Contributions to Management Science

Antonio Leotta *Editor*

Management Controlling and Governance of Family Businesses

Theoretical Insights and Empirical Evidence from Italy

Springer

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Editor
Antonio Leotta
Department of Economics and Business
University of Catania
Catania, Italy

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Contributors

Gaia Bassani Department of Management, Economics and Quantitative Methods, University of Bergamo, Bergamo, Italy

Cristiana Cattaneo Department of Management, Economics and Quantitative Methods, University of Bergamo, Bergamo, Italy

Francesca M. Cesaroni Department of Economics, Society, Politics, University of Urbino Carlo Bo, Urbino, Italy

Elena Cristiano Department of Business Economics and Law, University of Calabria, Rende, Italy

Claudia Frisenna Department of Economics and Business, University of Catania, Catania, Italy

Antonio Leotta Department of Economics and Business, University of Catania, Catania, Italy

Carmela Rizza Department of Economics and Business, University of Catania, Catania, Italy

Davide Rizzotti Department of Economics and Business, University of Catania, Catania, Italy

Daniela Ruggeri Department of Economics and Business, University of Catania, Catania, Italy

Annalisa Sentuti Department of Economics, Society, Politics, University of Urbino Carlo Bo, Urbino, Italy

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Introduction

Antonio Leotta

Families are the elementary communities that constitute society. Their dynamics involve emotions and interests which are shaped in family members' relations. Families often believe in core values, which influence, and are influenced by, the social context around them. When a family is involved in a business enterprise, the latter expresses the view of the family, and its aptitude to survive and develop over time is mostly the consequence of the family dynamics and of the ability of the family to absorb the culture and values of the social context where the business is born and develops. Therefore, the family and the business form a unitary system of forces where economical and emotional concerns are merged. The aptitude of a family business to survive and develop depends on the ability of the family to acquire managerial and financial culture and to speak and listen to financial language. The willingness of the entrepreneur to take the investment risk and seize new opportunities must be balanced with his/her aptitude to verify the feasibility of the new project, especially in financial terms. The entrepreneur should also recognize in his/her children the abilities to manage the business: this is a critical requisite for the survival of the firm. Furthermore, when a professional manager is hired to guide the family business in a development path, introducing administrative innovations in line with the managerial principles of doing business, the professional manager needs to learn and respect the family values and cultures where the business comes from. Those of family and business are two worlds that need to be merged for they can constitute a sound family business reality. Such a merging is the fundamental challenge of a family business. It requires the founder of the business and his/her family members to overcome the view of the family, focused on familiar habits and emotional constraints, in order to adopt the family business perspective as a *melting-pot* of familiar and managerial principles. A family business develops and grows by entering international markets,

A. Leotta (✉)
Department of Economics and Business, University of Catania, Catania, Italy
e-mail: antonio.leotta@unict.it

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to spread its products and services; accessing financial markets, to sustain strategic investments; and transferring knowledge and experience from senior to junior generations, to survive over time, behind the founder's vision of the business. For the family business to deal with all these challenges, a unitary system of principles and values needs to be developed. The main thesis of this book argues that the core of such a system lies in the integration of familiar and managerial principles and values.

The extant literature on family business has been developed around the distinctive features of a family firm, such as the presence of a family whose values and dynamics influence the business in its aptitude to grow, to enter international markets, to survive over the current generations and to access financial markets. Such topics are strongly interrelated, and their linkages need further investigations. Administrative innovations are required for the family business to solve conflicts and promote cooperation, improving its search for efficiency and effectiveness. Management control and governance systems can be the administrative innovations a family business needs to introduce if it wants to deal with all its challenges by a unitary way. Little has been studied on the role of management control and governance systems in family firms. Recently, management control scholars have been invited to invest more in the field of family business, investigating on the role of management accounting and control systems in this setting. What are the specific features and roles of management control and governance systems in family firms? How do such systems can help family business actors in dealing with the main business challenges?

