Spotlight
by CeFEO

Can too much family involvement in governance hurt your firm's success—especially in high-tech sectors?

Can deep family control and strong local ties become a liability for innovation and performance?

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For decades, industrial districts have been hailed as engines of economic resilience, creativity, and entrepreneurial vigor. These geographically concentrated networks of firms—particularly common in regions like Northern Italy—foster collaboration, knowledge sharing, and innovation. At first glance, family businesses seem tailor-made for these environments. They are built on social capital, long-term orientation, and deeply embedded local ties.

But what happens when the intimacy of family governance meets the dense relational fabric of an industrial district? Can too much embeddedness—social, familial, and institutional—stifle a firm's capacity to innovate, adapt, and grow?

This study confronts that question head-on. By analyzing over 55,000 observations from Italian manufacturing firms, it shows that the very characteristics that help family firms thrive in some contexts may turn into performance bottlenecks in others—especially when industry demands rapid innovation and flexibility.

WHAT WE STUDIED

This research draws from a comprehensive dataset maintained by Bocconi University's Italian Observatory of Family Firms. It includes:

- **171,000+ firm-year observations**, narrowed down to **55,489** usable cases from family-run manufacturing businesses with annual turnovers above €20 million.
- Detailed information on **board composition**, including the number of family members involved in governance.
- A categorization of firms based on **industry type**, using OECD's technology intensity classification.
- Data on **location within industrial districts**, identified by Italy's national statistical institute (ISTAT).
- Financial performance measured through **industry-adjusted Return on Sales (ROS)**.

The researchers applied panel regression analysis to examine how family involvement in governance interacts with district localization and industry technological intensity to affect firm performance.

KEY INSIGHTS

1. Too Much Family Control in the Board Can Backfire

At moderate levels, family involvement in governance can be beneficial—bringing cohesion, trust, and stewardship. However, the study finds that **as the number of family directors increases, performance in industrial districts declines**. This effect is statistically significant and robust across models. The reason? Excessive family representation creates a "closed system" that limits exposure to new ideas and reduces flexibility.

2. Overembeddedness Is a Real Risk for Family Firms

Overembeddedness occurs when a firm becomes so enmeshed in social and relational networks—both internally (within the family) and externally (within

the district)—that it loses the capacity to adapt. In these situations, governance norms, trust-based ties, and risk aversion reinforce each other, locking the firm into conservative strategies and outdated routines.

3. The Negative Effects Are Stronger in High-Tech Industries

Not all industries are affected equally. In sectors characterized by **high novelty, codified knowledge, and low spillovers**—like pharmaceuticals, automation, or biotech—firms need to pivot quickly, bring in external expertise, and leverage cutting-edge knowledge. In these contexts, **overembedded family governance becomes a serious liability**. Firms in industrial districts with heavy family involvement performed significantly worse than their counterparts.

4. In Low-Tech Industries, the Impact Is Weaker

Industries like textiles, furniture, and food manufacturing operate on more **incremental innovation** and benefit from **long-standing, trust-based relationships**. In these settings, family embeddedness and local rootedness can still confer advantages. However, even here, the rising codification of knowledge and digital transformation is starting to shift the balance.

5. Governance, Localization, and Industry Must Align

The study highlights the importance of **configuration**. It's not just about being a family firm, being in a district, or being in a high-tech sector. It's about how those factors combine. When family involvement in governance is **not matched** with the strategic demands of the industry and the openness of the local context, performance suffers.

TAKEAWAYS

1. Customize Your Governance to Fit Your Context

Boards should be structured to reflect not only the values of the family but also the **strategic demands of the industry**. In rapidly evolving sectors, **non-family directors** can bring fresh perspectives and networks.

2. Don't Overestimate the District Effect

Industrial districts offer many benefits, but they are **not a silver bullet**. Their advantages may diminish or even reverse when paired with conservative family governance structures, especially in fast-moving sectors.

3. Watch for Lock-In Effects

Firms embedded in both family and district relationships may fall into **rigid decision-making patterns**. Routinely assess whether your relationships and routines are enabling or constraining your firm's future.

4. Embrace External Collaboration

In high-tech environments, breakthrough innovation often comes from **external partnerships**, venture capital, and market-driven hiring. Over-reliance on family and local networks may limit these opportunities.

5. Adopt a Contextual Strategy for Innovation

Family businesses should align their innovation strategies with **both the technological characteristics of their industry and their degree of embeddedness**. There's no one-size-fits-all formula.

IMPACT

This research contributes to the broader understanding of **family business heterogeneity**, emphasizing that location and industry context are just as important as internal governance factors. It expands the theoretical lens of **local embeddedness** and challenges family firms to reconsider long-held assumptions about the benefits of strong family governance.

It also calls for a re-evaluation of regional economic development policies that assume industrial districts are universally beneficial. For policymakers, this implies a need to foster **flexibility, openness, and innovation ecosystems**, rather than relying solely on historical forms of clustering.

RECOMMENDATIONS

- **Family firms in high-tech sectors** should:
  - Reduce board homogeneity by adding external experts.
  - Build connections beyond local networks.
  - Consider advisory boards with innovation specialists.
- **Firms in traditional industries** should:
  - Monitor digital transformations and shifting innovation patterns.
  - Start experimenting with hybrid governance structures.
- **All firms in industrial districts** should:
  - Periodically reassess their reliance on local ties.
  - Explore partnerships beyond their immediate geography.
  - Think proactively about succession planning and generational transitions in governance.

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