2010, 112), social proximity refers to socially embedded relationships among agents based on trust and reciprocity derived from friendship, kinship, and experience (Boschma, 2005). For family firms, cognitive proximity is manifested through the emotional connection that business families are able to develop within their home territories. It is through this attachment that knowledge related to business flows and consolidates economic activity, thus enabling family firms to exploit competitive advantages from being family firms. Alongside cognitive proximity, social proximity seems to be a family-inherited condition stemming from families' long-standing presence in their territories (Cucculelli & Storai, 2015). Family members bring social and kinship relationships to their firms, which help them exploit economic opportunities, ease the exchange of tacit knowledge, and reduce opportunistic behaviours (Baù et al., 2019). Hence, we expect that cognitive and social proximity reinforce each other to foster the economic activity in a given location.

Even though family firms seem to be positioned to uniquely exploit the benefits of social and cognitive proximity, their outcomes depend on the size of the spatial contexts in which they dwell (Martin & Simmie, 2008). In particular, municipality size could constrain or broaden family firms' ability to transform their social and emotional embeddedness into superior performance. In small municipalities, where access to urbanisation economies is more restricted (Fu & Hong, 2011; Gordon & McCann, 2000), firms have to develop high-trust, cooperative, and reciprocal relationships both among their members and with external networks of local actors (i.e., local communities) to facilitate the economic activity. In this context, because of their emotional and social connections, family firms are in a superior position to benefit from interactive learning and knowledge exchange both within and outside their organisational boundaries (Adjei et al., 2016). On the other hand, in large urban settings, firms can benefit from Jacobs externalities such that family firms' competitive advantages appear to vanish, and any firm can exploit the externalities stemming from knowledge spillovers, a large pool of skilled labour, and increased efficiency in labour market matching (Galliano, Magrini, & Triboulet, 2015).

Hence, while in small urban settings, family firms' unique physical, social, and emotional connections substitute for the shortage of external agglomerations, their comparative locational advantages disappear as municipality size increases. That said, our conjecture is that family firms located in small municipalities have higher performance than their non-family counterparts. Therefore, we propose the following:

> Hypothesis 1: *Municipality size affects the performance of family-managed firms in such a way that the larger the municipality in which a family firm dwells, the lower its productivity.*

Method

Data and variable

To test our hypothesis, we rely on micro-data obtained through a survey of a representative sample of Spanish manufacturing firms. The survey, known as Encuesta sobre Estrategias Empresariales (ESEE, or Survey on Business Strategies), is conducted yearly by the SEPI Foundation in collaboration with the Ministry of Industry, Trade and Tourism of Spain. ESEE is oriented toward capturing information about firms' strategies, technological activities, manufacturing processes, markets served, and employment. The sample's representativeness is ensured by combining exhaustiveness and random sample criteria. In particular, while all companies with more than 200 workers are surveyed, firms employing 10–200 workers are selected based on stratified, proportional, and systematic sampling.[1] The final sample includes 3,331 firms distributed across 20 different manufacturing industries (NACE Rev. two-digit level)[2] and 17 Spanish autonomous communities (NUTS 2).[3] It consists of 21,573 firm-year observations for the 2002–2015 period.

The dependent variable used in this study is labour productivity, defined as per capita value added (Adjei et al., 2016). We take the log of the values to reduce the skewness of the distribution.

The main exploratory variable is represented by the family status of the firm. As the definition of 'family firm' is a matter of longstanding debate among researchers (Mazzi, 2011), we adopt the so-called 'demographic approach' to identify family firms. This approach considers the involvement of a family in a firm—in its ownership, control, and management—as a sufficient condition to capture families' influence on businesses (Basco, 2013a). Since ESEE reports the number of owners and relatives holding management positions, we define a family firm as any firm in which two or more members of the controlling family hold managerial positions in the company. Therefore, we employ a binary variable coded 1 when the firm is family managed and 0 otherwise. To capture urbanisation economies, our moderator variable, we consider the size of the municipality in which the firm *i* is located (Fu & Hong, 2011). In particular, ESEE reports a categorical

variable based on five different municipality sizes: fewer than 2,000; 2,001–10,000; 10,001–50,000; 50,001–500,000; and more than 500,000 inhabitants.[4]

Additionally, we control for a set of firm-level characteristics that potentially affect the level of productivity. To account for time-invariant heterogeneity across industries and regions, we include a series of categorical variables corresponding to the NACE two-digit code level and to the Spanish autonomous communities in which firms have their headquarters, respectively. Finally, we use a series of categorical variables to control for the years associated with each observation. Table 3.1 summarises the variables employed in the study.

Table 3.1 Description of variables

Variables	*Description*
Dependent variable	
Labour productivity[L]	Per capita value added
Independent variables	
Family-managed firm	Dummy variable coded "1" if two or more family members are involved in the management of the firm and "0" otherwise
Municipality size	Variable that records the number of inhabitants of the town in which the company has its registered office: less than 2,000; 2,001–10,000; 10,001–50,000; 50,001–500,000; and more than 500,000 inhabitants
Control variables	
Product innovation	Dummy variable coded "1" if the firm has introduced a product innovation and "0" otherwise
Process innovation	Dummy variable coded "1" if the firm has introduced a process innovation and "0" otherwise
R&D intensity	Ratio of the firm's R&D expenditures to sales
Export intensity	Ratio of the firm's foreign sales to total sales
Age	Number of years the firm has existed since its incorporation
Size[L]	Firm size as measured by total number of employees
Financial constraints	Book value of debt divided by total assets
Listed	Dummy variable coded "1" if the firm is listed in the stock exchange and 0" otherwise
Group	Dummy variable coded "1" if the firm is part of a corporate group and "0" otherwise
Foreign share	Foreign shareholding in the firm
Competitors	Dummy variable coded "1" if the firm reported there are more 10 companies with significant market share in the main product market and "0" otherwise
Other controls	
Industry	Dummies for each two-digit industry
Region	Dummies for each region in which firms are located
Year	Year dummies

[L]Expressed in natural logarithm.

Empirical model

To test the proposed hypothesis, we use panel data analysis with random-effects specification. The preference for random-effect models is due to the low 'within' variance of the family status of the firm, which changes very little across time.

With the purpose of investigating the effect of municipality size on the level of productivity of family versus non-family firms, we estimate the following model:

$$\ln Y_{i,t} = \alpha_0 + \beta_1 F_{i,t} + \beta_2 M_{i,t} + \beta_3 (F_{i,t} \times M_{i,t}) + \beta' C_{i,t} + \beta' T_i + \beta' S_i + \beta' \mathrm{R_i} + \varepsilon_{it},$$

where

- $i = 1,\ldots,$
- N firms,
- $t = 1,\ldots,$
- T years,
- ln Y represents the average labour productivity of firm I,
- $F_{i,t}$ is the dummy variable indicating the family status of the firm,
- $M_{i,t}$ indicates the size of the municipality in which firm i is located,
- the interaction $F_{i,t} \times M_{i,t}$ is our key variable of interest,
- $C_{i,t}$ is a vector of the control variables used to capture the influence of the firm's heterogeneity on productivity,
- T_i, S_i, and R_i are time-specific, industry-specific, and region-specific dummy effects, respectively,
- ε_{it} is the error term.

Results

The descriptive statistics and pairwise Pearson correlation results are reported in Tables 3.2 and 3.3, respectively. Panel 2A provides the summary statistics for the whole sample. Family-managed firms account for 23% of the total sample. For a more straightforward depiction of the difference between family and non-family firms, Panel 3B shows the means of the variables grouped by the nature of the firm (family versus non-family), along with the results of a test for differences in the means and the results of the Wilcoxon rank-sum test. Non-family firms are older, bigger, more innovative, more internationalised, and more open to foreign investors than family firms. Additionally, in relation to our firm performance variable—labour productivity—non-family firms are more productive than family firms.

An analysis of the variance inflation factors (VIFs) suggests that multicollinearity is not a concern because all the VIF coefficients are below the generally accepted threshold of 10, as shown in Table 3.3.

Table 3.2 Descriptive statistics

Panel 2A: Summary statistics for whole sample

Variable	*Obs.*	*Mean*	*St. dev.*	*Min.*	*Max.*
Labour productivity[A]	*21,573*	51.143	56.602	0.2	3,850.7
Labour productivity[L]	*21,573*	3.712	0.660	−1.609	8,256
Family-managed firm	*21,573*	0.229	0.420	0	1
Municipality size	*21,573*	3.137	1.096	1	5
Product innovation	*21,573*	0.192	0.394	0	1
Process innovation	*21,573*	0.317	0.465	0	1
R&D intensity	*21,573*	0.769	2.505	0	90.924
Export intensity	*21,573*	22.027	28.410	0	100
Age	*21,573*	29.139	20.267	0	175
Size[L]	*21,573*	4.174	1.466	0	9.574
Financial constraints	*21,573*	54.019	23.614	0	99.979
Listed	*21,573*	.020	0.141	0	1
Group	*21,573*	0.363	0.481	0	1
Foreign share	*21,573*	15.430	35.233	0	100
Competitors	*21,573*	0.675	0.468	0	1

Panel 2B: Difference in means and Wilcoxon rank-sum test

Variable	*Non-family firms*	*Family-managed firms*	*Test for difference of means*		*Wilcoxon rank-sum test*[a]
			Difference of means	*t-statistics*	*z-statistics*
Labour productivity[A]	53.398	43.569	9.829	10.753***	13.745***
Labour productivity[L]	3.743	3.609	0.134	12.615***	13.745***
Municipality size	3.156	3.072	0.059	7.906***	5.075***
Product innovation	0.200	0.166	0.033	5.274***	5.271***
Process innovation	0.322	0.301	0.021	2.798**	2.798**
R&D intensity	0.809	0.632	0.177	4.364***	13.121***
Export intensity	23.561	16.872	6.689	14.612***	12.772***
Age	29.311	28.559	0.752	2.292**	−1.001
Size[L]	4.308	3.723	0.585	25.005***	24.463***
Financial constraints	54.108	53.721	0.386	1.009	0.654
Listed	0.024	0.006	0.018	8.043***	8.031***
Group	0.433	0.129	0.304	40.570***	39.107***
Foreign share	19.551	1.592	17.958	32.227***	31.653***
Competitors	0.689	0.629	0.059	7.906***	7.896***
Observations	*16,623*	*4,950*			

[A]Expressed in absolute terms. [L]Expressed in natural logarithm.
Level of statistical significance: +$p < 0.10$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$. [a]The Wilcoxon rank-sum test analyses whether the two samples are from different distributions (Sample 1: non-family firms; Sample 2: family-managed firms).

Table 3.3 Pairwise Pearson correlation coefficients

	VIF	*Labour productivity*	*Family-managed firm*	*Municipality size*	*Product innovation*	*Process innovation*	*R&D intensity*	*Export intensity*
Labour productivity	–	1.000						
Family-managed firm	1.09	−0.086*	1.000					
Municipality size	1.05	0.070*	−0.032*	1.000				
Product innovation	1.25	0.145*	−0.036*	0.047*	1.000			
Process innovation	1.22	0.212*	−0.019*	−0.008	0.357*	1.000		
R&D intensity	1.10	0.075*	−0.030*	0.059*	0.257*	0.160*	1.000	
Export intensity	1.27	0.276*	−0.099*	−0.022*	0.181*	0.181*	0.166*	1.000
Age	1.15	0.238*	−0.016*	0.165*	0.103*	0.086*	0.076*	0.167*
Size	2.10	0.420*	−0.168*	0.108*	0.283*	0.311*	0.179*	0.411*
Financial constraints	1.03	−0.151*	−0.007	−0.029*	0.002	0.017*	0.012	−0.031*
Listed	1.04	0.095*	−0.055*	0.053*	0.037*	0.056*	0.034*	0.094*
Group	1.77	0.370*	−0.266*	0.068*	0.173*	0.199*	0.145*	0.328*
Foreign share	1.40	0.279*	−0.214*	0.076*	0.107*	0.134*	0.056*	0.304*
Competitors	1.09	0.167*	−0.054*	0.028*	0.128*	0.108*	0.061*	0.099*

	VIF	*Age*	*Size*	*Financial constraints*	*Listed*	*Group*	*Foreign share*	*Competitors*
Age	–	1.000						
Size	–	0.294*	1.000					
Financial constraints	–	−0.142*	0.029*	1.000				
Listed	–	0.066*	0.180*	0.003	1.000			
Group	–	0.164*	0.605*	0.006	0.125*	1.000		
Foreign share	–	0.162*	0.454*	0.007	0.069*	0.463*	1.000	
Competitors	–	0.102*	0.268*	−0.002	0.057*	0.196*	0.162*	1.000

Number of observations = *21,573*. Mean VIF = 1.27. Level of statistical significance: *$p < 0.05$.

Table 3.4 Family-managed firms, labour productivity, and municipality size

	Model 1	*Model 2*	*Model 3*
Product innovation	0.016	0.016	0.015
	(0.011)	(0.011)	(0.011)
Process innovation	0.039***	0.039***	0.039***
	(0.008)	(0.008)	(0.008)
R&D intensity	−0.017***	−0.017***	−0.017***
	(0.003)	(0.003)	(0.003)
Export intensity	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)
Age	0.001*	0.001*	0.001*
	(0.000)	(0.000)	(0.000)
Size	0.108***	0.107***	0.107***
	(0.008)	(0.008)	(0.008)
Financial constraints	−0.003***	−0.003***	−0.003***
	(0.000)	(0.000)	(0.000)
Listed	−0.070+	−0.072+	−0.073+
	(0.042)	(0.042)	(0.042)
Group	0.076***	0.076***	0.076***
	(0.016)	(0.015)	(0.015)
Foreign share	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)
Competitors	0.033**	0.033**	0.033**
	(0.010)	(0.010)	(0.010)
Family-managed firm	−0.005	−0.004	0.066+
	(0.011)	(0.011)	(0.036)
Municipality size		0.011+	0.015*
		(0.006)	(0.007)
Family-managed firm × Municipality size			−0.023*
			(0.011)
Regions	Yes	Yes	Yes
Industry	Yes	Yes	Yes
Years	Yes	Yes	Yes
Constant	2.984***	2.957***	2.940***
	(0.059)	(0.062)	(0.063)
WaldChi2	2,657.83	2,679.09	2,681.74
Prob > Chi2	0.0000	0.0000	0.0000
Number of firms	3,331	3,331	3,331
Observations	*21,573*	*21,573*	*21,573*

The table presents random-effect models based on a panel dataset of firm with at least 10 employees over the 2002–2015 period. Robust standard errors are reported in parentheses. Level of statistical significance: $+p < 0.10$, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$.

The results of the econometric analysis are reported in Table 3.4. In Model 1, we introduce all control variables and our main exploratory variable—family-managed firm. We observe that process innovation, export, age, size, foreign share, being part of a group, and being listed positively

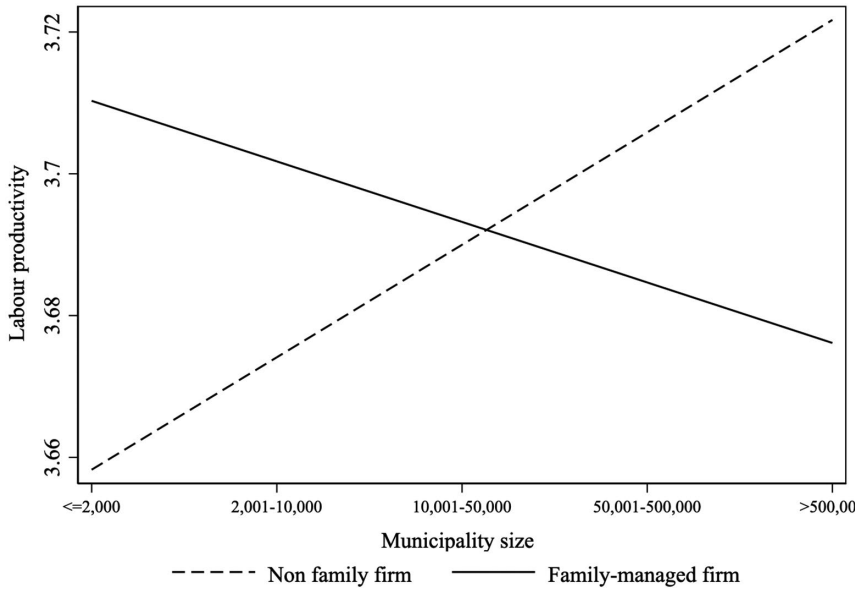

Figure 3.1 Labour productivity of family versus non-family firms across municipalities.

affect firms' labour productivity. Conversely, R&D intensity and financial constraints firm performance. Additionally, even though the family firm coefficient is negative, it is not significant.

In Model 2, we introduce our moderator variable—municipality size—which has a positive and significant relationship with labour productivity ($\beta = 0.011$, $p < 0.10$). This result suggests that municipality size is source of increasing returns to city scale in general, hence providing support for urbanisation economies (Fu & Hong, 2011). Finally, in Model 3, we test our hypothesis by introducing the moderating effect of municipality size. The interaction term is negative and statistically significant ($\beta = -0.023$, $p < 0.05$), which suggests that municipality size has an adverse effect on family firms' productivity.

For a more straightforward interpretation of this result, we plot the two-way interaction in Figure 3.1. We observe that municipality size has antithetical effect on the productivity of the two types of firms—family and non-family firms. In particular, family-managed firms appear to be more productive in small municipalities than non-family firms, with their performance decreasing with an increase in city scale. Conversely, non-family firms benefit of the size of the municipalities in which they are located.

We perform a sensitivity analysis to corroborate our results. Specifically, in lieu of the dichotomous variable, we use a continuous measure of family involvement (*Family management*) to capture the number of family members

Table 3.5 Robustness check: Family management, labour productivity, and municipality size

	Model 1	*Model 2*	*Model 3*
Product innovation	0.016	0.016	0.015
	(0.011)	(0.011)	(0.011)
Process innovation	0.039***	0.039***	0.039***
	(0.008)	(0.008)	(0.008)
R&D intensity	−0.017***	−0.017***	−0.017***
	(0.003)	(0.003)	(0.003)
Export intensity	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)
Age	0.001*	0.001*	0.001*
	(0.000)	(0.000)	(0.000)
Size	0.108***	0.107***	0.107***
	(0.008)	(0.008)	(0.008)
Financial constraints	−0.003***	−0.003***	−0.003***
	(0.000)	(0.000)	(0.000)
Listed	−0.071+	−0.072+	−0.073+
	(0.042)	(0.042)	(0.041)
Group	0.075***	0.075***	0.075***
	(0.016)	(0.015)	(0.015)
Foreign share	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)
Competitors	0.033**	0.033**	0.033**
	(0.010)	(0.010)	(0.010)
Family management	−0.003	−0.003	0.029*
	(0.005)	(0.005)	(0.014)
Municipality size		0.011+	0.018*
		(0.006)	(0.007)
Family management × Municipality size			−0.011*
			(0.004)
Regions	Yes	Yes	Yes
Industry	Yes	Yes	Yes
Years	Yes	Yes	Yes
Constant	2.987***	2.959***	2.933***
	(0.060)	(0.062)	(0.063)
WaldChi2	2,660.24	2,681.40	2,686.07
Prob > Chi2	0.0000	0.0000	0.0000
Number of firms	3,331	3,331	3,331
Observations	*21,573*	*21,573*	*21,573*

The table presents random-effect models based on a panel dataset of firms with at least 10 employees over the 2002–2015 period. *Family management* is a continuous variable that counts the number of family members in managerial positions. Robust standard errors are reported in parentheses. Level of statistical significance: $+p < 0.10$, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$.

in managerial position. Table 3.5 confirms our previous results—that is, family firm performance is negatively affected by municipality size, with the differential of productivity between the two types of firms being particularly large in small municipality.

Conclusion

One of the main research questions that family business scholars have focused on is whether the family firm is a better form of business organisation than the non-family firm. Because current findings comparing family and non-family firm performance are contradictory (Mazzi, 2011), in this book chapter, we addressed the call made by Amato et al. (2020) to include some contextual dimensions to tease out when and where family and non-family firms have superior performance.

Our main theoretical reasoning is that family and non-family firms are able to exploit their competitive advantages in different external environments. That is, each type of firm can materialise their strengths and reduce their weaknesses in different ways depending on the socio-spatial contexts in which they are located (Cucculelli & Storai, 2015), the set of formal and informal institutions defining the 'rules of the game' in their societies (Soleimanof, Rutherford, & Webb, 2018), and particular events or historical periods (Smith, 2016). More specifically, in this chapter, we explored the family firm-territory nexus stemming from being located in cities, as a particular type of socio-spatial context (Capello, 2002). By drawing on the regional familiness approach (Basco, 2015), we posited that family firms are better positioned to benefit from proximity dimensions (i.e., geographical, social, and cognitive) arising from being located in small urban areas than from the resulting agglomeration economies. Because of their territorial embeddedness and socio-emotional characteristics, family firms are in a superior position to exploit economic opportunities, facilitate the exchange of tacit knowledge, and acquire tangible and intangible resources in peripheral areas, such as in small municipalities, where access to agglomerations is normally more difficult.

Our findings reveal that family firms' labour productivity is strongly affected by the size of the municipalities in which they dwell—a proxy for the continuum between proximity economies and urbanisation economies. In particular, while family firms' productivity is negatively associated with municipality size, non-family firms benefit from increasing returns to city scale. Our results are in line with previous studies (Backman & Palmberg, 2015; Baù et al., 2019) that show that family firms located in sparsely populated areas, such as rural ones, have better performance than non-family firms. Taken together, this evidence shows how reciprocal trust-based relationships established both among family members and between family firms and their immediate surroundings equip them with unique locational advantages as compared to non-family firms.

Contributions

Our book chapter makes important contributions to theory and practice. First, it contributes to the family business field by shedding new light on the micro-territorial foundations of family firms. In particular, our empirical

evidence supports the view that family firms are inherently spatial. That is, they are distinctly responsive to geographic fragmentation and spatial variation in terms of resource availability and business opportunities, both of which are strongly related to the size of the municipalities in which firms are located (Backman & Palmberg, 2015). At the same time, family firms are inherently local, meaning they are deeply anchored in territorially bounded areas. Family firms' embeddedness in localised networks of relationships results in a superior position to leverage the advantages of external proximity dimensions and, hence, leads to them having competitive advantages in small municipalities.

Second, our research contributes to regional studies specifically by introducing family firms in the debate on urbanisation economies and local economies (economies of proximity). While firm size and industry have been extensively explored in this respect (Fu & Hong, 2011; Henderson et al., 1995), our chapter highlights the opportunity to take the firms' family status into account to better comprehend Jacobs externalities. Additionally, given the prevalent view that regional development ultimately stems from the balanced growth of individual cities (Capello, 2009), regional scholars' acknowledgment of family firms could provide new insights into the role these organisations play in the competitiveness and sustainability of urban settings.

Finally, our chapter has important contributions for policymakers. Based on our evidence, policymakers should be aware of different types of economic actors (e.g., family and non-family firms) when tailoring polices to develop prosperous, diversified, and sustainable regions because the demographics of economic structures may determine the effectiveness of policies. For instance, since diversified urban environments have an asymmetrical effect on firm performance—the benefits of urbanisation are better exploited by non-family firms than family firms. On the other hand, family firms are better positioned to leverage the external advantages of proximity in small municipalities. Therefore, development policies should be designed carefully, taking into consideration both the territory and the economic actors who form the economic structure of the territory itself.

Limitations and future lines of research

Our research is not exempt from having limitations, which in turn pave the way for future lines of research. First, our contextual variable (i.e., municipality size) represents only a partial measure of urban agglomerations. Even though municipality size is strongly related to the degree of diversification of urban settings, future research should employ a finer-grained measure of urban diversity and simultaneously test the effect of urban size and industrial diversity on family firm performance (Fu & Hong, 2011). Second, because cities are sources of dynamic economies as reflected in the higher innovativeness of co-located firms (Capello, 2002), future studies should explore whether and to what extent family-managed firms' innovation outputs

(e.g., patents) are affected by urban agglomerations. Finally, future research could improve the classification of firms. In this chapter, our main classification comprised family and non-family firms, but we know this is only a rough measure to capture the heterogeneity among economic actors. Within family and non-family firms, there are sub-classifications capable of producing richer information. Regarding family firms, not all are alike, and different types may react differently to and be affected differently by the socio-spatial contexts in which they are located (Smith, 2016). For instance, generational involvement and level of 'familiness' are two traditional dimensions used to capture different types of family firms that account for family firms' heterogeneity in terms of both demographics and competitive advantages (Habbershon & Williams, 1999).

Notes

1 The survey began in 1990, with the Spanish economy as a whole as its geographical scope of reference. In particular, ESEE employs yearly variables covering the following eight business categories: (1) activity, products, and manufacturing processes; (2) customers and suppliers; (3) costs and prices; (4) markets served; (5) technological activities; (6) foreign trade; (7) employment; and (8) accounting data. For more information, please visit: https://www.fundacionsepi.es/investigacion/esee/en/spresentacion.asp.
2 NACE is the acronym for *Nomenclature statistique des activités économiques dans la Communauté européenne* and represents the European standard classification of productive economic activity.
3 NUTS stands for Nomenclature of Territorial Units for Statistics and represents the levels of territorial division. The Spanish territory is classified into the following levels: NUTS 1, consisting of seven groups of autonomous communities (*Agrupación de comunidades autónomas*); NUTS 2, comprising 19 autonomous communities and cities (*Comunidades y ciudades autónomas*); and NUTS 3, comprising 59 provinces, islands, Ceuta, and Melilla (*Provincias, Islas, Ceuta y Melilla*). However, ESEE excludes the autonomous cities of Ceuta and Melilla; hence, there are 17 autonomous communities.
4 It is worth noting that, even though the size of a city is strongly related to its diversity, it is very common to explicitly consider the degree of urban diversification, generally expressed as 1 minus the Herfindahl index in terms of employment in one-digit industries in a given city: $\text{Urban diversity} = 1 - \sum_{m=1}^{M} \left(E_{mk} / \sum_{m=1}^{M} E_{mk} \right)^2$, where E_{mk} is the number of employees in one-digit industry m in city k, and M is the total number of one-digit industries in city k. The value of *urban diversity* ranges from 0 to 1, with a value closer to 1 suggesting more diversification of the urban setting.

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4 Family co-occurrence and firm productivity

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Introduction

Does family co-occurrence in businesses affect firm productivity? While this general question is at the core of research in family business, previous investigations are plagued by inconclusive answers. Several scholarly works have found variegated impacts of family co-occurrence on firm productivity (e.g., Gedajlovic, Carney, Chrisman, & Kellermanns, 2012). While some studies have argued that family co-occurrence in businesses, especially in family firms, helps promote localized learning and alleviate conflicts of interest between owners and managers (Chrisman, Chua, & Litz, 2004; Jensen & Meckling, 1976), others have found family involvement to be detrimental for firm productivity due to moral hazards and adverse selection (Schulze, Lubatkin, Dino, & Buchholtz, 2001).

Despite the ambiguity regarding the role of family involvement in business, kinship ties still constitute an important part of the recruitment process. Although a systematic cross-country mapping of family involvement in business is missing, family co-occurrence constitutes about 14% of all employment in Sweden (Holm, Westin, & Haugen, 2017). This finding supports the notion that meritocracy in the labour market co-exists with other types of hiring practices (Adjei, 2018), such as nepotism. Despite the obvious representation of family ties in the workplace and research indicating that family typologies play a major role in regional development in terms of gross domestic product (GDP) per capita (Duranton, Rodríguez-Pose, & Sandall, 2009), the relationship between family co-occurrence and firm productivity is relatively under-researched. Basco (2015), for instance, argues that regional development studies have neglected to investigate the family's role in firm behaviour and the subsequent consequences for regional economic and social development. While some regional development studies have recognized the role of social capital in shaping competitive advantages (Saxenian, 1994), the potential role of familial relationships has often been studied only through case studies (Gurrieri, 2008; Johannisson et al., 2007).

Consequently, because there is hardly an aspect of society that is not affected by the family (Alesina & Giuliano, 2014), we focus on the link

between family co-occurrence and firm productivity. Specifically, in this chapter, we investigate the combined effect of the type of family tie, the skills involved, and the regional context on firm productivity. To address this aim, we analyze a Swedish dataset containing different relational longitudinal population registers from 1995 to 2012. We found a significant and positive relationship between family co-occurrence and firm productivity. However, this relationship varies across geographical space and types of familial relationships.

Literature review: family co-occurrence and firm productivity

The presence of family co-occurrence in firms (i.e., the presence of familial relationships inside a firm, including among co-workers and between employees and owners) is a function of the effects of agglomeration economies and hiring practices. Manifold studies have argued that because competition is high in larger regions, only the most productive firms and workers select each other (Bjerke & Mellander, 2017; Combes et al., 2012; Florida, Mellander, Stolarick, & Ross, 2012). Therefore, because the most productive firms and skilled workers tend to be located in larger regions, smaller regions might have relatively fewer productive firms and workers (Combes et al., 2012; Glaeser & Maré, 2001). Due to the spatial sorting of skills into larger regions, firms in smaller regions with thinner labour markets are likely to have alternative hiring strategies. For instance, these firms may resort to hiring through referrals and family networks (Montgomery, 1991), resulting in more and stronger family ties at the firm level. Hence, we expect that the phenomenon of family co-occurrence is more prevalent in smaller and more peripheral regions compared to larger urban regions.

Moreover, the effects of globalization have increased migration patterns, leading to high movement into larger regions because of the availability of job opportunities. This trend has torn families apart and weakened familial relationships. However, because smaller regions facilitate frequent face-to-face interactions, social network density among economic actors tends to be relatively higher in smaller regions compared to in larger ones (Lengyel & Eriksson, 2016). Therefore, it is reasonable to expect that in smaller regions, stronger and more trustful familial relationships are likely to be found in firms. Supporting this argument, Holm et al. (2017) found low levels of kinship density in workplaces in Sweden's metropolitan regions, somewhat high levels in intermediate regions (urban regions), and higher levels in remote and sparsely populated areas (rural or small regions). They further showed that kinship density decreases with rising education levels, which means that workers with low education are over-represented in workplaces with high kinship density, a phenomenon that is likely highly associated with smaller and/or rural regions.

Considering the prevalence and importance of family co-occurrence across regions, it is important to further analyze the influence of

family co-occurrence on firm productivity. This potential relationship can be studied through the lenses of learning and agency costs. First, family co-occurrence can enhance localized learning through shared identity and transgenerational knowledge transfer (Wenger, 2000), as well as via joint social arrangements and mutual trust (Boschma, 2005). Since organizational learning involves firm members' ability to create, retain, and share both general and complex knowledge (March, 1991), some level of trust is needed to enhance this process. Promoting kinship or familial relationships among top managers (De Massis, Kotlar, Campopiano, & Cassia, 2015) increases trust-boosting information symmetry between family managers and encourages learning from others' experience. On the other hand, family co-occurrence can impede or weaken firms' learning capacity, which can in turn negatively affect their productivity. Specifically, a strong family culture can counteract learning by locking family members into a particular way of doing things, hence making them inflexible, resistant to change, and inclined to stick to path-dependent traditions (Chirico & Nordqvist, 2010) at the expense of their own innovative and learning capacities (Boschma, 2005). Family co-occurrence can also result in the accumulation of similar and suboptimal knowledge, which can also affect firms' learning capacity and, thus, slow down growth at the firm level (Boschma, Eriksson, & Lindgren, 2009). In other words, the advantages of family co-occurrence are likely to be offset by the low availability of diverse perspectives and knowledge in decision-making processes when family involvement is excessive (De Massis et al., 2015).

Second, family co-occurrence can also influence firm productivity by reducing agency costs. An agency cost is incurred when a principal (owner) has to establish appropriate structural mechanisms to monitor agents (managers) or incentives to promote interest alignment. Moreover, since firms are viewed as sets of contracts among different factors of production, we can expect agency costs to differ between a principal and different agents (Jensen & Meckling, 1976). Therefore, firm performance in the form of cost minimization and greater efficiency is the outcome of principal-agent relationships involving family agency contracts (Corbetta & Salvato, 2004). For example, when analyzing Italian small and medium size enterprises (SMEs), De Massis et al. (2015) found that family ownership, family involvement, and the share of family members on top management team have an inverted U-shaped effect on firm productivity. The implication is that while family co-occurrence is likely to influence firm productivity, the effect is non-linear. Additionally, because family agency contracts are based on bonds and sentiments, some argue that they are prone to depart from economic rationality and thus hamper firm performance (Gómez-Mejía, Núñez-Nickell, & Gutierrez, 2001; Schulze et al., 2001).

Apart from the abovementioned general explanations related to the roles of learning and agency costs in the relationship between family co-occurrence and firm productivity, there are two other important aspects to

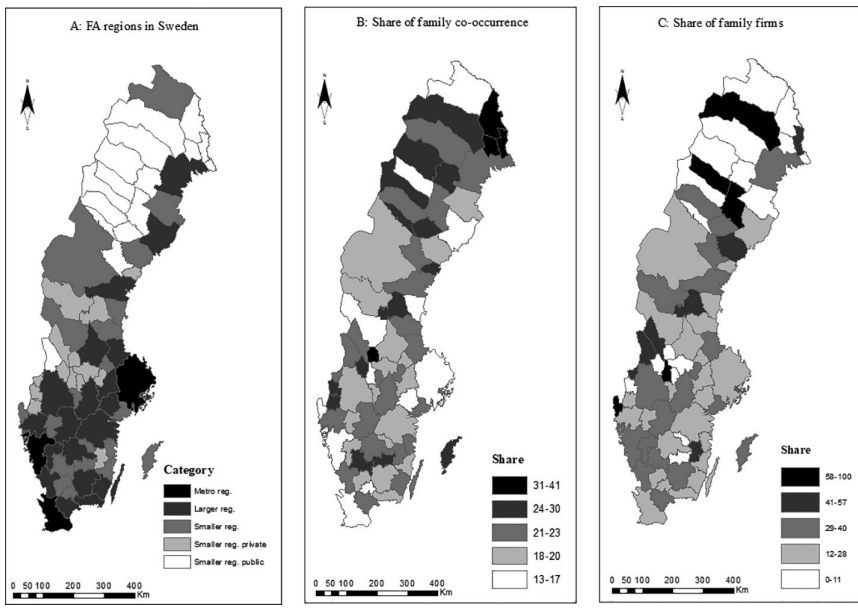
further consider: the types of familial relationships and geographical context. First, the family co-occurrence and firm productivity may also vary depending on the types of familial relationships in firms since different ones represent different types of resources and capabilities in the form of social and human capital (Brannon, Wiklund, & Haynie, 2013). The family as a social group has complex familial relationships with varying levels of trust and solidarity between family members (Hasenzagl, Hatak, & Frank, 2018), which can affect their economic behaviours (Wiklund, Nordqvist, Hellerstedt, & Bird, 2013). The question is whether different types of family co-occurrence affect firm productivity.

Second, while the argument on hiring practices and agglomeration economies seems to suggest a skewed spatial sorting of family co-occurrence in smaller and rural regions (Bjerke & Mellander, 2017; Combes et al., 2012; Florida et al., 2012), there is limited empirical evidence on the relationship between family co-occurrence and firm productivity across different spatial levels. In other words, the effects of family co-occurrence on firm productivity contains a geographical problem—that is, family co-occurrence may lead to varying outcomes depending on the spatial context. The question is whether family co-occurrence is more likely to positively influence firm productivity in smaller regions than in larger regions since the former are characterized by labour market–matching deficiencies and a lack of variety, coupled with the over-representation of family co-occurrence in firms.

Study design

Description of data

To address whether family co-occurrence influences firm productivity, we explored a matched employer-employee dataset containing different relational longitudinal population registers from Statistics Sweden (SCB). The database offers several advantages. First, it is comprehensive, as it records every family in Sweden. Families are identified with a unique family identification code, which further indicates an individual's position in his or her family. Second, it is longitudinal with annual observations of people and firms, thus allowing us to follow both people and firms over time. Third, it contains a wide range of socioeconomic attributes, such as education. Fourth, the geo-referenced attributes of firms/plants and people make it possible to conduct relational investigations at several spatial levels. The basic unit of analysis in the study is the firm. In the database, the term 'plant' represents a separate economic unit (workplace) of a firm. Thus, we use the terms 'plant' and 'firm' interchangeably because our analysis draws on only single-plant firms. With single-plant firms, it is relatively easy to trace the owner. The data included in our analysis are from 1995 to 2012. The industrial classification of the firms was defined by the Swedish Standard Industrial Classification 2002 (SNI02). The geographical reference point for the



Map 4.1 FA regions (A), the share of family co-occurrence (B), and the share of family firms by region (C).

Source: Adjei, Eriksson, & Lindgren, 2016; Adjei, Eriksson, Lindgren & Holm, 2019.

analysis is the local labour market region. Sweden is divided into 290 municipalities, which are aggregated into 72 local labour market regions called FA regions (see Map 4.1A). The FA regions are based on labour-commuting patterns between municipalities, representing regions where people can live and work without long commuting distances.

Variables

The dependent variable used in this study is *firm labour productivity*, measured at the firm level and defined as per capita value-added. 'Value-added' is a straightforward measure of economic or industrial output since it reflects the magnitude of a firm's contribution to the entire economy (Rigby & Essletzbichler, 2002). Other indicators like patents, citations, and innovation indices cannot necessarily provide this information. Specifically, per capita value-added is an indicator of how a firm utilizes the strengths and skills of its employees; hence, it is an important indicator of business efficiency. We calculated firm productivity by first compensating for the effects of inflation and then dividing deflated firm value-added by the total number of employees in the firm. Logs of the values were used to reduce the effect of skewness in the data.

Due to the multigenerational nature of the family register, the database provides information on spousal couples (i.e., partners) as well as biological family members, including parents, children, siblings, etc. (the data do not distinguish between biological and adopted children). More importantly, the family register contains unique identification codes indicating the different kinds of relationships in each family. The family and workplace identification codes enabled us to identify family co-occurrence in the same workplace or firm. We adopted a simple definition of family based on the SCB records: consanguineous familial relationships (i.e., blood related) and conjugal familial relationships (i.e., marriage) (Brannon et al., 2013).

We defined two groups of family co-occurrence in a workplace. First, we defined *family co-occurrence without a relationship with the firm owner*. This was done by randomly selecting an employee from the employee dataset connected to a firm and subsequently checking whether any of his or her family members were present in the same firm. If none of his or her family members were present in the firm, another random employee was selected, until we encounter a family member in the same firm. We then summed the total number of family members in every firm. This randomized approach of selecting family members eliminated systemic bias by giving all families present in a firm an equal chance of being selected. However, since families are heterogeneous and since we identified and selected just one family group for every firm, there is a high probability of randomly selecting a family with specific characteristics (e.g., dysfunctional communication), which could have affected the results.

Second, we defined *family co-occurrence with a relationship with the firm owner or entrepreneur*. We did so by using the firm owner as the hub connecting family members in the firm. With the family identification and employment identification codes, we linked all family members related to the entrepreneur/owner in the firm. The family members were further grouped based on the type of relationship they had with the entrepreneur (e.g., being his or her spouse, child, or sibling). This approach provided an opportunity to assess the impacts of the family and different familial relationships on firm productivity in family firms.

We controlled for a number of firm-level factors (i.e., firm size, capital intensity, share of higher education) and regional-level factors (i.e., regional size and specialization) known to co-determine productivity (Eriksson & Lindgren, 2009). Since we are also interested in how familial relationships interact with the skills present in firms, we also controlled for the effects of skill variety. We did so using entropy measurement to define skill variety based on employees' educational background, as first proposed by Boschma et al. (2009). We calculated the similarity in formal skills (SIM) for each plant as the inverted entropy at the three-digit education level.

In Equation (1), P_i^3 is the share of three-digit education categories i and N^3 is the number of three-digit education categories. A high score means that the firm's in-house **formal** skills or competencies are more similar, which

does not promote novelty and productivity. The scores were log-transformed to reduce the effect of the variable's distributional skewness.

$$SIM = \frac{1}{\sum_{i=1}^{N^3} P_i^3 \ \log_2 \left[\frac{1}{P_i^3}\right]} \tag{1}$$

We calculated relatedness in formal skills (REL) as the weighted sum of entropy at the three-digit level within each two-digit education category. P_j^2 in Equation (3) is the share of two-digit education categories, found by summing the shares of all three-digit education categories belonging to S_i^2. $\mathrm{H_j}$ in Equation (4) is a weight that controls the degree of similarity within the two-/three-digit education categories. A high score indicates higher in-house formal skill relatedness, which promotes localized learning processes and productivity.

$$REL = \sum_{j=1}^{N^2} P_j^2 H_j, \tag{2}$$

where

$$P_j^2 = \sum_{i \ \epsilon \ S_i^2} P_i^3, \tag{3}$$

and

$$H_j = \sum_{i=S_i^2} \frac{P_i^3}{P_j^2} \log_2 \left[\frac{1}{P_i^3 \big/ P_j^2}\right]. \tag{4}$$

The last entropy variable is unrelatedness in formal skills (UNREL), which we measured at the one-digit education level. P_i^1 in Equation (5) is the share of one-digit education categories. A high score indicates higher differences in formal skills (hence, higher unrelatedness), which hinders localized learning and productivity. Due to the de-compositional structure of the variables, research has shown that they do not capture identical features of skill composition (Frenken, Van Oort, & Verburg, 2007).

$$UNREL = \sum_{l=1}^{N^1} P_i^1 \ \log_2 \left[\frac{1}{P_i^1}\right]. \tag{5}$$

With these sets of skill variety, we empirically tested how familial co-occurrence moderates the effects of similar and unrelated sets of skills based on the argument that social ties can reduce cognitive distance between economic actors over time (Boschma, 2005).

Additionally, we controlled for the effects of agglomeration economies with two measures. Given the general claim that firms in co-located industries enjoy externalities not available to more isolated firms (Jacobs, 1969; Marshall, 1920), we controlled for the effects of specialization and urbanization, respectively. We resorted to using a location quotient (LQ), which has been used in the regional science literature to capture the effects of specialization. In Equation (6), S_{ir} is the degree of specialization in industry i in region r; Emp_{ir} is the number of employees in two-digit industry i in region r; Emp_r is the total number of employees in region r; Emp_i is the number of employees in two-digit industry I; and Emp is the total number of employees in Sweden. LQ is a relative measure of the regional share of workers relative to the national average in a specific industry. If LQ > 1, it implies that the region is more specialized in that industry than the average region. For the effects of general urbanization, we used the log of total regional employment (a representation of employment stock and human capital). We believe that size is a more appropriate measure to capture the effects of urbanization economies than density because of the generally sparsely populated structure of the Swedish economy (Andersson & Klaesson, 2009). Since the regions considered in this analysis are defined on the basis of commuting distances between dwelling places and municipalities, and not administrative borders like municipalities, we argue that size captures regional potential for interactions. We expect firms located in larger and specialized regions to benefit more from knowledge spillovers and therefore also be more productive than those in small or very diverse regions.

$$S_{ir} = \frac{Emp_{ir} / Emp_r}{Emp_i / Emp}. \tag{6}$$

Empirical model

Considering the panel nature of the data, two models come to mind: a fixed-effects (FE) model and a random-effects (RE) model – see Equation (7) for the general panel data model. Thus, μ_{it} is the product of the individual specific time-invariant effects (u_i) and the time-varying random component (v_{it}) – see Equation (8). The FE and RE models both apply the panel structure differently. That is, the FE model applies the within transformation and controls for unobserved heterogeneity by allowing correlation between the individual specific error term and the independent variables. The

RE model, on the other hand, assumes that variation across observations is random and that there is no correlation between the unique errors and the independent variables. In this case, the Hausman test rejected the hypothesis that there is no correlation between the unique individual specific error term and the independent variables, suggesting that the FE model is more likely to provide consistent estimates than the RE one. Although the Breusch-Pagan Lagrange Multiplier test suggested that the panel effect is minimal, as shown in the considerably lower within variation values for most of the variables, the FE model provides more consistent estimates and was therefore chosen. In Equation (7), $\ln \gamma_{it}$ is the log average labour productivity (or per capita productivity) in firm i at time t.

$$\ln \gamma_{it} = a + \beta^{i} X_{it} + \mu_{it}. \tag{7}$$

$$\mu_{it} = u_i + v_{it}. \tag{8}$$

The models include time, region, and industry fixed effects to control for unobserved factors not captured in the models (e.g., year-specific effects, technological differences across industries or sectors, and institutional differences across regions) and cluster-robust standard errors to remedy heteroscedasticity.

