



UNIVERSITA' DEGLI STUDI DI PADOVA
DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI
"M. FANNO"

CORSO DI LAUREA MAGISTRALE IN
BUSINESS ADMINISTRATION

TESI DI LAUREA

"A STUDY OF FAMILY FIRMS: CONTEXT AND THEORIES"

RELATORE:

CH.MO PROF. Alessandra Tognazzo, PhD

LAUREANDO: Paolo Reverenna

MATRICOLA N. 1103766

ANNO ACCADEMICO 2016/2017

Il candidato dichiara che il presente lavoro è originale e non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere.

Il candidato dichiara altresì che tutti i materiali utilizzati durante la preparazione dell'elaborato sono stati indicati nel testo e nella sezione "Riferimenti bibliografici" e che le eventuali citazioni testuali sono individuabili attraverso l'esplicito richiamo alla pubblicazione originale.

Firma dello studente

INDEX

INTRODUCTION AND SUMMARY	5
1. CHAPTER	11
AGENCY THEORY LITERATURE REVIEW: INSIGHTS AND SOCIOEMOTIONAL WEALTH UNDERSTANDING	11
1.1 Premise	11
1.2 Agency Theory: origins and implications of the controversial principal-agent interaction	12
1.2.1 The core assumptions of Agency theory	15
1.2.2 Agency problem: an outlook on its costs.....	19
1.2.3 Agency perspective on risk	24
1.3 Behavioural Agency model, a new perspective or an agency review?.....	32
1.4 Family firms: a governance “panacea” for agency costs?	38
1.5 The Agency problem in Small and Medium Enterprises (SMEs)	42
1.6 Conclusions.....	47
2. CHAPTER	49
INSTITUTIONAL LOGICS APPROACH: AN EXPLANATION OF ORGANIZATIONAL ACTIONS	49
2.1 Premise	49
2.2 The open system perspective of the firm: an introduction to institutions.....	50
2.3 Approaching the institutional logics perspective, as a wave of the institutional theory development.....	52
2.3.1 The “first wave” of institutional theory: the “ <i>old institutionalism</i> ”	53
2.3.2 The “second wave” of institutional theory: the “ <i>new institutionalism</i> ”	54
2.3.3 The “third wave” of institutional theory: the <i>institutional logics perspective</i>	58
2.4 Some introductory and preparatory considerations on the Institutional logics approach.....	59
2.4.1 Institutional logics meaning and definition	61
2.4.2 Institutional logics mechanisms for shaping individuals and organizations actions.....	63
2.4.3 Five principles underlying the meta-theory of institutional logics	66
2.5 Conflicting institutional logics as main determinants of the institutional change	71
2.6 A Systemic and Socioemotional wealth outlook for determining family firms’ institutional logics.....	74
2.7 Conclusions.....	80
3. CHAPTER	83
LEGITIMACY AND STIGMATIZATION OF CONTROVERSIAL INDUSTRIES: A FOCUS ON GLOBAL AND ITALIAN TOBACCO INDUSTRY	83
3.1 Premise	83

3.2	Legitimacy	84
3.3	Legitimacy seeking strives for controversial and stigmatized organizations.	86
3.3.1	Stigma and organizational responses for its avoidance	86
3.3.2	Controversial organizations defined.....	88
3.4	A focus on a controversial industry: the tobacco industry	89
3.4.1	The tobacco industry worldwide.	89
3.4.2	A closer look at the Italian tobacco Industry.	92
3.4.3	Italian Tobacco Shops as Family firms	100
3.5	Conclusions.....	102
4.	CHAPTER	105
	THREE CASE STUDIES ABOUT ITALIAN TOBACCO SHOPS: THEORIES APPLICATION	105
4.1	Premise	105
4.2	Case selection	106
4.3	Case description and method	109
4.4	Cross-case analysis	112
4.4.1	The institutional overlap between the family and the business and the weight that each logic have in deciding to invest in a controversial industry	113
4.4.2	The role that the co-existence of the business and family logics (institutional overlap) have on product and services portfolio and innovation strategies pursued.....	116
4.4.3	The institutional logics effects and function in fostering the legitimacy of the controversial products and services offered	120
4.4.4	Legitimacy and stigma issues toward the external environment	122
4.4.5	Agency theory consideration about costs, risk and about the loss aversion concept	123
4.5	Conclusions.....	128
	APPENDIX A: ORIGINAL INTERVIEW PROTOCOL	131
	APPENDIX B: ENGLISH TRANSLATION.....	134
	REFERENCES	137