In order to address the above questions, this volume conceptualizes a system view of the main challenges that characterize family businesses, namely managerialization and professionalization, succession, internationalization and relations with financial markets. The need to develop a unitary view of these challenges, based on a holistic approach, is derived from the opportunity to investigate their interrelations. This view embraces the use of management control and governance systems, since the introduction and use of such systems, as argued by recent studies, play a relevant role being the main subject of managerialization and professionalization, and facilitating firm succession, internationalization and relations with financial markets. This is the core argument of the book and is developed theoretically, in a first part of the volume, and applied, in the second part, in interpreting and discussing field and empirical evidence on Italian cases of family business.

The book contributes in different ways. First, it offers an updated review of the studies that have dealt with the main family business topics. Second, it suggests various insights to help family businesses to survive and grow up. Third, it attempts to deal with a relevant point, not developed enough in the scientific literature, namely the role of governance and control systems in family firms. Finally, it highlights the main linkages between the principle family business challenges, discussing on how the business can take advantage from the governance and control systems in handling those challenges. The theoretical propositions, drawn on the extant literature, are developed into a conceptual framework which guides the interpretation of the fields and empirical results discussed in the second part of the volume.

The development of a system view of the main business challenges, included the introduction of management control and governance systems, makes the book distinctive as a means to develop a deeper understanding of the role of management control and governance systems in family firms. In so doing, the reader is invited to contextualize the role of such systems within the challenges that make a family firm distinctive. In these terms, the introduction of management control and governance systems may be the consequence of a succession process which facilitates the firm managerialization/professionalization and international growth. At the same time, management control and governance systems may contribute to reinforce the process of succession if their introduction has been successfully led by a representative of the junior generation. Such an innovation may have contributed to the acceptance of his/her leadership amongst family and non-family business members.

As mentioned above, the book is organized in two main parts: the first develops the theoretical propositions of the book and its main thesis. After defining family businesses, in a first chapter, the principle family business challenges, namely managerialization and professionalization, family business succession, internationalization and relations with financial markets, are discussed in each of the following chapters, reviewing the literature on the topics. This discussion is inspired from the perspective of the development and growth of a family business. The last chapter of the first part presents a conceptual framework where all the main challenges discussed previously are linked together and are proposed to be managed through a systems package composed of management control and governance systems. This package constitutes the unitary system of principles and values that lies in the integration of familiar and managerial views.

In the second part of the volume, the main thesis of the book, just mentioned, is used as the interpretive framework which guides the discussion of the evidence drawn from case studies and statistical analyses accomplished on Italian family firms. The focus on Italy, as the national context of the empirical analyses, is due to the high diffusion and relevance of family businesses in the Italian economy. The research approach privileges interpretive case studies. Field evidence is offered on Italian family businesses located in different areas of the country and operating in various industries, such as the market for nutraceuticals and cosmeceuticals, in the case of Greenlife; the market for yellow flours, breakfast cereals and other products (flour for breading, cous cous) destined for human consumption, in the case of Molino Nicoli S.p.A.; the food packaging sector, in the case of Teseo S.p.A.; the machinery industry for construction markets, in the case of Volta S.p.A.; and the market for olive oils, in the case of Mamagra.

The case studies report episodes around managerialization and professionalization, succession and internationalization, considered as important family business challenges. The main objective of the field research is to show how these challenges are interrelated, as argued in the theoretical part of the volume, and how their management has involved a unitary view which integrates familiar and managerial principles and values. Field evidences drawn from case studies are integrated with a quantitative investigation on the relations between family business and financial markets. A regression analysis was run on data gathered from a sample of family-owned businesses listed in the Italian stock market. The aim was to verify hypotheses based on the theoretical propositions formulated in the first part of the volume, which were related to the role of governance mechanisms in protecting financial investors, therefore facilitating financial support for family business development and growth.

The volume ends with a discussing and concluding section, aimed to offer an interpretation of the field and empirical evidences from the theoretical lens developed in the conceptual framework proposed earlier.