Results

The geography of family co-occurrence

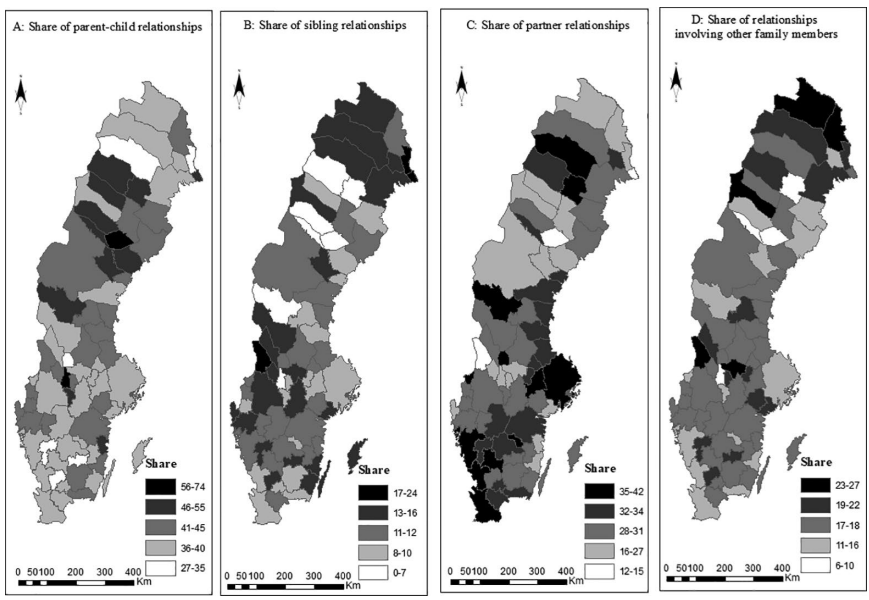
Map 4.1 shows the different types of FA regions in Sweden (A); the geography of family co-occurrence in the Swedish economy (B); and the share of family firms, defined as firms in which family co-occurrence is directly linked to the owner (C). On average, family co-occurrence constitutes about 18% of workplace employment and family firms make up 26% of the sampled firms. From Map 4.1B, we observe that the three metropolitan regions (Stockholm in the east, Gothenburg in the west, and Malmö in the south) are all characterized by a relatively low representation of family co-occurrence. As seen in Table 4.1, the dominant dyadic familial relationship (involving the firm owner and other family members) is the parent-child relationship followed by the spousal/partner and the sibling relationships. The dominant gender in the dyadic familial relationships is male, which is particularly evident in all the relationships. Whereas there are no major differences in age distribution across the different familial relationships, some differences in income and education are observed.

Map 4.2 shows the spatial distribution of the different type of familial relationships (familial relationships with firm owners) in family firms across Sweden. The dominance of parent-child and spousal familial relationships

Table 4.1 Description of the dyadic relationships (family relationships/co-occurrence)

Category/familial relationships		*%*	*Entrepreneur*	*Sibling*	*Partner*	*Child*
Share of familial co-occurrence			–	12	33	55
Gender	Male (%)		88	72	9	73
	Female (%)		12	28	91	27
Average age	All		59	51	55	33
	Male		59	51	58	33
	Female		60	51	54	33
Mean income (100s, SEK)	All		3,104	2,306	2,350	2,077
	Male		3,163	2,417	2,546	2,216
	Female		2,682	2,014	2,330	1,703
Educational level	All	Low	33	30	18	18
		Medium	58	66	71	76
		High	9	4	11	6
	Male	Low	34	33	24	19
		Medium	58	64	62	77
		High	8	3	14	4
	Female	Low	27	21	18	16
		Medium	60	73	71	74
		High	13	6	11	10

Source: Adjei et. al., 2019.



Map 4.2 Regional composition of different familial relationships/co-occurrence.
Source: Adjei et al., 2019.

in the workplace corroborate the argument that small family businesses are indeed nuclear-family based. In summary, although scholars have argued that the family has lost its economic significance (Hollinger & Haller, 1990; Inglehart & Welzel, 2010), our findings show that informal family networks still play an important role in firm recruitment even in advanced capitalist societies. This is especially the case in regions with smaller labour market since family hiring may be a cheaper and quicker means of recruitment characterized by higher levels of trust.

Family co-occurrence and firm productivity

In this section, we present the estimations of the relationship between family co-occurrence and firm productivity. Although we controlled for a number of firm and regional factors, we focus on the relationship between family co-occurrence and firm productivity and how the former moderates the effect of regions and different skillsets on the latter. To simplify the presentation of our findings, we show them in a bar graph for better virtualization of the estimates.[1] Due to differences in scale across the variables, we present standardized coefficients. This, for example, implies that for every increase of 1 standard deviation in family co-occurrence, productivity increases by 0.0117 standard deviation, assuming the other variables are held constant (see Figure 4.1a).

All the variables in Figure 4.1a are significant and show the expected effects on productivity. The model shows that there is a small albeit positive association between family co-occurrence and firm productivity. This finding corroborates regional familiness arguments that social ties and specific familial relationships can indeed enhance information diffusion and, consequently, firm performance (Basco, 2015). Figure 4.1b further indicates that familial relationships involving children and/or spouses are more likely to positively and significantly affect firm productivity than any others. While research has argued that the family is an important strategic resource, this finding suggests that it is a constellation of different forms of relationships and resources with varying effects on economic firm outcomes. The general positive relationship between family co-occurrence and firm productivity is actually mainly a product of familial relationships involving children and/or spouses and less so of sibling relationships.

Figure 4.2 focuses on the moderating effects of family co-occurrence. While the effects of family employment on productivity have received significant attention, especially in family business studies, spatial differences of the effects have not received that much attention, even in regional science (Adjei, 2018). The model indicates that family co-occurrence is more likely to positively influence firm productivity in specialized regions than in more diverse ones (Figure 4.2A). Moreover, only familial relationships involving spouses or partners are more likely to affect firm productivity in specialized regions (Figure 4.2B).

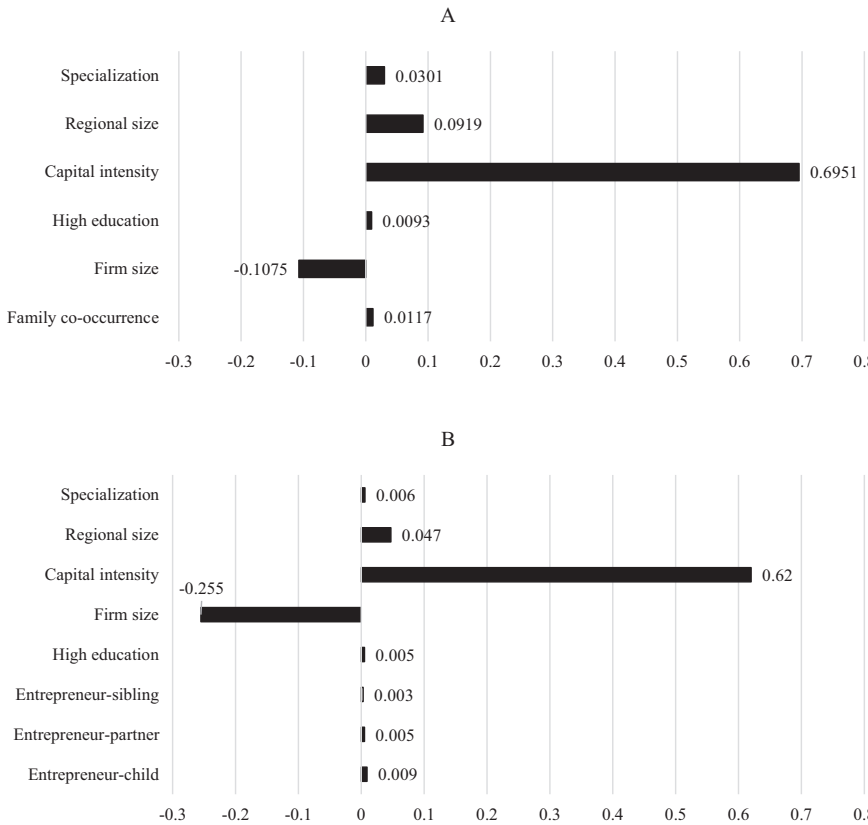


Figure 4.1 Fixed-effects estimates indicating the relationship between family co-occurrence (a: without a relationship with the firm owner; b: with a relationship with the firm owner) and average labour productivity. (a) as expected, capital intensity is positive and significant, as is human capital. However, the effect of firm size on performance is negative and significant, which runs counter to previous findings. The effect is only valid for smaller firms. Moreover, the regional variables indicate that specialization and regional size enhance firm performance. The controls in (B) are same in effects as the controllers in (A); they only differ a little in effect size.

Source: Adjei et al., 2016, 2019.

Figure 4.3 shows how the different familial relationships moderate the effects of skill variety on labour productivity. All the interactions except those involving spousal/partner relationships and parent-child relationships are significant. These results indicate that parent-child familial relationships abate the negative effects of similarity in formal education on productivity. To some extent, the findings show that family firms in which the children

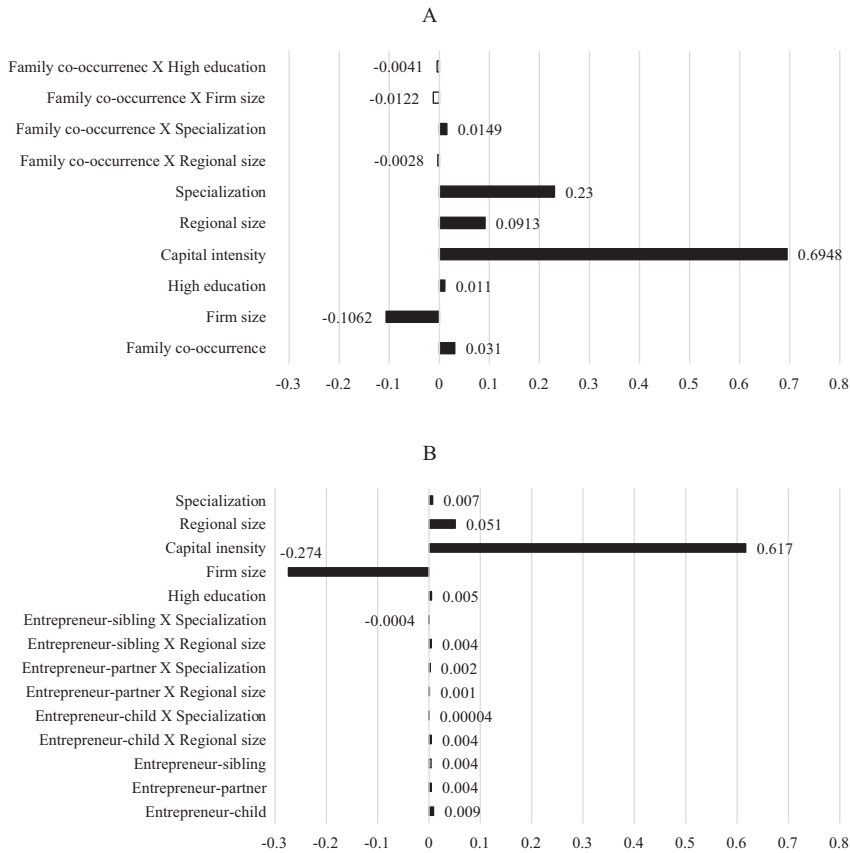


Figure 4.2 Fixed-effects estimates showing the moderating effects of family co-occurrence (a: without a relationship to the firm owner; b: with a relationship with the firm owner) on the relationship between regional size and specialization and average labour productivity.

As expected, the control variables remain stable with the introduction of the interaction terms. Thus, capital intensity is positive and significant, as is human capital. However, the effect of firm size on performance is negative and significant, which runs counter to previous findings. The effect is only valid for smaller firms. Moreover, the regional variables indicate that specialization and regional size enhance firm performance.

Source: Adjei et al., 2016, 2019.

have similar educational levels as their parents are more likely to perform better. The findings also show that familial relationships involving spouses/partners are positively correlated with related competencies, and also mitigate the negative impacts of similar and unrelated competencies on labour productivity.

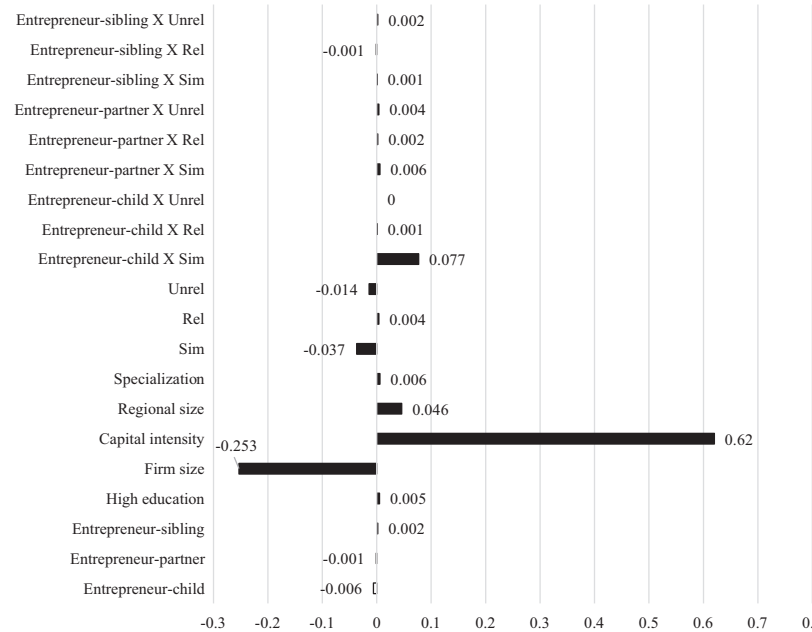


Figure 4.3 Fixed-effects estimates showing the moderating effects of family co-occurrence on relationship between skill variety (formal skills) and average labour productivity.

As expected, capital intensity remains positive and significant, as does human capital. The effect of firm size on performance is, however, negative and significant, which runs counter to previous findings. The effect is only valid for smaller firms. Concerning in-house formal skill variety, our results are in line with previous studies, showing that similarity in formal skills (SIM) (significant and negative) and unrelatedness in formal skills (UNREL) (significant and negative) have a negative impact on productivity, while relatedness in formal skills (REL) enhances performance due to potential complementarities that facilitate interactive learning. The regional variables indicate that specialization and regional size enhance firm performance. Source: Adjei et al., 2019.

Concluding remarks

The aim of this chapter was to analyze the effects of family co-occurrence on firm productivity. We looked at two groups of family co-occurrences: (1) general family co-occurrence (i.e., the presence of family members within workplaces) and (2) family firm co-occurrence (presence of family members with relationships with firm owners). This selection of two groups is motivated by the assumption that these varied types of family co-occurrence may provide different environments for learning and alternative incentives to reduce agency costs with corresponding effects on firm productivity.

Based on data on a sample of Swedish SMEs, our results suggest that family co-occurrence is over-represented in workplaces in smaller regions. In other words, we found family co-occurrence to be less common in larger and more diverse regions. This finding is likely driven by the spatial sorting of skilled individuals and firms (Bjerke & Mellander, 2017; Combes et al., 2012; Florida et al., 2012), such that familial relationships are more prevalent in smaller and relatively thinner labour markets due to labour market imperfections. This finding shows that family contacts and networks may be an important mechanism for finding jobs in the Swedish labour market (Korpi, 2001) for two reasons. First, family contacts can compensate for the relative shortage of regional agglomeration economies and variety of skills (Puga, 2010). Second, family contacts and networks can facilitate the transgenerational intention of human capital transmission (Riggio & Saggi, 2015).

Dominant dyadic familial relationships are characterized by the presence of the owner with other family members, such as with children or a partner/spouse. Other familial relationships, such as relationships with siblings or other family members, are less common. The dominance of parent-child and spousal familial relationships in the workplace corroborates the argument that small family firms are indeed nuclear-family based. For family members co-occurring in the same workplace, we found that female family members have relatively higher education levels than their male counterparts. Common among the discussions on job following and family co-occurrence (i.e., children in the same workplace as their parents) has been job followers' low educational levels. However, our finding shows that relatively few children in the same workplace as their parents have low education levels. This finding dispels the argument that children who follow in their parents' career footsteps have lower education levels (Kramarz & Nordström-Skans, 2014), but rather suggest that this job following may be a mechanism for the transmission of specific forms of human capital (Riggio & Saggi, 2015).

Regarding our main research question, we find that family co-occurrence is indeed related to firm productivity. Namely, the mere co-occurrence of family members has a general positive effect on firm productivity. However, the main contribution of this book chapter is the fact that we can show the varying benefits of family co-occurrence across space and types of familial relationships.

First, family co-occurrence is more likely to positively influence firm productivity in specialized regions compared to more diverse regions. This finding builds on Gordon and McCann's (2000) argument that the presence of localization economies in larger regions reduces the need for social proximity (e.g., family co-occurrence) by offering more local opportunities to access related knowledge and skills. While social proximity, and family co-occurrence for that matter, may be less relevant in larger specialized regions, our results indicate that social proximity measured as family co-occurrence is indeed associated with higher productivity in specialized regions. This is not surprising because most specialized regions in Sweden are also smaller ones characterized by relatively high shares of family co-occurrence.

Secondly, different types of familial relationships are beneficial in firms that we defined as family firms (i.e., the owner has family members employed the firm). In this case, relationships involving entrepreneurs and their children and/or spouses positively influence firm productivity. While family co-occurrence in general could be argued to be an important strategic resource, our findings suggest that the family is a constellation of various forms of relationships that affect economic firm outcomes differently (Melin & Nordqvist, 2007; Wiklund et al., 2013). Our findings also suggest that in family firms where ownership and management are vested in a family, information symmetry between members is enhanced, which in turn has positive effects on productivity (Corbetta & Salvato, 2004; Cruz, Justo, & De Castro, 2012; De Massis et al., 2015). Our analyses further indicate that family co-occurrence involving spousal relationships can actually abate the negative effects of having an internal skill mix that is too diverse or too similar (cf. Boschma et al., 2009). This finding is important because it allows us to examine the complementary and substitutional relationships of different types of familial co-occurrence and other factors of production.

In summary, although some have argued that the family has lost its economic significance in modern society, our findings show that not only does the use of informal family network still play an important role in firm recruitment, even in advanced capitalist societies (Ioannides & Datcher, 2004), it also has a corresponding positive effect on firm productivity. In other words, while family co-occurrence in smaller regions may be a cheaper and quicker means of recruitment, especially for family businesses, it also influences productivity.

Contributions

Our findings have a number of implications. First, the over-representation of family co-occurrence in workplaces in smaller regions is an indication of the importance of matching firm and regional needs with specific recruitment practices. It is important to reiterate that research on the spatial sorting of skilled workers and firms has shown that the process leaves smaller regions with less productive workers and firms. Therefore, to overcome this problem, managers of SMEs and/or family firms in smaller regions may rely on familial connections to compensate for the lack of diversity, while simultaneously knowing that the process is relatively cost effective. Though this has previously been described as an act of nepotism, it can actually be seen as a process of compensating for a lack of agglomeration economies. We believe this evidence could further inform academic research on the intentions and recruitment practices of SMEs and/or family firms in smaller regions.

Second, our results show that family co-occurrence positively influences firm productivity, especially, familial relationships involving entrepreneurs or firm owners and their children and/or spouses. We expect this finding to inform family business managers the possible trade-offs involving family

members. It is evident from our findings (in line with other research such as Bird, 2014 and Brannon et al., 2013) that certain familial relationships are more important for productivity, sales, and profitability than others. This should further inform family firm managers the need to harness familial idiosyncratic resources to efficiently leverage familial labour or resources.

Finally, our finding that family co-occurrence, particularly relationships involving entrepreneurs and their spouses, abates the negative effects of having too similar or too different skills should be a concern for scholars in both family business and regional science as well as for family business practitioners. For academic researchers, this finding partially informs previously reported divergence in the effects of skill variety on productivity (Boschma et al., 2009; Östbring & Lindgren, 2013; Timmermans & Boschma, 2014). For family business practitioners or owners, it is imperative for them to know that some familial relationships are important contingencies in shaping the economic effects of skill variety.

Future lines of research

Although we were able to exploit a very rich dataset to further our understanding of the varying productivity effects of different family ties, we encourage further studies to delve more into the potential mechanisms that influence the varying effects of different familial ties (e.g., different trust-laden relationships). For example, the results presented here could at least be partially a consequence of the characteristics of the sample and measurements. The data we used were from a population of SMEs, which may not necessarily be representative of family and non-family firms in general even though the former often tend to be rather small. Future studies could therefore examine the relationship between family co-occurrence and firm productivity using larger firms because the family co-occurrence effect may not be the same across all firm sizes.

Further qualitative studies on hiring practices across regions could also be done to better understand the motives behind different types of family recruitment. Another potential future research avenue could be the extent of recruiting couples. Some of our results could be driven by relationships initiated between co-workers, so the presence and potential effects of recruiting couples could be interesting. This is especially relevant in relation to the increasing difficulties of labour sourcing in small regions in combination with over-heated housing markets in many urban regions, which can make it difficult for couples to find affordable housing when forming a family. Finally, the most frequent dyadic relationship we identified is between two men (father and son). Understanding the mechanisms behind the gender differences in family co-occurrence is of critical importance for addressing the issue of gender inequality in family firms. Future studies could therefore address the selection of sons and daughters, respectively, in family firms.

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Note

1 Full result tables with all variables are available upon request.

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5 Developing digital innovation in family firms

Evidence from Italian industrial districts

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Introduction

Since the 1970s, the extraordinary growth of spatial agglomerations of manufacturing small and medium-sized enterprises (SMEs) in Italy has attracted the interest of the scientific community in an effort to understand the competitiveness of local networks of flexible and specialized firms, as opposed to the vertically integrated Fordist model. With his pioneering studies, Giacomo Becattini restored the concept of the Marshallian Industrial District (MID), defined as "a social and territorial entity characterized by the active presence of a community of people and a group of firms in a natural and historically delimited area or zone" (Becattini, 1992, 62). In MIDs, competitive advantages are embedded in localization externalities related to a pool of qualified workers, specialized suppliers, localized knowledge, and information (i.e., knowledge spillovers) available in the economic actor networks (Boix & Trullén, 2010). Both market and community logics govern economic activities in MIDs (Chiarvesio, Di Maria, & Micelli, 2010), where competitive dynamics stimulating innovativeness are balanced with trust-based cooperation (Boschma & Lambooy, 2002; Dal Maso & Lattanzi, 2014). District firms are embedded in a homogenous setting, stemming from belonging to the same community and sharing values, practices, and behaviors. This setting enables the creation of a "Marshallian atmosphere" (Belussi & Caldari, 2008), bringing various advantages for firms, including a higher level of productiveness/efficiency (Cainelli & De Liso, 2005; Signorini, 1994), export performance (Belzo-Martìnez, 2006), and innovation capabilities (Muscio, 2006).

While MIDs represent an ideal environment for the faster diffusion of innovations among firms (Cainelli, 2008), there is an intra-district heterogeneity related to the different abilities of local firms within the district (Hervás-Oliver, Albors-Garrigos, Estelles-Miguel, & Boronat-Moll, 2018). Indeed, local firms show different patterns in accessing the available knowledge and information flowing in the *milieu*, which affects the intensity of innovation adoption (Giuliani, 2007). In this perspective, some studies affirm the family status of the firm as a source of intra-district heterogeneity (Pucci, Brumana, Minola, & Zanni, 2017). This is related to the ability of family firms to exploit

the territorialized network of knowledge and relationships developed in the district (Cucculelli & Storai, 2015). However, intra-district heterogeneity related to family firms' innovation appears to be understudied in MIDs.

To address the aforementioned research gap, our chapter, drawing upon a sample of 152 manufacturing firms located in five Italian MIDs, investigates the development of digital innovation among family and non-family firms. In particular, our focus is whether they differ in their approach to digital innovation, focusing on the adoption of technologies related to the fourth industrial revolution, also known as Industry 4.0 (Schwab, 2017). Our results suggest that family firms are more oriented towards Industry 4.0-driven digital innovation than their non-family counterparts. Therefore, our preliminary conclusion, which requires further research in the future, is that while territorialized networks of interconnected firms, such as MIDs, represent a source of dynamic advantages for co-located firms, the family status of the firms seems to matter in explaining the existence of "differential" advantages in the digitalization among them.

The contribution of this book chapter is three-fold. First, to the literature on industrial districts, our study provides new evidence on district firms' innovation performance. However, while a dichotomic approach aimed at ascertaining the performance of firms located in MIDs versus non district firms has traditionally prevailed, our book chapter, focusing on intra-district firm heterogeneity, sheds new light on the existence of specific characteristics that explain why some particular types of firms benefit more from localization externalities than others. Second, it contributes to family firm studies, in line with the latest research efforts intended to include the physical and social-spatial contexts (e.g., Basco, 2015; Baù et al., 2018), our study offers new insights on family firms and MIDs recognizing that family firm specificities matter in industrial districts contexts for adopting digital innovation. Finally, we contribute to digital innovation literature, with a specific interest in Industry 4.0, which is emerging as a promising research topic (Arnold, Kiel, & Voigt, 2016; Schmidt et al., 2015). This chapter also makes practical contributions by uncovering the importance of firms' family nature when public policies (e.g., the Italian Industry 4.0 plan) aimed at improving the competitiveness of enterprises, local production systems, and regions are tailored.

This chapter is structured as follows. First, we review the literature on industrial districts, family firms, and innovation. Subsequently, we introduce our methodology, illustrating the study design. Finally, we present and discuss our results, concluding with final remarks, contributions, and future research lines.

Theoretical background

Digital innovation in MIDs

Innovation, generally regarded as the introduction of a technical or organizational novelty within a firm, a new idea, or behavior (Schumpeter, 1934),

is a "genetic ability" of MIDs resulting from the combined effects of local rivalry, interaction, and cooperation, which together favor the dissemination of non-codified knowledge and information among district firms (Cainelli, 2008). The socialization processes occurring in the local *milieu*, backed by the intra-regional mobility of human resources, dense informal local networks, and a common cultural and institutional setting, ease the spontaneous exchange of innovation-relevant knowledge and information (Boschma & Lambooy, 2002). In this perspective, Boix and Galletto (2009) coined the term "I-district effect", which indicates the existence of a higher innovative intensity in MIDs compared to non-district areas. Current evidence shows a positive association between firms' localization in MIDs and their innovation performance in terms of product innovation (Muscio, 2006) and number of patents (Boix & Trullén, 2010; Santarelli, 2004), with an above-average rate of innovation both in times of economic stability (Boix & Galletto, 2009) and during adverse conditions (Boix, Galletto, & Sforzi, 2019).

MIDs are currently experiencing deep structural transformations, driven by the consequences of the international financial crisis (De Marchi, Lee, & Gereffi, 2014), the gradual integration of district firms in the global value chain (Chiarvesio, Di Maria, & Micelli, 2010), the emergence of leading firms with asymmetric market and financial power (Randelli & Boschma, 2012), and the rise of new digital industrial technologies related to the fourth industrial revolution, generally known as Industry 4.0 (Bellandi, De Propris, & Santini, 2019a).

Today, Industry 4.0 is emerging as a new type of digital innovation (Kang et al., 2016) that is establishing the premises for a manufacturing "renaissance" and socioeconomic development (Bellandi, Lombardi, & Santini, 2019b). It is aimed at transforming firms' value creation and business models with digitalization, automation, and robotics (Götz & Jankowska, 2017), ultimately changing the traditional source of competitiveness of both firms and regions (Schwab, 2017). Technologies related to Industry 4.0 include simulation, augmented reality, robots, Internet of Things (IoT), cloud services, cybersecurity, additive manufacturing, horizontal and vertical system integration, Big Data, and analytics (Wang & Wang, 2016). MIDs, traditionally characterized by a strong manufacturing specialization (Becchetti, De Panizza, & Oropallo, 2007), perceive digital technologies related to Industry 4.0 as both threats and opportunities (Bellandi et al., 2019b). However, how and to what extent district firms adjust their structures to the new technological paradigm will depend on the combined efforts of local institutions and public policy initiatives,[1] as well as firms' specific characteristics.

In terms of firms' specific characteristics, as a source of intra-district heterogeneity (Cucculelli & Storai, 2015; Pucci et al., 2017), the family status of the firm might be one reason that explains different levels of digital innovation adoption in MIDs. The lack of research on family firms in MIDs is paradoxical since MIDs represent a long-lasting localization (Belussi & Caldari, 2008) and a natural socio-spatial basin of entrepreneurial families. In these

contexts, the phenomenon of family in business renews itself across generations, becoming a pervasive institution for creating social structures that drive MIDs' evolution (Randelli & Boschma, 2012). In MIDs, family firms generally show a superior position in inter-organizational and inter-personal networks (Cucculelli & Storai, 2015), which may result in a firm-specific capability in intercepting and exploiting a knowledge-rich local environment (Lattanzi, 2017). These specificities, in turn, can affect the extent to which family firms belonging to industrial districts engage in new digital and technological innovations as compared to their non-family counterparts.

Family firms and digital innovation in MIDs

Family firms are a widespread phenomenon across Europe. While they are the most pervasive form of organization among all OECD nations and European nations in general, accounting respectively for 85% and 70–80% of all companies (Alberti & Pizzurno, 2013; Mandl, 2008); these percentages are even higher in Italy. Family firms are the backbone of both Italian MIDs (Intesa San Paolo, 2018) and the national economy – more than 85% of enterprises are family firms, and they generate 70% of total employment (AIDAF, 2018). Family firms show specific behaviors that differ from non-family firms in many ways (Alberti & Pizzurno, 2013). The core reason of their peculiar behaviors resides in the so-called "familiness", a unique characteristic that can lead to certain synergies, advantages, and disadvantages (Pearson, Carr, & Shaw, 2008). Familiness can influence a number of aspects, including goals (Tagiuri & Davis, 1992), corporate governance (Golinelli, 2000; Randoy, Jenssen, & Goel, 2003), financial structure (López-Gracia & Sánchez-Andújar, 2007), and entrepreneurship orientation (Zahra & Sharma, 2004). It can also influence innovation in different ways (Calabrò et al., 2019). On one side, family firms might be more conservative, less entrepreneurial, rigid, risk-averse, more willing to keep control, resistant to change, and more reluctant to pioneering new products, processes, and markets (Kraus, Pohjola, & Koponen, 2012). They also usually have more limited access to capital markets and may be less eager to grow (Craig, Pohjola, Kraus, & Jensen, 2014). On the other hand, family firms typically have a long-term orientation and the capacity to involve multiple generations, which may affect innovation dynamics (Nieto, Santamaria, & Fernandez, 2015). Overall, family firms' equilibrium of internal forces can lead to fostering or limiting innovation (Ingram, Lewis, Barton, & Gartner, 2016).

Having said that, it is not the family condition of the firm per se that determines its innovativeness orientation but the unique connections that firms are able to establish with their territory or place (Smith, 2016). In particular, family firms are regarded as having tight links with their territory, with a strong interdependence between their economic activity and their place. There is an interactive relationship with the *milieu* and a feeling of identity and attachment of family members to the place (Kim, Haider, Wu, & Dou, 2019).

Family firms are generally committed to renewing and reshaping their social interactions, both within and outside the family domain, as a way to access valuable resources (Salvato & Melin, 2008), hence differing in the way they interact with their surroundings (Basco, 2015). Even though the literature on family firms and innovation is growing, only recently have scholars begun to explore how these peculiar organizations behave when located in MIDs. For instance, by drawing on a large sample of Italian manufacturing district firms, Cucculelli and Storai (2015) show how the advantage of being located in MIDs (i.e., district effect) is dependent upon the size of family firms with only the medium-sized ones being able to leverage the localization benefits of MIDs, reflected in a level of higher profitability when compared with non-district firms. With regard to the innovation performance in geographical clusters of firms, Pucci et al. (2017) show how family firms are better able to leverage the localized network of relationships, positively affecting their innovation capability.

The specific traits of family firms appear to be well-suited for MIDs (Cucculelli & Storai, 2015). Social capital arises as a critical asset in explaining how local knowledge and innovation-relevant information is gathered, regenerated, and shared among district firms (Malecki, 2012). Conceived as a relational asset based on trust, norms, and reciprocity (Coleman, 1988), social capital alludes to the development and exploitation of social ties among actors in a local network (Lambooy, 2010). In MIDs, it is both a "lubricant" for firms' organizational decisions and a "glue" for the local production system as a whole (Bertolini & Giovannetti, 2006).

Family firms are generally endowed with firm-specific social capital (Zahra, 2010) based on interdependence and trustworthiness among family members (i.e., "internal social capital"), which tends to be replicated outside the organization (Arregle, Hitt, Sirmon, & Very, 2007) (i.e., "external social capital"). Family members show a certain degree of closure and centrality in local entrepreneurial networks, resulting in social and professional ties strengthened by trust (Anderson, Jack, & Dodd, 2005). This is particularly true in MIDs, where there are blurred boundaries between informal and formal networks (Chetty & Agndal, 2008). Therefore, family firms located in MIDs are more likely to show a differential advantage than non-family firms (Hess, 2004).

Indeed, while geographical proximity favors contacts and facilitates the exchange of tacit knowledge (Boschma, 2005), the inherent willingness of family firms to establish socially proximate relationships with local actors reduces the risk of opportunistic behavior, enhancing interactive learning and innovation capabilities (Baù et al., 2018). Additionally, while shared values, norms, and agreements mediate interactions within MIDs (Dei Ottati, 2002), family firms play a crucial role in the sedimentation of local institutional mechanisms (Raco, 1999). Hence, a higher level of institutional proximity of family firms facilitates the access to and the transfer of tacit knowledge in district networks (Soleimanof, Rutherford, & Webb, 2018).

Finally, the high level of specialization of MIDs results in a common knowledge base that enables mutual understanding among local actors. The local embeddedness of family firms results in a shared language and domain of a district-specific knowledge, continuously transmitted to generations, which facilitates effective communication and interactive learning needed to successfully engage in innovative activities (Anselmi & Lattanzi, 2016).

Based on the above-mentioned arguments, we infer the existence of intra-district heterogeneity based on firms' family status[2] with an impact on firms' ability to innovate. Firm-specific social capital, as reflected in the centrality and closure in the local networks, and strong territorial embeddedness enable family firms to alter the social and economic relationships underlying the dissemination of knowledge and information in MIDs, which is relevant for digital innovation adoption and exploitation. Thus, we propose the following hypothesis:

> Hypothesis*: The pace of digital innovation in MIDs is higher for family firms than for their non-family counterparts*

Empirical design

To test our hypothesis, we relied on a dataset from a survey carried out by the research unit of Intesa Sanpaolo (Direzione Studi e Ricerche Intesa Sanpaolo).[3] The survey was aimed at capturing information on the strategies, innovation patterns, international trade, ownership, and management structures of a sample of manufacturing firms located in industrial districts across three Italian regions: Piedmont, Tuscany, and Veneto.[4] In particular, the leather and jewelry districts of Arzignano, Santa Croce sull'Arno, Vicenza, Arezzo, and Valenza were chosen.[5] Firms were identified using the ATECO code[6] and the province of operations. The initial sample included 584 firms. Those in liquidation or non-active ones were not included. The survey was sent to each firm between October 2018 and February 2019. Reminders were sent in seven instances, approximately 14 days apart from each other. Eventually, 158 firms completed the questionnaire with a response rate of 27%. It is worth noting that selection bias might have occurred as data collection was part of a wider project. However, pure random samples are difficult to find in family firm research, as a national family firm database does not exist (Beck, Janssens, Debruyne, & Lommelen, 2011).

Additionally, survey-based information was complemented with accounting data retrieved from Aida-Bureau Van Dijk, a database containing the historical financial and commercial data from approximately 540,000 companies operating in Italy. After removing companies not included in Aida, we obtained a final dataset consisting of 152 companies, the width of which is comparable to others used in family business research (Beck et al., 2011; Cucculelli, Le Breton-Miller, & Miller, 2016).

Table 5.1 Description of variables

Variables	*Description*
Dependent variables	
Industry 4.0	Likert scale (1–5) measuring the intensity with which firm *i* is currently investing in Industry 4.0-related technologies
Independent variable	
Family firm	Dummy variable coded "1" if the majority of the equity is held by a family and at least two family members are formally involved in the governance of the firm, "0" otherwise
Control variables	
Age	Number of years a firm exists since its foundation
Size	Logarithmic transformation of total assets
Human capital	Ratio of graduated to total of employees
Export intensity	Ratio of foreign sales to total sales
R&D intensity	Ratio of R&D expenditures to total sales
Product innovations	Dummy variable coded "1" if in the last three-year period firm *i* has introduced product innovations, "0" otherwise
Process innovations	Dummy variable coded "1" if in the last three-year period firm *i* has introduced process innovations, "0" otherwise
Organizational innovations	Dummy variable coded "1" if in the last three-year period firm *i* has introduced organizational innovations, "0" otherwise
Foreign share	Dummy variable coded "1" if a foreign investor is present in the equity of the firm *i*, "0" otherwise
Other controls	
Industry	Industry in which firm *i* operates: leather and jewelry
Province	Province in which firm *i* is headquartered: Piedmont, Tuscany and Veneto

Table 5.1 shows the variables employed in our study. The dependent variable (*Industry 4.0*) measures the degree to which firms are committed to digital innovation, with a specific reference to investments in new digital technologies related to the fourth industrial revolution. As constructs to measure the development of digital innovations related to Industry 4.0 are still scarce, we adapted one item from the Kellermanns, Eddleston, Sarathy, and Murphy (2012) innovation scale,[7] based on a five-point Likert scale, where 1 is a strongly negative and 5 a strongly positive commitment to firm's digitalization.

Our variable of interest is the family nature of the firm (*Family firm*). As the definition of family firm is a debated issue, we followed the so-called "demographic approach" to identifying them, which posits the mere involvement of the family members in the firm – ownership, control, or management – as a sufficient condition for capturing the influence of the family on the firm

(Basco, 2013). Accordingly, we defined it as a family firm if two not mutually exclusive conditions occur: (i) the majority of decision-making rights are in the possession, both directly and indirectly, of either the entrepreneur who established the firm or persons linked to the founder by family relationships; and, (ii) two or more family members sit on the board of directors of the firm.[8] Finally, we controlled for other firm-level characteristics that may affect firms' commitment to digitalization.

With the purpose of investigating the association between the family nature of the firm and digital innovation in the context of industrial districts, we estimate the following model:

$$\textit{Industry } 4.0_i = \alpha_0 + \beta 1 \textit{Family firm}_i + \beta_2 \textit{Size}_t + \beta_3 \textit{Age}_i + \beta_4 \textit{Human Capital}_i + \beta_5 \textit{Export intensity}_i + \beta_6 \textit{Absorptive capacity}_i + \beta_7 \textit{Product innovation}_i + \beta_8 \textit{Process innovation}_i + \beta_9 \textit{Organizational innovation}_i + \beta_{10} \textit{Foreing share}_i + \gamma I_i + \delta P_i + \varepsilon_i$$

where α_0 is the constant, β_1 is the coefficient of our variable of interest, I_i and P_i are respectively the industry-specific and province-specific dummy effects, γ and δ are the vectors corresponding to the coefficients, and ε_i is the error term. We address heteroscedasticity concerns in our estimations by computing heteroscedasticity-robust standard errors.

Findings

The descriptive statistics and pairwise Pearson correlation are reported in Tables 5.2 and 5.3, respectively. In particular, Panel 2A shows the descriptive statistics for the whole sample. Family firms account for 42% of the total sample, corresponding to 64 of the 152 firms. On average, sampled firms are 30 years old, export more than 40% of their sales, and are overwhelmingly

Table 5.2 Descriptive statistics

Panel 5.2A Descriptive statistics for the whole sample

Variable	*Obs.*	*Mean*	*St. dev.*	*Min*	*Max*
Industry 4.0	*152*	2.460	1.390	1	5
Family firm	*152*	0.421	0.495	0	1
Size[L]	*152*	7.772	1.436	4.651	10.870
Age	*152*	30.01	15.473	3	64
Human capital	*152*	4.085	9.305	0	75
Export intensity	*152*	42.407	34.612	0	100
R&D intensity	*152*	6.690	12.852	0	90
Product innovation	*152*	0.493	0.501	0	1
Process innovation	*152*	0.348	0.478	0	1
Organizational innovation	*152*	0.276	0.448	0	1
Foreign share	*152*	0.026	0.160	0	1

[L]Expressed in natural logarithm.

Panel 5.2B Difference of means and Wilcoxon rank-sum test

Variable	*Non-family firms*	*Family firms*	*Test for difference of means*		*Wilcoxon rank-sum test*
			Difference of means	t-*statistics*	z-*statistics*
Industry 4.0	2.227	2.781	–0.554	–2.466**	−2.417**
Size[L]	8.153	7.495	−0.658	−2.855***	−4.088***
Age	25.784	35.828	−10.044	−4.159***	−2.642**
Human capital	2.830	5.812	−2.982	−1.969*	−1.981*
Export intensity	35.386	52.062	−16.676	−3.010**	−3.123**
R&D intensity	5.886	7.796	−1.910	−0.904+	−1.670+
Product innovation	0.431	0.578	−0.146	−1.788+	−1.775
Process innovation	0.318	0.390	−0.072	−0.921	−0.922
Organizational innovation	0.284	0.265	0.018	0.249	0.251
Foreign share	0.034	0.015	0.018	0.698	0.700
Observations	*88*	*64*			

[L]Expressed in natural logarithm. [W]Winsor at 1% and 99% tail. Level of statistical significance + $p < 0.10$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$. [a]The Wilcoxon rank-sum test analyses whether the two samples are from different distributions (Sample 1: Non-family firms; Sample 2: Family-firms).

held by domestic owners. For a more straightforward depiction of the difference between family and non-family firms, Panel 2B reports the mean of the variables grouped by the nature of the firms along with the results of a test for differences in the means and the results of Wilcoxon rank-sum tests. The results show that family firms are more committed to digital innovation than their non-family counterparts (2.781 *versus* 2.227, $p < 0.05$). Additionally, family firms are smaller, older, and more internationalized, and these differences are statistically significant. With regard to the innovation inputs, the descriptive statistics show that family firms devote more efforts in R&D activities, considering the respective sales levels, than their non-family counterparts (7.796 *versus* 5.886, $p < 0.10$). An analysis of the variance inflation factors (VIFs), shown in Table 5.3, rules out multicollinearity concerns in our data; all the VIF coefficients are below the generally accepted threshold of 10 (Bird & Wennberg, 2014).

The results of the econometric analysis are reported in Table 5.4. We estimated our coefficients by using the ordinary least squares (OLS) method. Overall, 21% of the variance of the response variable is explained by the covariates included in the model. Among the control variables, the coefficient of *Size* is positive and statistically significant ($\beta = 0.222$, $p < 0.001$), indicating that larger firms are in a better position to sustain investments in Industry 4.0. Additionally, the firm's digitalization appears to be contingent on the innovative results achieved by the district firms. In fact, Table 5.4 shows a positive association between *Product innovation* and *Process innovation* and the adoption of Industry 4.0 technologies. Surprisingly, the ratio of graduated human

Table 5.3 Pairwise Pearson correlation coefficients

	VIF	*Industry 4.0*	*Family firm*	*Size*	*Age*	*Human capital*	*Export intensity*	*R&D intensity*	*Product innovation*	*Process innovation*	*Organizational innovation*	*Foreign share*
Industry 4.0	–	1.000										
Family firm	1.24	0.197*	1.000									
Size	1.26	0.242*	0.227*	1.000								
Age	1.36	0.079	0.322*	0.384*	1.000							
Human capital	1.10	−0.073	0.159	0.133	0.123	1.000						
Export intensity	1.25	0.180*	0.239*	0.087	0.260*	0.068	1.000					
R&D intensity	1.13	0.000	0.074	−0.132	−0.028	−0.091	0.240*	1.000				
Product innovation	1.28	0.280*	0.144	0.180*	0.185*	0.141	0.281*	0.056	1.000			
Process innovation	1.12	0.345*	0.075	0.044	0.154	0.042	0.085	0.097	0.244*	1.000		
Organizational innovation	1.13	0.188*	−0.020	0.017	0.053	−0.115	0.136	−0.000	0.273*	0.134	1.000	
Foreign share	1.04	0.025	0.057	0.069	−0.005	0.059	−0.043	−0.100	−0.084	−0.052	0.010	1.000

Note: Number of observations: *152*. Mean VIF = 1.19. Level of statistical significance *$p < 0.05$.

Table 5.4 Regression results

Dependent variable: Industry 4.0	
Family firm	0.456*
	(0.226)
Size	0.222**
	(0.077)
Age	−0.012
	(0.008)
Human capital	−0.023**
	(0.008)
Export intensity	0.004
	(0.003)
R&D intensity	−0.006
	(0.007)
Product innovation	0.405+
	(0.219)
Process innovation	0.911***
	(0.223)
Organizational innovation	0.257
	(0.247)
Foreign share	−0.334
	(0.634)
Industry	YES
Province	YES
Constant	0.147
	(0.627)
Observations	*152*
Adjusted R-Squared	0.210

Note: Robust standard errors are reported in parentheses. Level of statistical significance $+p < 0.10$, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$.

resources has an adverse effect on a firm's digitalization. In fact, the coefficient of *Human capital* is negative and statistically significant ($\beta = -0.023$, $p < 0.001$). The remaining controlling variables reveal that neither in-house R&D activities (i.e., *R&D intensity*) nor the degree of internationalization (i.e., *Export intensity*) affect the adoption of digital innovations.