FIGURES, BOXES AND TABLES

Figure 1	Description of the Agency problem	24
Figure 2	Summary on the risk concept.....	31
Figure 3	The firm as a Black Box	50
Figure 4	Firm as an open system.....	51
Figure 5	The institutional overlap in family firms	76
Figure 6	The System's Theory Model of Family Business.....	78
Figure 7	Global cigarette market by region.....	91
Figure 8	Tobacco company shares of global cigarette market, 2013	92
Figure 9	Tobacco sales trend in the Italian market (1946-2006).....	93
Figure 10	Import and export trends of Italian market	94
Figure 11	Tobacco products consumption in Italy	94
Figure 12	Products' contribution to final profits.....	98
Figure 13	Tobacco Shop A (less controversial)	109
Figure 14	Tobacco Shop B (Partially controversial)	109
Figure 15	Tobacco Shop C (Very controversial)	109
Figure 16	Tool "means-ends cone" used for the case analysis	111
Figure 17	Tobacconists' interpretation of the tool.....	120
Box 1	Agency and Structure concepts.....	63
Box 2	Classification and categorization	66
Box 3	The paradox of embedded Agency	68
Box 4	Ontological security.....	70
Table 1	Agency theory assumptions	19
Table 2	Comparison between the two conceptions of risk	28
Table 3	Comparison of the concept of risk aversion between Wisemann and Gomez-Mejia; and March and Shapira	36
Table 4	Agency theory assumptions vs. Behavioural Agency theory assumptions	37
Table 5	Institutional waves comparison	59
Table 6	How logics determine individual and organizational action	66
Table 7	Institutional logics metatheory assumptions	71
Table 8	Two types of institutional logics in Higher Education Publishing	74
Table 9	Legitimacy challenges and strategies	86
Table 10	Leading tobacco producing Countries 2015	90
Table 11	Tobacconists' margin over 10 euros spent.....	98
Table 12	Swot analysis of tobacco shops	99
Table 13	Ideal logics simultaneously present in family run tobacco shops.....	101
Table 14	List of the tobacco shops interviewed during our study	108
Table 15	Outlook on the tobacco shops' institutional overlap	114
Table 16	Outlook on institutional logics' influence on product offering	117
Table 17	Outlook on environmental legitimacy and stigma.....	123
Table 18	Outlook on agency considerations in tobacco shops	124
Table 19	Outlook on Agency/SEW risk concept	126

INTRODUCTION AND SUMMARY

CONTEXT AND AIM OF THE DISSERTATION- Studies on the tobacco industry mainly focus on the negative aspects that the products commercialised by this industry have on health. However this industry, as all the firms which are related to it – as tobacco shops – are mainly characterized by a stigma, which is a negative belief or opinion that a society or group of people have about them. This stigmatization makes this industry as any other which commercialise unhealthy products (alcohol, weapons, gambling and so on) to be identified as contested. As a consequence of this, firms that operate in such contested and stigmatized industries suffer from legitimacy problems since their activities are not in line with their surrounding institutional context. In order to have a better understanding, it is necessary to divide this work according to the main theories used to analyse family run tobacco shops. The possibility to analyse Agency theory dynamics in small and medium family enterprises is related to the curiosity of understanding in which direction goes the main debate on agency costs. In fact authors as Jensen and Meckling (1976) maintain that family firms are the only organizational forms in which agency costs are less since there is an interest alignment and also because there is the direct involvement of owners, while contrarily Shulze et al. (2001) affirms that the family's altruism toward its members determine higher agency costs in family firms.