Some terminological clarification is needed. In all the volumes, the terms *family business* and *family firm* will be used with the same meaning, while the term *governance* will refer to both the traditional content given in the specific literature and the new meaning which will be proposed in the theoretical framework developed in Chapter "Governing Family Businesses. A Research Map". This new meaning of the term governance will be often associated with the term *governing* and with the expressions of *governance systems package*, *governance package*, *governing systems package*.

Governing Family Business Challenges. Theoretical Insights

An Overview of Family Business. Profiles, Definitions and the Main Challenges of the Business Life Cycle

Antonio Leotta, Carmela Rizza, and Daniela Ruggeri

Abstract This chapter defines the unit of analysis of the volume, which is the family firm. The characteristics describing the specific aspects of such firms are outlined and considered along the main phases of the family firm life cycle. The chapter sets out the static and dynamic coordinates required for examining the main challenges that a family firm needs to deal with along its development path. Since the present chapter is something of an overture for the entire volume, the main family business challenges will be outlined, and each is the subject of the following chapters.

Keywords Family business definitions · Family business challenges · Family business life cycle

1 Introduction

Family business is a very important phenomenon around the world and deserves research attention for many reasons. Firstly, family firms seem to have specific profiles and features that make them distinctive from non-family firms. One of the most acknowledged features is the influence of one or more families over the business. This suggests investigating family member relationships and their dynamics, as well as those with non-family members. Secondly, the distinctive profiles and features of family firms entail that the development and growth of family firms may follow patterns of behaviour that can differ from the development patterns followed by non-family firms. Thirdly, if family firms follow patterns of development and growth that are different from the patterns followed by non-family firms, then the

A. Leotta · C. Rizza (✉) · D. Ruggeri
Department of Economics and Business, University of Catania, Catania, Italy
e-mail: c.rizza@unict.it

A. Leotta
e-mail: antonio.leotta@unict.it

D. Ruggeri
e-mail: d.ruggeri@unict.it

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role played by governance and control systems may be different. Such roles need to be explored.

The present chapter is thought of as an overview of the first, theoretical, part of the volume. It thus needs to define the distinctive profiles and features of a family business; as such business is the unit of analysis for the research. As will be discussed in the second section, the very essence of a family business is the intention of a family, or a number of families, to shape the vision of the business (Chua et al. 1999). How the family or families shape the vision of the business, however, influencing its path of development and growth, depends on how young or mature the family business is, which forms the organisational and environmental context of the family business. Following the contribution by Quinn et al. (2018), the second section will discuss four important dimensions which differ between family and non-family firms: architecture, governance, entrepreneurship and stewardship (Craig and Moores 2015, 2017). These dimensions are examined so as to discuss the role played by dimensions that are distinct to family businesses, dealing with the challenges of family business growth and development: in the relations between family and non-family members (managerialisation-professionalisation); in the relations between generations (succession); and in the relations between family business and its markets (such as international and financial markets). The choice of discussing architecture, governance, entrepreneurship and stewardship as specific dimensions of a family business is also due to the focus of the present volume on the role played by governance and control systems in managing the main family business challenges.

Accordingly, the third section outlines the context of the family business, which involves the relationships between the family business and its environment. As will be discussed, such relations differ according to the stage of the business development path. The literature suggests that the development path of a family business is appropriately represented through a life-cycle model whose phases describe the organisational and environmental characteristics of a family business along its maturity stages.

Sections two and three together set the static and dynamic coordinates required for examining the main challenges a family business needs to deal with as it develops. As the present chapter is something of an overture for the entire volume, the main family business challenges will be outlined and will be the subject of each of the following chapters. The challenges in question have been selected according to the most relevant family business studies. They involve managerialisation-professionalisation, family business succession, internationalisation and access to financial markets. The fourth section in the present chapter outlines and offers an introductory discussion of these challenges, which will be the subject of the following chapters.

Some methodological choices in the writing of the chapter need to be clarified. Firstly, the content of each section is not intended to offer an exhaustive recognition of the various perspectives in the family business literature. The focus of the volume is restricted to the perspective of governance and control systems in family business. It is from this perspective that the present volume aims to describe how family businesses can manage their main challenges. Secondly, the approach followed in the volume, which is mostly qualitative and process-oriented, has influenced the selection of the specific profiles and features of family business, and, thereby, its definition. The privilege given to the essence approach, which underlines the distinctiveness of the influence of the family or families in a family business, is functional to the study of the role of governance and control systems as constructed in the relationships between family and non-family members through the various stages of the family business life cycle.