With regard to the explanatory variable, our findings show that within industrial districts, all things being equal, family firms pursue digital innovation more intensively than non-family firms, as reflected in the adoption of technologies related to Industry 4.0. Indeed, the coefficient of our variable of interest (*Family firm*) is positive and statistically significant ($\beta = 0.456$, $p < 0.05$), hence providing support for our hypothesis.

Final remarks

The contemporary industrial revolution, which encompasses the digitalization of manufacturing through the adoption of Industry 4.0 technologies,

is initiating an unparalleled transition to new ways of production, business models, modes of value creation, and distribution systems. Local production systems such as MIDs, characterized by a strong manufacturing specialization, are highly exposed to the new technological paradigm, which is a source of threats and opportunities for industrial district firms. While localization in MIDs favors increasing returns and superior technological performance because of the potential access to localization externalities, some firms are in a better position than others to leverage the industrial district's advantages. In particular, the concept of "intra-district heterogeneity" has emerged as a new research area aimed at understanding which firm-specific characteristics explain some firms' unique abilities to exploit district knowledge and information. Among the sources of heterogeneity, the family status of the firm has been historically overlooked by the industrial district and cluster literature.

To address the aforementioned research gap, we draw on survey microdata of Italian firms located in five MIDs to explore whether family firms develop more digital innovations related to the fourth industrial revolution (Industry 4.0) than their non-family counterparts. Our findings reveal that family firms are more prone to adopt digital innovations related to Industry 4.0. Hence, compared to their non-family counterparts, family firms are more actively preparing to compete in the new technological wave, playing a crucial role in the transformation of MIDs. This research shows that the distinctive characteristics of family firms adapt well to the peculiarities of industrial districts, where the social dimension of economic activities (a set of informal, trust-based, and reciprocal relationships regulated by a shared system of cultural values) distinguishes MIDs from other types of local production systems (e.g., business cluster). Due to the rich social capital and high degree of embeddedness in the local network, family firms are in a unique position to intercept and exploit the relevant knowledge and information that flows freely in the industrial district. Hence, while the localization in MIDs is a source of both static and dynamic advantage for co-located firms, family firms appear to benefit more from externalities and the resulting localization economies, as reflected in a higher pace of digital innovation than their non-family counterparts.

This study makes several contributions. First, for the industrial district and cluster literature, we shed new light on the digital innovation taking place inside MIDs. However, different from the prevailing approach aimed at measuring the so-called "I-MID effect" (i.e., the existence of a dynamic efficiency in the form of a positive innovative differential compared to non-district firms), we provide new evidence on so-called "intra-district heterogeneity," highlighting whether and to what extent some firm-specific characteristics account for differential advantages. Testing the family status of the firm as a source of intra-district heterogeneity, we extend the results of Hervás-Oliver, Sempere Ripoll, Estelles-Miguel, and Rojas (2019), who found how firms with higher absorptive capacity are able to exploit a knowledge-abundant milieu, such as MIDs.

Second, we contribute to the family business innovation literature. We explore family firms' development of digital innovation with the adoption of Industry 4.0-related technologies. Whereas Industry 4.0 is receiving increasing interest in Europe (Schmidt et al., 2015), research is just starting to explore the topic (Arnold et al., 2016), showing that SMEs are not yet fully exploiting the advantages of Industry 4.0 (Moeuf et al., 2018). However, our chapter shows some evidence that family firms are more inclined towards such transformation. Additionally, we contribute to the growing efforts geared towards the inclusion of the physical-relational space for the comprehension of family firms' behavior and performance (e.g., Basco, 2015; Stough et al., 2015). In this perspective, while the interplay between family and business domains has emerged as the traditional lens to explain the distinctiveness of family firms towards innovation, the incorporation of the spatial dimension – that is, the firm's localization in MIDs – unveils further valuable insights for the comprehension of family business innovation. Even though MIDs are a source of dynamic advantages for co-located firms, the family firm's specific social capital and its superior position (i.e., embeddedness) in the territorialized network of relationships confer a differential ability to benefit from agglomeration economies.

Our study has relevant implications for policy makers. Industrial districts, as the backbone of Italian manufacturing systems and a source of regional competitiveness, are experiencing deep changes. Driven by the consequences of the international financial crisis, these include the growing reliance on outsourcing, the integration in the global value chain, the emergence of vertically-integrated firms, and new digital innovations, which, together, are reducing industrial districts' internal cohesion. Therefore, the fourth industrial revolution may represent an opportunity for the upgrading and "revitalization" of district firms and areas as a whole. In this light, national governments across Europe, including Italy, have been promoting measures for all enterprises to support investments in digital transformation. Since our chapter unveils the distinct reaction of family firms located in industrial districts to this new way of digital-driven disruption, the design and evaluation of the effectiveness of these policy initiatives should consider family firms as peculiar actors for the development strategies of local and regional economies. To this end, it is worth noting the peculiar criticalities of family firms that undermine their competitiveness and survivability – such as ownership and leadership transition, the need of professionalization, and cultural rigidity – which thus necessitate tailored-made policies (Basco & Bartkevičiūtė, 2016).

This study has some limitations that pave the way for future research. As our data pertains to only five Italian MIDs specialized in two industries (i.e., leather and jewelry), the possibility of generalizing the findings is rather limited. Hence, future research should explore the digital transformation of family and non-family firms across multiple heterogeneous MIDs and across a wider time span (i.e., longitudinal studies). Additionally,

comparative studies of MIDs with different levels of technological sophistication may unveil specific patterns of innovation among family and non-family firms. In this regard, the nexus of family-firms and MIDs is a promising research area worth exploring by means of qualitative methods as well, which may complement quantitative ones to investigate the organizational and socio-spatial dynamics taking place in the district areas. Social capital and spatial embeddedness theories could contribute to efforts to interpret such phenomena. Since the district effect is also related to static advantages, as reflected in higher levels of productivity/efficiency compared to firms located in non-district areas, future research should consider firms' family status to explore the existence of differential financial advantages in addition to those related to innovation. Finally, future research could also investigate whether and to what extent family firms, as compared to their non-family counterparts, have contributed to the resilience of MIDs in the face of the global financial crisis of 2007–2008 and to their structural transformations such as the growing integration of district firms in the global value chain.

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Notes

1 As the empirical part of this research is set in Italy, it is worth noting that the "Industria 4.0" national plan, launched in 2017 as part of a European strategy (European Parliament, 2015), provides €18 billion in funding to support industrial change, promoting investments in innovation, technology, and skills. Even though the plan incorporated all firms, without any dimensional, sectorial, or territorial limit, it mostly targeted SMEs (Italian Ministry of Economic Development, 2017), the majority of which are family firms.
2 While MIDs embody a knowledge-abundant platform favoring inter-firm knowledge and information exchange, we echo Hervàs-Oliver et al. (2019, 1927), according to whom "this rich environment [MIDs], however, cannot be exploited equally by collocated firms. On the contrary, collocated firms perform differently."
3 Intesa Sanpaolo is one of the largest banking groups in Italy, and its research unit is mainly concerned with the study of industry and banking dynamics, macroeconomic analysis, equity and credit research and international network research. For more information, please refer to: https://group.intesasanpaolo.com/it/research.
4 Such regions, respectively situated in the northwest, center, and northeast of Italy, are relevant for the high level of productive specialization and for having experienced higher economic growth than other regions (Storper, 1993).
5 The most outstanding contribution for the identification of MIDs is the methodology elaborated by Sforzi (2002), which suggests the use of Local Labour Markets (LLSs) to identify them. According to the latest census of ISTAT (Italian

National Institute of Statistics) carried out in 2011, Italy counts 141 industrial districts located mostly in the northeast of the country (45) and specialized in the sectors related to the so-called "Made in Italy" initiative: mechanical industry (27.0%), clothing/textiles (22.7%), furniture (17.0%), and leather and shoes (12.1%). For further information, please refer to ISTAT (2011).

6 ATECO (Classification of Economic Activity) is the Italian version of the European nomenclature of NACE Rev. 2 of manufacturing activities.

7 The item measures to what extent firms are currently developing digital innovations by means of Industry 4.0 technologies.

8 It is worth nothing the adopted definition is very similar to that proposed by the European Commission (2009). We raised the threshold of family members involved in corporate governance to at least two members of the owning family instead of the traditional threshold of one member. Our variant has the main advantage of being more stringent than those usually found in the literature, hence ensuring a clearer demarcation between lone-founder and family-owned and governed firms.

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Part III

Meso-Foundation channels

6 Family firms and their regional ties

A bond made for the future?

Regina Lenz

Introduction

The overlap between family and business represents a common characteristic for a large number of organisations across the world. Family firms are those organisations in which family is involved in the ownership and management of the firm, with the intention to keep the business within the family across generations (Mandl, 2008; Miller, Le Breton-Miller, Lester, & Cannella, 2007). The family component distinguishes these firms from any other type, with regard to the way families manage and govern, make decisions, allocate resources, and interact with their regional contexts (Basco, 2017; Soleimanof, Rutherford, & Webb, 2018; Stough et al., 2015).

The unique interaction between family firms and their environment is influenced by the family's focus on firm longevity, and their decision-making is led not solely by economic principles, but also by the strong personal commitment of owner-managers and their feelings of responsibility toward their employees and home region (Zellweger, Eddleston, & Kellermanns, 2010). Research agrees that it is this "regional familiness" (Basco, 2015) or "community citizenship" (Baù et al., 2019) of family firms that leads owner-managers to build long-term relationships with local stakeholders, which forges a particularly strong and mutually beneficial bond between family firms and the regions in which they are embedded (Baù et al., 2019; Bird & Wennberg, 2014). Additionally, since family firms are generally considered to be more conservative and risk-averse than non-family ones, and thus more focused on their home market than international ones (Gomez-Mejia, Makri, & Larraza Kintana, 2010; Hamelin, 2013), their regional commitment seems to be durable and uncontested.

However, the commitment of family firms to their regional context may vary across generations. For instance, in their study of Spanish manufacturing firms, Fernández and Nieto (2005) showed that second or subsequent generation family firms are more involved in international markets than first-generation ones. Considering the potential differences in attitudes, interests, and qualifications between incumbent owner-managers and their successors, the research question arises as to whether the strong regional

bond of family firms persists across generations. Given that every family firm ultimately has to face the challenge of transferring ownership and management to the next generation and that the number of family firms looking for successors has been rising continuously across Europe in the last few years (Duh, 2012; KPMG, 2019), I wonder how succession affects the regional anchoring of family firms.

This chapter adopts a dynamic perspective and analyses the connectedness between successor generations and their regional context. By using a qualitative approach and through the lens of an institutional perspective, I explore case studies of successors in Basque family firms and analyse differences in the attitudes and behaviours between predecessors and successors. I observe that these differences lead to successors having weaker regional embedding than their predecessors. This weak regional embedding shows that transgenerational family firms are immersed in a regional disembedding process that could have positive or negative consequences for regional economic development.

Family firms and their regional and institutional ties

When analysing the linkages and mutual effects between context and family firms, research usually looks at the embeddedness of family firms in terms of the geographically constrained area where they are situated. However, beyond the spatial characteristics of context, relational aspects play a key role in influencing firm behaviour over time.

Family firms and their regional context

The literature usually highlights the positive effects of the links between family firms and their regional contexts (Gomez-Mejia, Basco, Müller, & Gonzalez, 2020). The assumption is that local embeddedness – "the involvement of economic actors in a geographically bound social structure" (Baù et al., 2019, 360) – favours contacts with customers and suppliers in a geographical area and thus facilitates access to both tangible and intangible assets such as a skilled labour force and localised knowledge, respectively (Baù et al., 2019). Existing research can be divided into two groups, depending on whether they analyse the effect of the region on family firms or, vice versa.

In terms of family firm contribution to regional economies, existing research has shown that family firms are conducive to economic and social development in their regional contexts in several ways. For instance, by contributing to the production and export of goods and services; providing jobs, professional training, and qualifications; and engaging in regional philanthropy (Basco, 2015; Bjuggren, Johansson, & Sjögren, 2011; Glückler & Suarsana, 2014; Memili, Fang, Chrisman, & De Massis, 2015). Across Europe, family firms constitute the economic backbone of regional economies: 85% of companies are family-owned, generating 70% of Europe's GDP and employing 60%

of its workforce (Ernst&Young, 2014). Since family firms are often situated in peripheral areas, they also provide job opportunities in rural regions and thus act as a counterweight to the ongoing trend of urbanisation (Gottschalk et al., 2017). Taking these benefits into account, family firms' transgenerational continuity and regional embeddedness are essential for long-term regional stability in terms of employment, innovation, and the regional use of profits for investments and societal good (Daspit, Holt, Chrisman, & Long, 2016).

Studies looking at the effect of the regional context on family firms are usually based on the assumption that "family businesses are more embedded within the regional community than their non-family counterparts," and that this affects their strategic choices (Bird & Wennberg, 2014, 424). Research shows that by using their local connections, family firms enhance their socio-emotional wealth, gain localised competitive advantages, and benefit more from local embeddedness than non-family firms, especially in rural areas (Backman & Palmberg, 2015; Baù et al., 2019). Baù et al. (2019) even claim that being embedded in a rural context with tight social networks can counterbalance the potential negative effects that family involvement can have on firm growth. Along the same lines, Soleimanof et al. (2018) argue that it is precisely the embeddedness of family firms that makes them less dependent on the formal features and procedures of their regional contexts because they can access family resources, such as labour and capital, and use their personal connections to draw on social capital. Accordingly, family firms are able to thrive in resource-scarce and objectively less favourable regions as well (Bird & Wennberg, 2014). This evidences the importance of social relationships for the regional anchoring of family firms.

The importance of relationships, institutions, and time

To understand what makes a firm behave the way it does, not only must we consider a region's available assets, but also the structures of social relations in which agents are embedded and that influence their decisions and actions. The theory of embeddedness posits that the economic activities of individuals and organisations are determined by a system of relationship ties that facilitate or inhibit certain economic actions (Granovetter, 1985). Thus, an actor's behaviour is not always rational and profit-maximising oriented, but also informed by past experiences and institutionalised behavioural expectations (Glückler & Bathelt, 2017). Similarly, institutional theory postulates that organisations not only react to economic, market, and technical pressures but also to the social and institutional pressures of their surrounding environment, comprised of other organisations (Coraiola & Suddaby, 2018; DiMaggio & Powell, 1983; Suddaby & Greenwood, 2009). In this respect, the concept of the organisational field highlights that these pressures and normative expectations may not only originate from those organisations in the actual geographical proximity, but also from "those organizations that, in the aggregate, constitute a recognized area of institutional life" (DiMaggio &

Powell, 1983, 148). Thus, by interacting more frequently with each other than with actors outside the field, organisations within a field share common cognitions, meaning systems, and institutions that act as guidelines for their actions.

Defined as relatively stable interaction patterns that are based on mutual normative expectations on how to behave legitimately (Glückler & Bathelt, 2017), institutions are hard to identify in real-life interactions. However, the concept of relational infrastructure enables making institutions visible, based on the idea that "because institutions are means of providing regularity to behaviour, they are always underpinned by networks of persons" (Storper, 2018, 213). Although institutions are not reducible to their networks, it is these inter-personal and inter-organisational linkages that enable the communication and alignment of social norms and legitimate beliefs, and help visualise the establishment of corresponding interaction patterns as observable manifestations of institutions (Glückler, Punstein, Wuttke, & Kirchner, 2020; Storper, 2018). For example, Storper (2018) found that the more successful development of the San Francisco Bay Area compared to Greater Los Angeles was due to the former's relational infrastructure, comprised of informal networks, elite leadership networks, cross-network connections, and organisational sites that facilitate and sustain such cross-over links. In applying the framework of relational infrastructure, Glückler et al. (2020) were also able to explain the otherwise inexplicable economic success of the German region of Heilbronn-Franconia, based on strong firm-internal bonds, disconnection in terms of work collaboration between firms, but cohesive non-business networks within the home region.

Thus, research so far has focused on identifying the specific relational infrastructures of regions with the purpose of understanding their regional economic performance at a given point in time. Despite these valuable insights, the role of time has received less academic attention (James et al., 2020; Sharma, Salvato, & Reay, 2014). This chapter, therefore, further elaborates on the notion of relational infrastructure by adding a dynamic perspective and by exploring how established relational infrastructures may change over time. The regional connections of family firms and their potential changes in the course of successions are well-suited units of analysis in this respect. In this sense, the research questions are as follows: *How does succession affect the regional connectedness of family firms? Do successors have different relational infrastructures than their predecessors due to different characteristics and experiences?*

Methodology

In order to analyse the effect of succession on the regional embeddedness of family firms, this research is based on qualitative case studies of second or subsequent-generation family firms in the Spanish Basque Country, a region that champions regional distinctiveness and cohesion.

The study region: many family firms and strong regional distinctiveness

The Basque Country[1] is characterised by successful and resilient economic development, a strong industrial base, and an extensive number of family firms with an increasing need to find successors (El Foro de Empresa Familiar, 2008). Family firms make up 70% of all enterprises in the region and account for two-thirds of its GDP and 80% of its workplaces (Christensen Zaracho et al., 2008). But not only does the Basque Country boast a high number of family firms, it also enjoys a pronounced regional autonomy and community, expressed through its own regional government since 1980, financial autonomy since 1981, and its own regional language, Euskera (Moso & Olazaran, 2002). Additionally, the Basque Country features a number of community-building institutions such as the practice of regularly meeting strongly connected childhood friends (*cuadrilla*) in the streets before dinner (*txikiteo*) or cooking together in a gastronomic society (*txoko*) (Hess, 2007; Ramírez Goicoechea, 1984).

Previous research has showed that Basque family entrepreneurs actively participate in these cultural activities together with their local community (Lenz and Glückler, 2020). Thus, the relational infrastructure of traditional Basque family firms can be described similarly to what Glückler et al. (2020) found for the region of Heilbronn-Franconia: little connection between firms in terms of collaboration, but a cohesive non-business network within the local community, and strong intra-firm relations due to pronounced family logics as guiding principles.

Data and methods: qualitative case study

In order to see if these characteristics also describe the relational infrastructures of Basque family firm successors, between February 2015 and May 2016, a total of 28 interviews were conducted with representatives of 16 family firms of the automotive and machine-producing sector. In each of the 16 cases, interviews were carried out with the successor and new owner-manager of the family firm, and, as far as possible, with his or her predecessor and/or a longstanding employee of the firm, in order to further validate successors' statements (see Table 6.1).

Table 6.1 Overview of interviews conducted

Interview partners	*Interviews*
Successors	16
Employees	9
Predecessors	3
Total	28

To learn from their experiences, I only selected those firms that had already completed succession within the last few years or were just in the process of handing the firm over to the next generation (see Table 6.2). The majority of cases analyse intra-family succession from the first to the second generation, and the predecessors were still either involved in business decisions or available as consultants, which made it easier for the successors to directly compare their expectations, attitudes, and ways of doing business with those of their predecessors. Three of the family firms in the sample turned into cooperatives, with the employees of the firm becoming shareholders, and only one firm was sold to external investors (non-family members).

The semi-structured interview guide scanned for organisational and personal facts such as education and work experience, and focused on the changes the successors had planned or already implemented within the firm and in their relationships with other firms, as well as on their ways and attitudes toward running the family firm. The interviews were done in Spanish and lasted between 60 and 120 minutes. They were recorded, transcribed, and translated. Afterwards, I coded and analysed the data using the MAXQDA software in a bottom-up, inductive approach, looking for patterns emerging from the data and across cases (Reay & Jones, 2016).

Table 6.2 Detailed overview of family firm interviews

Case	*Foundation*	*Generation*	*Employees*	*Succession type*	*Successor's education*	*Successor's prior work experience*
1	1962	2nd	280	Internal	Accounting	–
2	1963	2nd	80	Internal	Engineering	Spain
3	1969	2nd	50	Internal	Corporate Law	Spain
4	1992	2nd	18	Internal	Economics	Spain
5	1969	2nd	82	Internal	Engineering	Spain, US
6	1966	2nd	45	Internal	Business Administration	Spain
7	1946	3rd	680	Internal	Business Administration	Spain, US, Germany
8	1972	2nd	39	Internal	Engineering	Spain, US
9	1978	2nd	24	Internal	Engineering	Spain
10	1923	4th	47	Internal	Management	Spain
11	1987	2nd	32	Internal	Engineering, Management	Spain
12	1965	2nd	412	Internal	Business Administration	US
13	1981	2nd	74	Cooperative	Apprenticeship	–
14	2004	2nd	18	Cooperative	Engineering	–
15	1980	2nd	22	Cooperative	Engineering	Spain
16	1964	3rd	75	Sale	Economics	UK, US, India

Findings

The results of this study show that successors differ from predecessors due to their different educational background and previous work experiences. These different characteristics seemed to affect the internal structure of their firms in terms of professionalisation, decentralisation, and inter-firm relationships. Successors tended to be more open and customer-oriented, and showed a more proactive approach. Ultimately, successors seemed to have more, and be more interested in supra-regional linkages. These linkages are one of the reasons for their lower commitment to their regional contexts compared to their predecessors.

Characteristics of successors vs. predecessors

First of all, our analysis shows that successors and predecessors can be distinguished by particular characteristics. Predecessors usually did not have professional training and were often the founders of the businesses, either by necessity (lack of other alternatives in the labour market) or opportunity (after having worked in a similar firm in the same region, they found a business opportunity). In contrast to that, all successors in our sample had gone to university (except in one instance) and in most cases they studied engineering, economics, or business administration (see Table 6.2). Due to this fact, they can be described as white-collar workers who focus on managing the firm, but who lack the technical or product competencies of their predecessors. Even though some family successors had grown up with the firm and had worked in the factory on weekends and during holiday periods, many of them could not operate the machines anymore. They were only rarely seen on the shop floor – unlike their predecessors, who liked to be at the production site and work at the machines alongside their employees:

> That's another one of my deficits. For example, my father had come from the workshop. He had no college education. My father was a machinist. So everybody respected him because: "This one knows what he's talking about." And he knew. And I don't know.
>
> (Successor, Itsasondo, May 2015)

Additionally, as Table 6.2 also indicates, the majority of successors had worked in other companies before taking over the family firm, both in other Spanish regions and abroad, which was made possible by their higher education levels and knowledge of the English language.

Effects on the family firm

The aforementioned differences in successor characteristics have consequences for the internal organisation of family firms in terms of professionalisation and decentralisation. In accordance with common management

concepts, successors introduced business processes and management tools that, to their surprise, were not there before:

> There was no strategy plan, no budget, no structure or training plan, no purchase manager, not even a board of directors. So I asked them: "How do you manage? How do you do [it]? How can you control anything?" – "Oh, we work, we do invoicing, we check it every month, and the more invoicing we do, the better for the company." – "And what about the costs, and if you lose some money?" – "Ahh, at the end of the year we know if we lost or won." Oh my God. […] But I don't want to make them look bad, I am not criticising. That system has worked, and it got us here. But we cannot continue like this.
>
> (Successor, Zumaia, February 2015)

Along the same line, successors planned to reduce the number of family members working in the firm and to hire employees based on their professional skills instead. Because although the inclusion of family members provides firms with easy access to resources and networks, it comes at the cost of satisfying the social expectations of providing jobs for extended family members (Soleimanof et al., 2018), as one successor illustrates:

> From 80 people in the company right now, there were 25 family members, so this is the policy. If a family member is there, you will always contract a family member rather than somebody from the outside. I think it was more so in the past, but we are still doing that. But now, it is reduced to 20, so we are reducing family members and hope for a more professional management.
>
> (Successor, Asteasu, March 2015)

Similar to this, the leadership styles between the previous and the new owner-manager differ in that the latter seem to be more participative and willing to decentralise, asking for the advice of their employees and newly-founded boards of directors. Contrary to that, the predecessors' leadership style was described as monolithic, taking care of every decision themselves:

> My father's way of working was very much centred on him. A very vertical organigram where "I decide everything." And with everything, I really mean everything. "We're going to paint the back door there, and I'm going to decide the colour." I'm not exaggerating, it was absurd. The first [few] years we worked together, I struggled to find a path, an overall management principle, if there was one. For my father there was no path. It was work.
>
> (Successor, Elgoibar, May 2015)

In some cases, successors even shared their leadership with a second manager – either to outsource all technical questions to him or her, or to separate daily business from more general decisions concerning the strategic orientation of the firm.

Effects on inter-firm relationships

These different attitudes about how to manage family firms also affect their interactions with other firms. In general, successors in our sample were found to be more outgoing and proactive in establishing new business contacts and more customer-oriented in contrast to the more reactive and product-oriented leadership styles of their predecessors:

> We started to be closer with the customers. This was a big change, because in the past they didn't speak English so much, they were more waiting for the orders to come in. So they stayed here, and the orders came, and they manufactured. So suddenly we started travelling more and being more in contact with the customers, at business fairs, for example. We started to look at things more deeply, at the needs of the customers. To understand them a bit better – why are they buying from us, what are the reasons, these kinds of things.
>
> (Successor, Beasain, February 2015)

Furthermore, successors were more open to seeking professional advice, knowledge, and other services from external partners, leading to more open business relations with consulting firms and intermediate organisations:

> Maybe another characteristic of Basque family businesses, they are not so collaborative. They are very closed, very black-box style. They are very non-transparent companies, they keep to themselves. When I talk to my uncles, they say, "Ahh, why are you talking to this guy?" They don't like it very much if you are talking to competitors, or research centres, or whoever. They think they will copy our ideas, and we know exactly what we need, so why would we need these research centres. "Are they going to teach us how to do our product? We are the best in that." That's the state of mind. They are not very open to collaborate with research centres or these kinds of things.
>
> (Successor, Zumaia, February 2015)

Effects on the regional ties of family firms

Regarding the geographical proximity of their business partners, all successors in our study reported a growing internationalisation in their relationships with clients, leading to a reduction in personal contact:

> Our customers are further and further away. In the past they were very close, and now [they are] further and further away. You're giving all customers the same advice, the same product, but it's not as easy any more to just go next door. The importance of personal relationships is still the same, but the opportunity is less. In the past, when my uncles started, all the customers were within a distance of 20 km,

> they would even deliver the product themselves with their own car, but I cannot do this anymore.
>
> (Successor, Lazkao, February 2016)

Some successors still consider personal meetings important, as shown in the quote above, and they used the few opportunities for personal encounters to cook for their business partners in a gastronomic society. However, others prefer to separate their business and private lives and, accordingly, limit their business meetings to relevant matters only, reserving visits to gastronomic societies for their friends and family.

In contrast to their client relationships, family firms under the leadership of successors continued using mostly local suppliers. However, successors also signalled their readiness to substitute their local supplier relationships for more advantageous international ones:

> For example, yesterday one of our customers was talking about a company from Asgoitia that sends the drawings, the plans, to China and in three days the pieces are here. And he was telling this as some kind of joke, but it was clear that it is not very well seen to send the work that might be done here to China or Morocco, for example. […] At the moment, our suppliers are all here, in the Basque Country. But maybe we will have to change that, I am not close to that. We have to adapt to our customers and their prices.
>
> (Successor, Elgoibar, March 2015)

This quote not only shows the successor's rather weak regional bond, but also the social pressure exercised by regional stakeholders to keep a close connection with the region. This social pressure that arises when family entrepreneurs live in the same area as their employees is also described by Block and Wagner (2014), who found that family ownership affects the social responsibility of family firms in the way that owners care about their reputation and about receiving recognition for the social activities they undertake in their local community. However, this kind of pressure seemed to be less effective with successors, who prefer to live in Bilbao or San Sebastián and commute to work in their rurally located family firms:

> His [the predecessor's] mentality was: "I want to live quietly when I leave the house. And half of the employees are from Tolosa, and half of their families are from Tolosa. If I go to a bar, I meet half of them. I don't want to go to the bar and have stones thrown at me. Now, the successor does not live here anymore."
>
> (Employee, Belauntza, April 2016)

The above quote is a good illustration of the need to appear legitimate and fulfil the social expectations of interaction partners. However, successors

and their predecessors seemed to belong to two different organisational fields when it comes to determining legitimate behaviour. While predecessors were concerned about the reactions of regional stakeholders, successors seem to be more aware of the normative expectations of an international community that is bound together by their professions as engineers or economists, for instance. Due to these different connections, the reference group sanctioning non-compliant behaviour is not the local community any more, but international clients and former colleagues working in other companies, most of them located abroad. Successors, as family entrepreneurs, still want to be legitimate, but because their interaction partners have changed, predecessors and successors have different sources of legitimacy.

Discussion: on the road to regionally dis-embedded family firms?

This study highlights the importance of interpersonal and inter-organisational linkages for understanding the regional embeddedness of family firms over time. These linkages constitute the relational infrastructure of family firms, through which normative expectations and beliefs are exchanged and maintained. Comparing the personal characteristics of successors and predecessors of family firms and their linkages with other individuals and organisations have revealed differences that suggest a generational shift in their relational infrastructure and, accordingly, in their degree of regional embeddedness.

I observed that while successors still share close firm-internal relationships, they are more focused on professionalism than family, are more oriented toward international interaction partners, and have stronger supra-regional networks than regional ones. Thus, regional embeddedness seems to be less important to them than to their predecessors. Whereas these findings only represent a first indication of an increasing regional dis-embeddedness of family firms, this tendency might affect the future patterns of regional development in Europe by getting amplified in three ways.

First, the number of family firms approaching the time for succession is rising in the Basque Country, as well as throughout Europe. This suggests that the generational changes in terms of dis-embeddedness in individual family firms can turn into change on a wider scale in Europe. Taking an institutional perspective, successors can act as institutional entrepreneurs and consciously pursue changes by actively trying to modify business behaviours in their regional contexts. Alternatively, individual successors might engage in unconnected institutional work by simply following – to some degree unknowingly – their underlying, taken-for-granted beliefs of how to do business legitimately. Future research should investigate the consequences of dis-embeddedness of family firms for regional development.

Second, like Europe as a whole, the Basque Country faces challenges in terms of an ageing population and low fertility rates, making it more and more difficult to pass on the business within the family (Duh, 2012; Isusi, 2008). This means that family firms increasingly have to look for successors from outside the family, or even from outside the firm or region. However, since such external successors are likely to have fewer regional connections and might thus respond less to local social obligations and expectations, this trend could aggravate the regional disconnectedness of successors even more. Future studies should explore the consequences of family firm dis-embeddedness for regional development when comparing family and non-family successors.

Third, due to increasing global competition and price pressures, family firms will have to seek competitive advantages and growth prospects beyond their regional or national boundaries (De Massis, Frattini, Majocchi, & Piscitello, 2018), again increasing their international linkages while at the same time weakening their regional and local ties. While this pressure to internationalise affects all companies, successors – of their own accord – seem particularly willing to participate in a globalised economy. It is important to further investigate the globalisation process in family firms and how it affects their competitive advantages across generations.

Finally, from a policymaker's perspective, I wonder what it would mean for regions to have a weaker bond with their family firms. On one hand, this outlook threatens long-established connections and well-functioning ways of doing business, adversely affecting other local firms operating in supplier relationships. Regions would lose job opportunities and the social and philanthropic contributions of family firms, making them overall less attractive for people to settle in. On the other hand, "a successful succession can give a new push to the firm" (Fernández & Nieto, 2005, 79) by providing it with new resources via successors' acquired capabilities, which might be needed to adapt the firm to new standards and to secure its survival in a globalised world. In this respect, successors' different leadership and management styles might be needed tools to prevent regional lock-ins and to ensure that they are not lagging behind. This might ultimately also benefit firms operating in the region or within the value chains of family firms. In a survey of German young professionals, Mohnen, Mückenhausen, and Toporova (2016) found that what renders family firms less attractive than other potential employers was their location and perceived lack of internationality. Thus, in order to enable regions to benefit from globalisation while retaining family firms locally, policymakers need to create ways to make regions and family firms attractive to potential successors and employees, and to ensure successful takeovers while embracing the increasing processes of globalisation.

For instance, policymakers may facilitate the succession process itself by providing succession consulting or innovative financing options in the case

of costly family-external takeovers. In the case of the Basque Country, the regional government has introduced tax benefits to keep family firms local, by incentivising transfers to their employees instead of selling the firms to unknown shareholders from outside the region. To generally increase the attractiveness of family firms in rural regions and compete with the attractive working conditions of big corporations, policymakers need to provide educational, social, and cultural opportunities within the region and help address other problems of family firms such as high wage costs and skilled worker shortages (KPMG, 2019; Mohnen et al., 2016).

The results of this study imply that regional ties cannot be taken for granted; what is even more important is to consider the temporal dynamics (such as succession) that may trigger family firm dis-embeddedness. This chapter attempts to further research on the networks and regional linkages of family firms before and after succession and their consequent effects on economic and social development.

Note

1 This term refers to the autonomous community of the Basque country in Spain (*País Vasco*). It should not be confused with the greater region of the Basque Country that, in addition, includes the Spanish autonomous community of Navarre, as well as three provinces (Labourd, Lower Navarre, and Soule) in the French Department of Pyrénées-Atlantiques.

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7 Are family firms more locally embedded than non-family firms?

Findings from the finnish context

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Introduction

The important contributions of family firms to the employment growth, gross domestic product, and innovativeness of both nations and regions is widely recognized (Astrachan & Shanker, 2003; Block & Spiegel, 2013). Hence, the growth of research concerning family businesses is not surprising and, consequently, neither is the progressive legitimacy that these organizations have gained among academicians, practitioners, and policymakers (Rodríguez & Basco, 2011). However, while existing research has focused on explaining the paradox of two highly intertwined domains—namely the family and the business—being able to shape firm behavior and its consequence on firm outcomes, the family business debate has overlooked the role of the geographical space in which the economic activity takes place (Basco, 2015). While, until the 1970s, space was mainly conceived in physical terms (i.e., as existing irrespective of any objects or relationships, space as a "container"), the concept of "relational space" (i.e., space as created by and consisting of a set of relationships among economic actors) has become the most influential paradigm in both economic geography and regional studies (Capello, 2016). According to this view, space arises as an independent productive factor and can be a source of both static (e.g., higher productivity) and dynamic (e.g., enhanced innovation capabilities) advantages (Capello & Faggian, 2005; Parr, 2002) and also the basin of social influence for corporate decisions (Lähdesmäki, Siltaoja, & Spence, 2019).

The relational view interprets space in terms of "social space" or networks of relationships (Dicken & Malmberg, 2008) in which economic actors arise not as separate agents but rather as participants in a flow of actions and interactions with the economic activity that is "embedded in concrete, ongoing systems of social relations" (Granovetter, 1985, 487). As opposed to traditional and sociological interpretations (Granovetter, 1985, 2005), the concept of embeddedness has attracted growing interest in both economic geography (Hess, 2004) and regional studies (Cooke, Clifton, & Oleaga, 2005), wherein it has been fundamentally conceived in spatial terms. The emphasis is now placed on the social nature of economic processes and their

manifestation in territorial bounded areas (e.g., regions). According to this view, to be embedded is the firm ("who") in the community networks and institutional settings ("what") with local networks and localized social relationships that arise as the spatial logic of embeddedness (Hess, 2004; Kalantaridis & Bika, 2006). In light of this, "local embeddedness" can be defined as the nature, depth, and the extent of a firm's ties to the local social and economic environment.

However, it is reasonable to assume that not all firms distinguish themselves by having the same level of embeddedness in their socio-economic *milieu*. In other words, there may exist different types of firms with varying anchoring in territories—i.e., different kinds of firms may reflect varying intensities with which they absorb and engage in, and in some cases become constrained by, the economic activities and social dynamics of these places (Oinas, 1997). From this perspective, the local embeddedness of family and non-family firms may differ because the former are generally regarded as being inextricably tied, physically, socially, and emotionally, to the territories in which they are located (Basco, 2015). In addition, the quality and depth of social connections they establish with the local community are deemed to be instrumental in keeping a family's control over a firm's operation and ownership, for perpetuating the family dynasty, and, last but not least, for sustaining family image and reputation across time (Naldi, Cennamo, Corbetta, & Gomez-Mejia, 2013).

While local embeddedness has traditionally been the main paradigm used to examine the unique way family firms and geographical space interact (Backman & Palmberg, 2015; Bird & Wennberg, 2014), existing research has not empirically proven *whether* and *to what extent* family firms are more locally embedded than their non-family counterparts. In order to address this research gap, we relied on micro-level data of Finnish firms. The Finnish case provides important insights as it allows us to make a detailed analysis of local embeddedness of family firms. It further provides us an opportunity to assess the relationship in a country characterized by large regional differences and where family firms make a large contribution to the overall economy (Statistics Finland, 2017). In particular, we employed two different and complementary measures of local embeddedness—the place tenure and the geographical distance between multiple and influential stakeholders at ownership, managerial, and organizational levels (i.e., CEOs, owners, managers, non-managers/employees, chairpersons, and other board members) of the local firm. Our results show a positive association between the family nature of the firm and the degree of local embeddedness across different types of stakeholders. Thus, the paper shows, through both descriptive statistics and regression analysis, that stakeholders in family firms tend to be more locally embedded, through both place tenure and shorter distance to their local firms, compared to stakeholders in non-family firms. All stakeholders, except the owners of the firm, have a greater level of embeddedness in terms of place tenure, if they are part of a family firm. The same is true with regard to

the shorter distances of family firms' stakeholders such as employees of the firms and the chairperson. Of all the stakeholders, the chairperson stands out and tends to be more locally embedded in family firms.

This chapter contributes to the existing literature in several ways. First, for family business studies, we provide further evidence about the micro-territorial foundation of family firms. While the study of the interrelationship between family and business systems has traditionally represented the main area of interest in the investigation of the family firm phenomenon, it is only recently that an outward perspective, that is, one looking at the "family-firm territory nexus," has gained growing interest (Basco, 2015). Second, to regional studies; by emphasizing the spatial dimension of embeddedness (Hess, 2004), our chapter offers new evidence about the association between the family nature of the firm and the degree of anchorage of the firm in its home territory. Family firms arise as peculiar regional actors that are distinctly affected by and able to influence the geographical space in which both the economic activity of the firm and the social life of the family take place.

Finally, our contribution has policy-making implications. Recognizing the existence of long-lasting, pervasive, and socially influential local actors such as family firms is deemed instrumental for enhancing the effectiveness of regionally-based strategies and implementation structures in support of the competitiveness of territorial innovation models (TIM) as well as local production systems (e.g., industrial districts, business clusters), the promotion of local entrepreneurship, and the correction of regional disparities. In particular, including family business dimensions in public policy would mean tailoring family-oriented policy interventions aimed at fostering their survivability and longevity, firm growth, innovation, internationalization, and entrepreneurship among others, which the economic development of a given region or locality ultimately depends on.

Theoretical background

In the analysis of firms across space, the concept of firms' heterogeneity—that is, the acknowledgment of a firm's internal characteristics affecting its outcomes in conjunction with the regional context in which the firm itself is embedded—has attracted growing interest (López-Bazo & Motellón, 2018). The increasing availability of fine-grained data at the micro and macro levels has allowed the estimation of, among other things, the impact of spatial economic and socio-institutional differences on a firm's innovation capability (Beugelsdijk, 2009) and efficiency (Aiello, Pupo, & Ricotta, 2014; Fazio & Piacentino, 2010). Among the sources of firm heterogeneity, the family nature of the firm stands out as a pivotal attribute in explaining the distinctive behavior of some organizations across regional contexts (Baù et al., 2018) and the extent to which particular types of firms are affected by (Dekker & Hasso, 2016) and able to influence the wider socio-spatial environment (Block & Spiegel, 2013) in which they dwell.

Family firms stand out as enduring economic actors that are characterized by the strong historical, cultural, and social connections with the community in which they are located (Bird & Wennberg, 2014). The social relationships among family members—which are built on the basis of trust, reciprocity, identification, and obligations—usually spread out from a family firm's boundaries (Adjei, Eriksson, & Lindgren, 2016), permeating the way these businesses develop and nurture social ties that, because of geographic boundaries, become "territorialized" (Rutten, Westlund, & Boekema, 2010). In exploring the micro-territorial foundations of family firms, the local embeddedness has been widely advocated as the foundation of the unique way these organizations and the territories in which they are located interact (Stough et al., 2015). That being said, understanding family firms' local embeddedness requires unveiling what makes these organizations so strongly anchored to their home territory and which are mainly attributable to their strong territorial identity (Capello, 2018; Pallares-Barbera, Tulla, & Vera, 2004) and economic integration at the local level (Courtney, Lépicier, & Schmitt, 2008; Kalantaridis & Bika, 2006).

The territorial identity of family firms has its first source in what is generally known as "similarity," that is, common and shared values, traditions, culture, and language prevailing in a particular local milieu (Capello, 2018). Similarity is generated by ongoing historical and social actions in which the family, as an enduring, pervasive, and influential institution, performs a crucial role in their formation (Soleimanof, Rutherford, & Webb, 2018). Because of their historical roots, long-term orientation, and social ties with their communities, family firms are able to influence both political processes (i.e., formal institutions) (Craig & Moores, 2010) and the establishment of norms, values, and codes of conduct (i.e., informal institutions) (de Blasio & Nuzzo, 2010).[1] These institutions, that prescribe the appropriateness of certain societal behaviors (North, 1991) and that regulate the interaction of economic actors become "crystallized" in the local and regional setting. They are deemed to shape the internal characteristics of a given territory (Pallares-Barbera et al., 2004) and to guarantee the reproduction of a "collective regional consciousness and a shared sense of belonging to a place" (Capello, 2018, 143). In addition to a symbolic meaning, as reflected in the institutionalized patterns influencing the way and the extent to which actions are coordinated, the territorial identity can be attributed a patrimonial value (Pollice, 2003). In particular, territory becomes a *locus* of highly recognizable and local-specific products and, hence, an important site of meaning and identity construction for current and future family members.

The recognition of the product as being family business heritage—whose knowledge, traditions, and production methods are handed down each generation—and the perception of the family—whose status and reputation stem historically from the success of the business—result in these factors being inextricably linked with the territory, forming a background wherein the entrepreneurial dynasty is regenerated over time (Jallinoja, 2017; Smith, 2016). Moreover, similarity results in a sense of "solidarity" toward the

territory where both the owning family and the firm are located. Solidarity, which refers to a sense of togetherness and anchorage to the territory, manifests in concrete social actions in support of the local community (Capello, 2018). The strong desire to develop and preserve the positive reputation and legitimacy of the family business from external and non-family stakeholders leads these organizations to engage in philanthropic activities (Campopiano, De Massis, & Chirico, 2014) aimed at supporting scientific, educational, religious, and healthcare institutions, among others (Feliu & Botero, 2016). From this perspective, it is quite common for a foundation to be created, generally bearing the name of the founder or the owning family, as a vehicle tasked with the coordination of local community-oriented initiatives (Lähdesmäki & Takala, 2012). Additionally, the feeling of attachment to a given local area strongly influences the investment strategies of family firms, whose evaluation incorporates the issues, concerns, and expectations of physically and socially proximate stakeholders (Mitchell, Agle, Chrisman, & Spence, 2011).

In this regard, it has been shown that family businesses have better environmental performance than non-family counterparts, and these difference are even more remarkable when family firms are more locally embedded (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Dekker & Hasso, 2016).[2] From a socio-emotional perspective, because at the local level the distinction among family and firms becomes more blurred, "social monitoring of family owners is strengthened, and the likelihood of enforcing social sanctions increases" (Berrone et al., 2010, p. 91). Hence, local roots deeply influence family firms' behavior in terms of the preservation of the family's status and the quality of valuable and location-specific social ties, which would be irreparably damaged in the case of socially irresponsible actions (Amato, 2019).

Along with identification with the territory, a strong level of local economic integration stands out as a complementary element of the foundation of local embeddedness of family firms. This refers to the extent to which a given firm relies on the local context as a source of labor, materials, and a market for final output and information (Courtney et al., 2008). Family firms depend heavily on the local setting as a source of generic and strategic inputs with local contextual factors and circumstances that, therefore, may strongly influence their behavior, survival, and competitiveness (Backman & Palmberg, 2015). The attributes and historical background of the family appears to be crucial for the intensity—expressed in terms of duration, frequency, and monetary value[3]—of the firm carrying out its economic transactions locally (Kalantaridis & Bika, 2006). A firm's headquarters corresponds typically with the place the founder was born, where the business venture started, and where the entrepreneurial dynasty is continuously nourished (Pallares-Barbera et al., 2004). This link, which is physical, emotional, and socioeconomic, is rarely severed; rather, it becomes the socio-spatial platform from which new growth paths, mainly through

expansion in extra-local/regional markets, begin (Kontinen & Ojala, 2012; Amato, Basco, Backman & Lattanzi, 2020).