The other theoretical approach on which the thesis focuses is relatively recent and has been developed under the umbrella of the institutional theory and it is the Institutional logics approach. The chance of exploring how different logics interact within family run tobacco shops together with the opportunity to give a contribution in

this field have addressed the study of these theoretical approaches on these particular family businesses.

However even if has not been dedicated a specific chapter on the concept of Socioemotional Wealth (Gomez-Mejia, 2007) in this thesis, it has been treated in a transversal way since it is rooted in family firms.

Socioemotional wealth (SEW) is a construct introduced by Gomez-Mejia et al.(2007) that tries to capture all the particular and affective aspects that make family firms behave in a specific way. In fact SEW is the affective endowment of a firm, which comprises non-financial aspects related to the family's emotional needs; these needs can be identity, belonging, the family's desire to exercise authority and the continuation of the family dynasty, while preserving family's values and social capital. In sum it's "the stock of affect-related value that a family derives from its controlling position in a particular firm" and its preservation comes to be an end for family firms (Berrone, Cruz and Gomez-Mejia, 2012) as SEW is one of their main uniqueness factors. The owners of these kinds of firms, do not care only about financial results, as non-family firms usually do, but they also care about keeping family control, and so about their SEW. According to the aforementioned authors, this SEW preservation prevails over the firm's financial performance. In fact, family owners in general are more willing than nonfamily ones to make strategic decisions which sacrifice economic performances but that allow the SEW preservation thus making family firms loss (of emotional aspects) averse, meaning that that they do not take risky decisions that threat their SEW.

So, how do Agency and Insitutional logics approaches apply in Italian family run tobacco shops? How to arrange SEW elements with agency and institutional logics approaches? How do institutional logics affect the controversial inclinations of tobacco shops? Each chapter will help us.

RESEARCH METHODOLOGY- Given that the study objective is to explore how the aforementioned theories actualize within tobacco shops' sector, after having conducted a literature review and framed a theoretical background, the adoption of a cross-case analysis approach was used to obtain some findings. A semi-structured protocol of interview has been proposed to four tobacco shops located in the area of

Padua which presented more or less controversial inclinations (controversial industry logics). Finally the analysis of the results has been used to come up with some key propositions. A creative tool (the means-ends cone) was also used during the interviews to obtain results about the institutional logics approach in order to understand the relationship existing between family and business logics on one side, and controversial and non-controversial industry logics on the other side since all these logics coexist within family run tobacco shops.

CHAPTER ONE- The starting point of this work is a deep analysis of the Agency theory. This theory is a cornerstone in the organizational literature because its development is not recent, and also because many other theories have their basis on the agency framework, and this is true for the behavioural agency model and for some aspects concerning the risk conception developed under the SEW construct. Furthermore this chapter clarifies which are the main assumptions of the agency approach and tries to give an idea of what the literature says about the agency costs in family firm and in SMEs, with these two representing both the main characteristics of family run tobacco shops.

CHAPTER TWO- This chapter, instead, focuses its attention on a recent approach which is expressly based on the conception of firms as open systems and that for this reason constantly interact with the surrounding environment that can be defined as the institutional environment. This approach is the Institutional logics one, whose main purpose is to give the definition of meaning and content of institutions: this approach allow us to understand the effects that rules, practices and beliefs – that is to say differentiated institutional logics - have on individual and organizations in a larger variety of contexts, including markets, industries, and different organizational forms. Institutional logics shape rational, mindful behaviour and by being part of the institutions, individual and organizations have some hands in shaping and changing institutional logics: in this way we have a deeper understanding on how institutions affect individual and organizational (choices) and behaviours, so having a link between institutions and actions which was not specified by prior institutional theorists. Since family firms are characterized by an *institutional overlap* – the family institution and the

business institution - (Lansberg, 1983) the chapter tries to give some theoretical suggestions on this aspect that will be practically analysed in chapter four.