The present chapter contributes to the volume by defining the unit of analysis and the main logical assumptions of the research. The latter can be outlined in the following propositions:

1. The distinctive profiles and features of family firms make them different from non-family firms in dealing with the main business challenges that come from the various stages of the development path.
2. This distinctiveness can be investigated by studying the specific role played by governance and control systems in managing family business challenges.

2 Family Businesses Profiles and Features

Defining a family firm is one of the classic problems of family business research and is also called the "definition problem" (Astrachan et al. 2002). It is a never-ending story, as no resolution has been achieved yet, as the viewpoints of the scholars who have dealt with such a problem, and their research purposes, are different. A common starting point is the definition proposed by Chua et al. (1999), according to which: "The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (cf. p. 25). Thus, the very essence of a family business is the intention of a family, or a number of families, to shape the vision of the business. This behavioural approach, which has been called the "essence approach", was further developed in 2003 by Chrisman et al. (2003, p. 9), who stated that the essence of a family firm consists of the: "(1) intention to maintain family control of the dominant coalition; (2) unique, inseparable, and synergistic resources and capabilities arising from family involvement and interactions; (3) a vision set by the family controlled dominant coalition and intended for transgenerational pursuance; and (4) pursuance of such a vision". We consider the essence approach seminal, as it encompasses most of the family business features.

The essence approach assumes that a family business is a business influenced by one or more families. This assumption has focused on a number of dimensions through which the influence can be exerted. According to Astrachan et al. (2002), there are three important dimensions of family influence that should be considered: power, experience and culture. Analysing the power dimension, the authors sustain that a family can influence a business through the extent of its ownership, governance and management involvement. The authors also add: "This level of influence via ownership, management, and governance is, therefore, viewed as interchangeable as well as additive" (Astrachan et al. 2002, p. 48). Obviously, the measurement of influence via each of these three ways needs to consider the legal requirements of the country to which the business is subject. The experience dimension of family influence refers to succession and the number of family members who contribute to the business. Various authors suggest that a business should be seen as a family business when a transfer to the next generation is intended (Barach and Ganitsky 1995; Birley 1986; Heck and Trent 1999; Ward 1987, 1988). It is commonly accepted that each succession adds experience to the family and the company. The number of family members involved in ownership, governance and management is also a relevant source of experience for the family and the business. Finally, the culture dimension refers to the sharing of assumptions and values between the family and the business, and to the family's commitment to the business (Gallo 2000). Other authors consider the culture dimension in terms of whether the CEO, the managers or the owners perceive it as a family business or not. The overlap of company and family values is the most considered element of culture dimensions, but its evaluation can be problematic. For example, as Astrachan et al. (2002) pointed out: "the values of an organization might well be rooted in family values of a former generation, but not necessarily manifest in the current family" (cf. p. 50). Such a criticality, which seems to be an operational concern, is related to the complex nature of the family business concept and will be considered later in this section.

According to the arguments outlined above, Astrachan et al. (2002) developed a F-PEC index of family influence which enables comparisons across businesses concerning the level of family involvement. Such an index has the ability to avoid a cut-off distinction of family versus non-family firms, allowing a continuum of family business typology, based on the degree of the three subscales derived from the three components of family influence. Accordingly, Mustakallio et al. (2002) summarised the various definitions of family business into six categories: ownership, management, generational transfer, the family's intention to continue as a family business, family goals and the interaction between the family and the business.

Another feature of the essence approach to family business is that the influence of the family or families refers to a family's or multiple families' visions of the business. It is a cultural dimension that overcomes the economic interest in the business. Instead, the business is seen by family members as a way to pursue their values.