By virtue of their historical connections with a given place, family firms are in a position to adhere to and influence the establishment of a set of common habits, routines, established practices, and value of conducts prevailing in the socioeconomic *milieu* (Pallares-Barbera et al., 2004); to develop a common knowledge base and expertise characterizing the local area (De Massis et al., 2016); and to build trust-based and reciprocal relationships with physically proximate local actors (Stough et al., 2015). This, in turn, "facilitates contacts, improves bargaining capacity, and attracts and maintains favorable conditions for the firm" (Pallares-Barbera et al., 2004, 648). This is deemed to explain performance divergences among family and non-family firms in more remote regions, such as rural areas (Backman & Palmberg, 2015; Baù et al., 2018; Greenberg, Farja, & Gimmon, 2018), and local production systems, such as industrial districts (Cucculelli & Storai, 2015) and business clusters (Pucci, Brumana, Minola, & Zanni, 2017), whereby family firms tend typically to exhibit stronger economic integration in the locality (Amato, Basco, Gomez-Anson, Lattanzi, 2020; Courtney et al., 2008). What's more, proximity dimensions become crucial for acquiring tangible and intangible resources and, hence, for competing successfully (Boschma, 2005). Finally, the strong local roots of family firms are found to shape the competitiveness of the region itself. By aggregating the collective actions of family firms, current empirical evidence shows how the regional innovation output is related to the density of family firms present in that region (Berlemann & Jahn, 2016; Block & Spiegel, 2013).

Therefore, given the aforementioned arguments, we posit the following hypothesis:

> Hypothesis: *Being a family firm is positively associated with the degree of local embeddedness.*

Empirical design

Data and variables

In order to empirically analyze how the ownership of a firm—where we distinguish between family and non-family firms—relates to its local embeddedness, we used register data from Statistics Finland covering the years from 2006 to 2014. The data has restricted public access as it allows for detailed analysis by providing information about the firm, its employees, CEO, managers, and also the connection to other important stakeholders such as the chairperson and other board members. It is further possible to assess information at the individual level regarding where the different stakeholders live and work. The data are longitudinal, which means that we can track individuals and firms over time. By combining information about

the individual and the firm, we built several measures that capture the local embeddedness of the different stakeholders.

First, local embeddedness is measured as *place tenure,* which refers to the number of years an individual has lived in the same municipality as the local firm. The second measure entails the geographical distance between the stakeholder and the local firm—that is, *distance to firm*—measured in kilometers. To capture local embeddedness from a wider perspective, both place tenure and the distance to the firm were calculated for each firm stakeholder. We used several stakeholders engaged in a firm through management, ownership, and at the organizational level, who are important for the firm's development: (i) the CEO, (ii) the owner, (iii) other managers, (iv) non-managers, that is, employees, (v) the chairperson of the board, and (vi) other board members. Thus, we get a composite measure of local embeddedness with 12 indicators in total, each corresponding to different categories of stakeholders for both place tenure and distance to the local firm.

In order to differentiate family firms from non-family firms, we used the Finnish Longitudinal Employer-Employee Data (FLEED) combined with data from the Population Register Centre. For the purpose of differentiating firms' family ties, information on each individual's spouse and matches between children to their parents was utilized. By using this, we identified the parents of the lion's share of the individuals in the working population and also many of the grandparents. The family ties were used to identify family firms. Data accessed through the FLOWN (Finnish Longitudinal Owner-Employer-Employee Data) database further allowed us to assess the ownership structure of each firm where the individual data could be matched to the ownership data, thus enabling us to identify who owns different shares of a firm. Family firms are, in this chapter, defined as firms where the majority of the owners belong to the same family, following (Litz, 1995; Villalonga & Amit, 2006). Families are defined as individuals, who (i) own shares of the firm either directly or indirectly, are (ii) connected by family ties, and (iii) jointly own the highest share of the firm, compared to other individuals. For detailed information about the construction of the variable, please see Peltonen (2018). To distinguish the different firms, a binary variable was used, denoted "1" for family-firms and "0" for non-family firms.

In the empirical estimations, we control for the basic firm and municipal features that influence the local embeddedness of individuals: firm age, firm size in terms of number of employees, financial development in terms of turnover and total assets, whether the firm is part of a multi-establishment firm, and the size of the municipality. The following table presents the descriptive statistics for the variable of interest (local embeddedness), divided into family and non-family firms (Table 7.1).

The descriptive statistics for local embeddedness separated into family and non-family firms show a coherent picture where the former are more locally embedded compared to the latter. Family firms have a higher level of place tenure—i.e., all the different stakeholders have lived in the same municipality as the local firm for a longer time—compared to their non-family

counterparts. In some cases, there are significant differences. For example, the average years a chairperson in a family firm has lived in the same municipality is 12.6 compared to 10.5 for the chairperson in non-family firms. In relation to the distance to the local firms, we observe the same pattern where stakeholders in family firms have on average a shorter distance to their firm compared to stakeholders in non-family firms. Based on the embedded measures used in this chapter, we find that family firms are more locally embedded than non-family firms in terms of their stakeholders. The relationship between local embeddedness and firm performance is something that has been discussed in previous studies (Backman & Palmberg, 2015; Baù et al. 2018; Bird & Wennberg, 2014). It should be noted that there is a large variation in both the place tenure and distance to local firms among stakeholder, regardless of ownership structure, as indicated by the large standard deviations.

In relation to firm-specific characteristics, family firms are on average older and larger compared to non-family counterparts. That the firms are older can naturally lead to stakeholders having greater embeddedness in terms of place tenure. This is reasonable since we measured the number of years the individual has lived in the same location as the firm. Older firms that have not changed location thus enable a person to live longer in the same location as the firm and for the person to be engaged in the firm for a longer period of time compared to a younger firm.

Table 7.1 Summary statistics of the focus variables of local embeddedness in family and non-family firms

	Family firms		*Non-family firms*	
Variable	*Mean*	*St.dev*	*Mean*	*St.dev*
Place tenure				
CEO, place tenure	13.06	7.37	11.99	7.49
Owner, place tenure	12.10	6.51	11.86	6.92
Managers, place tenure	11.89	7.31	10.65	7.30
Non-managers, place tenure	10.35	5.92	9.85	6.13
Chairman, place tenure	12.63	7.73	10.51	8.14
Other board members, place tenure	12.59	7.07	11.85	7.22
Distance to focal firm				
CEO, distance to focal firm	22.72	58.62	27.49	62.70
Owner, distance to focal firm	28.31	59.54	30.15	62.86
Managers, distance to focal firm	26.62	54.76	32.37	59.83
Non-managers, distance to focal firm	31.59	53.05	35.74	58.24
Chairman, distance to focal firm	26.44	70.13	38.09	81.23
Other board members, distance to focal firm	26.58	62.61	29.76	64.48
Firm age	16.79	12.93	11.97	10.37
Firm size	11.60	75.88	7.39	36.59

Note: *, **, and *** indicates significance at 5%, 1% and 0.01%. Errors clustered at the firm level.

Empirical model and results

The descriptive statistics show that stakeholders in family firms are on average more locally embedded. In addition, they show that family firms are on average older, which, in fact, could enable the stakeholders of the firm to be more rooted to the territory, as measured through place tenure. Thus, there seem to be factors associated with family firms that relate to the level of local embeddedness. In the next step, we therefore perform a random effects estimation to capture whether stakeholders in family firms are more embedded, controlling for firm and location specific effects. The estimations performed are described in Equation 1.

$$Loc.\ emb_{i,\,t} = \alpha + \beta_1 Family\ \ firm_{i,\,t} + \gamma X' + Year_t + Industry_{i,\,t} + u_{i,\,t} + \varepsilon_{i,t} \tag{1}$$

Here $Loc.\ emb_{it}$ is the local embeddedness measure for both place tenure and distance to their respective local firm for all six stakeholders; there are 12 variables in total. $Family\ \ firm_{it}$ is a dummy variable that is "1" for family firms and "0" otherwise. X' is a vector that captures the control variables at the firm and municipal level. β_1 and γ are the parameters to be estimated. $Year$ captures the fixed effects for the different years (2006 to 2014) and *Industry* controls for the 2-digit industry codes of the firm. u_{it} is the between-entity error and ε_{it} is the within-entity error. Standard errors are clustered at the firm level.

Having access to panel data allows us to explore the data in more detail compared to using a cross-section or a time-series model. Normally, when using panel data, a fixed or a random effects model is used. An advantage of the random effects model in our case is that it allows us to add time-invariant variables that would otherwise be captured by the individual/firm fixed effects. In this case, the family structure—that is, being a family firm—is normally something that does not change over time, and by using a fixed effects estimation, only the firms that change ownership structure would be captured in the estimations. Because we are interested in the differences between family and non-family firms, it is more appropriate to use the random-effect model. There are also disadvantages to choosing the random effects model over the fixed effects one; one such issue is omitted variable bias, as you need to control for the aspects that are time invariant as they are not captured by the fixed effects. We added several control variables to mitigate the problem of omitted variable bias.

The following tables show the results of how the ownership structure of firms influences the local embeddedness of different stakeholders. Table 7.2 gives the results for the place tenure while Table 7.3 presents the findings in relation to local embeddedness, defined as distance to local firms. The number of observations change across the different models due to missing values when measuring local embeddedness for some of the stakeholders.

Table 7.2 Empirical findings: random effects model by using place tenure as dependent variable

	CEO	*Owner*	*Management*	*Non-management*	*Chairman*	*Other board members*
Family firms	0.195***	−0.317***	0.241***	0.172***	0.680***	0.141***
	(0.043)	(0.039)	(0.055)	(0.026)	(0.057)	(0.038)
Firm age	0.067***	0.064***	0.071***	0.077***	0.054***	0.064***
	(0.002)	(0.002)	(0.003)	(0.002)	(0.003)	(0.002)
Number of employees	−0.001	−0.002*	−0.001*	−0.001	−0.001	−0.002*
	(0.001)	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)
Turn over (log)	−0.129***	−0.098***	−0.150***	−0.548***	−0.039	−0.121***
	(0.017)	(0.013)	(0.032)	(0.014)	(0.023)	(0.014)
Total assets (log)	−0.036*	−0.039**	−0.236*	−0.210***	−0.094***	−0.040*
	(0.017)	(0.013)	(0.030)	(0.013)	(0.024)	(0.014)
Number of establishments	0.117*	0.118*	−0.000	0.046**	0.083	0.118*
	(0.051)	(0.047)	(0.007)	(0.051)	(0.046)	(0.047)
Municipal size	0.001***	0.000***	0.001***	0.001***	0.001***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year control	YES	YES	YES	YES	YES	YES
Industry controls (2-digit level)	YES	YES	YES	YES	YES	YES
N	*431,058*	*608,782*	*600,412*	*268,396*	*268,396*	*603,447*

Table 7.3 Empirical findings: random effects model by using distance to the local firm as the dependent variable

	CEO	*Owner*	*Management*	*Non-management*	*Chairman*	*Other board members*
Family firms	−0.147	1.332***	−0.782	−0.742*	−4.754***	−0.279
	(0.392)	(0.386)	(0.478)	(0.276)	(0.644)	(0.372)
Firm age	−0.525***	−0.490***	−0.587***	−0.536***	−0.551***	−0.498***
	(0.019)	(0.018)	(0.023)	(0.014)	(0.027)	(0.018)
Number of employees	0.005	0.009	0.003	0.008	0.003	0.007
	(0.005)	(0.005)	(0.004)	(0.006)	(0.005)	(0.005)
Turn over (log)	−0.269	−0.226	−0.362	1.544***	−0.194	−0.160
	(0.164)	(0.133)	(0.0320)	(0.152)	(0.255)	(0.0146)
Total assets (log)	0.179	0.464***	2.035***	1.346***	1.057***	0.439**
	(0.165)	(0.0132)	(0.294)	(0.140)	(0.266)	(0.146)
Number of establishments	−0.915*	−1.226*	0.076	−0.410*	−1.020*	−1.063*
	(0.449)	(0.555)	(0.078)	(0.187)	(0.517)	(0.495)
Municipal size	0.005***	0.006***	0.004***	0.005***	0.007***	0.006***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)
Year control	YES	YES	YES	YES	YES	YES
Industry controls (2-digit level)	YES	YES	YES	YES	YES	YES
N	*431,058*	*608,782*	*177,436*	*600,412*	*268,396*	*603,447*

Note: *, **, and *** indicates significance at 5%, 1% and 0.01%. Errors clustered at the firm level.

We can confirm the previous findings from the descriptive statistics where most stakeholders in family firms overall had greater local embeddedness compared to stakeholders in non-family firms. The results hold also when controlling for firm-specific characteristics where the age of the firm might be particularly important as a control variable. All stakeholders have a greater level of local embeddedness if part of a family firm, in terms of place tenure, except the owner of the firm. This is an interesting and also rather surprising finding as the owner of family firms is often a person that belongs to the family. The results indicate that the owners of family firms are less locally embedded in terms of place tenure compared to those of non-family firms. One reason for this could be generational shift in family firms where the new owner could have a lower local embeddedness if he/she has lived somewhere else before the ownership shift.

The positive association between being part of a family firm and the local embeddedness of the stakeholders can be derived from several different factors. One aspect is the historical roots of family firms that relate to their probability of operating mainly locally and thus being embedded in the local *milieu* (Amato, 2019; Kalantaridis & Bika, 2006). One example is their strategy in competence development and hiring where a strategy to be more local would lead to more employees, managers, and board members being hired from the local community. The ability of members in family firms to build strong and long-lasting relationships, as noted by Stough et al. (2015), is a key component in being locally embedded. The local embeddedness can in turn shape the competitive advantage of the firm (Pallares-Barbera et al., 2004). Another factor that builds the local embeddedness among stakeholders in family firms is if the firm is founded and run in the same location where the firm founder was born (Pallares-Barbera et al., 2004).

Comparing the different stakeholders, the magnitude of the coefficient for the chairperson stands out, as it is much larger compared to the other values and, in most cases, is triple the size. Thus, it seems that the chairpersons of family firms have a much stronger local connection compared to other types of firms.

It is interesting to observe the negative association between family firms and the owner as this indicates that the owners in family firms have lived a relatively shorter time period in the same municipality as the firm, compared to owners of non-family firms. Based on the previous theoretical section, one would assume a positive association. As the owners in family-firms are, according to our definition, family members, one would assume that they would be more locally embedded. One possible explanation is that families also capture marital links where spouses are considered as family. Spouses have a higher probability of being born and having lived outside the municipality the local firm is located in and are, in many cases, part of the team that owns the firm.

The results in Table 7.2 also highlight the possibility of reverse causality. It might also be that family firms are less able, compared to non-family counterparts, to attract stakeholders from outside their own municipality. Family

firms might actively engage in activities to recruit and attract stakeholders from outside but are less successful in this endeavor as they might not be perceived as attractive employers by individuals outside of the family. If this is the case, local embeddedness might act as a hindrance for family firms to grow and develop and to get new insights from external stakeholders. Thus, local embeddedness and being a family firm will, in this case, act as lock-in effect.

In the next table, the results for local embeddedness defined as distance to the local firm are presented.

The same patterns that were found for local embeddedness in terms of place tenure are not mirrored for the distance measure. In this case, we only find a significant relationship between being part of a family firm and local embeddedness in three out of the six measures. For employees that are not managers in the firm and for the chairperson of the firm, being part of a family firm increases their local embeddedness. The negative association between the family firm dummy translates into a shorter distance between the stakeholder and the firm, and hence a greater local embeddedness. On the other hand, for the owner of the firm, we once again find that being part of a family firm decreases the local embeddedness of the individual.

When analyzing the control variables, we observe that older firms increase the level of local embeddedness for each of the stakeholders. This is an expected finding as the age of the firm also affect how long a stakeholder can be locally embedded in terms of place tenure. The relationship between the size of the firm, in terms of employees, and local embeddedness is less clear and is only positively and significantly related to local embeddedness in a few estimations. The financial size of the firm, in terms of turnover and total assets, lowers the local embeddedness of the stakeholders. This can be viewed as supporting evidence for the argument that there is selectivity in how successfully different firms are able to attract stakeholders external to the local community. More successful firms are plausibly more able to attract individuals from different regions as they are seen as an attractive possibility and people will be willing to move to the firm, and hence lower the local embeddedness of the different stakeholders. Being part of a multi-establishment firm increases the local embeddedness of the stakeholders as employees have not only more options to change positions within the firms but also across establishments and through this find new career paths. The size of the municipality seems to be weakly related to the local embeddedness of stakeholders.

Conclusion

Examining the relationships between family firms and territories, or "family firm-territory nexus," using an outward perspective, has only recently begun to attract interest in the field of family business studies. Family firms, like other types of firms, are intrinsically territorial—that is, their operations take place in spatially bounded areas. But, differently from their non-family counterparts, the territory is more intensively local for family-led businesses

in such a way that these economic actors, due to physical, emotional, and socioeconomic attachments, are uniquely affected by and able to influence the local *milieu* in which they dwell. In particular, the firm's embeddedness in spatial structures of social relationships—i.e., local embeddedness—has been advocated as the foundation of the micro-territorial perspective of family businesses. While previous studies have shed light on the distinctive conditioning of local embeddedness on family firms' decisions (Dekker & Hasso, 2016) and sources of differential performance as compared to non-family counterparts (Baù et al., 2018), the current literature is somewhat silent on *whether* and *to what extent* family firms are more locally embedded than non-family counterparts.

By relying on a large dataset of Finnish firms, we explore the association between the family nature of the firm and local embeddedness, as expressed in place tenure and the spatial distance, of six different categories of influential stakeholders of the firm. Our results reveal that stakeholders tend to reside for a longer period of time in the same place as local family firms, which, hence, rely greatly on more persistent and geographically proximate stakeholders. Thus, family firms are more locally embedded where the chairperson of the family firm tends to be a relevant link with their home-territory. Additionally, our findings show a negative association between family firms' status and spatial distance, with some categories of stakeholders unveiling the higher responsiveness of family firms to geographic distance in the availability of resources (i.e., labor and directorial skills and capabilities) provided by some stakeholders (i.e., workers and chairperson). These two results, taken together, reveal how family firms, as compared to their non-family counterparts, are more embedded in the local setting.

Our book chapter contributes to the convergence efforts between regional and family business studies. While family business research has traditionally overlooked the regional context in which the economic activity of the firm and the social life of the family take place, the interaction between family firms and territory is steadily emerging as a piece missing in the comprehension of family firms' distinctiveness (Basco, 2015; Stough et al., 2015). For family firms, region arises not only as a socio-spatial platform to which they are functionally and economically bonded, but also as symbolic and emotional constructs inside of which these organizations evolve across generations. Therefore, introducing the "locality" in the study of family firms would account for the existence of sets of physical, social-institutional, and historical attributes that mesh with the attributes of both family and firm. On the other hand, for regional studies, the recognition of family firms enables investigations in the role of space as an independent production factor and generator of distinctive static and dynamic advantages for the firms located inside.

Finally, our book chapter has relevant public policy implications. First, as the study shows a substantial reliance of family firms on particular stakeholders, any "dis-embedding" event de-anchoring the firm from its own territory may potentially undermine the conditions of longevity and growth. This dis-embedding might be a result of the cooling of family ties, due to

generational transfers or, even worse, the presence of factors preventing intra-family succession, among others. From this perspective, the introduction of taxation relief in cases of inherited business transferring or tax allowances for the purchase of management consulting services needed for successful succession planning, may be extremely useful for the improvement of the legal and institutional contexts of family firms. Second, since our results reveal that family firms are more susceptible to geographic distance and spatial variation in the availability of essential resources, mainly labor and management skills, any policy-making interventions should be directed at correcting the qualitative and quantitative imbalances in the geographical distribution of the aforementioned resources. In fact, given the importance of family firms as both absolute (that is, in terms of the total number of operating businesses) and relative (that is, in terms of contribution to the GDP and economic well-being), the proper endowment of productive factors at both regional and local levels appears to be crucial for their competitiveness and, ultimately, survival.

While our chapter represents one of the first attempts to analyze in a systematic and detailed way whether and to what extent family firms differ in their local engagement and how anchored they are, future research should further investigate the role of local embeddedness in the exploitation of spatial advantages as reflected in higher productivity (i.e., static advantages) and innovation capabilities (i.e., dynamic advantages) of family firms. The embeddedness of family firms may result in a unique network position at the local level, potentially influencing the acquisition and exploitation of a spatially bounded flow of knowledge and information (i.e., local knowledge spillovers) that, in turn, affect their performance. Additionally, as our study uses administrative borders (i.e., municipalities) as geographical levels of analysis, future studies should investigate local embeddedness in settings such as local production systems (e.g., industrial districts and business clusters) wherein the strong territorial identity and high level of economic integration are deemed to play substantial roles in the behavior and competitiveness of family firms and in the evolution of the locations themselves. Finally, even though local embeddedness has been tested at the micro-level, an interesting future research avenue would be to aggregate the collective actions of family firms, that is, to adopt a macro-level of analysis, in order to test whether attachment to the region in which they are located results in a source of resilience of the region itself when adverse events (e.g., recessionary shocks, natural disasters) occur.

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Notes

1 In his seminal contribution, North (1991) defined institutions as "humanly devised constraints that structure political, economic and social interaction"

(p. 97). They consist of formal rules (constitutions, law, and property rights) and informal constraints (sanctions, traditions, rules of conduct) that, throughout history, "have been devised by human beings to create order and reduce uncertainty in exchange" (p. 97).

2 Berrone et al. (2010) operationalized local embeddedness (referred to as "local roots") as the average distance of a firm's subsidiary from its headquarters by supposing that companies with subsidiaries closer to their main office would be more deeply embedded in their community than those with remote subsidiaries. Conversely, the measure of embeddedness employed by Dekker and Hasso (2016), that is, the local area as main market of the firm, is similar to one of the dimensions (i.e., percentage of sales accorded to the local/region) of the composite measure of local economic integration proposed by Kalantaridis and Bika (2006).

3 While *duration* and *frequency* are respectively related to the mean numbers of years since the establishment of the relationship and the mean number of annual interactions with a given local actor (Kalantaridis & Bika, 2006), the *monetary value* refers to the average amount of financial resources involved in trades that have taken place locally. However, not all the local interactions have a monetary value that results in a financial inflow or outflow. There can also be knowledge and information flowing freely within the local *milieu* and which, therefore, can be exchanged among local actors (i.e., knowledge spillovers).

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8 Family firms and corporate responsibility in peripheral regions

Martin Graffenberger and Franziska Görmar

Introduction

Research on family firms has traditionally focused on the analytical distinction between them and non-family firms, implying, amongst others, differences in terms of demographic, structural, and behavioural dimensions (Basco, 2015). While family firms, like any economic agent, pursue pecuniary goals, non-financial goals are important aspects of their strategic agendas (Aparicio, Basco, Iturralde, & Maseda, 2017). Specifically, long term orientation of strategic decisions (Bird & Wennberg, 2014; Zellweger, Chrisman, Chua, & Steier, 2019), responsibility for employees and communities (Campopiano, De Massis, & Chirico, 2014; Gallo, 2004), and sensibility towards aspects of social status and reputation (Chrisman, Chua, Pearson, & Barnett, 2012) appear as distinct attributes of family firms' business practices to mediate economic and non-economic goals.

The aforementioned attributes help explain why family firms exhibit high degrees of local embeddedness (Baù, Block, Cruz, & Naldi, 2017; Stough et al., 2015). Embeddedness creates linkages between firms and their diverse contexts and, thereby, functions as an essential lever to facilitate and channel regional development dynamics regarding both economic and non-economic aspects (Pike, Langendijk, & Vale, 2000). Given that around 90% of businesses in Germany are family firms, accounting for 58% of private employment and 52% of aggregate turnover, and that many of them are of considerable size (Stiftung Familienunternehmen, 2019), family firms are a crucial determinant of regional development processes (Basco, 2015). However, there is a lack of research on interpreting and understanding the role they play in local economic and social development (Baù et al., 2017; Lengauer & Tödtling, 2010). Because the nexus between family and regions still requires further research (Basco, 2015; Stough et al., 2015), we aim at offering insights on wider community-related and societal implications by considering regional engagement and philanthropic activities through the lens of corporate local and regional responsibility (CLRR). That is, we attempt to shed new light on the following research question: *How and why do firms take responsibility for their local communities?*

The empirical material, gathered as part of a wider research project, relates to the so-called "Hidden Champions" located in small towns in peripheral regions in Germany. Hidden Champions, firms that are market leaders in specific product segments, are regarded a suitable example to study corporate responsibility as they typically possess sufficient resources for engagement, tend to exhibit a high degree of local embeddedness, and are mostly family controlled (Vonnahme, Graffenberger, Görmar, & Lang, 2018). There are three main stylised facts that guide our focus on firms located in small towns in peripheral regions. First, small towns are a central part of the German settlement system but face particular development challenges. Second, research has neglected to focus the attention on them (Academy for Spatial Research and Planning, 2019; Bell & Jayne, 2009). Finally, in the German context, successful and innovative firms are frequently located in small towns.

In this chapter, we examine three companies located in two peripheral small towns in Germany – Bad Berleburg in North Rhine-Westphalia (headquarters of two family-owned Hidden Champions) and Schierling in Bavaria (headquarters of one management-led Hidden Champion). We selected the cases based on company specifications such as firm size and (changes in) the nature of firm ownership as well as the location and size of the towns where they dwell. Furthermore, the selected case firms reflect variance regarding their ownership structures, by recognising both long-lasting family ownership and the transition from family to non-family ownership with subsequent integration into an international family holding.

We find that successful and locally embedded companies are generally willing to provide substantial resources for community purposes, in particular regarding local/regional cultural, social, and educational matters. Engagement is coupled with diverse firm interests such as securing human resources by maintaining and increasing the attractiveness of place and region. Hence, these activities can have pronounced effects on small-town development, especially as the spatial focus of engagement is mainly on the immediate firm environment. The actions of locally embedded companies constitute a substantial supplement to the activities and investments of municipal and civil society actors and, thereby, open room to manoeuvre and to shape local and regional structures. All selected firms, regardless of their ownership nature and structures, are engaged in corporate giving and corporate volunteering activities.

However, our findings indicate that ownership structures may affect both scope and intensity of community engagement. Family firms are particularly involved in comprehensive and strategic activities, such as steering group membership of local initiatives or participation in municipal strategy processes. This comprehensive engagement is driven by a sense of obligation and is coupled with efforts to generate returns for the local community – i.e., beyond mere economic returns. Since the firms' decision-makers grew up and still live locally, socio-emotional place attachment emerges as a distinct driver of firm engagement. Consequently, our study allows the

further differentiation of previous findings on the interrelations between firm engagement and ownership structures (e.g., Bürcher, 2017; Lengauer & Tödtling, 2010). We observe that while family involvement seems to affect the tendency of a firm to engage in corporate support activities (long-term orientation), sponsoring and volunteering activities are common in any firm regardless of its ownership structure.

Theoretical framework

Family firms and embeddedness

Regional embeddedness is about the involvement of (economic) actors in a geographically bounded social structure (Granovetter, 1973; Hess, 2004) whereby these actors become tied to spatial contexts (Pike et al., 2000). Through embeddedness, these actors shape the economic as well as societal dynamics of places and regions (Hess, 2004). Hence, embeddedness reflects the firm-place nexus and constitutes an integral part of local and regional development beyond its economic dimension (Bürcher, 2017). In economic terms, embeddedness relates not only to transactions with regional suppliers, sub-contractors, and customers; integration in regional networks and intra-regional competition but also access to technology, human resources, and regionally specific knowledge (Clifton, Gärtner, & Rehfeld, 2011; Lengauer & Tödtling, 2010). In social and cultural terms, embeddedness surfaces in linkages to local/regional administrative, intermediate, and civil society stakeholders (Baù et al., 2019; Bird & Wennberg, 2014; Bürcher, 2017) and a firm's integration into regional cultures, manifested in collective values, norms, and symbols (Clifton et al., 2011; Dequech, 2003). Thus, embeddedness facilitates the mobilisation of local resources, trust, and networks. Consequently, embeddedness operates as a determinant for corporate and regional competitiveness (Baù et al., 2019) but also conditions firms' intentions to pursue non-financial goals, such as philanthropy and community engagement activities (Bürcher 2017; Campopiano et al., 2014; Lengauer & Tödtling, 2010).

However, not all economic actors are similarly linked with their local communities. For instance, it has been mentioned that, compared to their non-family counterparts, family firms exhibit profound degrees of local embeddedness (Basco, 2015; Baù et al., 2017; Bird & Wennberg, 2014), especially regarding non-economic and social dimensions (Chrisman et al., 2012; Zellweger et al., 2019). Family reputation (Deephouse & Jaskiewicz, 2013), the fact that decision-makers typically grew up and live locally, shared regional mindsets (Dörhöfer, Minnig, Pekruhl, & Prud'homme van Reine, 2011), and family members being integrated into the community's everyday life (Lang, Görmar, Graffenberger, & Vonnahme, 2019) also play a decisive role in their engagement. Family firms are well embedded locally and benefit from this (Baù et al., 2019), especially in rural regions, where they "have the possibility to form alliances and build close connections with the

community and are exposed less to the anonymity of urban areas" (Bird & Wennberg, 2014, 425).

It is important to note that embeddedness is not a static manifestation but an inherently dynamic concept (Hess, 2004). In this sense, Pike et al. (2000) highlight the importance of considering spatial processes of *embedding* rather than a state of *embeddedness* as well as counter-processes of *disembedding*. Thus, a firm's level of embeddedness might increase or decrease over time, as the characteristics of their ties to local/regional contexts alter for reasons such as changes in purchasing strategy, management, or ownership structure. In this sense, a firm's relation to economic actors, as well as administrative and societal stakeholders, fluctuates (Zellweger et al., 2019).

Corporate local and regional responsibility

The "active involvement of firms in shaping the contexts and networks a firm is involved in" (Lengauer & Tödtling, 2010, 7) is widely understood as a key element of corporate engagement. It is a distinct form of and mechanism to strengthen socio-spatial embeddedness (Bürcher, 2017). Consequently, and due to their typically pronounced degree of local embeddedness, family firms are particularly receptive to corporate engagement (Campopiano et al., 2014) through their locally embedded decision-takers.

Research on corporate engagement lacks both distinct spatial elements (Lengauer & Tödtling, 2010) and ownership-related considerations (Campopiano et al., 2014). Even though activities under the umbrella of concepts like corporate social responsibility or corporate citizenship often have a (more or less explicit) regional orientation, the concepts themselves are non-spatial. To incorporate spatial considerations, this chapter adopts the notion of CLRR developed by Hohn, Kleine-König, and Schiek (2014). Departing from a holistic understanding, CLRR is about the "development partnership between companies and the region" (Kiese & Schiek, 2016, 10) in which firms engage voluntarily for economic, ecological, social, and cultural matters.

The associated activities in the partnerships related to CLRR can be categorised into three distinct, yet not mutually exclusive, mechanisms: corporate giving, corporate volunteering, and corporate support (Hohn et al., 2014; Vilain, 2010). Corporate giving refers to engagement through occasional or long-term financial and material donations. It emerges, for instance, as sponsoring of cultural and social events, institutions, associations, and sports clubs but also material support for (vocational; music) schools and kindergartens. Secondly, activities along the lines of corporate volunteering involve, for instance, leaves of absence for staff to participate in local fire brigades and social activities or days with schools and educational institutions. Furthermore, firms frequently provide their premises as venues for cultural events, such as concerts or readings. Finally, corporate support refers to strategic, i.e. rather formalised, and long-term engagement in local and regional development processes – e.g., through support of and

participation in civic or regional management initiatives, local strategy formation, or the establishment of foundations. CLRR considers engagement primarily in the direct context of a firm's location. Consequently, corresponding activities can contribute directly and indirectly to various dimensions of small-town development – e.g., by securing diverse and high-quality social and cultural landscapes.

Generally speaking, proactivity, strategic (business) orientation, commitment, and resource input tend to increase from giving to support activities (Bürcher, 2017; Kiese & Schiek, 2016). Even if CLRR activities typically exceed immediate business goals, they might be coupled with and partially motivated by business-oriented considerations (Kiese & Schiek, 2016). For instance, local engagement can increase visibility and reputation of firms. Additionally, it has been highlighted that corporate responsibility can be seen as a specific instrument to shape socio-spatial contexts and to maintain favourable local and regional living and business conditions – which might be particularly relevant for firms located in peripheral regions (Bird & Wennberg, 2014; Bürcher, 2017) but also result in elevated expectations regarding the engagement of (internationally successful family) firms. While firm engagement can support processes of local and regional development, associated activities are, due to their voluntary nature, highly volatile, dependent on firm success, and likely to be cut in economic downturns (Gallo 2004; Lengauer & Tödtling, 2010), such as the current COVID-19 crisis.

Research has so far largely neglected the particular effects of family firms in peripheral regions (Bird & Wennberg, 2014) and especially their wider societal implications (Zellweger et al., 2019). Hence, this study specifically focusses on how firms located in peripheral regions engage in processes of (small) town development and, thereby, highlights a particular spatial dimension within the debate on corporate responsibility. With this chapter, we establish a direct link between CLRR and firms' immediate operational contexts, but also adopt its holistic understanding by investigating the linkages between CLRR and cooperative small-town development (Deutscher Städtetag, 2013).

Consciousness and strategy: firms as actors in small-town development

Case studies – local contexts and firm embeddedness

We investigate three case studies of Hidden Champion firms located in small towns in peripheral regions in Germany, namely EJOT and Berleburger Schaumstoffwerke (BSW) located in Bad Berleburg (North Rhine-Westphalia) and Holmer Maschinenbau located in Schierling (Bavaria). The case studies draw on 13 interviews conducted with firm representatives (owners, management), central administrative (mayors, administrative staff), and civil society actors (representatives of local clubs, associations and initiatives, regional management, etc.), as well as local media, during

multi-day field visits in 2018. Interview material was complemented with data gathered through desk research (from municipal documents, company websites, media etc.).

All three firms are important employers in their towns and contribute, with their economic interrelations and linkages, considerably to local and regional development. Hence, in all cases the economic core activities (through employment, taxes, purchasing power, expansion, etc.) are considered their main pecuniary contribution to local development. In the following section, we briefly portray the companies and give a short insight into their respective local contexts.

EJOT and **BSW** firms are both family-owned and in the third generation of family ownership. EJOT, founded in 1922 by the great uncle of today's managing director, currently employs more than 3,000 persons, approximately 1,300 of whom work in Bad Berleburg and its surroundings. The main goods produced by the company are special screws and other connecting elements. BSW was founded in 1954 and employs about 650 persons, of which 470 work in Bad Berleburg. The main product of BSW is foam material utilised for sports mats or running tracks (Box 8.1).

BOX 8.1: CONTEXT INFORMATION ON BAD BERLEBURG

Bad Berleburg, North Rhine-Westphalia

- Regional centre in the Siegen-Wittgenstein county
- Peripheral location
- Inhabitants (2018): 19,515; rather stable dynamics
- Local employment (2018): 7,951; positive dynamics
- Focus on industrial production and the health sector; spa town

Bad Berleburg faces ongoing demographic challenges that manifest in selective out-migration and population ageing. Both trends are of significance to local firms, in regards to their needs for qualified workforce. Infrastructural access, both road and railway, are deemed highly problematic, resulting in the local "Route 57" lobbying initiative.

In the past, the municipality experienced a difficult financial situation. However, the city council re-oriented its urban planning and development strategy, deliberately involving economic and civil society stakeholders in strategy formation processes and project activities.

In the past, the healthcare sector was highly important for Bad Berleburg but has, due to regulatory changes and economic restructuring, somewhat lost significance. Currently, Bad Berleburg builds on a diversified industrial base characterised by medium-sized and family-owned companies – including the Hidden Champions **EJOT** and **Berleburger Schaumstoffwerke (BSW)**.

Both firms are highly embedded in Bad Berleburg in economic as well as social and cultural terms. Economically, they constitute a great share of local employment and significantly contribute to local tax revenue and purchasing power. Additionally, they strengthen the local economy through subcontracts and the concentration of their economic activities within the region. Committing themselves to Bad Berleburg as their headquarters' location, both firms have expanded in recent years, partly by reusing former buildings of the healthcare industries and industrial brownfields. Both companies have their headquarter buildings in central locations, reflecting economic relevance and importance for the urban landscape.

In social and cultural terms, Bad Berleburg is not only the headquarters of the firms but also residential place of the founding families, who grew up in this region and are engaged privately in various local associations and initiatives. The same applies to their employees, who originate mainly from the surroundings. Both firms show strong loyalty towards their employees and are themselves engaged in multiple ways in the town's societal life. Thus, it can be expected that traditions and regional values are shared by both managers and employees (Dörhöfer et al., 2011), resulting in strong regional ties. Both firms understand themselves as rooted in and interwoven with the region where they find appropriate workforce and human resources to successfully manage their corporate development.

> Human resources are a great potential and capital of our company and that certainly ties us to this location. It is certainly not the local infrastructure, which is a real disadvantage.
>
> (Interview BSW, August 8, 2018)

As a consequence, the two firms' leaders are very much motivated "to keep the town and the region attractive for employees" (Interview EJOT, August 08, 2018) and engage in its development.

The Hidden Champion **Holmer** was founded in 1969 and produces sugarbeet harvesters and other agricultural machines. Of the firm's 420 employees, 330 work in Schierling. Holmer has witnessed several changes in the ownership structure. In 2004, the founder Alfons Holmer sold the enterprise to a private equity company, which in turn sold it to a second private equity company in 2006. Since 2013, Holmer has belonged to the French family-owned holding Exel Industries, who are familiar with the agricultural machinery business. Hence, Holmer can be considered a management-led enterprise with a family-owned enterprise in the background (Box 8.2).

Both the municipality and the company management consider the private equity ownership phase marked by uncertainty and turbulence. Since the acquisition of the company by Exel Industries, the relations between the town administration and the company improved considerably, strengthening, once more, the base for communication and trust.

> Ten years in private equity were certainly not favourable for our company, particularly because the identity was missing. […] It was a difficult period. Finally, in 2013 we could indirectly get back into family ownership.
>
> (Interview Holmer, November 6, 2018)

By acquiring a property of 14 hectares in a newly established industrial area, Holmer committed itself to the location of Schierling, which was a long-term and strategic decision by the management.

> The development of the new location was a long-term and strategic decision, knowing that we are not able to relocate anywhere else. This is just not possible due to our product and our self-image. Our knowledge carriers are located here and we are deeply rooted. Therefore, we do not want to leave.
>
> (Interview Holmer, November 6, 2018)

BOX 8.2: CONTEXT INFORMATION ON SCHIERLING

Schierling, Bavaria

- Medium centre in the Regensburg county
- Peripheral location
- Inhabitants (2018): 8,208; positive dynamics
- Local employment (2018): 3,013; positive dynamics
- Focus on industrial production; commercial location

Schierling has continuously gained population in the past few years. These population dynamics are partly due to its location in the commuting area of Regensburg. Schierling is well connected in terms of infrastructure. Recent infrastructural improvements have also facilitated the development of a commercial industrial site, which attracted a major automotive supplier and led to several local/regional firms, such as the Hidden Champion **Holmer Maschinenbau GmbH,** expanding their operations.

Due to these recent dynamics, the financial situation of Schierling is rather positive. Beginning in 1999, a number of urban development concepts were elaborated and implemented, resulting, for instance, in the establishment of a centrally located service centre containing local supplies, a medical centre, and the public library as well as space for meetings. Currently, a major project of the city council is the development of a new hotel.

Regarding its regional embeddedness, the economic aspects are clearly considered most important. The company is one of the biggest employers in the region and is an important partner in education. This generates purchasing power in the region and has increased tax revenue for the municipality, opening up considerable room for manoeuvring urban development.

As far as possible, Holmer organises its supply chains regionally, thereby strengthening local and regional economic structures. Further, the commitment of Holmer to stay in Schierling has substantially influenced the development of the municipality. A new commercial estate was developed as result of Holmer's expansion plans, a process which was characterised by continuous communication between the city council and the firm. Both sides emphasise that the size of the town may also have a facilitating influence on their mutual communication.

Socially and culturally, the enterprise is apparently less embedded than other companies in Bad Berleburg. While a major share of the employees originate from the region and are active in local associations like the fire brigade, the persons responsible for the management mostly live in Regensburg, a nearby regional centre. This fact might explain the supportive but rather distant and professional relations between firm and community actors in Schierling. Although there are many well-functioning communication channels, formal and informal, between the municipality and the firm, both sides have precise ideas about the competencies and responsibilities of public and private actors in urban development processes, which are rather separated from each other.

Corporate responsibility: from club sponsoring to community building(s)

All Hidden Champions investigated as part of this research exhibit distinct interests in assisting the development of their immediate (headquarters) environments. Consequently, they engage in various, wide-ranging activities, particularly regarding cultural and social initiatives, as well as education, environmental concerns, and sports. Activities along the lines of CLRR and their different mechanisms (corporate giving, volunteering, and support) were identified in each of the selected cases, albeit with different levels of engagement.

All three companies provide financial and material support for a wide range of local initiatives and institutions – e.g., for cultural associations and events, a biodiversity project on wisents, sports clubs (e.g., football, athletics and biathlon), schools/kindergartens, and youth associations. Additionally, BSW and EJOT open their facilities as venues for events such as concerts or literary readings. At Holmer, employees can propose relevant projects and initiatives to the management for funding and even use the facilities and machinery of the firm for their own civic engagement. Generally, it can

be observed that, through these corporate giving and volunteering activities, the companies aim at making a conscious contribution to the overall locational attractiveness of their headquarter sites. In this sense, a certain diversity and quality of local social and cultural landscapes are considered relevant locational factors when it comes to binding and attracting workforce (Table 8.1):

> We [think about engagement] every time we have the impression that some of our employees may benefit.
>
> (Interview EJOT, August 8, 2018)

Table 8.1 Selected CLRR activities of case firms

	Corporate giving	*Corporate volunteering*	*Corporate support*
EJOT	Financial/material support of clubs and schools Biodiversity project on wisents Financial support of community centre	Leaves of absence for staff Project activities with schools Provision of rooms for local events	Steering group membership, e.g., vocational training centre, regional management (LEADER), Route 57 Participation in municipal projects and strategy formation Ideational and planning support of community centre
BSW	Sponsoring of local events, clubs and initiatives Project-based material donations, e.g., playgrounds Financial support of community centre	Leaves of absence for staff Cooperation with vocational schools Provision of rooms for local events	Steering group membership of vocational training centre Participation in municipal projects and strategy formation Ideational and planning support of community centre
Holmer	Selective and request-based sponsoring of local clubs and initiatives Financial/material support of kindergartens	Leaves of absence for staff Project activities with local school Membership in municipal climate change panel	

In addition to financial and material support, all companies grant leaves of absence for employees to participate in fire brigades and the Red Cross, for example. Furthermore, they cooperate closely with local/regional schools and vocational training centres, organise internships or open days to present themselves to future members of the workforce, and even enter into formal partnerships with neighbouring schools. A very important aspect in this regard is the high value that they place on training and apprenticeship. EJOT and BSW, for example, are strongly involved in the regional structures for professional education, being part of a regional educational centre (Bildungszentrum Wittgenstein GmbH) as founding and currently managing members.

Regarding strategically oriented corporate support processes, the intensity of engagement differs between the three companies. Both EJOT and BSW have been actively involved in strategic local and regional planning processes such as the municipal mission process ("Leitbildprozess"). However, the managing directors referred to their participation in these processes not as representation of their firms, but as private citizens of Bad Berleburg. Yet, a distinction between these roles seems not always to be clearly drawn, as private and corporate functions might easily overlap in public perception.

> I participated but I perceived it as private meeting. It makes a difference whether the minutes of the meetings say "the representative of BSW or Mr. [family name]" said something. […] But in a small town like Bad Berleburg all of that blurs.
>
> (Interview BSW, August 8, 2018)

Besides this local engagement, BSW and EJOT take on responsibilities in regional development processes. For instance, as a member of the steering groups of the LEADER region Wittgenstein, the regional Chamber of Commerce, and economic associations and initiatives lobbying for better regional infrastructure connections.[1]

One central project in Bad Berleburg in which both local Hidden Champions have been actively engaged is a newly built regional community centre integrating both touristic and social functions.[2] The centre constitutes a central, strategic urban development project of Bad Berleburg. At its core, it contains a multifunctional event and meeting place where several central organisations of the town (municipal youth welfare, Wisent world, tourist office, etc.) are bundled and rooms for further associations and initiatives are available. The total investment is about €2.5 million, of which 70% was financed by federal and state funds. Through the donation of €200,000 each by BSW and EJOT, the municipality was able to co-finance its 30% share of total project costs. Additionally, the companies contributed also to the planning process, by sharing their expertise in terms of event management and the likely specific needs of such a place. This corporate engagement is

Figure 8.1 Roofing ceremony of community centre in Bad Berleburg.
Source: Pahl + Weber-Pahl Planungsgesellschaft mbH & Co. KG.

one of the reasons why the community centre is considered a "best practice example of regional engagement" (Prasse, 2018). Yet, there are also specific and firm-related motivations that guide the support. First, BSW and EJOT can use the centre as a venue for their own events – something they had lacked. Second, the centre offers dedicated space for projects and events for adolescents to increase the attractiveness of Bad Berleburg for families, an important target group for both the municipality and local firms.