CHAPTER THREE- Still remaining under the umbrella of the institutional theory and under the open system perspective of the firm, in this chapter an analysis of the main issues related to controversial firms and their external environment is considered. The chapter starts with the theoretical definition of the main aspects of legitimacy, which represent one of the most important problems for companies which work in controversial and contested industries as the tobacco shops. The opposite situation of legitimacy - which represents in a banal way the social acceptance of a firm's activity - is the concept of stigma, already mentioned. The description of these two elements is important and preparatory for the analysis developed in family run tobacco shops. Moreover the chapter illustrates the main trends and evolutions of the global tobacco market and of the Italian one with a definition of the specific characteristics and nature of Italian tobacco shops.

CHAPTER FOUR- This chapter reports the main findings and propositions about the research done on the family run tobacco shops. The results, deriving from the semi-structured protocol of interview and deriving from the use of the "means-ends cone" have been divided according to five areas and, for each area, are reported parts of the answers of the tobacconists, some propositions and some considerations that have led to the specific proposition. The main areas in which results are divided are: *family business institutional overlap, the role that the co-existence of the business and family logics (institutional overlap) have on product portfolio and innovation path pursued, institutional logics as a construct that fosters legitimacy, environmental legitimacy and stigma* and finally, *agency considerations in family run tobacco shops*. It is important to highlight that the interviews were proposed to four tobacco shops but since one (the pilot case) lacked the family presence element, the related results have not been considered. However among the three family run tobacco shops analysed, only two presented controversial characteristics whose nature have been analysed using an institutional logics approach.

RESULTS SUMMARY- About *the institutional overlap between the two institutional logics (family and business) and its effects on product portfolio and*

innovation paths, the results from the case study highlight that the institutional overlap and the related logics are strongly nested and this is determinant in the decision of families to invest in tobacco shops' sector and to sell and introduce products and services which follow the family logics (allowing the enjoyment of the family influence) and the business logics (related to the possibility of increasing revenues) irrespective of their controversial nature. Moreover, a self-reinforcing effect between the two logics which is given by the fact that in family run tobacco shops the family logic is satisfied by the business and vice versa, is emphasized by results.

Regarding the institutional logics as a construct that fosters the legitimacy of the controversial products and services offered, the family logics legitimates the offering of more controversial products and services for those tobacco shops which were deemed to be the most controversial. Differently, for what concerns *environmental legitimacy and stigma* results show that tobacconists feel to be legitimated because they operate under a concession given by the State. For the same reason they do not perceive any stigma.

Finally for what concerns *agency considerations*, agency costs in family run tobacco shops are not significant since there is not a division between ownership and control since all family members are involved in the business equally, and even if there are external people working inside the shop, the lack of a formal organizational structure allows them to exercise a direct control without implying any cost. For the loss aversion concept results show that tobacconists tend to be more risk averse (thus taking the slots machines off the shop) when their business is performing well, while they exhibit risk neutral behaviours (thus increasing the number of slots within the shop) when their business is not performing well. This means that in this last case they exhibit a certain degree of loss aversion which, however, mainly regards the business rather than the socioemotional aspects.

AGENCY THEORY LITERATURE REVIEW: INSIGHTS AND SOCIOEMOTIONAL WEALTH UNDERSTANDING

1.1 Premise

The relationship of *agency* is one of the oldest and most controversial modes of interaction among individuals within the organizational and social context. The literature on organizational theory often views agency theory as a reference point since it represents a cornerstone of organizations' internal relationship. The borne of this theory can be attributed to the separation between ownership and control which was seen by authors as Berle and Means (1932) as the most efficient way to govern big companies. However the contribution of Jensen and Meckling (1976) - which define the company as a set of contracts which rule the relationship among individuals operating in the firm – have allowed the possibility to extend the principal-agent relationship to all kind of organizational forms, ranging from the bigger to the smaller ones. This relationship is not so easy because of the divergent objectives of the contracting individuals, which inevitably creates costs.