Another feature, which the essence approach highlights as a distinctive element of family businesses, is the transgenerational pursuance of the family vision of the business. Since the family vision needs to be sustained across family generations, the dynamics of family successions are important for the business to survive. The relationships between older and junior generations, the leadership constructed by the latter, and the preparation of the succession process are issues involved in the feature of succession, which represents another distinctive concern of family businesses and of their research. The transgenerational horizon of a family business gives the family business system a dynamic dimension. This, on the one hand, has been perceived by Astrachan et al. (2002) as a source of experience and considered as one of the three components of family involvement. On the other hand, this transgenerational horizon is a source of instability, since it may hinder the survival of the family firm. As reported by Songini et al. (2013), indeed: “The Family Firm Institute estimated that only 30% of all US family businesses survive into the second generation, only 12% make it to the third generation, and as few as 3% make it to the fourth generation or beyond” (cf. p. 78). This decreasing rate of survival can be explained by the growing complexity of the family business governance and management from the first to the following generations due to the increasing number of families involved, as the descending founder’s family. Relationships change from siblings in the first family generations, to cousins within the descending family’s generations, making the governance and management of the business more complex and difficult.

A recent contribution by Quinn et al. (2018) provided a framework called AGES, articulated in four dimensions (architecture, governance, entrepreneurship and stewardship) in order to explain the main differences between family and non-family firms. This framework seems useful in identifying some characteristics of the family firms. In the first dimension, a family firm’s architecture is characterised by less complex and less formal structures than those of non-family firms. This is due to the great power and discretion in decision-making given to managers in family firms, which allows them more flexibility (Craig and Moores 2015, 2017). These differences between family and non-family firms are more pronounced among small firms and less among large firms (Hiebl 2013; Speckbacher and Wentges 2012). It thus seems that when getting larger and older, family firms increasingly rely on more formal management accounting and control systems (Amat et al. 1994; Giovannoni et al. 2011; Moores and Mula 2000; Moores and Yuen 2001). When growing in size, family firms become more similar to non-family firms in terms of formal management accounting and control instruments. Management accounting tools are characterised by information systems and technology architecture, two main aspects with potential for studies that consider the peculiarities of family business. Quinn et al. (2018) suggested paying closer attention to the specifics of family firms when adopting accounting information systems (or not) and to the barriers to be overcome for successful implementation in a family business context.

In the second dimension, a family firm’s governance is a particularly challenging task given a family firm’s longstanding stakeholder structure, which involves family members, top management and a board of directors. The ownership stakes are often passed from one generation to the next within the family. The owner family’s members usually take on multiple roles in managing and governing the firm (Tagiuri and Davis 1996), thereby blurring the governance relationships. Also, family members, as managers, often make the most important business decisions (Gallo and Sveen 1991). The emotional attachment to family firm ownership may detract from the firm’s focus on economic goals. A typical family firm thus violates almost all of the underlying assumptions of traditional governance theories. Mustakallio et al. (2002) developed and tested a model of family firm governance that incorporated both formal and social control aspects of governance. In particular, they emphasised that family firms require a governance structure characterised by formal control that fits the complexity of their stakeholder structure, minimising opportunism and governance mechanisms based on social control that promote cohesion and shared vision within the family. Drawing on agency theory and social theories, they examined the effect of different governance mechanisms on the quality of strategic decision-making.

Other contributions have applied alternative perspectives to agency theory to study the owner-manager relationship, recognizing a social role to the family business, such as the stewardship theory (Davis et al. 1997; Donaldson and Davis 1991), which sees managers as pro organisational and trustworthy team players whose goals naturally align with those of the principals. Stewardship-oriented managers derive higher utility from pro-organisational, collectivist behaviour than from individualistic, self-serving behaviour (Davis et al. 1997). Stewardship theory has advanced as an alternative framework to explain governance issues in family firms (Corbetta and Salvato 2004; Jaskiewicz and Klein 2007; Pieper et al. 2008). For example, Pieper et al. (2008) found that relatively high levels of family commitment to the business and an overlap of values between the owning family and management result in fewer formal governance structures, such as boards of directors. One possible explanation for this finding is that family firms may rely on more informal governance structures.