> I was convinced [by the project] rather quickly, because it is good for Bad Berleburg. [We get] a representative building where receptions and other events can be arranged, even bigger ones.
>
> (Interview EJOT, August 8, 2018)

In contrast, Holmer's corporate support activities are less pronounced than those of the companies in Bad Berleburg. Both Schierling's administration and its management underline the strict distinction between municipal and entrepreneurial competencies and tasks. This understanding may be one of the reasons why long-term engagement does not play a big role in Holmer's voluntary activities, with the exception of its participation in the climate council of the municipality and its membership in the local economic association. Holmer's activities manifest in rather low-threshold activities such as project and event sponsoring. Still, the firm's management is interested in current urban development and planning processes and supports them ideationally, but it does not actively engage in strategy formation or project implementation:

> There is no strategic cooperation regarding urban development. We do not meet with the city council and jointly develop a long-term plan.
> (Interview Holmer, November 06, 2018)

Discussion: from corporate engagement to cooperative action

Using the examples of three Hidden Champions in Germany, the study examines the local effects of successful operating firms located in small towns in peripheral regions. In economic terms, the three selected companies are important local players and are well embedded within their regions. The firms contribute significantly to municipal budgets, offer diverse employment opportunities, and strengthen regional value chains through strategic purchasing.

Going beyond this economic dimension, our results suggest that successful and locally embedded firms are generally willing to provide substantial (monetary and non-monetary) resources for community purposes. We find evidence of the most common activities related to CLRR, such as cultural, social, and educational matters. Therefore, we validate activities identified in previous studies as central dimensions of firm engagement, which are widely accepted and appreciated activity fields by local/regional initiatives as well as policy-makers (Lengauer & Tödtling, 2010; Vilain, 2010). However, we find that firm engagement is driven by a set of diverse motivations that is implicitly and explicitly coupled with their own interests (see Figure 8.2). Aspects such as recruitment/retention of skilled employees and development strategies for young professionals are closely intertwined with challenges of locational attractiveness, which are of particular importance in peripheral regions.

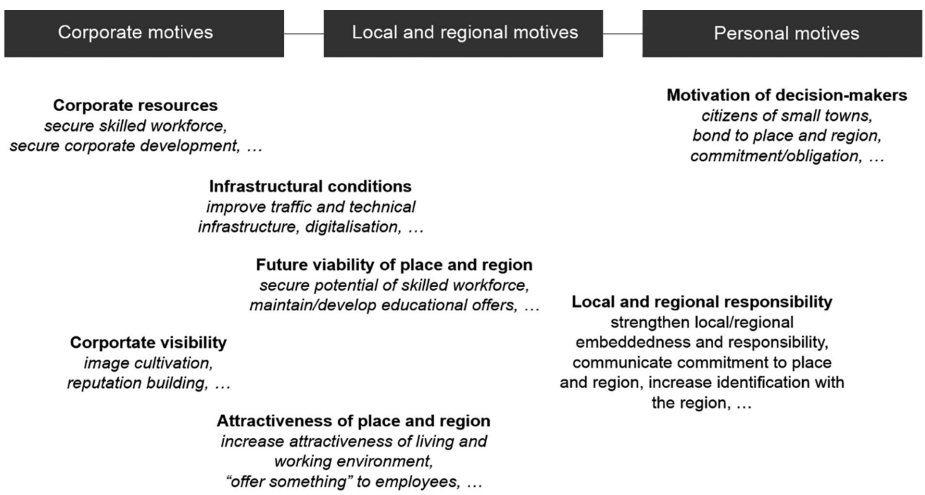

Figure 8.2 Motives for CLRR activities.

Considering family firms and non-family firms, the study allows for reflections on the specific role of family ownership for CLRR activities and to expand previous research findings (e.g., Bürcher, 2017; Lengauer & Tödtling, 2010; Vilain, 2010). Firms generally seem to have a high level of awareness that their engagement may operate as a mechanism to maintain and increase social, cultural, and educational infrastructures and, thereby, actively and consciously shape the attractiveness of place and region. Given the particular context of small towns in peripheral regions, such soft factors are highly relevant for firms, municipalities, and civil society actors, as they constitute determining factors for wider development dynamics of both firms and small towns. Since the spatial focus of engagement is mainly on the immediate firm environments, diverse CLRR activities related to corporate giving and corporate volunteering have particularly pronounced implications for small-town development. CLRR activities, especially in the fields of corporate giving and corporate volunteering, constitute substantial supplements to the activities and investments of municipal and civil society actors and, thereby, open room for manoeuvres to shape and strengthen local and regional structures. We find that the ownership nature of the firm (family or non-family) seems not to affect the types of engagements related to corporate giving and corporate volunteering – i.e., all firms use these activities regardless the nature of their ownership.

However, the case studies provide various indications that ownership structures might affect scope and intensity of corporate engagement. Decision-makers of the family-owned Hidden Champions are particularly engaged in terms of comprehensive and strategic corporate support activities. Such comprehensive forms of engagement – e.g., steering group membership in local institutions or participation in municipal strategy processes – can be partly attributed to personal motivations that emerge due to family firms' specific and individual factors as well as socio-emotional dimensions of embeddedness (Bird & Wennberg, 2014; Campopiano et al., 2014). In this sense, engagement is driven by a sincere sense of obligation and responsibility, resulting in efforts to provide positive returns to the local community. Place related and socio-emotional attachment emerges in the motives of family firms. As decision-takers grew up and still live locally, they have more profound motivations to contribute to the development of their hometowns and to build diverse cultural and social landscapes. These specific socio-emotional motivations are less pronounced for managers in non-family firms, especially if decision-makers do not live locally or if a high fluctuation can be observed among them.

Furthermore, our study highlights the importance of adopting a procedural understanding of embeddedness (Hess, 2004; Pike et al., 2000). Events such as ownership changes may affect the degree of embeddedness, the perception of a firm's local and regional responsibility, and, consequently, the intensity of CLRR activities; more generally, it can alter the nature of ties to stakeholders (Zellweger et al., 2019). Such aspects become apparent in

Holmer's acquisition by and long-term affiliation with an international private equity fund. During this period, both firm embeddedness and CLRR activities were substantially reduced. However, the acquisition of Holmer by a French family holding in 2013 facilitated the process of gradual (re-)embedding by defining new trustful ties with the municipality and other local actors. Unlike Holmer, BSW and EJOT reflect a high degree of continuity as both firms are third-generation family firms. We interpret continuity as a constantly ongoing embedding process, which facilitates the emergence of shared mindsets and high trust levels (Dörhöfer et al., 2011) that result in institutionalised engagement and joint development of projects and initiatives along the lines of corporate support.

These aspects further illustrate the (potential) role of family involvement in firms, which seems to point to a specific corporate culture, including intentions to build diverse connections with community stakeholders (Campopiano et al., 2014; Zellweger et al., 2019) – even if family involvement relates to the macro holding-level. On the one hand, these results highlight the diverse and distinct local and regional values of maintained-family ownership of medium-sized firms such as Hidden Champions. On the other hand, our results pose the question of how these values can be effectively secured – e.g., as part of (family-external) company succession or (international) merger and acquisition processes.

Despite their generally positive attitude towards corporate engagement, all firms emphasise that the level and intensity depends on their (current) economic success, which highlights the processual nature of corporate engagement itself (Gallo, 2004; Lengauer & Tödtling, 2010). The latter aspect also has an important implication for municipal and civil society actors, who must avoid being dependent on voluntary sponsoring and support related CLRR activities in case firms restrain their efforts.

Contributions

This chapter offers useful perspectives for policy-makers in the context of small-town development. As firms' and municipalities' goals substantially overlap, opportunities for cooperative action emerge. In this context, the identification of joint goals between firms, municipalities, and civil society actors is an essential driver of successful cooperation and steering development processes. Corporate engagement provides a specific development resource to activate and strategically exploit – especially for peripherally located municipalities and small towns where the maintenance of attractive living environments faces complex and specific challenges, compared to larger agglomerations. To mobilise these potentials and to tap new/additional resources (financial, time, ideas, etc.) municipalities need to find ways to channel the obviously existing willingness of firms to engage in local and regional matters. The identification and implementation of concrete joint projects that involve private, public, and civil society actors (like the

community centre in Bad Berleburg) offer promising mechanisms to strategically engage firms based on common goals, envisaged outcomes, agreed responsibilities and resources, and clear time frames.

Thereby, firms can be actively and strategically involved in local development processes, to create mutually accepted outcomes. As we observe in our research, family firms are comprehensively engaged in local development processes. Besides strategically organising the corporate support activities of family firms, a central challenge for municipal actors can be seen in the activation of non-family firms or subsidiaries of larger companies to also engage in these processes. Their purposive activation could mobilise additional resources and facilitate the emergence of distributed and multi-actor CLRR development structures involving both family and non-family firms. When it comes to building such distributed structures, our study highlights that small towns might operate as particularly effective environments: the number of potential firms to be targeted is limited, decision-makers within firms are usually not anonymous and are accessible, and communicative distances are rather small, i.e., associated issues and activities can be discussed quickly via formal and informal channels.

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Notes

1 EJOT's CEO is founding member of the initiative 'Route 57' which lobbies for improving infrastructural connections of the region.
2 The German project title of the centre "Bürgerhaus am Markt".

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Part IV

Evidence around the world

9 Comparing family and non-family firms' strategic effects on regional development

Evidence from Kenya

William Murithi and Kassa Woldesenbet Beta

Introduction

Academic interest in family firms and regional development has grown recently in Western context (Acquaah, 2016; Basco, 2018). Despite the well-recognised contributions of family firms to regional economic and social development (Basco, 2015; Memili, Fang, Chrisman, & De Massis, 2015; Stough et al., 2015), the understanding of the nature and the type of contribution made by family firms in developing and emerging economies remains under studied (Kolk & Rivera-Santos, 2018). For instance, the African continent remains largely unexplored in spite of family firms' prevalence at the national and regional levels (Khavul, Bruton, & Wood, 2009). There are three main reasons why the phenomenon of family firms in Africa has attracted less academic attention. First, policy-makers and governments are not well aware of family firms' contribution to economic and social development. Second, there is a lack of official data (e.g., longitudinal and cross-sectional data) to describe, explore, and show the business ownership structures and family involvement and participation in economic activities (Kolk & Rivera-Santos, 2018). Third, the financial commitment for academic research on family firms is inadequate.

We believe that Africa provides a unique context for investigating the significance of family firms in regional economic and social development (Khavul et al., 2009; Stough et al. 2015; Zoogah, Peng, & Woldu, 2015) and poverty alleviation (Bruton, Ketchen Jr, & Ireland, 2013). This chapter attempts to explore the impact of family and non-family firms in the context of Kenya. Drawing on a quantitative analysis of 307 firms operating in Kenya, our study finds that differences in the strategic behaviours (i.e., entrepreneurial behaviours, decision-making strategies, and external social capital) are the underlying mechanisms that may explain how both types of firms differ in their levels of contributions to regional development in developing economies, such as Kenya, and in sub-Saharan Africa. More specifically, we find that entrepreneurial orientation and bridging social capital had positive and significant effects on managers' self-perception on firm contribution to regional development. However, there is a negative effect of participative

decision-making process on the self-perception of their regional development contribution. That is, family and non-family firms differ in the extent to which they self-perceived their contribution to regional development.

Family firms in Kenya

Family firms form the backbone of Kenyan economic and social development, with prominent medium and large family-run businesses contributing substantially to GDP, employment opportunities, and wealth creation (PricewaterhouseCoopers, 2014). The actual estimation is that family firms account for 60–80% of all employment in Kenya (National Baseline Survey, 1999; Waweru, 2014). According to a PricewaterhouseCoopers report on private firms, 95% of Kenyan family firms that predicted growth were confident of achieving it, with 32% aiming for aggressive growth over a five-year period and another 56% expecting steady growth (2014, 6). Contrary to family firms in Western economies, family firms in Kenya (and sub-Saharan Africa in general) face unique ownership, management, governance, and succession structures. Family firms are shaped by a highly collectivist culture (Hofstede, 2001), diverse social structures (Kamoche, Siebers, Mamman, & Newenham-Kahindi, 2015), and the coexistence of both formal and informal institutions (Murithi, Vershinina, & Rodgers, 2020) that may boost and/or constrain economic activities. Further, as opposed to Western countries where studies refer to the nuclear family as a majority owner, Kenyan family firms have members from the extended family and communities that influence business behaviour and performance (Khavul et al., 2009).

As a developing economy, Kenya's political, economic, and culture patterns differ from other developing Western or Asian economies (Zoogah et al., 2015; Vershinina, Kassa, & Murithi, 2018). The weak political and institutional environments found in Kenya encourage informal economic activities (Khavul et al., 2009; Murithi et al., 2020; Murithi, 2019). Most small and medium firms operate at the intersection of formal and informal institutions (Waweru, 2014; Murithi, 2019). Like other countries in sub-Saharan Africa, Kenya has a unique socio-cultural landscape, deep rooted in traditions and cultural contexts that influence wider management and entrepreneurial practices (Zoogah et al., 2015; Vershinina et al., 2018). In particular, the "harambee spirit" with its various aspects can enable or constrain entrepreneurial behaviours in Kenya (Vershinina et al., 2018). Therefore, the country presents a unique context to explore the differences between family and non-family contributions to regional development.

Theoretical framework and hypothesis

Strategic behaviours and regional development

Strategic behaviours are defined as the actions taken by firms or their top-level managers that are intended to influence the market environment in

which they compete (Kuratko, 2012). The strategic behavioural differences between family and non-family firms can be understood by investigating the influence of controlling family on business decisions, strategy making, and performance (Abdellatif, Amann, & Jaussaud, 2010). Family and non-family firms differ in their strategic behaviours because family involvement alters their goals (Basco, 2017). Family firms, like their non-family counterparts, pursue business economic goals but also family-oriented ones, such as employment for family members, support to local communities, and the intention to transfer the family firm from one generation to another.

The differences in strategic behaviours between family and non-family firms are likely to determine their outcomes and, therefore, the way both types of firms contribute to regional development. In general, the strategic behaviour of firms is associated with decision-making and its implementation to achieve desired goals and outcomes. It is in this process that family involvement and control affects the firms' strategic entrepreneurial behaviours, such as wealth creation and advantage-seeking actions (Hitt, Ireland, Sirmon, & Trahms, 2011). We conceptualised strategic behaviours of the firm as the strategic posture involving entrepreneurial orientation (Covin, Green, & Slevin, 2006), participation in strategic decision-making (Eddleston & Kellermanns, 2007; Basco, 2013), and developing and using resources embedded in social networks (Acquaah, 2012; Mani & Durand, 2019). This chapter examines whether family and non-family firms differ in these three dimensions of strategic behaviour and how such differences, if they exist, affect firms' self-perception of their contribution to regional development in context of Kenya.

Firm entrepreneurial behaviour

Strategic entrepreneurship theory, which focuses on the entrepreneurship and strategic management aspects of opportunity recognition and wealth creation, predicts that family firms are the major contributors to economic development (Hitt et al., 2011). This is because family firms are able to orchestrate resources that lead to individual-, firm-, and regional-level outcomes (Hitt et al., 2011). In addition, the literature on corporate entrepreneurship has highlighted the differences between family and non-family firms concerning their entrepreneurial orientation (Casillas & Moreno, 2010). Studies that used a multi-dimensional approach (focusing on the dimension of proactiveness, risk-taking, innovativeness, competitive aggressiveness, and autonomy) found that family firms score low on the five dimensions of corporate entrepreneurship (Zellweger, Muhlebach, & Sieger, 2010). Short et al. (2009) also found that although family firms do exhibit language consistent with all entrepreneurial orientations, their entrepreneurial orientation language in relation to autonomy, proactiveness, and risk-taking is lower than in non-family firms.

However, as most of these studies focused on either the individual (owner-manager) or firm-level analysis, they underestimated the influence of the

family stakeholders' entrepreneurial orientation on family firms (Dyer, 2006). Zellweger, Nason, and Nordqvist (2011) thus argued for the consideration of the family as a unit of analysis, as this would help further our understanding of the ability of family firms to generate transgenerational value. In addition, Basco and Pérez Rodríguez (2009) also called for a holistic view of the family firm by integrating the family and business systems. These authors recommend that researchers should focus on four important aspects of the family firm—strategy, human resources, governance, and succession—in order to understand how family influences the firm's strategic decision-making.

Indeed, the current conceptualisation of entrepreneurial orientation at the firm level is limited in its explanatory power to show the firm's influence at regional level. We know more about the effects of entrepreneurial orientation on firm performance, such as the growth and profitability (Gupta & Gupta, 2015), but less on regional levels. Further, evidence from emerging economies (e.g., China) shows that not all the dimensions of entrepreneurial orientation have equal levels of significance because entrepreneurial orientations could be shaped by contexts (Welter, 2011; Basco, 2018). Such limitations led to calls for further exploration of firm level entrepreneurship in developing economies (Kantur, 2016). Businesses operating in developing economies also face increased uncertainty, imperfect competition, and hostile environments, which require the deft use of entrepreneurial orientations. Recent studies have also found a positive link between firm-level entrepreneurship within developing economies and firm performance (Cai, Liu, Deng, & Cao, 2014). We argue that the firm level of entrepreneurship will affect regional development, through performance and social engagement. Our first hypothesis is as follows:

> *H1: Firm entrepreneurship orientation effect on regional development outcomes is higher in family firms than in non-family firms.*

Firm strategic decision-making process

The basic strategic management processes between family and non-family firms may look similar (Miller & Le Breton-Miller, 2011). However, there are differences on the goals to be pursued, the process of resource allocation to achieve those goals, and who participates in the decision-making (Chrisman, Chua, & Sharma, 2005; Basco, 2013). The involvement of the family in businesses and the goals they pursue account for differentiated outcomes in both types of firms (Lee, 2006). In family firms, family members are the main stakeholders likely to influence the strategic management process in comparison to non-family firms, where different shareholders influence the decision-making process and where they follow the profit maximisation goal. Furthermore, family stakeholders play an important role in strategic renewal, entrepreneurship, firm growth, innovation, and

performance of family firms (Mazzi, 2011). It is a taken-for-granted fact that family (as individuals or as a group) are willing to retain the ownership and control of the firm in order to remain autonomous. Families always seek autonomy for control purposes over ownership and management, even in the context of poor financial performance (Gómez-Mejía et al., 2007). In doing so, a controlling family coalition pursues family-centred financial and non-financial objectives aimed at creating generational wealth (Carney, 2005; Aparicio, Basco, Iturralde, & Maseda, 2017).

According to Covin et al. (2006, 59), "Strategic decisions are made through consensus-seeking versus individualistic or autocratic processes by the formally responsible executive". Prior studies have found that strategic decision-making through teamwork participation, interaction, and regular consultation with employees, as well as free and open exchanges have positive influence on firm performance (Eddleston & Kellermanns, 2007). Drawing from the stewardship theory, Eddleston, Chrisman, Steier, and Chua (2010) found that participative strategic decision-making and the focus on long-term orientation positively enhance the level of entrepreneurship. Firms that encourage information and knowledge sharing about their specific process tend to be more innovative and efficient. Sharing information with other team members encourages a collective responsibility that allows members to participate in the development of organisational strategies. Therefore, stronger firm performance is likely to be associated with a participative process and firm involvement that will promote regional development. Based on the discussion above, our second hypothesis is as follows:

> *H2: The effect of participative strategic decision-making on regional development is higher in family firms than in non-family firms.*

Firm bridging social capital

Family firms are an integral part of the community and institutions in Africa. We argue that their embeddedness in community and institutional environments would allow them to make significant contribution to socioeconomic development. Through their engagement in businesses, socially oriented enterprises, and many economy-related activities, business families in sub-Saharan Africa are in a better position to contribute to socioeconomic development. This is because they combine different sociological and cultural qualities to overcome institutional voids prominent in such economic contexts (Murithi et al., 2020). Empirical evidence from family firms in emerging economies has shown that top-level managers develop strong social capital with managers from other firms, communities, and political leaders, which increases their community involvement (Acquaah, 2012; Mani & Durand, 2019). Family firms represent both the family as an institution and the business as an organisational form when engaged in entrepreneurial activities. Family influence in the African, particularly in

Kenyan context, goes beyond the nuclear family. "Family" involves the kin relationships and those in industry member associations and government agencies. Hence, such developed social networks provide strategic resources for entrepreneurial and socially oriented activities with positive effects on development (Adusei, 2016). Therefore, family firms would be able to contribute to regional development outcomes in the African context.

Murithi et al. (2020) argue that business families are in a better position to influence the economic development in sub-Saharan Africa because of their ability to navigate institutional boundaries. Hence, family firms in Africa can manage underdeveloped and dysfunctional formal institutions by using informal institutions such as social relationships and networks (Acquaah, 2012). As family firms operate at the intersection of family and community, and formal and informal institutions, there is a greater chance of them contributing to regional development in comparison to non-family firms. It is important to consider the network resources accessible because of a family's social capital. Familial ties and societal relationships help in bringing in important resources for business. McGrath, O'Toole, Marino, and Sutton-Brady (2018) argue that entrepreneurs and family firms must actively pursue related connections, "beyond early social network ties, to gain access to and use a broader pool of resources and capabilities external to the firm" (p. 523). To access external resources, family firms must be willing to collaborate with other economic and social actors (Dyer & Singh, 1998, 672), to have the ability to coordinate competencies and combine knowledge across (organisational) boundaries, and to sustain its innovativeness by creating and managing the overall network architecture over time (Capaldo, 2007, 585). Therefore, we posit the following hypothesis:

> *H3: The effect of bridging social capital on regional development outcomes is higher in family firms than in non-family firms.*

Methodology

To explore the differences and potential strategic behaviours that may explain the extent to which family and non-family firms contribute to regional development based on their self-perception, the study deployed an exploratory survey, which is best suited to this kind of study (Hair et al., 2006). Using a structured survey questionnaire, quantitative data was collected from top-level managers of 307 privately held Kenyan firms.

Measures

The dependent variable is the contribution that the firm makes to regional development outcomes. We define regional development as the application of economic processes and resources available to the region that result in sustainable development and desired economic outcomes for the region

(Stimson, Stough, & Roberts, 2006). Bishop, Mason, and Robinson (2009) conceptualised firm contribution to regional development as "direct effects of individual firms to employment, aggregate output (goods and services), and productivity growth as reflected in their investments in resources and development capabilities". In this study, we use three regional outcome measures, drawing on the existing literature: contribution to GDP, employment, and wealth creation (Thurik, Wennekers & Uhlaner, 2002). Each item was measured using 7-point Likert scale (7 for the highest degree of agreement and 1 for the lowest). These are subjective measures as perceived by the top-level managers about their firms' contribution to regional development.

The independent variables are at the firm level and focus on the dimensions of strategic behaviours: firm entrepreneurial orientation, participation in strategic decision-making processes, and bridging social capital relationships. Entrepreneurial orientation is measured using five dimensions: innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy (Casillas & Moreno, 2010). The participative strategic decision-making processes were measured using five items drawn from extracted from Eddleston and Kellermanns (2007). Finally, bridging social capital items were drawn from Acquaah (2012). All items were captured using 7-point Likert scale.

We control for firm age and firm—both categorical variables. Firm age was measured with six categories: less than 5 years, 6–9 years, 10–14 years, 15–19 years, 20–24 years, and above 25 years. Firm size was measured using the number of employees in the following categories: micro (1–9), small (10–49), medium (50–249), and large (250 and above). Finally, the geographic distribution of sales was measured using five levels: county, national, regional, African, and global.

Data analysis

To analyse the dataset, we adopted contemporary structural equation modelling techniques (Hair et al., 2006). We classify a firm as family or non-family with the following two criteria. First, the respondent's self-identification as either a family or non-family firm (Westhead & Cowling, 1998). Second, the level of family involvement (Chua, Chrisman, & Sharma, 1999). In the later classification, five variables were used to collect the responses based on the firm ownership, management, and governance, involvement of transgenerational family members and intrafamily succession. Of the 307 firms included in the sample, 40.4% (n = 124) self-identified as family firms, whilst 59.6% (n = 183) self-identified as non-family firms. Consequently, firms with high family involvement represented 31% (n = 96), while those with low family involvement represented 69% (n = 211).

Following the recommendation made by Bryman (2016), a pilot study was conducted using a sample of firms drawn from Strathmore Enterprise Development Centre, which contained firms of the similar characteristics as the

main sample used. The analysis of the pilot study indicated that the items measure the expected constructs. We also tested for internal reliability with a Cronbach alpha coefficient. All values are above the required minimum of 0.6 (entrepreneurial orientation = 0.88, decision-making strategy = 0.765, bridging social capital = 0.83, and regional development = 0.878).

The analysis of the demographic characteristics of the sample shows that the majority of the family firms are older (more than 25 years old) while non-family firms are younger (less than 5 years old on average). In terms of size, as measured by the number of employees, the majority of the firms in both categories are medium- to large-sized firms. Most family and non-family firms operate in national and regional markets.

Inferential statistical analysis was conducted using exploratory factor analysis and confirmatory factor analysis (Hair et al., 2006). The first stage of analysis was done using the former, which relies on estimation of the factors and the contribution of the variables (items) to the factor loadings as a basis for identifying variables for subsequent analysis (Steinmetz, Davidov, & Schmidt, 2011). Table 9.1 shows the four latent constructs identified with their communalities, Cronbach Alpha, composite reliability, and AVE coefficients. To assess the measurement model, we used the goodness of fit indices (Table 9.2) as specific evidence of construct validity (Hair et al., 2006).

After specifying the measurement model, we adopt the competing equivalent model structure. That is, a single model (i.e., set of relationships) is specified and then alternative formulations of the underlying theory are identified (Hair et al., 2006). Firstly, the model (Table 9.3) shows that the three independent variables (entrepreneurial orientation, decision-making process, and bridging social capital) have direct relationships with regional development outcomes. Secondly, all the three independent variables reported some degree of interaction among themselves that would give rise to their own inter-relationships.

Table 9.3 reports the hypothesised relationships on the differences between the family and non-family firms in their contribution to regional development, based on self-perception. In relation to entrepreneurial orientation, family firms reported a higher and significant contribution to regional development ($\beta = 0.278$, $p = 0.002$) compared to non-family firms, which reported a positive but not significant effect on regional development ($\beta = 0.109$, $p = 0.287$). However, participative decision-making within family firms had a statistically negative effect on regional development compared to non-family firms ($\beta = -0.107$, $p = 0.201$), hence indicating differences between both types of firms. In terms of the bridging social capital effect, non-family firms make a statistically significant contribution ($\beta = 0.291$, $p < 0.01$) to regional development when compared to family firms ($\beta = 0.138$, $p = 0.097$).

Based on the aforementioned findings, we confirm that entrepreneurial orientation, participative decision-making, and bridging social capital provide a holistic explanation on the differences between family and non-family firms' contribution to regional development.

Table 9.1 Indicator loadings and composite reliability of variables and indicators

Latent factors	*Indicators*	*Communalities*	*Cronbach alpha*	*Composite reliability*	*AVE*
Entrepreneurial Orientation (EO)			0.888	0.875	0.502
	EO-Innovativeness-1	0.621			
	EO-Innovativeness-2	0.759			
	EO-Proactiveness-1	0.716			
	EO-Proactiveness-2	0.763			
	EO-Competitive Aggressiveness-1	0.804			
	EO- Competitive Aggressiveness-2	0.827			
	EO-Competitive Aggressiveness-3	0.729			
Decision-Making Strategy (DMS)			0.883	0.887	0.613
	Participative	0.879			
	Interaction between managers	0.799			
	Regular interaction	0.795			
	Interactive process	0.715			
	Open exchange of ideas	0.903			
Bridging Social Capital' (BSC)			0.772	0.781	0.545
	Community leaders	0.826			
	Political leaders	0.881			
	Government agencies and officials	0.64			
Regional Development (RD)			0.902	0.895	0.589
	Gross domestic product	0.83			
	Economic transformation	0.84			
	Employees informed	0.803			
	Income for community activities	0.851			
	Number of new positions	0.723			
	Added number of employees	0.635			

Table 9.2 Fit indices, measurement model (1), structural model (2), interaction model (3) and model criteria

Fit indices	*Model 1*	*Model 2*	*Model 3*	*Model criteria*
CFI	0.963	0.972	0.977	>0.95
IFI	0.963	0.973	0.978	>0.95
TLI	0.957	0.943	0.913	>0.90
RMSEA	0.042	0.054	0.037	<0.08

Table 9.3 Path analysis and hypothesis analysis and control variables

Hypothesis	*Regression path*	*Direct effects*	*Family firms*	*Nonfamily firms*	*Z values*
H1	FEO > RD	0.198 (0.001)	0.278 (0.002)	0.109 (0.287)	−1.25
H2	FDMS > RD	−0.182 (***)	−0.236 (***)	−0.107 (0.201)	1.181
H3	FBSC > RD	0.277 (***)	0.138 (0.097)	0.291 (***)	1.463
	FirmSize > RD	0.236 (***)	0.242 (0.013)	0.357 (***)	0.913
	FirmAge > RD	−0.081 (0.094)	−0.082 (0.094)	−0.047 (0.248)	0.549
	NatureBus > RD	−0.032(0.409)	−0.097 (0.422)	−0.059 (0.488)	0.262
	GeoDist > RD	0.067 (0.090)	0.033 (0.605)	0.083	0.59

Notes: ***p-value < 0.01; **p-value < 0.05; *p-value < 0.10.

Discussion and conclusion

The differences between family and non-family firms in terms of their contribution to regional development can be explained by their strategic behaviours. Even though both types of firms show that their entrepreneurial orientation is positively related to regional development, family firms reported a significant positive effect compared to non-family firms. Thus, this study's findings, while consistent with the previous findings that suggest that family firms are less entrepreneurial than non-family firms (Gómez-Mejía et al., 2007) at the firm level, show that family firms' entrepreneurial orientation effects on regional development is positive and significant. The long-term orientation of family firms and concern for socio-emotional wealth (Gómez-Mejía et al., 2007) prompt entrepreneurial decisions aimed at sustainability rather than short-term gains and this is likely to contribute to regional development (Zahra, Hayton, & Salvato, 2004). Hence, family firms may prefer to forgo short-term performance (financial gains) in order to maintain their ownership control over the firm and this consideration may create sustained value for regional development.

Our research goes beyond establishing that family firms have differentiated contribution to regional development outcomes; it also shows the underlying factors that contribute to the observed differences. Our study is the first of its kind in the Kenyan and sub-Saharan African contexts that

empirically shows the differences on the level of entrepreneurial orientation by family and non-family firms and its effect on regional development. It provides an interesting insight into the greater effect family firms' entrepreneurial orientations have on regional development in comparison to non-family firms in Kenya.

Our findings can be explained by the level of family involvement. The interaction of the family, business, and context may enhance family firms' contribution to regional dimensions, compared to non-family ones. Even though this study shows a positive and sustained effect of family firm entrepreneurial orientation on regional development, we caution against hasty conclusions, as there may be circumstances where such positive contributions don't exist. These situations may include conflict within a family such as difficulties in succession or lack of strategic renewal upon the exit or death of a founding family member(s).

Regarding participatory and interactive decision-making (Eddleston and Kellermanns, 2007), this study establishes that family firms' behaviours have a significant negative effect on regional development compared to non-family firms. Therefore, these findings contradict recent studies, which argue that the participation of family owners in decision-making would positively enhance regional development (Basco, 2015; Stough et al., 2015). These negative effects on regional development can be explained by two factors. First, the participation of extended family members in the decision-making process slows down proactive strategies aimed at resource configuration and innovative activities for organisational performance and its effect on regional development. Second, a consultative strategy-making process, typical in family firms in developing economies, culminates with the founders' blessings in such a way that it promotes family-centred economic and non-economic goals.

The findings show that bridging social capital has a direct, strong, and positive effect on regional development outcomes. However, its effect on non-family firms was more pronounced than on family firms. Family firms' utilisation of network social capital for navigating institutional voids and strengthening their social bonds may not necessarily equate with non-family firms' proactiveness in drawing strategic resources aimed at firm performance with a potential impact on regional development. Hence, this study speculates that family firms' bridging social capital may have long-run effect in comparison to short-term effects on regional development. Another potential explanation for the above findings may be that the family becomes an institutional investor with a capacity to leverage institutional resources to generate wealth in the long run. Further, their strong embeddedness in community network structures and pro-social objectives might not be captured by the study—the effect of which could amplify their role in local socioeconomic development in the long-term. Instead, family firms might use bridging social capital to cope with institutional voids, as a buffer from uncertain markets, to make up for the lack of professional management, and to preserve family wealth.

According to Murithi et al. (2020), focusing on the family (instead of family firms) in sub-Saharan Africa shows that the family and the business are not competing sub-systems, as argued in some existing studies. Instead, they complement each other and enable businesses to navigate the complex institutional environment. For instance, the involvement of the extended family becomes a major source of capital, expertise, and information, which can be a result of the informal entrepreneurial activities at the family level (Murithi et al., 2020). Evidence from small firms in Kampala and Uganda showed that the larger the entrepreneur's network (i.e., kinship networks), the more resources they could raise. However, this comes at a higher cost (Khayesi, George, & Antonakis, 2014), showing that the effects of social capital on firm performance can be either positive or negative because of the need to maintain family ties and network relationships, which is very costly in an African context. The family patriarch or matriarch is responsible for the maintenance of family members and contribution to community welfare because of the expectations of the collectivist culture. The high-level dependence on family firms by family members and communities may limit their ability to accumulate resources aimed at firm growth and, hence, restrict their contribution to regional development. Such an analysis suggests that the pathways in which the family firms contribute to regional development are complex and intertwined.

Contributions

This chapter presented comparative evidence on family and non-family firms' contributions to regional development in Kenya. The key conclusion is that the family context is a significant moderator between firms' strategic behaviour, firms' self-perception, and its contribution to regional development.

Theoretically, we can highlight three main implications. First, the conceptualisation of family firms in the African context. The way in which family firms are defined in the Western context is less likely to capture the essence of African family firms because these families extend beyond the nuclear family and include kinships and extended family relationships. Hence, the way in which the family firms are conceptualised in the African context can have several implications for management, governance, succession, and strategic choice literature. Second, African family firms operate not only at the intersection of formal and informal institutions but also in environments characterised by institutional voids. Such institutional contexts merit further theoretical and empirical work to understand how family firms navigate the duality of institutions and institutional voids, how they respond to or cope with volatile changes in the institutional environments, and how family firms perceive their contribution to regional development. Third, our findings show that family and non-family firms contribute differently to regional development in the Kenyan context based on their self-perception and that these differences can be explained in reference to their strategic behaviours.

Given the significant contributions family firms make to regional economic and social development, policy-makers should pay attention to how family and non-family firms contribute to regional development. A better understanding of how economic actors behave and react to the environment can help policy-makers tailor their regional and local policy and increase their impact in communities. National, regional, and local public institutions should be aware of the importance of having reliable data to improve the knowledge that we have about our economies. Public decision-making needs information to develop policies and to alleviate regional disparities or inequalities by engaging local actors.

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10 Family firms and regional entrepreneurship

The European evidence

Riccardo Cappelli, Marco Cucculelli and Valentina Peruzzi

Introduction

Family firms are the most predominant form of business organization and account for a large proportion of employment, business turnover and gross domestic product (Bjuggren, Johansson, & Sjögren, 2011). This relevance has led researchers to focus on the behavioral differences between family and non-family firms, and on the role played by some family-specific attributes in explaining the former's profitability and productivity (Anderson & Reeb, 2003; Sraer & Thesmar, 2007), financing and investment decisions (Anderson, Mansi, & Reeb, 2003; Anderson, Duru, & Reeb, 2012) and internationalization and innovation activities (Minetti, Murro, & Paiella, 2015; Pongelli, Caroli, & Cucculelli, 2016).

The literature has mainly focused on micro-oriented research at the firm and family levels, whereas the role played by family ownership and industry attributes at the aggregate level has received less attention (Basco, 2015). This is particularly evident in the case of regional entrepreneurship, as the extant literature has scarcely explored the connections between local entrepreneurial activity and specific exogenous industry characteristics, like the industry structure and the density of family-owned firms.

The aim of this chapter is two-fold. First, it aims at analyzing whether family firm density, together with industry scale, affects entrepreneurship at the regional level. Second, it investigates whether the development stage of the economy plays a role in this relationship. As this last issue is central to our analysis, we explore the different stages of development of European regions to identify the influence of structural industry characteristics on regional entrepreneurship rates across European geographical areas.

The rationale behind this research study is to connect three complementary streams of analysis: the industry scale, the ownership structure of companies and the stage of industrial development of European regions. For the first, previous studies have demonstrated that a high regional concentration of large scale industries – i.e., the industry scale – negatively affects entrepreneurship (Stuetzer et al., 2016), whereas the prevalence of small businesses has been associated with a higher level of entrepreneurship

(Reynolds, Storey, & Westhead, 1994; Lee, Florida, & Acs, 2004; Fritsch & Falck, 2007).[1] This makes the industry structure a significant external boundary condition in assessing the development of entrepreneurial activity at the regional level.

As for the second line of research, we argue that in addition to the industry scale, the industry composition – in terms of the prevalent type of ownership – also matters for entrepreneurship, as it can influence the incentives behind individual decisions and, in turn, local entrepreneurial activity (Villalonga & Amit, 2010). A large presence of family firms makes the long-term orientation a pervasive feature of incumbent companies, thus supporting risk-taking in the economy, which, in turn, fosters entrepreneurship (Zahra, Hayton, & Salvato, 2004). Similarly, family firms are very well suited to promote interaction between founders and workers, an aspect that makes it easier for the latter to learn how to start and run a firm.

Finally, as for the third research area, recent evidence on the impact of family ownership on innovation helps to explain why the influence of industry factors on entrepreneurship may run differently depending on the stage of regional development (Cucculelli & Peruzzi, 2020). In regions that are in an early stage of industrial development, foreign direct investments may fuel economic growth because of employment opportunities and other spillovers that are poured into the local economy by external large players. Multinational firms – typically large-sized firms – may also generate positive spillovers on host regions in terms of diffusion of technologies and management practices, thereby fostering local entrepreneurship. Moreover, large external companies may also stimulate local entrepreneurship through the sub-contracting of productive tasks from a vertically integrated process to small-sized satellite businesses. All these aspects make the stage of development of the local economic environment a significant factor in shaping the relationship between industry characteristics – including company ownership – and the process of new firm creation (Smallbone & Welter, 2001).

In this context, the chapter aims at checking whether and to what extent selected industry-level variables – i.e., the average firm size (regional industry scale) and the share of family owned firms (regional family firm density) – matter for regional firm birth rate (regional entrepreneurship), and whether this relationship is facilitated or inhibited by the stage of development of the local economic environment. To test these intuitions, we drew information from two main datasets. First, the Eurostat regional database, which provides the main regional economic and demographic variables (e.g., the firm birth rate and the average firm size in the manufacturing sector) for European countries. Second, the BvD-Amadeus dataset, which provides firm level information (e.g., ownership information) about a large sample of European firms. By merging the two, we ended up with a final sample of 121 regions, located in 13 European countries: Bulgaria, Czech Republic, Estonia, Hungary, Romania, Poland and Slovakia (classified as Eastern European); Denmark, Spain, Finland, France, Italy and Portugal (classified as Western European).

To summarize our findings, estimation results indicate that the average firm size and the share of family firms in the regional industry are negatively and positively associated, respectively, with higher regional firm birth rate. This means that entrepreneurship reacts positively to a more pervasive presence of family firms and negatively to the presence of large companies. However, these results only hold in Western European regions, whereas in Eastern Europe, entrepreneurial initiatives are positively and significantly driven only by the average firm size and the density of family ownership does not play a substantial role.

Theoretical background

Industry structure and entrepreneurial activity

Few theoretical and empirical studies have investigated the relationship between industry structure and entrepreneurial activity (e.g., Bauernschuster, Falck, & Heblich, 2010; Wyrwich, 2013; Glaeser, Kerr, & Kerr, 2015; Stuetzer et al., 2016). In this research area, the classical approach to entrepreneurship is the one put forward by the literature on Industrial Organization (IO). According to this perspective, new firm creation depends on industry characteristics such as the level of capital intensity, the average minimum efficient size (MES) and the level of irreversible investment (i.e., the sunk costs in the case of exit or failure). For instance, large-scale industries are typically associated with high levels of capital intensity, large amount of irreversible investments and the existence of large minimum efficient size, all of which are negatively related to firm entry. Therefore, a key finding of this framework is that large-scale industries only provide a limited number of entrepreneurial opportunities (Siegfried & Evans, 1994; Geroski, 1995).

Within the IO approach to new firms and startups (Santarelli & Vivarelli, 2007), one strand of research has focused on the role of firm size in explaining entrepreneurial phenomena (Parker, 2009; Elfenbein, Hamilton, & Zenger, 2010). These studies, which are closely related to IO literature because of the association between average firm size and industry scale (Beesley & Hamilton, 1984), have built on the idea that the opportunity cost of starting a firm is relatively low when working in a small business, due to low wages, reduced job security and limited opportunities for professional advancements.

In this framework, a number of reasons have been suggested that push people into small firms and then promote their entrepreneurial behavior. First, employees with personality traits that are conducive to entrepreneurship self-select into small firms because of the close similarity in the work environment (Stuetzer et al., 2016). Second, entrepreneurial skills that emanate from the ability of people to perform a broad spectrum of diverse tasks and challenges are higher in small enterprises where the division of labor is low and workers are not highly-specialized (Wagner, 2004; Hyytinen &

Maliranta, 2008; Bublitz & Noseleit, 2014; Lechmann & Schnabel, 2014). Third, the propensity to start one's own firm might be stimulated by direct interactions with an entrepreneurial role model, which is more likely to occur in very small firms than in large enterprises. Through such interactions, young workers learn about the process of starting and running a firm, thereby improving their entrepreneurial human capital (Minniti, 2005; Fritsch, 2013).

Although large-scale industries affect entrepreneurial activity at the industry level, there is some evidence that they also determine the regional level of entrepreneurship. Davidsson (1995) analyzed regional entrepreneurial activity in Sweden and shows that small firm density is positively and significantly associated with new firm creation because of good supply of entrepreneurial models, relevant work life experience, and access to practical know-how on how to get a business going. Keeble and Walker (1994), who examined the geographic distribution of new firms and closing firms in the United Kingdom for the period 1980–1990, suggest that, in addition to population growth, housing wealth, professional expertise and urbanization, the presence of small firms fosters entrepreneurial initiatives. Similarly, Reynolds (1994), who looked at 382 labor market areas in the United States, shows that the impact of small firms on the annual birth rate of independent businesses is positive and statistically significant, but tends to vary for different economic sectors and the type of labor market area.

The aforementioned findings have been confirmed by more recent studies. By analyzing labor market areas in the United States, Armington and Acs (2002) found that new firm creation is substantially explained by regional differences in income growth, population, industry intensity and firm size. Similar results are shown by Stuetzer et al. (2016), who analyzed the entrepreneurial activity of British regions and found that the ones with high employment shares of large-scale industries in the 19th century have lower entrepreneurship rates and weaker entrepreneurship culture today. All these contributions make regional heterogeneity in the endowment of small and large firms a crucial issue to be investigated, to understand how entrepreneurship develops within a region.

Family ownership and regional entrepreneurship

Most empirical studies on regional entrepreneurship only partially consider the heterogeneous nature of firms behind the entrepreneurial activity. We believe that a key distinction here might be between family and non-family firms, because the former exhibits a stronger social network within their region and are themselves more likely to be influenced by their environment's community (Stough et al., 2015).

Recently, a growing number of studies have started to analyze the intersection between the entrepreneurship and the family business fields by examining the impact of the family environment on entrepreneurial activities and

processes. This literature considers the family firm a highly entrepreneurial organizational context, that is dynamic and change-oriented because of the long-term mindset of family owners and managers. Consistently with this view of family ownership, by using data from 536 U.S. manufacturing companies, Zahra et al. (2004) showed that family firms' culture is an important strategic resource that gives these firms a competitive advantage over their rivals by promoting and sustaining entrepreneurial activities. Similarly, Kellermanns and Eddleston (2006), who focused on a sample of 232 family businesses in the northeastern United States, indicated that a willingness to change and technological opportunity recognition are positively related to entrepreneurship in family firms. Finally, Aldrich and Cliff (2003) found that family dynamics is the most important factor in recognizing entrepreneurial opportunities, because of the exclusive access to resources, norms, attitudes and values of family firms.

Berger and Luckmann (1967) argued that the family can be considered the strongest social institution when it comes to passing on values and attitudes to its members. In the context of family firms, the values that are transmitted to family members are specific knowledge, skills, abilities, attitudes and motivations on how to run a business. Because of their involvement in the firm's ownership and management, family members become endowed with a higher tolerance of failure and risk-taking behaviors. However, the transmission of human and entrepreneurial capital in the context of family firms is also extended to non-family employees and managers. Through close and frequent interactions with the family firm's founder, young workers learn about the process of starting and running a firm, thereby becoming more likely to start their own in the future. Consistent with this view, Fairlie and Robb (2007) found that in the United States, children of business owners are substantially more likely than others to become self-employed. Moreover, Alsos, Carter, and Ljunggren (2014) highlighted the importance of the entrepreneurial household in business creation and growth by demonstrating that farm households play an important role in business incubation by providing resources, knowledge and emotional encouragement.