In this chapter a deep analysis of the main facets of this theory has been made in order to understand its main assumptions, the outcomes of this agency relationship such as the costs and the risk conception (March and Shapira, 1987) of contracting parties and to do this a “black box” perspective of firms has been employed. The aspects of the agency costs have been analysed within the family businesses context and within the framework of the Small and Medium Enterprises (SME) in order to understand if the existing debate on the prevalence of these agency costs in management-controlled firms with respect to owner-controlled (for us family firms) firms holds true.

Nonetheless since the final objective of the analysis is to understand the agency theory within family firms, an outlook on the Socioemotional wealth (SEW) (Gomez and Mejia, 2007) construct has been kept, thus highlighting the main congruencies between the Agency theory and the Behavioural agency Model (BAM) – which is the root of the SEW construct - concerning the risk concept (Wisemann, Gomez-Mejia, 1998).

1.2 Agency Theory: origins and implications of the controversial principal-agent interaction

The principal-agent problem in the corporate frame became important around the 18th century thanks to the contribution of Adam Smith. In order to better define the agency problem it is necessary to identify the real source of this phenomenon which is common to big companies: the separation between ownership and control.

The classic economics literature, with the intent of defining a “Theory of the firm”, has identified the firm as a “Black box”, which is operated in order to obtain the maximization of profits by transforming inputs (e.g., raw materials) in outputs (e.g., end products or services). However this neoclassical definition of the firm has met some limitations in the moment in which several studies - the most important in this field was developed by Berle and Means during 30s- focusing on large corporations and on their corporate governance, maintained that the best way to efficiently manage a firm, and thus maximizing profits, is through the separation between ownership and control. In this new framework, the behaviour and the relationship between two subjects, the agent (manager) and the principal (owner or shareholders in the case of a limited liability company), were central.

Their (agency) relationship is quite complex and it is characterized by delegation: the owner delegates the manager to behave, manage and conduct the company on his behalf, therefore satisfying his own interests, among which predominates the maximization of the firm’s profit. Starting from this point it is easy to understand that the “Black box model” of the firm, based on profit maximization is no more adequate to capture the essence of this relationship that grasps a cooperative effort between the agent and the principal.

An important contribution for the Agency theory has been given by Jensen and Meckling (1976). The authors, in making attempts to develop a theory of the ownership

structure through the analysis of the capital structure of the company (equity and debt financing), although rejecting the classical model of the firm as a Black box because unable to explain the managerial behaviour in large corporations, argue that the firm can be seen as a connection of a set of contracting relationships among individuals, with each individual motivated by his own self-interest.

According to this vision they maintain that firms are simply a legal fiction, which is an artificial construct under the law which allows organizations to be treated as individuals (Jensen & Meckling, 1976). So the ultimate scope of firms, as a nexus of implicit and explicit contracts, is to put in effect, and so fostering, contracting relationships among individuals which are owners, managers, suppliers, customers, creditors and so on. The firm is not considered to be a stand-alone individual, but it is a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals are brought into equilibrium within the framework of contractual relations. So the *agency relationship* could exist in many different contracts. But why is the agency relationship a complex and controversial interaction among agents within the firm?

In addition to the definition of *Agency relationship* stated above, now it can be better defined, using this *contracting perspective*, as a contract between two (or more) parties in which one, designated as the agent- who have the necessary skills, knowledges and experience for a specific roles or tasks- acts for, on behalf of or as representative for the other, designated as the principal, in a particular domain of decisions problems (Ross, 1973). So we could derive that examples of agency relationship are universal and that all contractual arrangements may contain potential elements of agency.