In the third dimension of Quinn et al.'s framework, contributions have showed that family firms may be reluctant to introduce more formal management control systems, such as strategic planning, due to the fear of losing their entrepreneurial spirit (Mintzberg and Waters 1982; Nordqvist and Melin 2008, 2010). The relationship between family business entrepreneurship and the design of management accounting and control systems may not necessarily be complementary. The design of such systems may very much depend on the form of entrepreneurship in family firms (Kallmuenzer et al. 2017).

Finally, family members are often serving the family business rather than their own interests, which is why researchers have applied the stewardship theory in family business research (Madison et al. 2016; Neubaum et al. 2017; Siebels and zuKnyphausen-Aufseß 2012). In a family firm characterised by stewardship, there is less need for formal monitoring and control (Hiebl 2013). As suggested by Quinn et al. (2018), it could be interesting to explore the roles that multi-generational families have had in the operations and development of the accounting function in these contexts. It would be of interest to review accounting records over an extended historical timeframe to gain insights into the family business sub-system interplay, as suggested by Gersick et al.'s (1997) three-circle model. As indicated above, such research could not only be of historical interest, but could also inform current family business practice (Quinn et al. 2018, p. 541).

The relevance of family values and the emotional attachment to them have been examined through the socio-emotional wealth approach which, according to Songini et al. (2013), originated "from the strong emotional overtone characterizing various dynamics of family business, from strong family values permeating the organization, and from altruistic behaviour typically found among family owners" (cf. p. 76). From this perspective: "factors like emotional attachment, sibling involvement, sense of legacy, family control, and concern for reputation, among many others, give family firms their distinctiveness" (Gomez-Mejia et al. 2011, p. 692). The socio-emotional wealth perspective therefore points out that the management decisions of many family owners are driven more by socio-emotional factors than by economical ones. Related to this approach is the concept of "familiness", which is considered a central concept in the family business research (Frank et al. 2010), and has been defined by Habbershon and Williams (1999) "as the unique bundle of resources a particular firm has because of the systems interactions between the family, its individual members, and the business" (cf. p. 11). The concept of familiness therefore derives from a commonly accepted view of a family business as "the consequence of two overlapping and interacting systems (…): the emotion-oriented family system that focuses on noneconomic goals on one hand and the results-oriented business system that focuses on economic goals on the other" (Stockmans et al. 2010 in Songini et al. 2013, p. 75).

According to the literature reviewed above, a family business profile and it related features can be outlined and summarised in the following way. Generally speaking, a family business is a complex social system derived from two overlapping and interacting social sub-systems: the family sub-system, which is socio-emotionally oriented, and a business sub-system, which is economically oriented. Interactions between the two sub-systems occur via three main dimensions, power, experience and culture, and are intended to pursue the family's vision of the business in a transgenerational horizon. The social system of a family business is thus of a dynamic nature.

A further reflection is noteworthy with respect to the cultural view of the family business system, as a set of different values which tend to become more different moving forward across generations. Stockmans et al.'s (2010) view of a family business is the junction of family and business sub-systems based on two different sets of values, socio-emotional and economical, which motivate the family and the business sub-systems, respectively. Furthermore, within the familiar sub-system, further differences in values can be observed from both a static and a dynamic perspective. From a static perspective, different values may emerge from the different families involved in the business, especially when the family business is behind the first family generation. From a dynamic perspective, old and junior generations may be motivated by different values. We believe that both the static and the dynamic perspectives on the difference between the socio-emotional values within the familiar sub-system can potentially explain the rate of family business failures, which is higher than non-family failures. In our view, these differences in values deserve to be investigated in order to better understand how any kind of innovation, product, process or administration can be introduced into a family business.

3 Family Businesses Life-Cycle Model

The organisational life-cycle theory has many appealing aspects to explain the sequential stages of firm growth and development. These stages present unique sets of effectiveness and difficulties that firms face throughout their life cycles. Although the description of these stages varies across studies, a common assumption is that they refer to transitions, sometimes marked by trauma and crisis (Phelps et al. 2007).