So far, studies on the relationship between family ownership and entrepreneurial activities have been mainly micro-oriented, thus neglecting the role of family firms in explaining regional outcomes (Stough et al., 2015). Considering the regional density of family firms, we provide an empirical evidence to shed light on the importance of family firms for regional entrepreneurship.

Testable hypotheses

The aim of our chapter is to investigate the role played by industry scale and family ownership prevalence at the regional level in promoting entrepreneurial initiatives in European regions. In line with the aforementioned theoretical and empirical literature, we expect that the industry scale, i.e.,

the average firm size at the industry level, is negatively associated with the birth rate of firms at the regional level, whereas the density of family firms has a positive impact. Hence, we formulate our hypotheses as follows:

> Hypothesis 1: *Average firm size is negatively associated with the firm birth rate at the regional level.*
> Hypothesis 2: *Family firm density is positively associated with the firm birth rate at the regional level.*

However, as far as the influence of the industrial structure is concerned, we expect that the relationship between average firm size and entrepreneurial activities may be different in European regions at a lower industrial development stage. Chinitz (1961) used this intuition to explain the different level of entrepreneurship between New York and Pittsburgh, which resulted from the dissimilar processes of past economic development of the two cities. The historical concentration of industries characterized by large, mass-production firms (e.g., the steel industry) hindered entrepreneurial activity in Pittsburgh. On the other hand, the development of decentralized industries (e.g., the garment industry) characterized by the presence of small independent firms fostered entrepreneurship in New York. Using this evidence and exploiting the same underlying rationale, a recent paper by Stuetzer et al. (2016) showed that entrepreneurship activity is actually shaped by the industry structure in the UK, where the presence of large-scale industries in a region is associated with a lower rate of entrepreneurial activity in that area.

Borrowing from Stuetzer et al. (2016), we therefore assume that the industry average firm size may affect entrepreneurial activity in European areas differently according to their stage of industrial development. Large foreign firms that are mainly responsible for the increase of the average firm size in Eastern European regions actually play a crucial role in these areas because of the positive externalities – in terms of diffusion of technologies and management practices – on local businesses, which, in turn, can foster local entrepreneurship. Moreover, we may expect that also the outsourcing of production activities to local agents by large foreign and state-owned enterprises may drive new entrepreneurial activities, along a process of division of labor spurred by the re-organization of vertically-integrated plants. Hence, we test the following additional hypothesis:

> Hypothesis 3: *The relationship between average firm size and firm birth rate may be reversed in Eastern European regions.*

Data, variables and method

Dataset

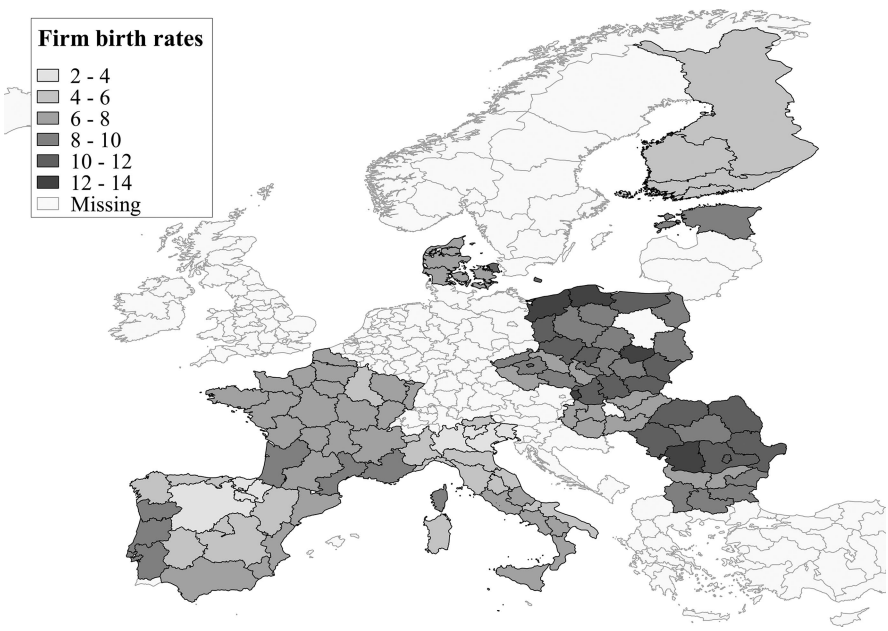
To construct regional variables, we rely on two databases. The Eurostat regional database provides the main economic and demographic variables

(e.g., the regional firm birth rate and the regional share of employees in the manufacturing sector) for European NUTS2 regions (Eurostat, 2011) for the period 2011–2016. The Bureau van Dijk–Amadeus database provides information on ownership and headquarter location about European companies, which we use to compute the regional share of family firms in 2009. Combining the two databases, we obtain a final sample of 121 regions of 13 European countries, i.e., Bulgaria, Czech Republic, Denmark, Estonia, Spain, Finland, France, Hungary, Italy, Poland, Portugal, Romania and Slovakia.[2]

Dependent variable

We measure annual regional entrepreneurship in terms of firm birth intensity in the industry sector (NACE Rev. 2, B-E) (*Regional firm birth rate*), calculated as the ratio between the sectoral regional number of firm births [3] for each year of the reference period 2011–2016 and the sectoral regional number of existing firms in the same year. Due to data constraints, the number of observations on the annual regional firm birth rate (expressed in percentages) ranges from 1 (for 18 regions) to 6 (for 56 regions).

Map 10.1 shows the distribution of the average annual firm birth rate over the period 2011–2016 in the 121 regions considered in our analysis. It shows



Map 10.1 Regional birth rate of industry firms (*Regional firm birth rate*) – average values for the period 2011–2016.

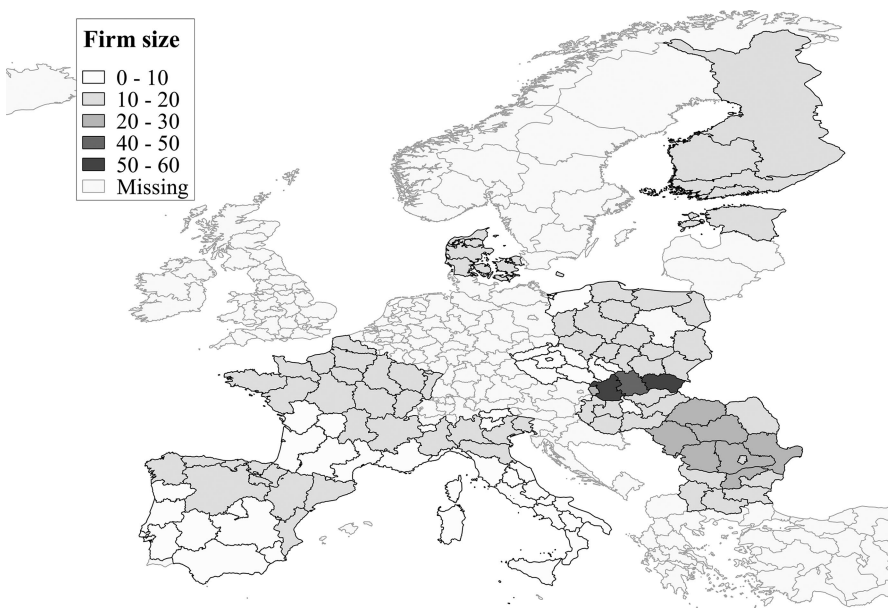
that regions with the lowest levels (less than 6%) of firm birth rate are located mainly in Italy, Finland and Spain, while regions with the highest levels of firm birth rate (higher than 10%) are located mainly in East European countries like Poland, Romania and Slovakia. Overall, a strong country effect emerges, which will have to be accounted for in the empirical analysis.

Industry scale

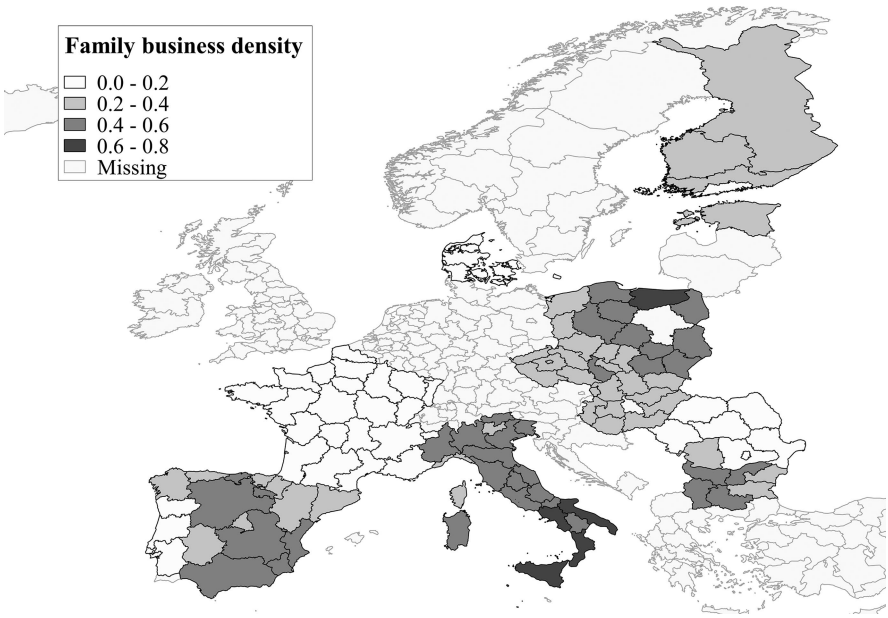
To measure the scale of the manufacturing sector (NACE Rev.2, 10–33) at the regional level, we use the average firm size (*Regional firm average size*). This variable is computed as the ratio between the regional number of employees in the manufacturing sector in 2009 and the regional number of firms in the same sector in 2009. Map 10.2 shows the distribution of the average firm size in the 121 regions with available data. Regions with the largest firm sizes (higher than 20 employees) are located mainly in Slovakia and Romania, while those with the smallest firm sizes (less than ten employees) are located mainly in the Czech Republic, Portugal and in the southern regions of Italy, France and Spain.

Family firm density

Family firm density at regional level is computed using information on ownership and the headquarters location of firms in the manufacturing sector,



Map 10.2 Regional average size of manufacturing firms (*Regional average firm size*) in 2009.



Map 10.3 Regional density of family manufacturing firms (*Regional family business density*) in 2009.

as provided by Bureau van Dijk–Amadeus. First, to distinguish family firms from non-family firms we use the ownership equity share. We consider a firm as a family firm when the largest shareholder (top 1) in 2009 was an individual or a family. Additionally, we use the NUTS 2 code of the company's headquarters location to assign it to a particular region. Regional family firm density (*Regional family business density*) is the ratio between the regional number of family firms in the manufacturing sector and the regional total number of firms in the manufacturing sector.

Map 10.3 shows the distribution of family firm density in the 121 regions with available data. Regions with the highest shares of family firm density (higher than 0.4) are located mainly in Bulgaria, Italy, Poland and Spain, while regions with the lowest shares of family firm density (less than 0.2) are located mainly in Denmark, France, Portugal and Romania.

Econometric specification

We model regional entrepreneurship using the annual firm birth rate in the industry sector (*Regional firm birth rate*). Our two main variables of interest capturing the industry structure of regions are average firm size (*Regional firm average size*) and family firm density (*Regional family business density*) in the manufacturing sector. We controlled for several factors that

affect firm *Regional firm birth rate* and that could be correlated with *Regional firm average size* and *Regional family business density.* The GDP per capita in 2009 (*Regional GDPpc*$_i$) is included to control for the overall level of economic development.[4] Moreover, the share of employees in the manufacturing sector (*Regional share of manufacture*) controls for the degree of industrialization of regions. Finally, a set of country dummies (*C*) and year dummies (*T*) are included to control, respectively, for all country-level unobserved characteristics and for time specific events. As results, *Regional firm birth rate* is modelled using the following equation:

$$\begin{aligned} \textit{Regional firm birth rate}_{i,t} = {} & \textit{Regional average firm size}_{i,\,2009} + \\ & \textit{Regional family business density}_{i,\,2009} + \\ & \textit{Regional GDPpc}_{i,\,2009} + \textit{Share of} \\ & \textit{manufacture}_{i,\,2009} + \theta' C + \gamma' T + \varepsilon_i \end{aligned} \tag{1}$$

Equation (1) represents our main model. As we were also interested in exploring different patterns between Eastern and Western European countries due to the stage of industrial development, additional regressions have been run for the sub-sample of 48 regions belonging to East European countries (i.e., Bulgaria, Czech Republic, Estonia, Poland Hungary, Romania and Slovakia) and the sub-sample of 73 regions belonging to West European countries (i.e., Denmark, Finland, France, Italy, Portugal and Spain).

All estimates are performed using OLS pooled regressions with clustered standard errors. To facilitate the comparison of the regression coefficients, continuous independent variables were standardized, dividing them by two times the sample standard deviation, while the dichotomous independent variables are centred around their sample mean (i.e., demeaned) (Gelman, 2008). The adopted linear rescaling changes the coefficient values of the independent variables, but it does not change the associated *t*-statistics and *p*-values.

Estimation results

Table 10.1 shows the descriptive statistics and matrix of correlations of the unstandardized regression variables. Table 10.2 shows the results of the OLS pooled estimates for regional firm birth rate.

In Table 10.2, models in columns 1, 2 and 3 show the baseline specifications with controls only for the country (Italy as reference category) and year fixed effects. Model 4 extends the basic models by adding all other control variables – i.e., *Regional GDP pc* and *Regional Share of manufacture*.

The coefficient of *Regional firm average size* is negative and significant in Models 1, 2 and 3. This means that the presence of large-scale firms negatively affects entrepreneurship. A two-standard deviations increase in *Regional firm average size* (i.e., an increase of 16.94 employees per firm)

Table 10.1 Descriptive statistics and correlation matrix

Variable	*Mean*	*Std. Dev*	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*
(1) *Regional firm birth rate*	7.23	2.75	1.00				
(2) *Regional family business density*	0.28	0.19	−0.31	1.00			
(3) *Regional firm average size*	13.21	8.47	0.42	−0.16	1.00		
(4) *Regional share of manufacture*	0.22	0.08	0.16	0.12	0.33	1.00	
(5) *Regional GDP pc*	0.02	0.01	−0.51	−0.16	−0.34	−0.43	1.00

Table 10.2 Determinants of regional firm birth rate: OLS pooled regressions

Dep. Var.: Regional firm birth rate	*Model 1*	*Model 2*	*Model 3*	*Model 4*
Regional family business density		1.245***	1.005***	1.606***
		(0.396)	(0.328)	(0.484)
Regional firm average size	−1.786***		−1.548***	−0.870
	(0.506)		(0.431)	(0.703)
Regional share of manufacture				−0.708*
				(0.394)
Regional GDP pc				0.387
				(0.476)
Bulgaria	4.312***	3.668***	4.399***	4.929***
	(0.401)	(0.349)	(0.382)	(0.748)
Czech Republic	3.406***	3.847***	3.761***	4.642***
	(0.470)	(0.536)	(0.492)	(0.692)
Denmark	3.435***	3.996***	4.410***	4.558***
	(0.710)	(0.819)	(0.783)	(0.845)
Estonia	4.462***	4.415***	4.993***	5.549***
	(0.313)	(0.331)	(0.353)	(0.812)
Spain	0.208	0.087	0.344	0.295
	(0.308)	(0.322)	(0.307)	(0.410)
Finalnd	0.386	0.755	1.074**	1.124**
	(0.376)	(0.499)	(0.466)	(0.539)
France	2.535***	3.477***	3.466***	3.955***
	(0.269)	(0.480)	(0.400)	(0.628)
Hungary	2.340***	2.369***	2.713***	3.486***
	(0.289)	(0.309)	(0.323)	(0.698)
Poland	6.035***	5.581***	6.042***	6.372***
	(0.393)	(0.386)	(0.399)	(0.674)
Portugal	4.309***	5.760***	5.487***	6.784***
	(0.359)	(0.608)	(0.523)	(0.842)
Romania	7.368***	7.152***	8.007***	8.696***
	(0.519)	(0.508)	(0.566)	(1.061)
Slovakia	9.772***	7.330***	9.889***	9.658***
	(0.966)	(0.444)	(0.863)	(1.419)
Constant	7.526***	7.593***	7.552***	4.147***
	(0.082)	(0.086)	(0.084)	(0.253)
Year Dummies	Yes	Yes	Yes	Yes
Observations	*585*	*585*	*585*	*585*
R-Squared	0.656	0.653	0.662	0.691

Notes: Clustered standard errors in parentheses; ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$; Year dummies (included in the models) are not reported for the sake of clarity.

produces an average decrease of 1.55% in regional firm birth rate (see Model 3). These results support Hypothesis 1a. However, when we control for *Regional GDP pc* and *Regional share of manufacture* (see Model 4), the negative effect of *Regional firm average size* decreases and becomes not significant. This means that the relationship between *Regional firm average size* and entrepreneurial activity at regional level may be dependent on the level of industrial development of the region. Eastern and Western European regions differ in terms of stage of industrial development and the role of the manufacturing industry as an engine of growth, thus making the influence of the variable *Regional firm average size* different between the two groups of regions. We turn back to this issue below.

In all models, we find a significant and positive effect of family firms (*Family business*). A two-standard deviation increase in *Regional family business density* (i.e., an increase of 0.38 in the share of family firms) produces an average increase of 1.1% in regional firm birth rate (see Model 3). These results support Hypothesis 1b and suggest that a high density of family firms is conducive to entrepreneurial attitudes and cultures. With regard to the other control variables, we find a negative and significant effect of *Regional Share of manufacture* on the entrepreneurial activity. This means that regions with an economic structure characterised by a strong presence of manufacturing industries show lower regional firm entry rate. Moreover, country dummies are almost always statistically significant: the firm entry rate are particularly high for Poland, Romania and Slovakia as compared to Italy, the reference category.

As argued in Hypothesis 1c, we can expect that *Regional firm average size* reduces regional firm entry rate only in Western European regions, while an opposite effect is expected for Eastern Europe. Table 10.3 reports the results of OLS pooled regressions for the sub-sample of Western European regions (Model 5) and the sub-sample of Eastern European regions (Model 6). All regressions in Table 10.3 include the full set of control variables.

In line with Hypothesis 1c, the coefficient for *Regional firm average size* is negative for Western European regions (Model 5) and positive for Eastern European regions (Model 6). Interestingly, the results show that the coefficient for *Regional family business density* is positive for Western regions (Model 5), but it is not statistically significant for Eastern regions (Model 6). We believe that this evidence, i.e., the scarce or null influence of family business density on entrepreneurship in Eastern European regions, is due to the significant dependence of local industrial sectors on non-local actors, i.e., multinational or other foreign firms. However, further research is needed to comprehensively explain this result.

Additional checks have been conducted to validate the robustness of our main results.[5] First, we performed tobit regressions to take into account the fact that the dependent variable is left censored. The results are very similar to those discussed above. Secondly, we performed additional regressions using different subsample periods to account for heterogeneous macroeconomic conditions (crisis and recovery periods). Finally, we assessed the

Table 10.3 Determinants of regional firm birth rate: OLS pooled regressions for the subsample of West and East European regions

Dep. Var.: Regional firm birth rates	*West Europe*	*East Europe*
	Model 5	*Model 6*
Regional family business density	1.546***	−0.230
	(0.512)	(0.537)
Regional firm average size	−2.640***	2.157***
	(0.748)	(0.376)
Regional share of manufacture	−0.459*	−1.729***
	(0.253)	(0.364)
Regional GDP pc	0.593	2.103***
	(0.589)	(0.677)
Year Dummies	Yes	Yes
Country Dummies	Yes	Yes
Observations	*392*	*193*
R-squared	0.724	0.480

Notes: Clustered standard errors in parentheses; ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$; Country dummies and year dummies (included in the models) are not reported for the sake of clarity.

weak causality of the cross-sectional model by using a rolling-reference window for the dependent variable, from the time interval 2011–2016 to the time interval 2014–2016 and 2015–2016. In all cases, estimated results confirm the main evidence of the paper.

Conclusion

In this chapter we investigated the impact of industry scale and family firm density on new entrepreneurial initiatives at the regional level in Europe. By drawing information on 121 regions located in 13 European countries from the Eurostat regional database and the BvD-Amadeus database, we found that the regional industry scale (i.e., the average firm size at the industry level) and the regional density of family firms positively affect regional entrepreneurship (i.e., the regional firm birth rate). However, when the level of industrial development is taken into account – and European regions are classified either as Eastern or Western – these results only hold for Western European regions, whereas in Eastern European regions the industry scale variable has a positive (instead of negative) influence on entrepreneurship and the contribution of family firm density almost disappears.

The main contribution of this chapter is to explore behavioral differences between family and non-family firms in a regional context. Existing literature highlights the importance of family ownership in explaining firms' economic and innovative behaviors, but partially neglects the role played by family firms within the geographical context. Family firms can benefit from a strong social network and they are more embedded in the industrial setting of the region than non-family firms. This book chapter provides an

empirical evidence to shed light on the impact of family firms on entrepreneurship as a regional outcome.

Our analysis has a number of limitations that also presents questions for further research. First, the specific mechanisms that drive the different results for Eastern and Western European regions remain a black box to a large extent. In addition to large multinational and foreign firms, these outcomes can be also related to national and regional institutions and policies. In general, the analysis could be enriched by incorporating additional institutional, economic and social variables in the framework and identifying their role more precisely. Second, we focus on entrepreneurship, but the analysis of the impact of industry scale and family firm density can be extended to other regional economic outcomes. Third, since we use OLS cross-sectional regressions, we could only show associations and not causality in the relationships. Therefore, it might be important to strengthen the analysis using more appropriate and robust estimation methods.

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Notes

1 This is mainly due to low entry barriers, low opportunity costs of self-employment and a direct interaction with entrepreneurial role models.
2 Other European countries and regions have not been considered because of missing data on regional firm birth rate (Eurostat database) and/or the NUTS2 region of firms (Bureau van Dijk–Amadeus database).
3 According to the Eurostat–OECD definition (2007), the number of firm births does not include spurious entries related to extraordinary events like mergers and acquisitions, split-offs or restructuring of existing enterprises and reactivation of dormant units.
4 The GDP per capita in 2009 is highly correlated with other factors affecting firm entry (Harrigan, 1981; Stuetzer et al., 2016) as the R&D expenditure per capita in 2009 and the share of high skilled people in 2009, i.e., the percentage of people aged 25–64 with a tertiary education (ISCED levels 5, 6, 7 and 8). In unreported regression, we also include these indicators. The results (available from the authors upon request) are very similar.
5 Full results of the robustness checks are available from the authors upon request.

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11 Family firms and regional development

Evidence from China

Xinrui Zhang, Junsheng Dou and Hanqing "Chevy" Fang

Introduction

In recent years family business literature has started recognizing the importance of context (Gomez-Mejia, Basco, Müller, & Gonzalez, 2020; Morck & Steier, 2005) to better understand family firm behavior. This is because context might affect the size and structure of the business family, resource endowment, and feasible governance mechanisms that business families use to protect their economic and non-economic endowments (Chen, Fang, MacKenzie, Carter, Chen, & Wu, 2018; De Massis, Ding, Kotlar, & Wu, 2016; Janjuha-Jivraj & Woods, 2002; La Porta, Lopez-de-Silanes, & Shleifer, 1999).

Since opening up to global trade and implementing free-market reforms in 1978, China's economy has experienced tremendous growth, with a 9.5% average annual growth rate in gross domestic product (GDP). Indeed, China has grown from a low-income economy with a GDP per capita of less than $200 to a middle-income country with about $8,800 GDP per capita. Market reforms have also nurtured a large population of entrepreneurs, who have become the driving force behind the increasingly important private economic sector in China (Tsang, 1996). As China's economic system continues to mature, entrepreneurs who were able to capture the opportunities of the reform in the 1980s have reached an age where they need to consider the possibility of passing their business to next-generation family members (Pistrui, Huang, Oksoy, Jing, & Welsch, 2001).

Nonetheless, most research in family business is contextless and scholars in this field have recognized that more studies are needed to better explore the interaction between family firms and context (James, Hadjielias, Guerrero, Discua Cruz & Basco, 2020). At the same time, despite the strong interdependence among family businesses, business families, and the Chinese context, we still lack a thorough understanding of how the Chinese context might contribute to unique specificities of Chinese family firms. It is an emerging economy but at the same time is also a transitional one. Hence, federal and regional governments play an important role in designing policies that eventually impact how family firms behave and perform.

Our evidence shows that, just like in other economies, family firms are a relatively common phenomenon in China across regions. Additionally, we

observe that even though there is a prevalence of family firms, its presence varies across geographical regions. Finally, our findings show that, comparable to other national and regional economies, Chinese regional development seems to have substantial effects on family firm behaviors in terms of R&D investment, industrial diversification, and internationalization.

The Chinese context, institutional transition, and family entrepreneurs

Just like in other economies, family firms are highly prevalent in China, if not more so (Sharma & Chua, 2013). Different from other cultural environments, business leadership in China is inextricably tied to the central role that family plays in business (Liden, 2012), largely stemming from the Confucian norms and values deeply embedded in Chinese society. In China, the idea of "family" (Chinese: 家) refers to a unit of members related to each other by blood, marriage, or adoption, characterized by culturally defined role differentiations and solidarity among members, the owning of common property, the sharing of common production and common consumption, as well as the practice of common social activities. Here, "family" would go beyond simply a biological unit bonded by marriage and blood. In fact, Chinese family can be conceptualized as a social unit in which family members' roles and solidarity relations are defined by underlying Confucian values; it is an economic unit in which living members produce and consume in common and also a cultural unit where the family is responsible for performing certain anthropological rituals such as ancestor worship for the wellbeing of both living and deceased members.

Note that, Confucian norm specify a unique relationship between the family and the individual. In the West, the family often serves the basic function of raising and preparing an individual before he/she goes out into the world and becomes a full member of society. As a result, families often experience a "break up" when children reach adulthood, depart from the original family, and start to build their own nuclear families. In other words, the family system in Western society exists to nurture junior family members. The situation in the traditional Chinese context is the exact opposite: the purpose of family members, especially junior males, is to nurture and continue the family, which is often aligned with a shared family surname, history, and antecedents. As Baker puts it,

> There is an underlying assumption in Chinese thinking on the family that there is such a thing as a "Continuum of Descent"…Decedent is a unity, a rope which began somewhere back in the remote past, and which stretches on to the infinite future . . . the individual alive is the personification of all his forebears and all his descendants yet unborn.
> (1979, 26)

Hence, it is not a surprise to see that Baker concluded that the "individual was dominated by the family (in China)" and "the actions of individuals were geared to the requirements of the (Chinese) family" (1979, 27).

Given its prevalence and strong influence, the family-centered culture in China often makes family business the default form when entrepreneurs start their ventures (Aldrich & Cliff, 2003). Also, family members are socially and culturally obligated to support each other's business initiatives and family-endowed financial, social, and human capital are often used in the family system (Arregle, Hitt, Sirmon, & Very, 2007). In addition, business leaders in China are often considered "father figures", who are expected to have proven capability and integrity, yet be considerate, and are expected to take good care of even non-family managers and employees. Taken together, it appears reasonable to conclude that the prosperity and idiosyncrasies of Chinese family firms partially stem from traditional Confucian culture, which emphasizes the inseparable connection between the individual and the family system.

Besides informal institutions such as culture and value systems, formal institutions also play an important role. Indeed, China is still a transitional economy undergoing changes in its economic and political systems. The most relevant part for our discussion is the adolescence stage of the private sector, where economic activities led by entrepreneurs started during 1980s and 1990s (Pistrui, Huang, Oksoy, Jing, & Welsch, 2001). Prior to this, China was a planned economy largely controlled by state-owned firms, with very few opportunities left to private enterprises. It is family entrepreneurs/founders who started the first wave of privately owned businesses immediately after the 1978 Open-Up and Reform era. In addition, given the fact that formal institutions such as the protection of property rights are still not fully developed in China, family governance is often used to "fill the voids". Here, the family's reputation often serves as a reliable substitution for effective commercial laws and the family network might help reduce the cost of searching for business partners and maintaining business relationships (i.e., transaction costs).

Finally, because of the emerging nature of Chinese economy, all family entrepreneurs and family firms in China are relatively young. In fact, in Western economies some family firms have already been successfully passed from the founding members to the second or later generations (Chua, Chrisman, & Sharma, 2003; Morck & Steier, 2005). In comparison, the majority of Chinese family firms have never experienced intra-family, trans-generational succession (Janjuha-Jivraj & Woods, 2002). Furthermore, entrepreneurs and business families in China still lack experience with family governance as well as talent in the family labor pool (Morris, Allen, Kuratko, & Brannon, 2010). Finally, the global economy has entered a period of recovery and China's economy, which had been on the rise so far, is facing a slowdown. In contrast to mature family firms in Western countries, which have already experienced various economic cycles (La Porta, Lopez-de-Silanes, & Shleifer, 1999), family firms in China are still struggling to leverage technological innovation and strategic renewal in order to maintain their positions in the market (De Massis, Frattini, & Lichtenthaler, 2012; De Massis, Ding, Kotlar & Wu, 2016).

To summarize, meaningful insights of family business in China cannot be decoupled from (1) cultural heritage stemming from Confucian culture and values; (2) institutional transitions that are strongly connected with economic growth in China; and (3) family founders/entrepreneurs who started the business. In the following sections, we will discuss the specific characteristics of family entrepreneurs and family business, family governance, and strategic and environmental issues in family business. In our discussions, we will elaborate on the unique "Chinese characteristics" of family business in the country, which either result from or contribute to the nation's economic growth and institutional transitions.

History and overview of Chinese family business

Data sources

All the following discussions are based upon information from two data sources. The first is the China Stock Market & Accounting Research Databases (CSMAR), which covers all publicly listed firms in China. In line with existing research (Chua, Chrisman, & Sharma, 1999; La Porta et al., 1999), we classify family business as those with (1) at least 15% family ownership and (2) at least two family members who currently serve as top managers and directors. The second data source is the All-China Federation of Industry and Commerce (ACFIC) database, which is based on a survey effort of private enterprises in China from 1995 to 2016, with data collected once every two years. We also include a data collection on the "health and sustainability of Chinese family firms" jointly conducted by Zhejiang University and the All-China Federation of Industry and Commerce in 2015 and 2016. The nature of public and private family firms vary due to firm size and goals that the dominant coalition pursues. Therefore, we used data from public and private family firms and we separated the analysis because both types may differ in terms of behavior and performance.

Furthermore, according to the China market index, we classify provinces and areas in China into three categories: highly-developed, moderately-developed, and under-developed. In general, most provinces along the eastern and southern coast fall into the highly developed category. Provinces in the middle and mid-western parts of China are mostly moderately developed, whereas those in the west or south-western parts are under-developed. This observation is consistent with the idea that the coastal areas are more likely to be exposed to economic opportunities, hence more likely to experience higher economic development.

In the following sections, we draw attention to regional differences with regard to family firm behavior, structure, and performance. Such an effort reflects our research intention of explaining the spatial distribution of Chinese family firms as well as their differences and similarities across regions. Additionally, when the data information allows, we will explore the regional influence on Chinese family business.

Private enterprises and family business in China: an overview

According to the National Bureau of Statistics of China, in 1996 there were 443,000 private enterprises. In 2017, the number reached 14.4 million with an increase of 31.4 times and an average annual growth rate of 18.0%. The proportion of private enterprises increased from 16.9% to 79.4%. In addition, as of 2017 private firms have contributed to more than 60% of China's GDP, 50% of national tax, 70% of investment in technological innovation and new product development, and 80% of newly created jobs. According to China's National Bureau of Statistics, the number of private enterprises in China has dramatically accelerated over the past few years (Figure 11.1). Among them, the number of private enterprises in highly-developed areas have been much higher than that in moderately-developed and under-developed areas. As shown in Figure 11.2, it appears that the level of regional economic

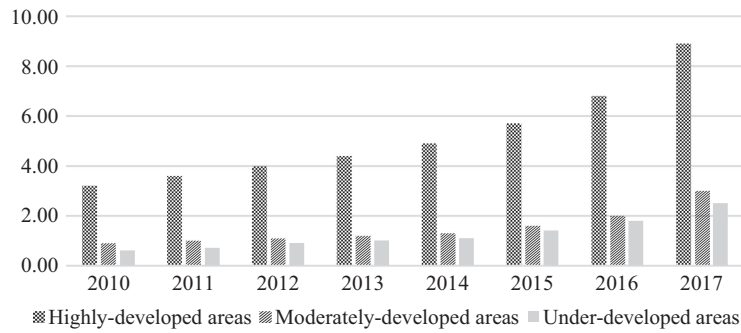

Figure 11.1 The number of private firm registration in China by regions (unit: million, 2010–2017).

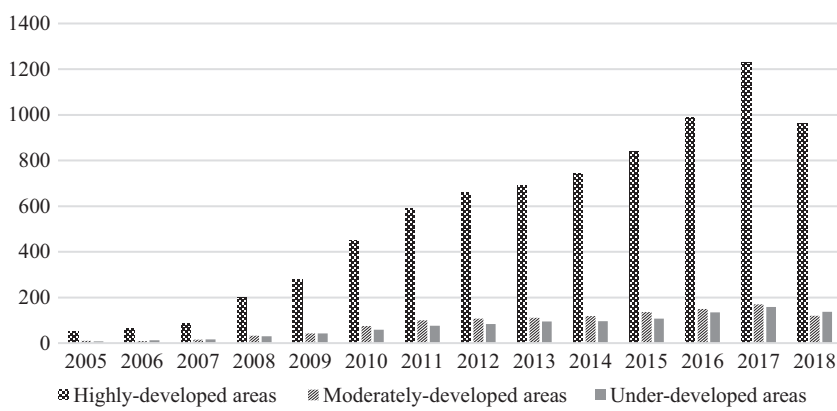

Figure 11.2 Publicly listed family firms in China and regional development (unit: million, 2005–2018).

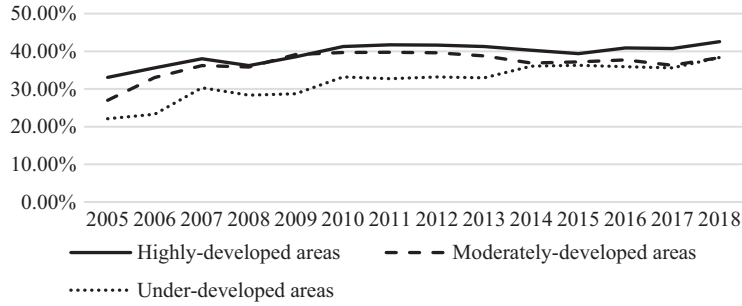

Figure 11.3 Average family ownership of Chinese listed firms.

development is positively associated with the number of private sectors/enterprises, especially family-owned ones.

In the following part we briefly discuss the general features of family involvement in ownership across publicicly-traded companies in China. According to the CSMAR database, average family ownership has increased over the past 14 years. Family ownership is highest in highly-developed areas, second in moderately-developed areas, and lowest in under-developed areas. However, the gap between moderately developed and under-developed areas has been narrowing in recent years, maybe because of the overall improvement of the institutional context across regions in China (Figure 11.3).

Family entrepreneurs in China

As mentioned above, any discussion on family firms in China cannot neglect the important role of family business leaders, who, in most cases, are the founders of the business. Yet, in contrast to their descendants, family entrepreneurs/founders might lack the formal knowledge, skills, and/or education to run the business, partially due to the under-developed educational system of China before the Opening-Up and Reform era. Nonetheless, in alignment with free-market reforms, education has become increasingly important and family entrepreneurs have been active in obtaining education in order to develop/maintain their competitive edges in the market. Indeed, ACFIC data from 1995 to 2016 shows that the education levels of family entrepreneurs have significantly improved over time (Figure 11.4).

Additionally, consistent with existing studies on family leadership in business (Chen et al., 2018), female family leaders have been on the rise. According to ACFIC data from 1995 to 2016, the proportion of female family leaders has increased from 10.40% in 1995 to 20.40% in 2016 (Figure 11.5). Such a change has also been observed in Western economies, which might reflect a global trend where the function of female family members has

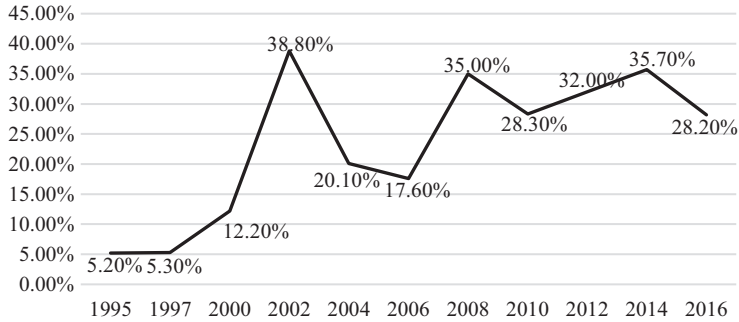

Figure 11.4 The proportion of Chinese entrepreneurs with bachelor's degree or above.

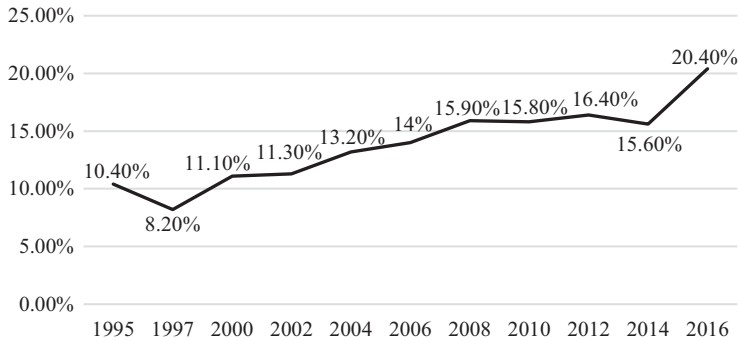

Figure 11.5 Proportion of female entrepreneurs in China.

transitioned from a supportive role in the family system into a leading role in the intersection between the family and business systems (Curimbaba, 2002; Nelton, 1998).

In the absence of a mature market system, family entrepreneurs in China often choose to develop political connections and/or join political alliances to better exploit opportunities and absorb uncertainties stemming from the context (Morck & Yeung, 2004). In fact, business families' active political participation (the communist party) might facilitate access to valuable opportunities and resources, help overcome the liability of "newness" and lack of legitimacy in entrepreneurial activities, and potentially expand formal and informal networks (Tsang, 1996; N. Xu, X. Xu, & Yuan, 2013). Indeed, according to the ACFIC survey, the proportion of family entrepreneurs with membership in the Communist Party of China (CPC) increased dramatically from the 1990s to early 2000 (Figure 11.6). Nonetheless, we

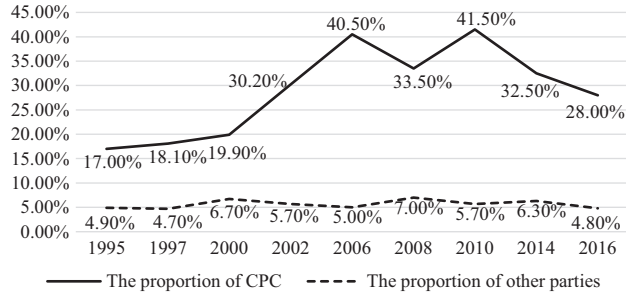

Figure 11.6 Political background of entrepreneurs.
Note: CPC is short for Communist Party of China.

also observe strong fluctuations and the proportion has started to decline in recent years.

Due to data limitations we were unable to specify the variation of family private entrepreneurs across regions. Future researchers might want to collect additional data to explore these differences and causes, and how they might vary across regions.

Current status

This section intends to discuss critical issues related to current challenges in Chinese family business. The topics cover governance mechanisms, innovation, diversification, internationalization, and firm performance in Chinese family firms across regions.

Corporate governance

Just like their Western counterparts, Chinese business families are inclined to use governance mechanisms in enhancing their control over the business. Certain mechanisms such as a board of directors and chair positions are often used. These not only help the owning family supervise and control operational activities, but also mitigate the tension of conflicts of interest among shareholders and stakeholders and may help maximize the value of the firm in the long-run (Carney, 1998, 2005; Chrisman, Chua, Kellermanns & Chang, 2007).

Starting from 1995, the percentage of family firms establishing boards of directors, boards of supervisors, and shareholder meetings has been increasing (Figure 11.7). According to the ACFIC survey, from 1995 to 2016 this trend can be best described as a "rise and fall". In 1995 only 29% of respondents had a board of directors. This number jumped to 74% in 2004, and then declined into 43% in 2016. Similar trends have also been observed in the establishment of board of supervisors and shareholder meetings.

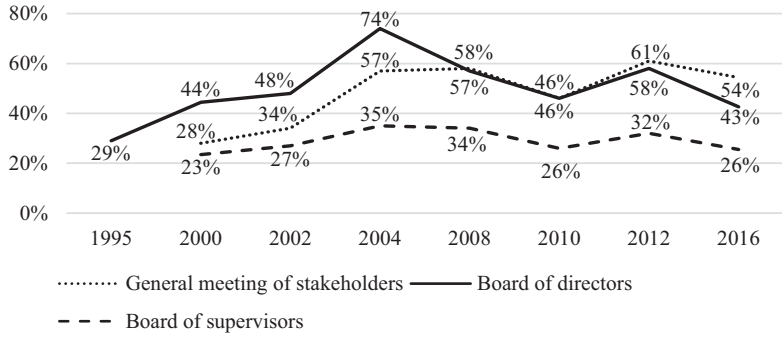

Figure 11.7 The governance institutions of Chinese private firms.

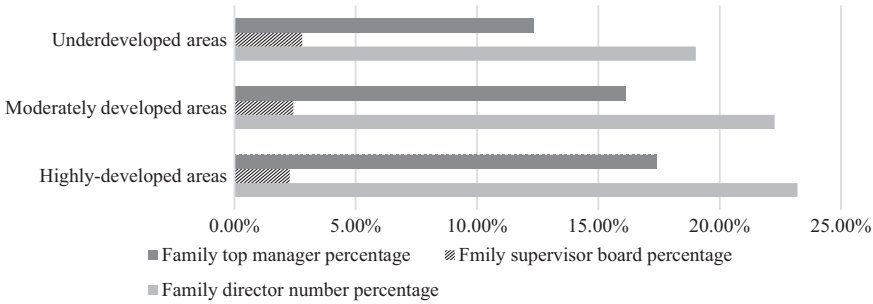

Figure 11.8 Family members in top management teams, supervisor boards and director boards by regions.

Nonetheless, executive, supervisory, and director positions are often reserved for family business founders or their relatives (Figure 11.8). In fact, the proportion of family members in the executive team (10–20%) and the board of directors (15–25%) are relatively high.

We notice substantial regional differences. In the more developed areas, we tend to have higher proportion of family members in the executive team and boards. This phenomenon may be due to the positive correlation between family ownership and regional development (Figure 11.3), as higher family ownership might motivate the family to assign more members to leadership positions. This might also stem from the improved education and capabilities of family members in highly-developed regions, hence making them more capable of management. Future researchers might want to collect additional data to explore these possibilities.

Innovation

Innovation is the driving force behind business growth and superior performance. Research and development (R&D) intensity, measured as the R&D

expenditures/Sales percentage, is often used to capture a firm's resource investment in technology innovation. According to the European Union standard, firms with more than 5% R&D intensity are considered to have a high level of R&D investment, with 2–5% a medium-level, and those below 2% a low-level.

Using the CSMAR database, we track R&D investment in 307 listed Chinese family firms from 2009 to 2015. In general, half of them have an R&D intensity between 2% and 5%; 15.72% have an R&D investment intensity higher than 5%; and 21.21% below 1%. In addition, firms whose founders are aged 41 to 50 have the highest level of R&D in business (4.01%). Also, family founders who have at least a bachelor's degree tend to invest more in their businesses compared to those with lower levels of education. In addition, family firms with both family owners and family managers have slightly higher R&D intensity (3.69%) compared to those with family involvement only in ownership (2.82%). Furthermore, those with second or later family generation members in top management positions have higher R&D investment compared to those without.

Note that the abovementioned findings are somehow different from the Western experience. As Fang et al. (2018) and Memili, Fang, and Welsh (2015) show, compared to the founding generation, second- or later-generation members in Western family firms are often more risk averse, reflected in lower levels of R&D investment and internationalization. Our findings might imply that the transitional nature of the institutional and economic context in China, coupled with better overseas education among junior family members, might motivate late generation-controlled family firms to be more innovative and risk-taking compared to the founding generation-controlled family firms.