Following what has been said until now, the main problem of the *agency concept*- as will be specified later in defining the assumptions of the agency theory- derives precisely from this contractual framework. In fact, *contract theory* literature withstands that contracts are incomplete. Oliver Hart and his co-authors (1999), emphasize the parties' inability to write complete contingent contracts (i.e. agreements that include provisions that would cover all possible events that might occur during bounded relationships). Since we have this strong assumption on contracts, *agency theory* is concerned with resolving two agency problems (Eisenhardt, 1989) that can occur because of this contract incompleteness: (a) the desires or goals of the principal and the

agent may conflict and, even more, it is difficult and expensive for the principal to verify what the agent is actually doing, thus if he is acting to satisfy his interests. The problem here is that the principal cannot always be in a position to verify (concurrently) that the agent is behaving appropriately; this is because this sort of check can definitely be easily performed only ex-post. (b) The second is the problem of risk sharing that arises when the principal and the agent have different attitudes toward risk and this may lead the principal and agent alike to undertake different actions, because different are their risk preferences.

Although Eisenhardt in her *Review of Agency Theory* (1989), as most part of the literature of agency, asserts that the *information economics* is the “cardinal root” of the agency theory - even if there could be compelling reasons to believe that contributions from *neoclassical*, *behavioural* and *contract theory* are valid too- it has been developed along two lines, notwithstanding they share the same unit of analysis which is the contract. They are the *positive agency theory* and the *principal-agent theory*.

The focus of the *positivist researchers*, who follow a less mathematical but more descriptive and empirical trajectory, is on identifying situations in which the principal and the agent are likely to have conflicting goals and then describing the governance mechanism that limit the agent’s self-serving behaviour (Eisenhardt,1989). They have mainly focused on the special case of the principal-agent relationship between owners and managers of large corporations and so, they seem to be the precursor of the agency theory since this stream is based on the separation between ownership and control in large corporation (Berle & Means, 1932), as stated above. The main authors that can be categorized in this stream are Jensen and Meckling (1967) and Fama (1980). From a theoretical perspective, the governance mechanism that are identified by the positivist are based on two propositions: the first is that the *outcome-based contracts* are effective in curbing agent opportunism, because these types of contracts are able to coalign the preferences of the agent with those of the principal, as the reward for both depends on same actions (verifiable ex-post). The second proposition is that *information systems* also curb opportunism, since information asymmetry is at the basis of incompleteness of contracts and thus of the agency theory. Given that thanks to the information systems the principal can be informed about what the agent is actually doing, even if information

can never be completely perfect, these systems are likely to curb the agent opportunism because he will realize that the principal cannot be cheated anymore.

Differently from the previous stream, *principal-agent researchers* are concerned with a general theory of the principal agent relationship, a theory that can be applied to employer-employee, lawyer-client, buyer-supplier and other agency relationships (Eisenhardt, 1989). Here we have a more mathematical bent and a broader focus- which contrasts the narrow focus of positivists- on the special case of the owner-manager relationship in large corporations. Despite these different approaches we have to say that the two streams are complementary: in fact, positive agency theory identifies various contract alternatives, while principal-agent theory indicates the most efficient contract (behaviour-based or outcome-based) between the principal and the agent under different circumstances. Following this course, Eisenhardt (1989) has defined a specific number of propositions that categorize situations in which one contract (e.g. behavioural-based) is better than the other (e.g. outcome-based).

Even if the agency literature is divided in these two streams, the most important aspect- that will be analysed in the following pages- is that they share common assumptions which represent the pillars on which the agency theory stands on.

1.2.1 The core assumptions of Agency theory

As it always occurs, in order to give foundation to a theory, authors use to describe a series of assumptions which represent the cornerstones of that theory. The agency theory is not the exception to this rule. However we need to define those assumptions that allow us to understand the agency problem- the problem of inducing an agent to behave as if it were maximizing the principal's welfare- and why it is originated from the separation between ownership and control which, alone, is not able to explain the agency relationship.