It appears that there is a positive correlation between a family firm's R&D investment and regional development as those in developed regions tend to have higher R&D investments (Figure 11.9). Such a phenomenon might be due to the prevalence of institutional voids in under-developed regions. Hence, family firms in these areas might be more motivated to invest resources in political connections rather than R&D and technology innovation (Morck & Yeung, 2004). It is also possible that under-developed areas

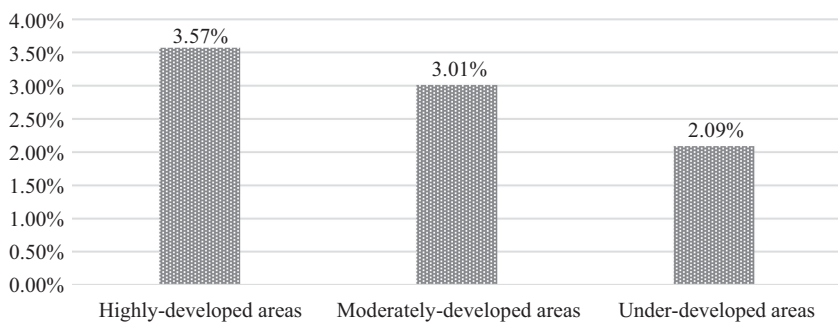

Figure 11.9 R&D investment intensity of listed family firms in China by regions.

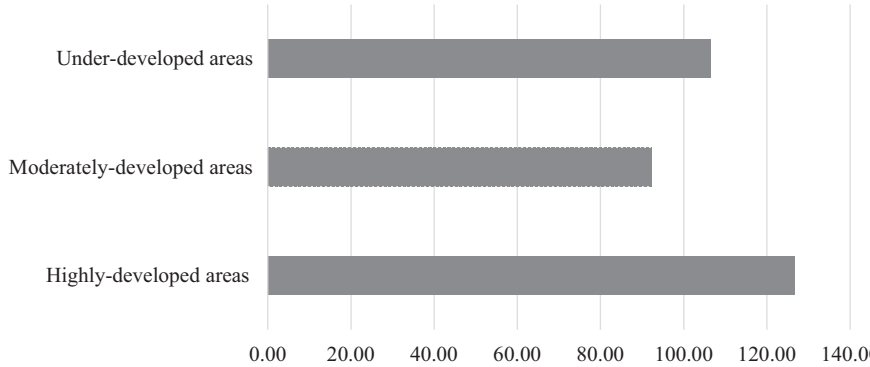

Figure 11.10 Average patens and invention patents of listed family firms in China by regions.

are dominated by low-technology industries and that the demand for R&D is not urgent. In addition, such a finding might be due to the fewer colleges and universities, as well as the lack of supportive government policies, in under-developed regions. While we are unable to test these propositions given the data limitation, future studies may certainly further explore the specific mechanisms behind these differences.

It has been found that the number of patents in highly-developed areas is the highest, while those in moderately developed areas are the lowest (Figure 11.10). Given the fact that a patent is an outcome measure of innovation, this result might suggest that family firms vary in terms of innovation productivity across regions. Future researchers might want to pay more attention to this possibility.

Diversification

Diversification happens when the company expands its product lines and/or enters a new geographic/industrial market. According to the CSMAR database, for 305 listed Chinese family firms from 2009 to 2015, the overall diversification index was 0.237, a moderate level of diversification. Its calculation takes into account the number of different products, the distribution of products in the production line, and the dissimilarity or heterogeneity of products, applying equally well to plants/firms/industries and bounded between zero and unity (Gollop & Monahan, 1991; Jacquemin & Berry, 1979). Data from the United States in 1982 shows that the diversification index is between 0.049 and 0.482 (Gollop & Monahan, 1991).

The proportion of non-related diversification is over 78%, meaning that Chinese family firms tend to focus on market areas that are less related to

their "core" business. Unrelated diversification can help neutralize risks from same business areas, but may also increase the cost of resource allocation and operational coordination (Jones & Hill, 1988). It is our belief that the reason behind this unrelated diversification choice is the rapid growth of China's economy, which may create many new yet unrelated opportunities that business families intend to exploit. Additionally, unrelated diversification may be influenced by political connections (Faccio, 2006). A series of studies find that political connections might result in better firm performances in emerging economies (Li & Zhang, 2007; Peng & Luo, 2000). This is because when market and political institutions are immature, political connections can help companies better seek help from the government and obtain valuable resources such as financial support, novel technology, and monopoly permits (Peng, Lee, & Wang, 2005). Furthermore, political connections are not bound to specific industries, hence this encourages companies to enter new industries to avoid idle resources (Li, He, Lan, & Yiu, 2011).

There are also notable regional differences. Family firms in underdeveloped and highly-developed areas tend to have higher diversification compared to those in moderately developed regions (see Figure 11.11). One possible explanation is that family firms in highly-developed areas choose to diversify due to acquisition and leveraging of superior knowledge stemming from regional development. Conversely, family firms in underdeveloped areas diversify into certain industries that are not developed yet in order to exploit the first-mover advantage. In other words, in highly-developed regions, family firm diversification is driven by the "supply" side (capable of diversifying), while in under-developed regions it is driven by the "demand" side (the industry is emerging or has not been exploited yet).

In addition, different types of family involvement may affect the degree of business diversification. In fact, family involvement in both ownership and management is coupled with lower level of diversification compared to cases where families only serve as the owner (Figure 11.12).

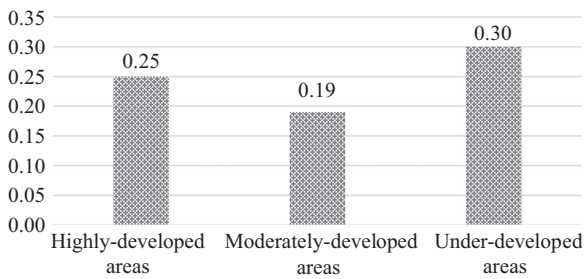

Figure 11.11 The degree of diversification of family businesses in different regions.

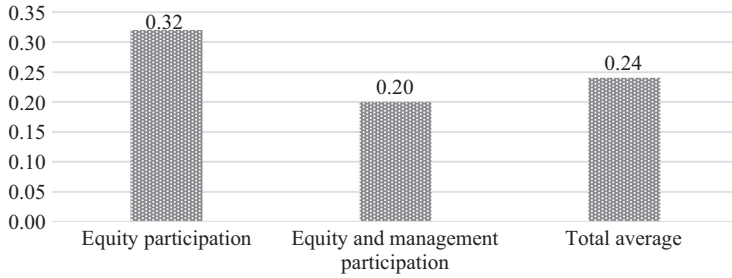

Figure 11.12 Types of family participation in business and enterprise diversification.

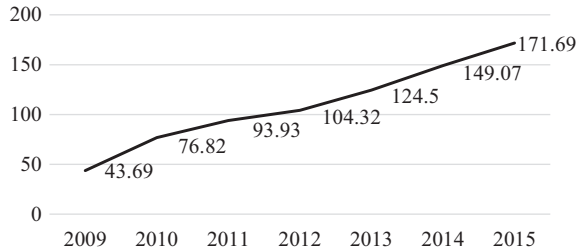

Figure 11.13 Total overseas business revenue of listed family enterprises in China (billion yuan).

Due to data limitations, we were unable to specify the particular causes of family firm diversification across regions. Future studies might explore the relationship between types of family participation in business, business diversification, and regional contexts.

Internationalization

Internationalization refers to a strategic choice in which companies expand the business territory into foreign countries. According to the CASMR database, from 2009 to 2015 there were, in total, 2,053 firm-year observations for publicly listed family firms in China. Among them, about 74.9% (1,538) had revenue from internationalization, resulting in a total of 768.794 billion yuan (about $109.83 billion).

As shown in Figure 11.13, the incomes of Chinese family businesses from foreign operations has been increasing over time. The total overseas revenue in 2015 was about four times higher compared to that in 2009. In terms of regional differences (Figure 11.14), it appears that family firms in highly developed regions tend to have higher incomes (547 million yuan/year) from internationalization compared to those in moderately-developed (310 million

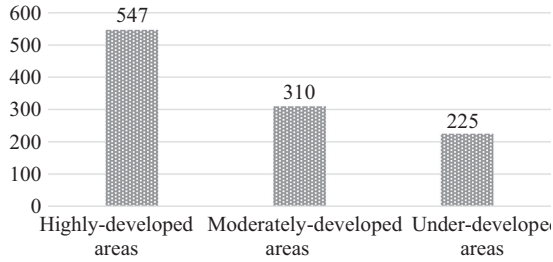

Figure 11.14 Overseas business revenue of family firms in different regions of China (billion yuan).

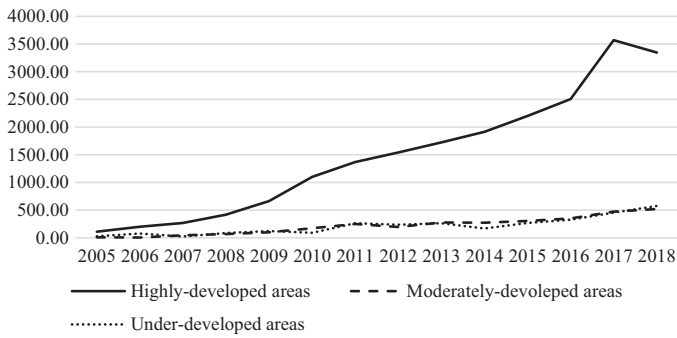

Figure 11.15 Annual sales of listed family firms by regions (billion yuan).

yuan/year) and under-developed (225 million yuan/year) areas. In China, highly-developed areas are located in coastal areas where geographical and transportation advantages may create more international opportunities. In addition, these regions might equip family members with better education and knowledge, which might help family firms benefit more from globalization. Finally, there might be more supportive government policies in highly-developed regions compared to others, stimulating more international activities in family firms. Indeed, future researchers might want to collect more data to explore the specific mechanisms behind our findings.

Firm performance

In the following analysis, we focus on two performance measures: sales and net profit. Figures 11.15 and 11.16 report change in sales and change in net profit in publicly traded family firms from 1999 to 2015. In general, family firms in China have experienced a state of dramatic growth in firm performance especially in highly-developed areas, which might be driven by

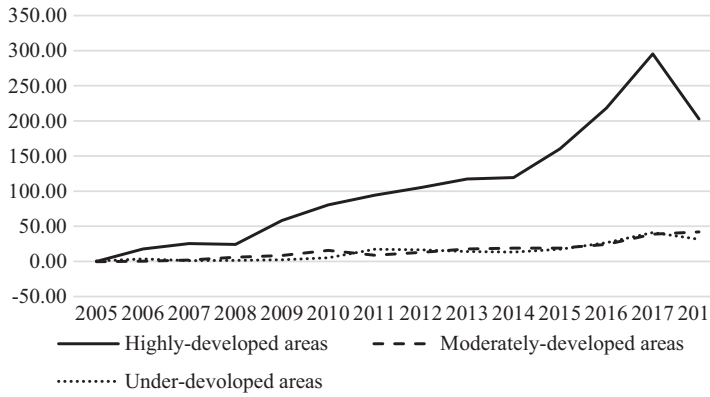

Figure 11.16 Annual net profit of listed family firms by regions (billion yuan).

the improvement in institutional contexts and the embracing of free-market reforms in those regions. Such a result may also be driven by the increasing supply of high-quality human capital, as highly developed areas might attract more and better non-family professionals. Finally, as we discussed above, emerging economic opportunities in highly-developed areas might contribute to performance differences among family firms. Once again, future studies are encouraged to explore the specific reasons behind these findings.

Planning for the future

In this section, we will discuss issues related to the future of family business in China based on regions, including intra-family, trans-generational succession and social responsibility in family business.

Succession

The family founder's willingness to pass the business to later-generation family members constitutes a major driving factor behind the succession process. Nonetheless, according to ACFIC data 1997–2010, only about 32% of family founders are willing to initiate the succession process (Figure 11.17). In fact, in 1997 there was a higher proportion of family founders (42.8%) who were willing to pass control to their children. This number declined to 24.8% in 2006 and then increased to 34.1% in 2010. The fluctuation might be due to the 2008 financial and economic crisis, which might have suppressed the intention of family succession. In fact, family decision-makers, especially the founder, might choose more conservative ways to pass on the family's wealth, such as through family trusts, financial investments, etc.

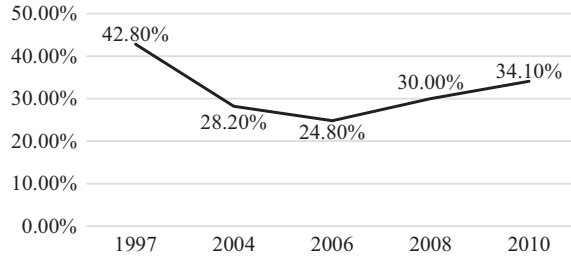

Figure 11.17 Succession intention of entrepreneurs.

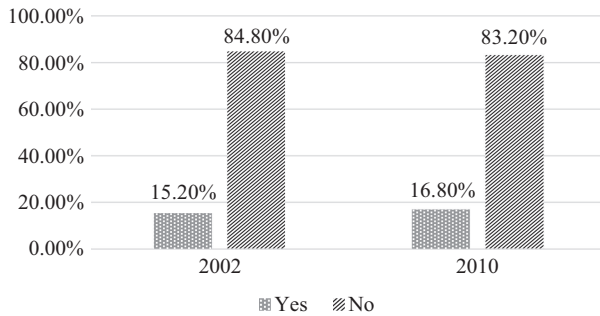

Figure 11.18 Succession intention of the next generation.

The children's willingness to take over the business is also important. According to the survey data in 2002 and 2010 (Figure 11.18), very few late-generation family members were willing to become the successors of the business (15.2% in 2002; 16.8% in 2010). This might be because they plan to start their own businesses or because the owning family prefers a more traditional way (i.e., financial investment) to protect the family's wealth.

Even so, according to CSMAR, a large number of second- or later-generation family members has chosen to work in family firms as chairs, CEOs, top executives, and/or directors. There are certain regional differences (Figure 11.19). The second- or later-generation involvement is highest in moderately-developed regions, followed by highly-developed and under-developed regions. As the speed of economic reform varies by regions, the economic opening of less-developed regions was relatively late, which might explain why we have lower later-generation family involvement in less-developed regions. Future researchers can further explore succession issues in Chinese contexts as well as cross-cultural comparisons. For example, what are the unique factors that motivate family founders to initiate the succession process? What factors might enhance the second generation's

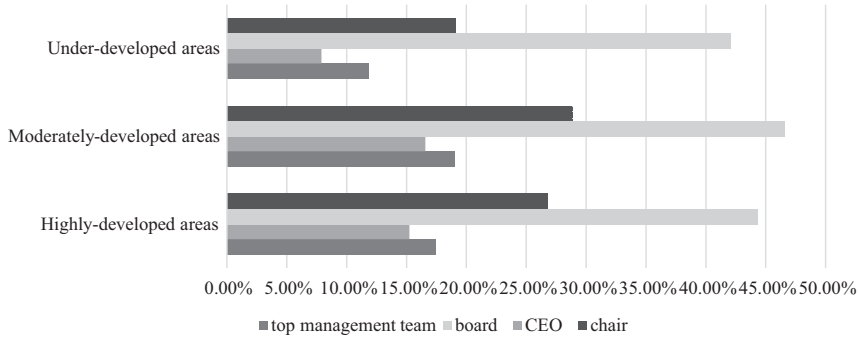

Figure 11.19 Percentage of second or later-generation involvement of listed family firms by regions.

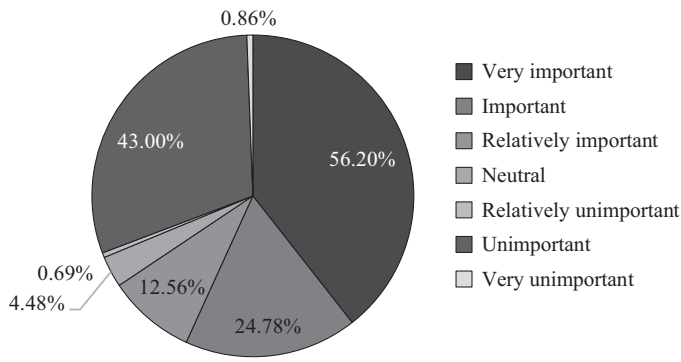

Figure 11.20 CSR in Chinese family firms.

willingness to inherit the business? Affected by frequent changes in political systems and economic policies, entrepreneurs of different ages may have different cognitive models and, hence, we might need more "micro-foundation" studies. Indeed, more studies are needed to explore cross-individual, cross-border, and even cross-cultural possibilities.

Corporate social responsibility

Family firms in China have gradually increased their emphasis on corporate social responsibility (CSR). According to the ACFIC survey (Figure 11.20), 56.2% of family firms consider CSR very important, 24.78% important, and 12.56% relatively important.

According to the China Charity Donation Report, in 2016 there were in total 139.294 billion yuan made in donations, with private family firms

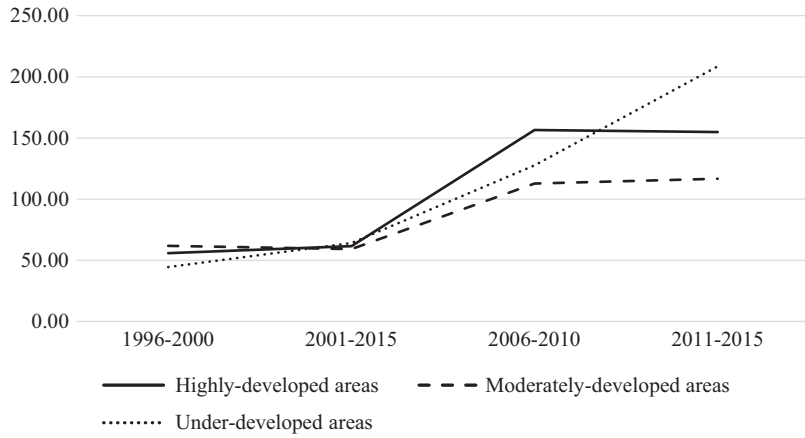

Figure 11.21 Trend of charitable donations made by Chinese private firms in different regions (thousand yuan).

contributing nearly 50%. Figure 11.21 reports the temporal trend in different regions. In general, the annual amount of charity donation has been increasing and the amount in 2015 was almost five times higher than in 1996.

One important part of CSR is the company's intentional effort to reduce damage to the environment and/or propose additional policies to enhance the protection of it. In fact, a large share of the environmental pollution in China is caused by commercial organizations. As the ACFIC survey shows, family firms with 1) better educated family founders, 2) more effective governance mechanisms, and 3) more international operations tend to have heavier investments in environmental protection.

It appears that family firms in under-developed areas have higher environment-related costs (Figure 11.22). This might be because family firms in these areas often pollute more due to weak law enforcement, and higher costs on environmental protection simply reflect the money paid for violations of environment-related laws and regulations. This may reflect the difference in the embeddedness of family firms between regions. Due to data constraints, we cannot explore the relationship between family embeddedness and CSR. Future researchers can collect data in this area for further research. Indeed, whether family firms have more or less CSR has been under debate for a long time (e.g., Campopiano, De Massis, & Chirico, 2014; Ge & Micelotta, 2019). Some studies have concluded that family firms might actively engage in CSR activities in order to maintain their family reputation (Campopiano, De Massis, & Chirico, 2014), whereas some claim that family owners are more "self-interested" and might refuse to invest (Cruz, Larraza-Kintana, Garcés-Galdeano, & Berrone, 2014). Under the condition of imperfect market competition, CSR of Chinese family firms may stem

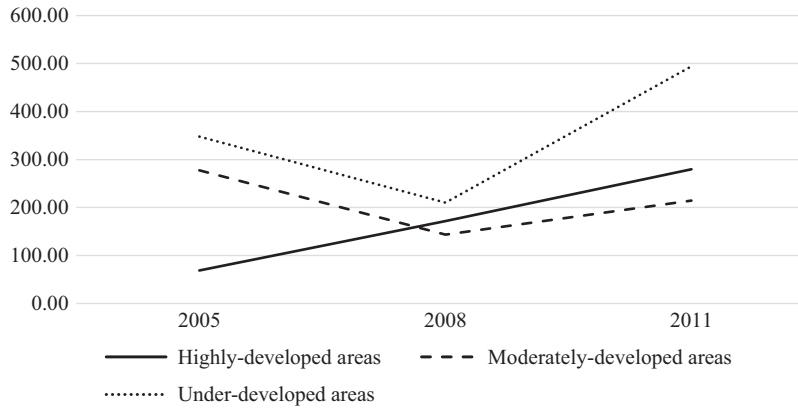

Figure 11.22 Environmental protection costs of private firms in different regions (thousand yuan).

from government pressure. More studies are needed to explore the specific causes of family business CSR in the Chinese context and how these might differ from their Western counterparts.

Discussions

Theoretical implications

Comparing to the Western context

When comparing Chinese family firms with their Western counterparts, we notice many similarities but also some substantial differences. Indeed, business families in China often prefer to have stronger control in ownership, governance, and management than their Western counterparts. This implies that the owning family's power in business is one of the fundamental features in family firms all over the world, in both developed and emerging economies.

In the particular context of China, succession continues to be a critical issue, as second-generation family members often refuse to take a leadership role in business. This lack of motivation might stem from various reasons. For instance, the rise of business opportunities after the 1978 Open-Up and Reform might motivate later generations to start their own businesses rather than succeeding their parents in family firms. In addition, strong dynamics in the institutional and cultural systems might afflict traditional Confucian norms, hence "generational conflict" might be further pronounced in contemporary China, as senior generations often assume traditional values whereas younger ones might place more weight on realizing their individual merits and might refuse to fulfill their family obligations. Of course, the lack

of motivation among second-generation junior family members may also contribute to the rise of professional non-family management in Chinese family businesses.

Spatial difference and family business in China

Another issue worth noting is that family firms in China show a high level of heterogeneity, which is largely captured by regional differences. In fact, China is a country with the third-largest national territory in the world. Thus, it represents a unique context to explore the interaction between business families and external factors that result in heterogeneity in family firm behaviors and performances.

As mentioned in the section "The Chinese context, institutional transition, and family entrepreneurs" and throughout the chapter, the similarities and differences can be best explained by the economic, political, and cultural context in China. On one hand, given the long history of the country, power structures and intra-family relationships in business families often reflect the patriarchal traditions rooted in Confucian culture (Fei, Chang, & Ward, 1946). On the other hand, the free-market system in China remains relatively young and the political and institutional systems are still evolving. Such an issue is reflected in the "unbalanced" distribution across regions, as highly-developed areas might have better institutional context, more economic opportunities, and higher-quality human capital and knowledge resources that family firms can leverage in order to pursue superior firm performance.

As an example, it is found that Chinese family firms located in less-developed regions are less motivated to take risks in strategic actions. It is our suspicion that such regional differences might be related to unbalanced development in institutional and political systems. Indeed, family firms in these regions might be more motivated to develop political connections and make profits from "rent seeking" (Morck & Yeung, 2004) rather than from the Schumpeterian type of innovation and entrepreneurial activities. It is also found that family firms in highly-developed regions tend to have more revenue from international trade and better firm performance overall, which might stem from the higher prevalence and quality of economic opportunities in these areas. Finally, we notice that family firms in highly-developed regions have stronger control of the business, with more later-generation family members involved as chairs, CEOs, top managers, and directors.

From the summary above, we can conclude that there might be two different types of family firms in China and in other developing and transitional economies according to firm's location: family firms in developed areas and family firms in under-developed areas. This finding seems to suggest that even in one (developing/transitional) economy there still exists a high level of heterogeneity among family firms, largely captured by economic and institutional developments across regions. We encourage future researchers to further explore regional differences based on the characteristics and

behaviors of family business, as well as factors that might contribute to these differences. Future researchers can further compare this "regional differences" in China with other economies, hence we might be able to develop better understandings of how country-level factors such as culture, economic development, and institutional stability might contribute to regional differences and family firm heterogeneity in each country.

Family business and context

As entrepreneurship literature and the theory of endogenous development remind us (e.g., Audretsch & Keilbach, 2004; Feldman, 2001), entrepreneurs and business persons are adaptive agents who often actively adjust their strategies to best capture opportunities and neutralize threats stemming from the context, reflected in policies, financing, labor, and other aspects (Acs & Varga, 2005; Black, Meza, & Jeffreys, 1996; Johnson & Parker, 1996). While arguably both family and non-family firms are affected by context, the uniqueness of family businesses lies in its deeper "embeddedness" in the local community through family-centered and/or family-member-based business connections and social relations (Basco, 2015). Such a high embeddedness might imply that, compared to their non-family counterparts, family firms might be more "altered" to valuable information from the context, hence are more "adaptive" as they are able to better and more quickly identify upcoming opportunities and threats in the context. Another important insight is that, given an upcoming opportunity or threat, the strong family-centered control in business can ensure that business families are capable of responding more quickly without the interference from other decision-makers. That means that not only can family firms better identify unusual signals in the context, but that they are also capable of responding even more quickly than non-family firms.

Practical implications

This chapter has some practical implications for designing government policies and nurturing next-generation family leaders. To begin, economic development not only depends on the stock of capital, also on who owns and uses the capital (Morck & Yeung, 1998). As mentioned above, family businesses and business families have been playing an important role in China's economic development. Indeed, given the strong focus on "family" in the traditional Confucian culture, as well as the prevalence of family firms in all regions, federal and local governments in China should maintain a high degree of tolerance for family businesses and create an environment that is conducive to business families.

Given substantial regional differences, local governments should design specific family business-related policies that fit local context. For underdeveloped regions, it might be important for local governments to increase

transparency and reduce the costs of accessing and obtaining external resources. In another word, local governments should find alternative measures to "substitute" political connections and establish a more mature market system, so that the competitiveness of local family firms can be further improved. Under such circumstances, local governments should open more channels to communicate with family firms, and provide them with more support in terms of expertise, infrastructure, and debt financing. Similar measures have been implemented in large and more-developed cities such as Beijing, Shanghai, Guangzhou, Shenzhen, and others.

It is important to note that, according to the ACFIC survey, most second-generation family members refuse to take the leadership role in family businesses partially due to the explosion of entrepreneurial opportunities and their ambition to start their own businesses. Given such a context, it is important for the government to develop specific policies, such as those highlighting family tradition and the legacy of family founders, in order to prepare future generations for assuming the leadership transfer.

Indeed, second- or later-generation family members grew up during a period of great social change in China and might possess a completely different mentality compared to their parents. Furthermore, the educational background of the leadership seems to be important even in the family business context. Hence, local governments need to design policies to motivate second-generation family members to be more actively involved in their family firms and design educational systems that nurture these junior family members such that their knowledge and skill structures can match severe market competition.

Limitations

There are limitations to the analysis conducted in this chapter, which might shed light on future studies of Chinese family firms. First, we report our findings based on two databases: the China Stock Market & Accounting Research Databases (CSMAR) public database and the All-China Federation of Industry and Commerce (ACFIC) database. While these two cover both publicly-traded and private family firms, future researchers might want to use alternate databases, especially those with broader coverage of family systems and members to better explore family business and regional development in China.

Second, although we intend to compare Chinese family firms with their Western counterparts, the two databases we used do not contain any information related to family firms in other economies. Future researchers might want to develop some comparative studies with a focus on how the respective economic and institutional contexts of China and Western countries might contribute to the similarities and differences of family firms in these regions.

Finally, it is important to note that our discussion is bounded by a lack of historical longitudinal data. In fact, CSMAR started to include family business data just a few years ago, ACFIC's earliest survey data is from 1995, and even data related to private firms offered by the National Bureau of Statistics of China only started from 1999. Future researchers might want to collect richer historical data, especially those related to family businesses before and after the Opening-Up and Reform era that started in 1978.

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Part V

A policymaker perspective

12 Family firms and corporate spatial responsibilities in Germany

Implication for urban and regional planning and management

Hans-Hermann Albers and Lech Suwala

Introduction

The planning and management of urban and rural areas has always consisted of a mixture of state-market relations and civil society. This trend has accelerated over the preceding decades as liberalization, deregulation and privatization of former state-performed tasks has increased, the institutional capacities of smaller communities have declined, and as regionally consolidated public administrations have become less effective (leading in extreme cases to failed states). During this time, much responsibility has shifted to non-state actors in general to participate in 'place-based' economic engagement; private sector and family firms in particular have been encouraged to become more involved in regional development and other governance schemes (Harrison, 2014; Suwala, Kulke, & Gade, 2018; Basco, Stough, & Suwala, 2020). This chapter attempts to analyze this phenomenon by offering a unique perspective on urban and regional engagement as it is driven by family firms. It does so by connecting two evolving discourses: On the one hand, on spatial distributions and characteristics of family firms (Basco, 2015; Stough et al., 2015; Basco & Suwala, 2020a, b), and on the other hand, on corporate spatial responsibilities (CSpR) – a spatial expansion of the well-known corporate social responsibility phenomenon (Albers, 2011; Knieling, Othengrafen, & Preising, 2012; Albers & Suwala, 2018; Albers & Suwala, 2020a; Suwala & Albers, 2020).

This chapter summarizes selected existing case studies of such family firm-driven urban and regional engagement from literature and asks how (forms) and to what extent (their spatial impact/intensity) family firms implement CSpR initiatives. In other words, the chapter seeks to establish whether cases from the one discourse can be translated into the conceptual schemes of the other; can family firms be viewed as "spatially responsible"? To operationalize this analysis, we apply the so-called 'CSpR maturity model' (Albers & Suwala, 2018) to family firms involved in spatial development in their areas. The cases in this chapter are pulled from data in existing

literature, from the authors' previous research and from a personal selection of case studies of spatially engaged family firms (e.g., Albers, 2011; Albers & Suwala, 2018). We intend to use "purposive sampling" (Patton, 2001) and focus on "polar types" (Meredith, 1998) in order to showcase the diversity and wide variety of applicable cases.

Our results show that family firms engage with their environments in many ways and with varying degrees of spatial commitment. Family firms sponsor the development of social, educational and recreational infrastructure and facilities. They participate in district renewal, offer privately owned resources for public use, contribute to business improvement districts, are involved in town center management and lead master plan initiatives, among other activities. At the same time, they participate in spatial responsibility to different degrees of intensity. Some initiatives, similar to traditional corporate social responsibility measures, are limited in their spatial impacts (for example, donations, sponsorships, patronage and charity involvement); these are still the most common forms of outreach for family firms. Others engage in more complex measures, including joining public-private partnerships, cooperating on projects with public and civil sector actors and investing in long-term interinstitutional projects. These latter cases demonstrate the potential for targeted spatial engagement by family firms. In some cases, family firms even take state functions and exert place leadership, as in cases of firm-driven master plan initiatives.

This chapter sheds light on the importance of family firms as active stakeholders in urban/regional planning and management, a topic widely neglected in related academic literature. In this vein, policy-makers should not only consider family firms as an equivalent member in the enlarged orchestra of stakeholders involved in regional planning and management, but also need to understand and anticipate their interest in participating in regional policies and the advantages that can derive from these initiatives. Family firms are already widely 'entangled' in their regions, with personal and professional ties and commitments to their surroundings. Our research proposes strategies for unleashing the significant and often latent potential of family firms, in particular by recognizing shared interests and developing common objectives between them and the regions in which they are situated.

The chapter is organized as follows: Section 2 summarizes the 'state of the field' with regard to family firms in spatial contexts and CSpR, and points to synergies while linking both disciplines; Section 3 encompasses the main analysis by showcasing different CSpR types and intensities of family firm-driven engagement and their implications for urban and regional planning and management; and Section 4 presents our conclusions and underlines our contributions to contemporary academic discussion.

Review of concepts – spatially embedded family firms and corporate spatial responsibilities

Family firms in spatial context

Although every economic entity is somehow situated or embedded in contexts (e.g., organizational, social, institutional) (Granovetter, 1985), spatial contexts have received very little academic attention in the realm of family firms, with some notable exceptions in recent years (Basco, 2015; Dana & Ramadani, 2015; Seaman, 2015; Stough et al., 2015). The contemporary rediscovery of space in family business studies has led to emerging concepts of 'regional familiness' (Basco, 2015) and later, 'spatial familiness' (Basco & Suwala, 2020a, b). According to Basco (2015, 267), regional familiness

> incorporates the regional level into the concept of familiness by defining it as the embeddedness of family businesses in social, economic, and productive structures within a spatial context and the type of connections that emerge and interact with regional factors (…) and regional processes (…) through regional proximity dimensions.

Whereas 'regional familiness' favors a particular aggregational level (derived from the original concept of Habbershon & Williams, 1999) and scale (obviously, the regional), 'spatial familiness' offers a much broader understanding of the phenomenon by considering the recursive relationship between family firms and spaces at different levels (e.g., individual, firm, firm groups). Spatial familiness also recognizes the simultaneous overlapping of multiple scales (e.g. local, global), as well as a broader scope of definitions of space that include locations, places and landscapes, among others (Suwala, 2019; Basco & Suwala, 2020a, b).

Apart from that, different topics have been investigated in recent years, linking family firms to certain spatial entities like locational factors (e.g., Kahn & Henderson, 1992); internationalization (e.g., Gallo & Pont, 1996); specific spatial contexts like emerging markets (Basco, 2018) or transition economies (e.g., Duh, Tominc, & Rebernik, 2009); different scales such as local (Baù, Block, Cruz, & Naldi, 2017), regional (Bird & Wennberg, 2014) and global (Yeung & Soh, 2000) or various understandings of space (Suwala & Schlunze, 2019). Therefore, it is not surprising that family firms are often tied to a specific spatial entity as the home region (e.g., Pongelli, Calabrò, & Basco, 2019). Moreover, very few studies have considered family firms and their importance for spatial planning and/or policies (Basco & Bartkevičiūtė, 2016; Albers & Suwala, 2018) This relationship between family firms and spatial entities may exert various effects on the surrounding community in terms of philanthropy (Campopiano, De Massis, &

Chirico, 2014), community citizenship (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2012) or even regional business-led community development (Enright et al., 2016; Albers & Suwala, 2020a). All efforts have resulted in a growing, but not coherent, body of research focusing on the nexus between family firms and spaces.

Corporate spatial responsibility

Whereas research on family firms is only beginning to systematically include spatial contexts, research in the field of corporate spatial responsibility (CSpR) has yet to dedicate much attention to the unique aspects of family firms. Corporate spatial responsibility (CSpR) is an extension of the well-known concept of corporate social responsibility (CSR). As a concept, CSpR emphasizes not only corporate engagement within a broader social context, but also within a particular spatial – usually urban or regional – setting. CSpR focuses mainly on cases where firms make social and ecological commitments to their surrounding environments that go beyond their core economic competencies (Albers, 2011; Albers & Suwala, 2018, 2020b). In many ways, CSpR aligns with CSR principles embracing corporate ethics, social enterprise, corporate civic leadership, corporate and voluntary self-commitment and sometimes even corporate citizenship, to tackle manifold problems primary not connected with the principal economic activities of the firm (albeit those measures can be utilized for corporate objectives) (Hanson et al., 2010). What differentiates CSpR from CSR is the explicit spatial dimension and the respective commitment for locations or places at various scales (local, regional, urban, rural) (Knieling et al., 2012). We understand CSpR as a combined term for 'Corporate regional responsibility' (Schiek, 2017), 'Corporate urban responsibility' (Albers & Hartenstein, 2017) and 'Corporate regional engagement' (Lengauer & Tödtling, 2010). These predecessors locate CSR principles at particular spatial scales (Werna et al., 2009), whereas CSpR attempts to cover cases within any spatial context and any spatial process. Furthermore, existing disciplines tend to vary in their respective areas of focus, including the revitalization of the built environment (Albers, 2011), enhancing community life (Bürcher & Mayer, 2018) or fostering sustainable urban development (Suwala & Albers, 2020).

Earlier forms of the CSpR concept can be found in the period of industrialization when corporate or family firms financed urban (infra-) structures, supported local cultural and social institutions or constructed affordable housing for employees (e.g., Margarethenöhe [Germany, Ruhr by Alfred Krupp company dwelling estate] or Ford Homes in Detroit and Dearborn, US). Although traditional CSR instruments such as donations, sponsoring, patronage and charities are still widespread, novel measures such as public-private partnerships, corporate cooperation with the public sectors or civil society and long-term inter-institutional projects are on the rise (Albers & Suwala, 2018). These complex instruments have often an explicit

spatial dimension and impact (Albers & Hartenstein, 2017). The variety of measures is far-flung, starting from simple firm-driven social, educational or recreational object-based building infrastructure (e.g., child-care centers) (Albers, 2011), revalorization (e.g., privately-owned spaces for public use, Kayden, 2000), relocation (e.g., corporate re-urbanization, Mozingo, 2011) or alteration of corporate premises (e.g., district renewal through cultural creative industries) (Suwala, 2015). Some of the most embedded practices range from involvement in business improvement districts or town center management schemes to more comprehensive private-sector-driven and business-community-led spatial development models (Hoyt, 2003; Coca-Stefaniak et al., 2009; Enright et al., 2016). These latter cases are particularly prevalent where there is a lack of consolidated government bodies or where public authorities display little effectiveness in pursuing development goals (Enright et al., 2016; Suwala et al., 2018).

Family firms and corporate spatial responsibility

Our aim in this section is to cross-fertilize insights from both emerging discourses in family firms in spatial context and in CSpR to enhance the understanding of family firm-driven engagement in various spatial settings. For this undertaking, we have to revisit literature that has already made a connection between family firms and CSR/CSpR to gauge in what circumstances and with what tools these approaches might overlap. Although caution should be exercised when linking concepts to new areas of application, family firm studies and regional engagement enjoy enough affinity to suggest a successful merging of disciplines. Regional engagement driven by family firms is a centuries-old activity with different degrees of commitment and versatile applications depending on institutional frameworks and economic systems (e.g., decentralized systems, such as the US and Germany, are more benign to family firms or family leaders in certain regions) (Stimson, Stough, & Salazar, 2009; Hanson et al., 2010).

There is an elaborated research stream of family firms and CSR (e.g., Dyer & Whetten, 2006), with studies focusing on the differences between the relationships of family vs. non-family firms with CSR (e.g., Cruz, Larraza-Kintana, Garcés-Galdeano, & Berrone, 2014), the family ownership structure and CSR (Block & Wagner, 2014), different types of CSR (e.g., philanthropy [Campopiano et al., 2014], corporate citizenship [Astrachan-Binz, Ferguson, Pieper, & Astrachan, 2017], etc.) and family firms' social responsibility to communities (Niehm, Swinney, & Miller, 2008), amongst others.

Concerning the question whether family firms are more socially responsible, Cruz et al. found that, given their socio-emotional wealth bias, they have more pronounced relationships with external stakeholders, yet neglect internal social dimensions. Moreover, they do not necessarily comply with national standards and industry conditions the way CSR measures of non-family firms do, but, rather, choose other activities (Cruz et al., 2014). This aligns with the ideas that 'family firms disseminate a greater variety of CSR reports, are less compliant with CSR standards and place emphasis on

different CSR topics' (Campopiano & De Massis, 2015, 511) and that they report less information on their CSR duties than non-family firms (Nekhili, Nagati, Chtioui, & Rebolledo, 2017). The same study found that family firms would rather benefit from communicating their commitment to CSR, as they could obtain shareholders' support more easily than non-family firms (Nekhili et al., 2017, 41). In general, findings on whether family firms are more socially responsible or not are ambivalent depending on the size of the firm or field of commitment, among other factors (Cruz et al., 2014). With regard to family firm engagement in communities, Niehm et al. (2008) point to three dimensions – commitment to the community, community support, and sense of community – as striking features of family firm involvement.

In times of growing interactive and collaborative modes of governance, more attention needs to be paid to the socially responsible leadership question and its spatial context, especially at the regional or municipal level. Hence, space becomes a crucial factor. In this realm, family firms and CSR affects regions, cities, or rural communities and are affected by those spatial entities (Albers & Suwala, 2018, 2020a). Devinney even calls for a

> rethinking the meaning of space and place (…) as the rise of CSR is part and parcel of a more general phenomenon that is redefining the fundamental meaning of sociopolitical and economic geography. As corporations and economies have globalized, the sociopolitical structures have lagged behind.
>
> (Devinney, 2011, 329, 339)

Interestingly, empirical studies dealing with family firms and CSR have largely ignored space or place with regard to both where family firms implement CSR and the impact of such initiatives on spatial entities (Albers & Suwala, 2018). Space was rather considered a by-product, albeit a favorable one (e.g., in small rural communities [Niehm et al., 2008]; small business communities [Peake, Davis, & Cox, 2015]; etc.). There are only few studies that explicitly deal with the relationship between family firms and CSpR – e.g., Albers and Suwala (2018, 2020b) and Graffenberger and Görmar (2020) considered family firm-driven engagement in and for spatial entities – leaving room for more research on the nature of 'space-based corporate responsibility of family firms'. For our research, the following guiding questions are of interest here : Firstly, *how do family firms contribute to CSpR?* Secondly, *are there different intensities of family firm-driven engagement and how do those intensities relate to each other?*

Methodology

In light of this theoretical background, we provide selected case studies of particular German-based family firms in order to shed light upon the great variety of their CSpR initiatives (first research question) and their impact/

intensity on spatial entities (second research question). Hereby, we utilize the CSpR maturity model that differentiates between 'degrees of responsibility/spatiality' of CSPR measures (Albers & Suwala, 2018, 55). Based on the CSR maturity model (Schneider, 2012), Albers and Suwala (2018) identified four different types of CSpR that vary according to the 'degrees of responsibility/spatiality'. CSpR 0.0 and CSpR 1.0 encompass low-threshold/conventional engagement activities resulting from compliance with laws/rather accidental effects (CSpR 0.0) or philanthropic engagement (CSpR 1.0) with rather passive spatial impacts; both remotely (if at all) align with corporate objectives. CSpR 2.0 might possess a more systemic design that targets purposeful regional economic and societal synergies between the city/region and the family firm. Finally, CSpR 3.0 activities proactively interfere in duties once assigned to the public authority, or in matters of government with a clear spatial and societal impact (Albers & Suwala, 2018, 2020b). Examples of CSpR 3.0 measures include, for example, the development of corporate spatial master plans or initiatives that cross-cut multiple areas of policy within the territorial domain of public authorities.

The analysis of the relationship between family firms and CSpR, both in the form this relationship takes and in terms of the intensity of its spatial impact, is based on a selection of case studies of corporate spatial engagement of German family firms. This selection rests on a continuous monitoring of CSR activities in the context of urban and regional development over the past 10 years; the evaluation of relevant studies, databases and research work and the authors' participation in several research projects. For the case study selection, three methodological steps were taken into account. First, the choice of examples rested on 'purposive sampling' (Patton, 2001) where selected examples were either easily accessible or where personal participation was involved. Second, the relevance of examples was checked by analyzing their frequency in daily press and academic journals. Third, the variety of examples was ensured by the 'go for polar types' approach (Meredith, 1998) in order to identify different degrees (e.g., extreme cases, typical cases, maximum variation of cases, intensity sampling, critical cases, politically important or sensitive cases, etc.) of CSpR initiatives of family firms. Since our background is in regional and CSpR studies, we grouped different CSpR measures of family firms according to their degree of 'degrees of responsibility/spatiality'. For this assessment, the pyramid in Figure 12.1 gives insight into how we can link and classify different types and intensities of family firm CSpR. We have elected to pursue a plausible rather than a representative approach, in which cases were chosen based on their accessibility rather than their claim to representativeness.

Analysis

The following analysis presents selected case studies of family firms engaged in urban and regional initiatives. It attempts to classify those examples into

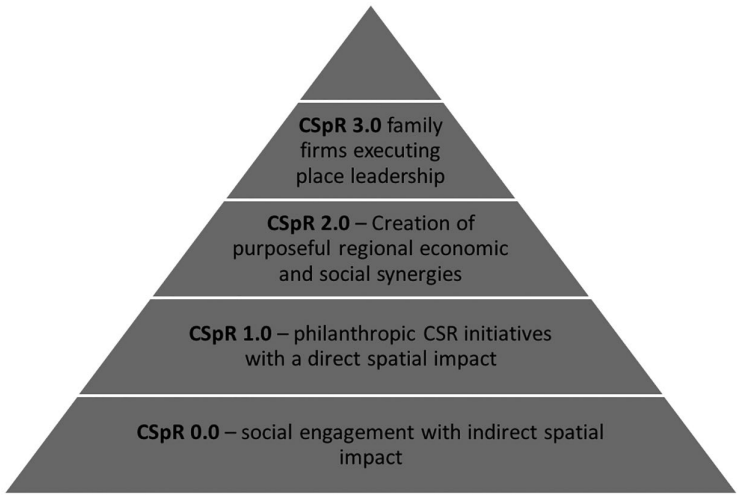

Figure 12.1 Family firms and the corporate spatial responsibility model.
Source: Adapted from Albers and Suwala (2018), 55 based on Schneider (2012).

four types of engagements based on the above-mentioned CSpR maturity model (Figure 12.1). The first step of this analysis will be to show different examples and forms of CSpR initiatives by family firms. In a second step, these examples will be classified based on spatial intensities. The analysis is not intended to be exhaustive, but to illustrate plausible links between family firms and CSpR initiatives.

Family firms and the sponsoring of social, educational or recreational infrastructure

One traditional model of regional engagement by family firms is regional philanthropy, such as the financing or promoting buildings for social, educational or recreational purposes (Feliu & Botero, 2016). In the 19th century, donations for art and cultural buildings helped cities develop a new civic identity. This tradition is still widespread among business patrons and family firms and, in addition to prestige for donors, is also intended to enhance the image of cities and their centers (Rectanus, 2002). A modern interpretation of this mechanism is the so-called the 'Bilbao Effect' (named after the Guggenheim Museum built in the Basque city of Bilbao by Frank Gehry) (Plaza, 2008). The term describes the general strategic use of icons (symbolic buildings) in order to revive a city economically and culturally (Suwala, 2014). This effect acts as a role model and has been also used for partly or fully family firm-financed art projects since then. In what follows, we want to showcase some examples from the German context.

In the city of Herford (North Rhine-Westphalia, 67,000 inhabitants), the local furniture industry, mostly driven by family firms, mutually commenced a corporate initiative with local politicians and the famous architect Gehry to realize the Marta Herford project (a Bilbao-inspired art museum) based on an impressive selection of works by contemporary artists of a local family firm owner and art collector. In Hamburg, the construction of the Elbe Philharmonic Hall (the city's new landmark) was partly founded on a donation initiative by the city's family entrepreneurs. Other cases particularly in smaller German cities show that family firms or their owners (frequently world market leaders in certain economic niches) are often the driving forces behind such initiatives. Cultural buildings sponsored by family firms are used to brand city centers (e.g., the Kunsthalle Weishaupt in Ulm, the Museum Barberini in Potsdam [Hasso Plattner, SAP] or the Knauff Museum in Iphofen). All these projects are based on a strong site solidarity of the CEOs or family members (with a prolonged locational entanglement) and have similar expressions in countries outside Germany (Albers, 2011; Basco et al., 2020; Suwala & Albers, 2020).

Apart from these philanthropic, branding initiatives, family firms are increasingly investing in local built infrastructure, especially in educational or recreational facilities for use by their employees and the surrounding citizenry. In one example, the company Stihl is building a daycare center in Waiblingen to serve not only their employee's children, but also children in the surrounding neighborhoods. These efforts are often meant to attract employees, enhance quality of life and recruit new graduates. A similar trend can be seen in the renaissance of company-financed and owned dwellings. In Memmingen (Bavaria, 44,000 inhabitants), Häussler, a family firm that runs a bakery chain, is planning to build employee apartments at the company headquarters. As the lack of affordable housing continues to be a growing problem in many German cities, companies whose employees find it difficult to find nearby homes are investing in this housing themselves. Although many of these initiatives have a mediate effect on regional development, this broader impact is seldom the intention of the engagement.

Family firms and their impact on re-urbanization, district renewal and privately owned public spaces

Another type of spatial engagement driven by family firms is founded by corporate support for urban renewal and individual public space initiatives and is best understood in light of changing urban spatial dynamics over the last few decades (Albers & Suwala, 2020b). Most contemporary cities host a series of competing urbanizations and increasingly complex urban migration patterns of both residential and commercial uses. Departing from the well-known 'doughnut effect' where many cities and municipalities are struggling with deteriorating centers and where retail moves to shopping centers, industry is migrating to business parks and new housing is being created in

many places on the outskirts (Sternlieb & Hughes, 1980); setting up activities around cultural creative districts such as the aforementioned family-driven commitment to art and cultural buildings is a first step (Suwala, 2015). A more developed approach, however, is family firm re-urbanization, where companies move back to city centers, directly or indirectly leading to local economic development, for example, for the revitalization of centers (e.g., corporate family firm campuses or universities). There are instances of big U.S. corporations, some of them family firms, that have recently returned to city centers after decades of corporate suburbanization (Mozingo, 2011). Although firms often have clear business-related incentives for this geographical return, in particular to attract young workers, particularly interesting cases emerge when corporations move into certain areas with the intention of contributing to local economic and community development and city revitalization (Sutton, 2010).

One example from Germany can be found in Mertingen (Bavaria, approx. 4,000 inhabitants). The town center of Mertingen is currently undergoing remodeling. Zott (a family firm founded in 1926 with around 3,000 employees currently and one of the leading dairy production companies in Europe) serves as an important economic player in the region. Supported by the Ministry of Construction of the Free State of Bavaria, the corporate initiative attempts to revitalize the town center and turn it into a lively and attractive place. Zott is modernizing parts of its inner-hamlet old premises, relocating their headquarters and administration here. In addition, the project initiates further developments such as the conversion of the main square or the refurbishment of adjacent buildings.

A further characteristic of some cases of re-urbanization by family firms is the integration and opening of corporate space for public use (Albers & Suwala, 2018). This phenomenon reflects an old trend starting in the 1950s in the dense urban fringes of central business districts in global cities (New York, Tokyo, Hong Kong and new metropoles in China), called 'privately owned public spaces', where large corporations were opening up their properties in manifold ways to the public (e.g., as arcades, urban plazas, through blocks or covered pedestrian spaces, etc.) (Kayden, 2000).

Family firms' interest in business improvements districts, town-center management and family firm-led master plan initiatives

The engagements that we have discussed so far have been focused on the implementation of spatial measures, either through the sponsorship of individual buildings or urban infrastructure or by participating in broader reurbanization-based development schemes. But some family firms are also involved in more strategic tasks of urban management in a variety of spatial contexts. These include direct involvement in planning processes on a district level, as well as in business improvement districts, in town center

management schemes or in the preparation of spatial master plans for the city or region (e.g., Hoyt, 2003; Albers & Suwala, 2018). This is far from new. The Plan of Chicago or the Burnham Plan of 1909 is considered the most famous example of a master plan initiated by the private sector. The plan was commissioned by the Commercial Club of Chicago, however, it was only partially implemented. The principal aim and purpose of the initiative was to ensure the city's functionality and competitiveness (cf. Burnham & Benett, 1909). These examples are still relevant today and appear in manifold ways, varying in intensity and obligation and the extent to which family firms are involved.

A first mode, originating in Canada and the U.S. from the 1970s on, are business improvement districts (given similar names depending on the country; e.g., 'downtown improvement districts' in Japan, 'main street associations' in New Zealand [Hoyt, 2003], etc.). Business improvement districts are among the most widespread initiatives in local governance and represent a geographically defined area where the majority of property owners and/or merchants agree to provide an enhanced level of public service by imposing an additional tax or fee on all the properties and/or businesses in the area (Mitchell, 2001). The idea is to 'channel private-sector energy toward the solution of public problems' (MacDonald, 1996, 42). Studies from Germany have shown that family firms are slowly starting to support business improvement districts by marketing downtown districts, providing additional infrastructure (e.g., sanitation and security services), advocating public policies that promote downtown interests and acting as drivers of urban regeneration (Faller & Wiegandt, 2010). A second similar but citywide mode is town-center management, which can be roughly defined as 'a coordinated pro-active initiative designed to ensure that (…) city centres are desirable and attractive places. In nearly all instances the initiative is a partnership between the public and private sectors and brings together a wide-range of key interests' (Coca-Stefaniak et al., 2009, 75). An interesting case study is 'Berlin Partner', which is a unique public-private partnership set up by the Berlin State Senate and over 280 firms (many of them family run), dedicated to promote marketing, city business and technology support for companies, investors and scientific institutions in the German capital.

A third mode, and probably the most influential one in family firm-driven regional engagement, are so-called private sector-led master plan initiatives (Morrison, Wilson, & Bell, 2012; Albers & Suwala, 2018). These initiatives inherit a 'combination of district, city and state authorities or government agencies on issues from business conditions to a city's broad long-term agenda' (Enright et al., 2016, 3). Here, the private sector or family firms initiate far-flung regional development measures in cities where there is discontent with planning frameworks but that have a robust business presence or weak/consolidated city authorities. Weak authorities manifest for various reasons (e.g., fragmented or localized authorities, subject to control from

strong regional or national authorities, a lack of advanced infrastructure or insufficient investment, tax income or spending power). Such a measure in the German context is the so-called business association 'Unternehmer für die Region Köln' (many of them family firms). Together with the Chamber of Commerce of Cologne, they charged a famous architectural office with drafting a master plan for the city. Two further master plan initiatives initiated by the private sector have recently attracted considerable attention in Germany. In Mönchengladbach (North Rhine-Westphalia) a master plan was created in 2012/2013 with financing from local (family) firms (https://mg3-0.de). All initiatives were subsequently confirmed by the city council after public hearings and have since then become the de facto 'official' urban development concepts.

Our final example encompasses a business community-led model initiated by a single-family firm and executed through a private sector-driven urban development agency. The Duderstadt 2020 initiative is the idea of the family entrepreneur Hans Georg Näder (owner & CEO of Otto Bock GmbH from Duderstadt, a mid-size town in Lower Saxony, Germany; the company is the world market leader in orthopedics). The project has been developed and organized by a team from the regional University of Applied Sciences (HAWK) since 2009. Against this background, a limited company (Duderstadt2020 GmbH) was founded to guide this initiative and to strengthen the attractiveness of the town (e.g., by boosting amenities, quality of life, employment). The process comprised the following consolidated actions: setting up a master plan, strengthening networks (e.g., corporate, public and civic among different stakeholders), stimulating citizen participation (such as discussion forums, future workshops, etc.) and fostering neighborhood development, among many others. In the meantime, Duderstadt2020 is regarded as the city's urban development agency that traces an 'integrative urban development management' within six areas of interest (urban marketing, tourism promotion, economic promotion, cultural promotion, neighborhood development and social interaction). Most recently, the Duderstadt 2030 city vision and the 'Futuring Duderstadt' master plan were presented (Albers & Suwala, 2020b).

Intensities of spatial engagement by family firms

In this section, we will compare the types and intensities of the spatial engagements by family firms that were traced in the sections above. In the "Family firms and the sponsoring of social, educational or recreational infrastructure" section, we looked at examples of family firms and their sponsorship of social, education or recreational facilities within their local spatial setting.

These activities, although they sometimes have extenuated spatial impacts, are usually not pursued for their effects on the spatial environment. For this reason, they are more in line with traditional CSR activities. Spatial effects are usually dependent on the type of built infrastructure and its

particular spatial radiance (compare, for example, an art museum and a kindergarten). Architectural icons are often guided by patronage and personal motives of the family entrepreneurs or their firms; they rather represent traditional philanthropic initiatives and, if they exert any spatial impact at all, this is usually indirectly, as flagship projects for promoting or reviving a city or district. These types of initiatives correlate to levels CSpR 0.0 or CSpR 1.0 from the CSpR maturity model (Figure 12.1).

In the "Family firms and their impact on re-urbanization, district renewal and privately owned public spaces" section, we highlighted projects where firms are engaged more comprehensively with their spatial surroundings. By offering private spaces for public use, or by committing to large-scale financial or locational investments for reurbanization and revitalization purposes, family firms, often in cooperation with municipalities, have a much clearer and substantial link to urban and regional development. In these cases, the needs of the city or district and the requirements of the company coalesce; the city's desire to ease the local housing market, for example, can be met by private firms supplying workers with firm-owned housing. Still, there are varying degrees of spatial impact here. Permitting public use of firm-owned spaces, for example, has a more locally confined spatial impact than relocating a corporate headquarter, which in many cases has a tremendous effect on entire villages or urban districts. The Mertingen case also shows a family firm acting as a main driver for urban revitalization, especially in situations where public funding, collaborative know-how and companies' sensitization for local issues abound. In the most integrated cases, these measures can unfold into purposeful regional economic and societal synergies and help to contribute to win-win development scenarios. These cases correspond to the classification CSpR 2.0. Often, however, the examples laid out in the "Family firms and their impact on re-urbanization, district renewal and privately owned public spaces" section still fall into the classification of CSpR 1.0.

The "Family firms' interest in business improvements districts, town-center management and family firm-led master plan initiatives" section details a number of cases where family firms are engaged in strategic local or regional engagement and mid-term regional planning. Included in these cases are firms' involvement in business improvement districts, town center management schemes and private sector-led master plan initiatives. On average, these cases display a much higher impactfulness on urban and regional planning and management, as well as on the surrounding spatial environments. Moreover, all measures of this variety have an explicit spatial focus and fulfill many of the criteria outlined for CSpR 2.0. Often these initiatives are led by associations of proactive firms rather than individual companies and are willing and able to design, finance and lead certain processes within their spatial setting. Generally speaking, this type of engagement by family firms unfolds much more effectively if the public sector is involved to advise and steer activities, at least in German cases. Participation

of the civil sector is also an important indicator for general success. This not only leads to more comprehensive inclusion of stakeholders, but also helps private sector-driven initiatives to gain credibility for their actions and plans. Because many of these initiatives have a trans-sectoral focus (i.e. they target not only economic but also cultural, educational, social or developmental issues), they are usually most successful when they integrate a cross-institutional, systemic, long-term approach. Accordingly, they often lead to significant place leadership by the family firms involved. All master plan initiatives laid out in our analysis fit the criteria for intentional CSpR 3.0 measures. They have far-reaching implications for residential, commercial and industrial planning, as well as for land use, the built environment and far-reaching spatial implications within the wider regional community. The commitment is often sustained by the existence of independent private sector-driven urban development agencies set up as autonomous legal entities (see Figure 12.1).

Based on the cases above, we think that our classification of CSpR fits appropriately to family firms. Many possible exceptions exist, however, that would require a deeper case-by-base analysis. One could imagine, for example, a family firm engaged in frequent and extensive philanthropic sponsorship but without a comprehensive spatial thread or strategic aspirations, despite the great financial commitment. Furthermore, some spatially impactful initiatives, such as the allowance of public usage of private land or involvement in a business improvement district, may be legally mandated by local zoning or building code ordinances and may therefore not fulfill the criteria of CSpR at all on account of being non-voluntary.

Conclusion

Our goal was to answer two questions about family firms and corporate spatial responsibility, namely how (forms) and to what extent (their spatial impact/intensity) family firms implement CSpR measures, or in other words whether family firms are spatially responsible. We have been able to show that family firms are spatially engaged in manifold and unique ways and with varying intensities. Examples above ranged from CSpR 0.0, engagement which demonstrates little to no spatiality, to CSpR 3.0, where corporate engagement has strategic, far-reaching and long-lasting spatial impacts. CSpR adds to the regional policy toolbox by establishing alternative models for local and regional engagement, development and governance. This becomes even more spatially salient when family firms are involved in the design, implementation, participation and even leadership of these activities. The main feature of this engagement is the regional orchestration and framing of activities by family firms – in tandem with state authorities – in order to foster economic development or other favorable outcomes in the region. These models align with the rise of non-state 'place-based' economic

development strategies at a time when state and society at large are more reliant on non-state actors (Albers, 2011; Harrison, 2014). CSpR initiatives by the private sector and by family firms are constantly exposed to nuanced and manifold critiques in accordance with their placement within rising neoliberal tendencies of spatial planning and management and an increasing hesitancy surrounding corporate influence of the public sphere (e.g. Ward, 2006). Our examples demonstrate this fear is in part comprehensible (take, for example, the widespread influence of the family entrepreneur in Duderstadt), especially if the civic sector is not appropriately included or even intentionally is neglected from strategic planning measures (as was the case in Masterplan Cologne).

Notwithstanding, we think that a coordinated and appropriate level of regional engagement by family firms can create synergies for communities and the spatial setting in which firms operate. Moreover, in small towns or rural areas, or in jurisdictions lacking consolidated government bodies or demonstrating low effectiveness of public authorities, family firm-driven community development may be without alternatives (Horlings & Padt, 2013; Suwala et al., 2018). By considering family firms and their corporate spatial responsibilities in Germany, we have sought to contribute to theoretical, practical and policy-based conceptualizations of this phenomenon. We have provided examples for different degrees of corporate spatial responsibility as performed by family firms, expanding the spatial dimension within research of family firms and corporate social responsibility (Campopiano et al., 2014; Campopiano & De Massis, 2015). Practically speaking, understanding the role of family firms in CSpR initiatives adds to the regional policy toolboxes that stakeholders use to enact urban and regional change. Still, our analysis provides only an overview of possible spatial embeddings of family firms' engagements (for other types, see Selcuk & Suwala, 2020). In cases of practical application, this analysis needs to be appropriately tailored to the respective modes of governance, economic systems, social norms and regional particularities. Finally, this chapter demonstrates the strategic nature of family firms' engagement with CSpR and the resulting implications this can have for urban and regional planning and management. We emphasize the importance of tri-sectoral negotiations (between family firms, the state and civic society) to ensure the effectiveness and value of these initiatives; only transparency, communication, reciprocity and a mutual sensitivity to the needs of partners will allow problems to be solved. By enlisting family firms into CSpR policy, policy makers have the ability to increase confidence within the private sector and unleash the potentials of the strong connection family firms tend to have with their home regions (Bird & Wennberg, 2014; Basco et al., 2020). Future lines of thinking and research could either concentrate on some of the specific ways in which family firms can engage in CSpR, or could conduct a cross-country comparison of best practices in this field to provide policy makers with a better understanding of when, why, how and under which circumstances family firms should be integrated within spatial development agendas.

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13 Place-based approach and family firms

The Tatula Programme in Lithuania

Rodrigo Basco and Inga Bartkevičiūtė

Introduction

The process of globalisation has brought benefits for less developed regions and enabled them to become a part of the broader systems of production, distribution, and consumption. However, globalisation *per se* does not reduce the inequality gap among regions. Although some regions have benefited from the opportunities arising from it, in general, social and geographical polarisation has increased (Pike, Rodríguez-Pose, & Tomaney, 2006); that is, most regions around the world are struggling to identify and utilise their potential to be part of the globalisation process.

Throughout this process, policymakers have tried to understand and correct the inequality gap. They have implemented, with different degrees of success, specific actions to overcome the problems due to which regions miss the benefits of globalisation, by using the traditional approach rooted in the classical economic growth theories. These strategies were traditionally designed to tackle regional disparities by applying the so-called 'top-down' approach, that is, national governance institutions played a critical role in developing strategies. Top-down strategies tend to focus on deficiencies associated with a region's economic problems, applying a universal approach to tackle these problems, regardless of the local context. However, such traditional regional development solutions have been only partially successful, encouraging academia and policymakers to rethink the concepts of regional development.

Since the late 1990s, the place-based approach to economic development has been related to a more holistic interpretation of the causes and consequences of local and regional economic development. During this time, local and regional economic development theories and practices have witnessed a shift from a firm-oriented sectoral approach towards a more in-depth consideration of unique local factors, resources, and actors (Rogerson & Rogerson, 2010), recognising the importance of bottom-up actions characterised by comprehensive analysis of regional micro-foundations. This change in approach to local and regional development was also prompted by the process of decentralisation and the growing empowerment of sub-national governments all over the world (Rodríguez-Pose & Wilkie, 2017).

Even though important theoretical and practical advances have been made in framing and understanding the place-based approach—within the micro-foundations perspective that accounts for local socioeconomic actors and the participative processes to create and implement actions aimed at energising less developed geographical areas or regions—local family firms have received less academic attention (Basco & Bartkevičiūtė, 2016). More specifically, the importance of local family firms as a node in the relational space has not been recognised. Therefore, this chapter aims to explore the role that local family firms may play when place-based approach initiatives are implemented in lagging regions. We present, explore, and analyse the case study of the Tatula Programme in Lithuania.

We can summarise our results as three important characteristics of family firms for place-based approach. First, the entrepreneurial orientation of family firms leverages place-based programme actions by using existing local knowledge to reconfigure resources in different and innovative ways. Second, the long-lasting embeddedness of family firms, characterised by their social capital, embraces other socioeconomic actors in their initiatives to unfold a participative developmental approach. Finally, the connection between family firms and their territory creates a sense of belonging to generate the intention to stay in the region, favouring local action in the long term. This chapter contributes to both theory and practices. We expect that this exploratory case study will open the door to better understanding the micro-foundations of place-based approach as a lens to promote regional socioeconomic development. Additionally, the case study that we present highlights practical contributions by illustrating the importance of encouraging local actors—in this case, family firms—to create long-lasting conditions that boost economic dynamism.

Framework

Traditional approach

One of the main challenges for policymakers in terms of regional development is to tackle economic disparities between different regions. Economic growth theories and some policies, in the second part of the 20th century, were dominated by a macroeconomic approach (Scott & Storper, 2003; Vasquez-Barquero, 2010) and designed for national income growth (Vasquez-Barquero, 2010). Traditional policies to reduce the inequality gap between leading and lagging areas were designed and implemented by applying a top-down approach. Such top-down strategies tended to tackle the most important development shortcoming that was seen as the main impediment for economic development, thus ignoring other relevant factors (Pike et al., 2006) such as local culture, human resources, or technological context. These policies aimed at reducing location deficiencies by replicating the regional development path of now-developed regions. Most strategies focused on infrastructural investments to build highways, railways, and

telephone lines, and on attracting large manufacturing companies to less developed areas (Pike et al., 2006). However, this approach did not produce the expected results of diminishing regional inequalities.

Since the 1960s, the regional planning policy framework in various countries (e.g., Italy and France) has been highly affected by well-known growth poles theory (Perroux, 1955), which suggests that a growth pole is formed by a group of industries connected through input-output linkages. Although the original theory is not related to a particular geographical space (especially one that is characterised as a country with its regions), and defines growth pole as an economic category, other scholars proposed regional implications of the growth poles theory. Boudeville (1966) transformed the idea of a growth pole in terms of place and suggested the concept of geographic clustering of economic activity. In practical application, growth poles were treated as urban centres with the anticipation that an industrialised area will also stimulate the development of adjacent regions. Specifically, during the 1960s and 1970s (Higgins & Savoie, 1988), this approach manifested mainly as an attraction of industrial firms to urban centres located in lagging regions. Most of the strategies dealing with regional development were designed at the national level and had a tendency to be replicated across different regional contexts.

The implementation of regional development policies based on poles brought some positive impact on the reduction of regional disparities, as it contributed to an increase in employment and income (Vasquez-Barquero, 1999). However, the critical question lies in the sustainability of the generated impact, that is, to what extent the policies induced self-sustained local development.

An interesting example is the long-lasting effort to reduce differences in development between the southern and northern parts of Italy. Following the growth pole theory and the related approaches, a strategy to tackle the problems of underdeveloped southern Italy (Mezzogiorno) was implemented during the 1950s–1980s. Various locations in the region were designated as growth centres, to establish big state-controlled industrial firms and to attract smaller firms that would supply goods and services to the local market. (Pacione, 1982). However, these massive plants did not embed into the local context, which was characterised by weak endogenous industrial structures and was missing industrial networks that would foster sustainable local development and employment. Therefore, these plants became 'cathedrals in the desert' as most suppliers and consumers were not located in the vicinity (Trigilia, 2012).

Even though one of the problems in the Mezzogiorno intervention can be related to the loss of effectiveness during the implementation phase (Felice & Lepore, 2017), the leading causes of the failure seemed to point at insufficient attention given to the local cultural, social, and economic context. For instance, in the context of an agricultural region, investments were designed to develop large and capital intensive industries. It created tensions at the

very beginning of policy implementation because of the radical transition from an agricultural to an industrial economy. Even more, one of the major difficulties was the takeover of agricultural land—which may have belonged to a farmer's family for several generations—for industrial use (Pacione, 1982). Additionally, the newly established factories lacked skilled workers as regional human capital did not embody the required specific knowledge, culture, and other attributes associated with the new industries.

The main limitation of the top-down approach and the universal regional development strategy is its spatial-blindness. This can be seen as one of the reasons why the practical application of standardised development policies in different conditions seldom generate the anticipated impact on sustainable long-term economic development (Storper, 1997) and have even created adverse effects (Pike et al., 2006). A lack of proper evaluation of the local context in many cases has led to the jeopardising of local entrepreneurial resources and local firms that were not able to compete with major industrial players attracted to the region (Vasquez-Barquero, 1999). Although it was expected that non-local, large, and technologically advanced firms relocated in less developed areas may induce local business development by generating new linkages, thereby triggering entrepreneurship, and expanding knowledge spill-overs, this was not always the case. In most cases, new firms relocated in less developed areas exploited the lagging regions simply as new labour supply markets (Pike et al., 2006).

Place-based approach

The aforementioned lack of success in strategies to reduce inequality among regions prompted new discussions in the regional development field during the late 1990s, offering greater impetus to explore alternative dimensions such as the location and its cultural, economic, institutional, technological, and political contexts. The fact that not all regions developed and innovated at the same pace raises a question about something underneath traditional developmental policies that either boosts or hinders prosperity. Thus, the idea that regional development today should follow the patterns of now-developed countries and rely mostly on the development of mega-urban regions was questioned (Barca, McCann, & Rodriguez-Pose, 2012). Although this approach is attractive—as it allows the building of universal development models looking at the experience of now-developed regions and locations, and analysing long-term dynamics of their development—the complete reliance on universally-presented tendencies carries a risk of misjudging the relationship between universal causes and local context (Storper, 2011).

What seems to be overlooked while promoting space-neutral interventions is the need to leverage local potential, which has become one of the main focuses of the place-based approach to regional development. This approach emphasises local potential and means to maximise it rather than only introducing universal economic growth solutions or simple administrative

redistribution of wealth to achieve regional convergence. Thus, while the place with its characteristics is recognised as a factor in economic growth, the place-based approach considers it a relational one in which proximity has a meaning, not only in terms of geographical proximity but also in terms of institutional, cognitive, and organisational proximity.

Successful place-based policies cannot be written using a ready-made universal template. Instead, they should be developed in close cooperation with local and external actors, and identify and rely on locally embedded knowledge. Moreover, for example, policies aimed at increasing the local economy cannot merely tackle the competitiveness of local firms but should also evaluate all the contextual conditions, including human capital, physical infrastructure, and so on (Rodríguez-Pose & Wilkie, 2017); that is, they should analyse the region holistically. As Rodríguez-Pose and Wilkie (2017) state, in terms of economic growth the question should be 'not *if* different localities have the potential to achieve sustainable and inclusive economic growth via territorial approaches to development, but rather, *what* must be done to ensure that they do, and relatedly, *how* do they do it'.

Consequently, the application of the place-based approach leads to a greater variety of regional development strategies (Rodríguez-Pose & Wilkie, 2017), opening the door for more complex solutions that cannot be achieved in a simplified solution based on a 'one size fits all' approach (Barca et al., 2012). In practice, the interpretation of the place-based approach varies from government to government. As it does not have theoretical underpinning, its practical application depends highly on local context and traditions. For instance, the European Union (EU) document 'Territorial Agenda of the European Union 2020' calls for greater awareness of the territory and aims to unleash the local potential using location-specific assets and factors that contribute to the competitiveness of places. Following this approach, the European Commission uses dedicated instruments and requires member-states to develop bottom-up place-based strategies to receive funding under specific EU funding programmes, recognising the place-based approach as an essential tool in enhancing territorial cohesion. Although the general requirements for the implementation of place-based instruments are common to all countries, the adaptation of the framework in different member states and its sub-regions suggests a vast array of local strategic solutions (CSIL, 2015; BGI Consulting, 2019).

However, theory and practice suggest some universal attributes of all successful place-based strategies. As the place-based approach is associated with decentralisation and the empowerment of sub-national governments, one of the main preconditions for its successful application is the vertical and horizontal integration of institutions and social partners (Barca et al., 2012). Therefore, place-based policies should be built on cooperation among national, regional, and local governments, and with socioeconomic partners.

Local family firms in the place-based approach

Place-based approach requires the local economic and social actors' involvement to develop actions within regional strategies. Their participation, engagement, and commitment are important characteristics to tailor actions that are going to affect their social and economic life. Endogenous actors are crucial contributors for developing, implementing, and evaluating regional strategies because they are the source of local knowledge. Moreover, they are part of the local social capital, which enhances strategic planning in terms of connections and networks. However, not all economic and social actors are the same and their contributions to successful design and implementation of regional strategies may depend on their specific attributes.

Family firms pose specific characteristics because of the active family participation in ownership, governance, and management decision-making. Because of this, family firms have a unique set of goals characterised by the coexistence of business- and family-oriented goals (Basco, 2017), altering the reference point for making decisions. For instance, while economic performance is an essential issue for any firm, family firms may accept lower expected economic performance at the expense of transferring the firm to next generation, to maintain the headquarters in their local territory or even to contribute and participate in the local and regional development through corporate local and regional responsibility actions (Lenz, 2020). In this sense, family firms become unique socioeconomic actors for policymakers to integrate into the debate on local socioeconomic development.

Local embeddedness of family firms could play an important role in applying the place-based approach for several reasons. First, family firms are guardians of local business culture, which could help interpret implicit codes of conduct, values, and beliefs when doing business. Second, family firms are important local nodes embedded in the socioeconomic network in the relational space through which information and knowledge flow. Finally, beyond the geographical proximity of family firms, they leverage other proximity dimensions such as organisational, social, and cognitive.

Even though family firms possess unique characteristics and a potential role in the local socioeconomic life, this specific local actor has not been theorised in the micro-foundations of the place-based approach. Considering that family firms are the most common form of organisation in the EU (Ricotta & Basco, 2020), our research question is as follows:

What roles do family firms play in place-based approach intervention?

The case study of the 'Tatula Programme'

Sustainable farming promotion in ecologically vulnerable regions

The place-based approach can be applied in regional or local programmes varying in scale, topics, and policy instruments. Its main characteristic is

that it does not have a clear and universal pattern in terms of suitable interventions; instead, its philosophy is to carefully examine local circumstances to develop actions and implement them by embracing local actors and using the potential of local regional factors and processes. We aim to describe and explore a small-scale development programme that shows how locally tailored actions can help foster empowerment and unlock local potential in outlying areas.

Data

We collected qualitative and quantitative data from different sources of information, such as the Lithuanian statistic office, the certification institution 'Ekoagros', legal documents, academic papers, and additional information available in the national and local media. We also interviewed the management of the Tatula programme. Additionally, we used our observations of the Tatula programme development. For instance, we actively participated in organic farms to observe the interaction and action among Tatula participants and their customers. As customers of some Tatula farmers, we have witnessed their development.

The region

Part of northern Lithuania is covered by karst landscape underlain by carbonate rocks (gypsum-dolomite). The dissolution of these soluble rocks produces underground drainage system with sinkholes. In karst landscapes, the precipitation infiltrates into aquifer not only through the soil, which acts as a natural filter against some contaminants, but also directly through karst sinkholes that could be covered only with a thin layer of soil. Moreover, as underground sinkholes are often interlinked with each other, contaminants spread faster. These features are of particular concern when land is intensively used for agriculture purposes, because fertilisers, pesticides, and oil products remain in surplus in groundwater. Karstic landscape covers around 10% of Lithuanian territory, of which almost 30,000 hectares are characterised by intensive karstic processes. The geographical area of the intensive karst process overlaps with two local administrative districts located in northern Lithuania, namely, Birzu and Pasvalio.

The programme

To reduce groundwater pollution, the first initiative to implement environmental measures and to transform agriculture practices in northern Lithuania was launched back in 1993. The programme adopted by the Lithuanian government aimed at reducing groundwater pollution in the designated areas. A significant part of the programme was dedicated to the promotion of sustainable farming in the Birzu and Pasvalio districts and was implemented under the title 'Tatula programme'. The Tatula programme

provides membership to any sustainable farming or processing entity, although the majority of its members are family-owned farms.

Although the funding of the Tatula programme has undergone various stages since its launch, activities promoting sustainable farming in northern Lithuania under the Tatula programme continue until today. The initial programme, which was adopted in 1993, was supported by national funding until the end of the 1990s. This period was characterised by the highest financial allocations to support farmers' transition to sustainable farming practices, promote environmental monitoring in the region, and construct wastewater treatment plants. Since 2000, the national government's attention to the specific issues of the karst region has significantly diminished and various EU funds have emerged as the leading financial source for its implementation. In 2014, a new political initiative to revive the former strategy of environmental protection of vulnerable karst region was launched. Following it, in 2015, a national law on agriculture and rural development was supplemented by a new policy aimed at sustainable farming in northern Lithuania. Implementation of this policy is supported by triennial action plans (2016–2018 and 2019–2021), which include funds for Tatula programme activities.

Governance

The Tatula programme is designed at the national level. However, local actors and agriculture scientists have actively participated in tailoring the programme's actions. The responsibility for implementing the programme was assigned to the Tatula programme organisation, which is governed by a multilevel governance structure formed by regional and local economic, social, and political actors such as farmers, agricultural firms, scientists, local politicians, representatives of non-government organisations, and other regionally acclaimed people. Since its launch, the Tatula programme has been organised in a form similar to cooperative, that is, its members (local farmers) have a vote and actively participate in the programme's development. The number of Tatula programme members has fluctuated, reaching a peak in 2000 with around 150 active members. The members' local embeddedness and prior connections have helped build a strong network based on existing social capital. It has not only become the programme's support network but also serves as a local knowledge and resource exchange platform amongst farmers, boosting the programme's positive impact on the region.

Programme's main activities

The Birzu and Pasvalio districts are primarily dedicated to agriculture, which has been the main economic activity in the region. The vast majority of local agriculture entities were (are) small family-owned farms characterised by low business orientation. One specific attribute of the Tatula programme, since its inception, has been to consider soft aspects

of socioeconomic development as well as existing local knowledge when transforming economic practices. Thus, it suggested a means to enhance particular economic activities built on long-lasting local experience, rather than the reverse socioeconomic structure of the region. The programme was specifically tailored to the needs of local natural conditions and economic activities.

The initial Tatula programme had a goal to convert 5% of all agricultural land in the two aforementioned districts into sustainable farming lands. It is important to highlight that in the 1990s, the practice of sustainable farming in Lithuania barely existed. Therefore, it was assumed that only the promotion of sustainable farming among local farmers through tax incentives, funding, or similar typical interventions would not be sufficient to achieve a long-term impact on farming practices. Consequently, along with subsidies for wastewater treatment facilities, soft loans for the development of agriculture business plans, and acquisition of equipment, among other classical instruments, the Tatula programme took a holistic perspective, including additional soft measures oriented to the particular needs of current and future farmers.

The programme began collaborating with agriculture scientists who were responsible for developing proposals on new farming practices, types of plants best suitable for the particular soil in these districts, use of organic fertilisers, and crop rotation. The programme funded the development of scientific recommendations directly related to the specificity characteristics of the karst region. Local farmers were also given multiple opportunities to directly consult with scientists specialising in karst landscape farming issues and to visit other farmers successfully applying particular methods. Importantly, the scientific recommendations in multiple cases were developed in close collaboration with local farmers, whose long-running experience in farming in the particular landscape enriched scientific approach with valuable pragmatic insights and increased its practical applicability.

Although the support for the development of new sustainable farming practices was an important aspect of the programme, another crucial issue was to induce the business orientation of small family-owned farms to convert their local agriculture practice into a viable economic activity. In this regard, the certification of sustainable agriculture farms and its production helped local farmers differentiate their products from agrochemical-based agriculture and access one specific consumer segment in the market. In this sense, the programme leveraged the local entrepreneurial orientation by converting family farms into family business farms.

The national organic certification system was introduced in 1997. However, Tatula's management and co-working scientists soon realised that for some farms, local organic certification was still too early and too complicated. The problem was attributed to the complex requirements that the owner of organic certification had to adopt and the complicated process,

which could become a burden to small, mainly family-owned farms. Therefore, since 2003, the Tatula programme has started introducing a regional certification system. It is based on a ground analysis of the local farming conditions and promotes the so-called sustainable farming system. This new certification entails the use of progressive farming methods that are less environmentally harmful than traditional ones but are easier to implement than organic certification. Some farms participating in the Tatula programme were certified following the new system, even though the original sustainable farming certification system ceased to exist within a few years of its introduction.

Nevertheless, the system was beneficial to the region's environmental goals and organic agriculture businesses. It encouraged farms to progressively introduce less environmentally harmful farming practices and prepare themselves to turn their farms organic in the future. Additionally, this new alternative programme has opened several connections, support, and product distribution channels for farmers.

To ensure business continuity and new opportunities for farmers, the programme dedicated part of its resources to creating access to retail food markets. This initiative was important, particularly in the initial stages of the programme, because the regular sustainable farm-produce supply was insufficient and could not adapt to the conditions of big retail chains. Therefore, sales through farmer's markets were identified as the primary channel for creating business opportunities by meeting customers.

In the 1990s and early 2000s, the demand for organic food in Lithuania was low mainly because of a lack of awareness and the high price of organically grown products. The information regarding the characteristics of organic products and their benefits was scarce. The Tatula programme started organising and promoting farmers' markets under the Tatula brand in different locations of the country. Direct-to-consumer markets were seen as a good opportunity to create a new ecosystem of customers and farmers that understood each other in terms of needs and expectations. Although it began as occasional events, some locations have become meeting points where farmers and customers can interact regularly.

The Tatula programme employed various methods to encourage the link between farmers and customers. For instance, public funds were directed to cover farmers' participation expenses such as stall rent, market advertisements, and transportation costs. The transportation cost was introduced considering the geographical location of the target region and the distance from the capital, which is the leading market area for organic produce. Moreover, the Tatula programme actively promoted sustainable farming production on local and national media and, thus, made the Tatula brand visible. The programme's farmers have benefited from it and the 'Tatula programme' has become recognisable as a brand representing assured quality.

Some of the aforementioned activities of the Tatula programme continue today. Currently, public funds are used to further organise farmer markets, support new training programmes for organic farms, develop new organic products, and raise public awareness regarding multiple benefits of organic production. Additionally, the programme has increased its efforts in promoting farm-based processing of primary agriculture products and their certification.

Impact

In Lithuania, organic farming barely existed in the 1990s. The volume of organic farming commenced gradual growth only in the late 1990s after the national certification agency was established and national organic farming support payments were introduced. By 2002, only 0.3% of the total agricultural land of Lithuania was occupied by organic farms, indicating the slow process of converting and convincing farmers to move from a traditional to an organic system. However, the Birzu district was characterised by a more rapid increase in the number of organic farms, accounting for more than 10% of organic farms in the country. This is mainly attributed to the Tatula programme's impact.

The aforementioned slow pace began to change after the entry of Lithuania into the EU in 2004, which led to an increase in financial support for organic farming. In 2012, already 5.4% of the country's agricultural land was used for organic farming. Birzu district also experienced rapid growth in organic farming volumes, with organic farms covering 14.4% of agricultural land during the same year. Although organic farming volumes continue to grow throughout the country even now, Birzu farmers remain amongst the leaders in the country's organic farming. The district has almost three times more intensive use of agriculture land for organic farming in comparison to other districts, on average.

The other type of impact, which can also partially be attributed to the Tatula programme, relates to the development of local agriculture farms in terms of production and farm viability. Constant support to diversify organic farms' products (including an increase in the variety of both raw and processed agriculture products) and established connections between local farmers and customers contributed to family-owned farms' long-term viability. This could not have been achieved in the conventional agricultural market, which is dominated by large businesses. Successful transition to organic farming was conditional on many families maintaining their businesses or even growing from subsistence farming to small businesses, thereby ensuring their financial income. Lasting family traditions and experience in organic farming encouraged some members of young generations to start their own organic farming business, while parents continued working on the old family farm. Moreover, the economic spin-off observed with the increase in organic farms prompted the establishment and local organic food production businesses (e.g., mills), which are closely interlinked with the region's organic farms and partially depend on their supply. All these

circumstances are crucial to the region maintaining its cultural agriculture business ecosystem, which relies on local human resources and contributes to local socioeconomic development.

Results

We applied our research to observe and understand the role local family farms have played in the Tatula programme and what could have been the key factors for its success. Based on our interpretation of the data collected, having local family farmers in the programme highlights several important consequences at three levels of analysis.

First, at the family level, business families were able to redirect their entrepreneurial efforts, generational knowledge, and physical resources into a sustainable economic activity. In this sense, the programme facilitated the reinvention of farmers' families and created competitive advantages. Active family participation in the economic activity created a sustainable business model difficult for big corporations to imitate, which are more interested in profit maximisation at the expense of local and environmental conditions. Organic farming, the scale of farms that make it economically sustainable, and family participation are important conditions that implicitly or explicitly have made a generation of family farmers stay in their regions.

Second, at the local community level, the programme incentivised farmers to remain attached to their land, find alternative uses for local resources, and helped them avoid needing to migrate to urban areas. The programme did not use short-term incentives with the promise of fast results; instead, it succeeded by helping socioeconomic actors, such as family firms, find reasons to be embedded in their communities. Even though local family farmers were attached to their communities previously, the programme reinforced and renewed links and increased farmer family retention.

Third, at the national level, the programme helped connect rural and urban areas not only by meeting the supply and demand at a certain point in time and space but also by humanising the whole production system by facilitating physical meetings between producers (also sellers) and customers. This exchange of experience, needs, and expectations on market floors created a long-lasting relationship and mutual understanding. Direct links between producers, sellers, and customers materialise the sustainable economy.

Even though there are positive consequences from involving local family firms (business families) in the programme, family firms, because of their specificities, could also bring unique challenges for the sustainability of the programme. To focus on the local needs and context, changing the situation of existing organic farms requires deeper considerations. Some local organic farms have been in operation for more than 20 years; hence, the problem of farming management succession, that is, the new generation, becomes more prevalent. Although are no statistics, our observations suggest that some successful family-owned organic farms whose founders or successors have died are changing the type of farming and returning to conventional

methods that rely on synthetic pesticides, herbicides, and fertilisers. On the other hand, some family farms are able to successfully transfer the knowledge of organic farming practices to the second or sometimes even third generation of family members, proving the sustainability of organic production businesses. This observation is relevant to evaluate the programme in the long term and to redesign its future actions. Even though the programme has been successful so far, its sustainable impact is not guaranteed. The family dimension of the business would require addressing several challenges related to ownership and generational management changes.

Discussion and conclusion

This chapter aimed to explore the micro-foundation of the place-based approach by focusing on family firms when developing and implementing initiatives to boost local socioeconomic development in lagging regions. We argued that family firms, characterised by the embeddedness of family members in the formal and informal institutional contexts, may act as essential nodes in the relational space, accelerating information flows, creating trust, and assimilating knowledge across generations.

Our main conclusion is that the place-based approach used in the Tatula programme was critical in creating incentives for long-lasting impact among local socioeconomic actors such as family farms. The family condition of the business target of the programme was important to its success because business families have several characteristics that leverage and reinforce programme actions, such as farming knowledge across generations, local embeddedness, local social capital, and the intention to stay in the region. The Tatula programme nudged the family entrepreneurial orientation to reconfigure resources and capabilities to give sense to the farmer activities and restore the association with the territory. It is difficult to ascertain if such results could be achieved with non-family farms or multinational firms.

Even though the programme achieved positive results, several risks or challenges have to be addressed in the coming years. One of these is related to the generational and succession issues that any family firm has to overcome. In this particular case, family farmers have to navigate the ownership and management transition from one generation of family members to another. Several questions remain open: Is there any family business member who would like to continue with the farm? Has the current generation prepared for the coming generation to continue the leadership? How should the ownership and family wealth be distributed to guarantee the continuity of the family farm? Is it possible to distribute the family wealth when it is attached to the family firm or economic activity? How can the land be distributed among family members to continue farming? How can those family members that do not want to continue with the main economic activities be compensated? Is there any other alternative to compensate them without destroying necessary resources for farming activities? The future versions

of the Tatula programme have to deal with these kinds of issues to create sustainable socioeconomic development across generations.

Theoretical and practical contributions

The exploratory nature of our study could have several implications for theory and practice. First, our findings have theoretical implications for those scholars attempting to explain the role that family firms play in local socioeconomic development. Our results reinforce the model proposed by Basco (2015), that is, the embeddedness of family firms in the relational space is an important characteristic that enhances the quality of proximity, not only in its classical geographical dimension but also in its organisational, institutional, social, and cognitive dimensions. Our results also highlight the importance of family firms for regional processes necessary to activate conditions for local development. For instance, in line with previous studies in Lithuania (Stangej & Basco, 2017), family firms can trigger entrepreneurial processes by reconfiguring existing local resources, learning process by using and creating new knowledge, information exchange process by disseminating critical information and ideas, and spill-over process by encouraging family members or new actors to extend economic activities. The importance of family firms as economic and social nodes in the local economy has not been clearly understood, and future studies should investigate the micro-foundations of family firms in regional studies.

In addition to theoretical implications, our results also offer some practical recommendations for policymakers, who should pay attention to the soft local resources and processes that may boost or retard regional economic development while framing policies. The most important lesson is that economic actors are not rational in their behaviours and traditional incentives such as relocation of multinational factories through incentives (e.g., tax reliefs) do not necessarily work for all regions. To better understand the geographical, formal, informal, and historical aspects, local communities could help develop a unique solution to reactivate their economies. In this sense, embracing family firms could reinforce actions, leverage resources, and connect past, present, and future local knowledge for sustainable development. Future studies should explore other place-based approach programmes and actions to better understand the connection between family firms (as one socioeconomic actor) and the place-based approach. In this sense, future studies should focus on the micro-foundations of the place-based approach by considering factors, actors, and processes.

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