Since the unit of analysis in the agency framework is the contract governing the relationship between the principal and the agent, the focus of the theory is on determining the most efficient contract (behaviour-oriented or outcome-oriented) between the two parties given some conventions about *people*, *information*, *organizations* (Eisenhardt, 1989) and about *contracts* themselves.

For what concerns the *assumptions on people* we have: self-interest, bounded rationality and risk aversion conventions.

Self-interest is a psychological concept related to the human mental egoism. It affirms that individuals are always motivated by self-interest and narcissism because of their willing to carry out actions that elicit the most personal benefit. However this should not constitute a problem because according to Adam Smith (1776), the father of modern economics, the best economic benefit for all can be accomplished when individuals act in their own self-interest. His explanation of the invisible hand reveals that when many people act in their own self-interest, unintentionally, they generate social benefits to the whole market, thus leading the market into a situation of general equilibrium;

The concept of *bounded rationality* contrasts the rational choice and the perfect information hypothesis typical of the neoclassical economists, including William Stanley Jevons, who assume that agents make consumption choices so as to maximize their happiness, or utility. However in the real world this is not totally possible because when individuals make decisions, their rationality is limited by the available information, the tractability of the decision problem (Cyert and March, 1963), the cognitive limitations of their minds, and the time available to make the decision. So the strong relationship between rationality, contingency and information can be highlighted. The main exponent of this human limited rationality is Simon (1955), who emphasizes that most people are partly rational and are irrational in the remaining part during the decisions-making process hence acting as satisficers, seeking a solution that may satisfy their needs, rather than an optimal one (Cyert and March, 1963);

The assumption of *risk aversion* is a typical behaviour of humans when they are in a situation of uncertainty. However people have different *risk preferences* (risk-averse, risk-neutral and risk-seeker or risk-lover) and according to these, which depend on personality and on circumstances, make decisions regarding the actions to be taken.

Assumptions about information are related primarily to its asymmetric distribution and to its commodity features.

As stated in the prior paragraph, a large part of the agency literature maintains that information economics plays an important role for the agency theory so to be considered as its roots.

Much of the literature in information economics was originally inspired by Friedrich Hayek (1945), who studied how information and information systems affect an economy and economic decisions. Information has special characteristics: it is easy to

create but hard to trust and it is easy to spread but hard to control. So it is costly because it necessitates ways (instruments) to understand (and thus allowing) it to influence the decisions of an individual. However, in the agency relationship, parties often have different information of the same topic and this is attributable to the different extent of involvement in running the company: surely the owner, once he has delegated the decisional authority to the manager, is less incentivized to be strictly involved in the day by day operations, which are instead performed by the manager. This *asymmetric information* is a green field for creating *agency costs*. However it is necessary to say that even if the principal would be willing to assume a proactive behaviour in monitoring the management to avoid these costs, this would not be totally possible because information completeness is expensive and hard to be achieved. So this asymmetry causes misinforming and this has a negative impact in the communication process firstly and in the decision process later with a consequent effect on the firm's performance.

Moreover, this information asymmetry is in contrast with perfect information, which is a paramount in neoclassical economics- other assumptions are that individuals have rational preferences between outcomes and that they maximize their utility (as firms maximize their profits)-. In order to overcome this problem, *information* can be bought, thus considering it *as a commodity* even if, however, buying and selling information is not the same as buying and selling other traditional goods. There are three factors that make the economics of buying and selling information different from physical goods: First of all, information is non-rivalrous, which means that consuming information does not exclude someone else from consuming it too. Second, exclusion is not a natural property of information goods, in fact, following the non-rivalry concept, it is possible to "construct" exclusion only artificially. So, the nature of information is that if it is known, it is difficult to exclude others from its use. Third is that the information market does not exhibit high degrees of transparency. That is, to evaluate the information, it must be known, so you have to invest in learning it to evaluate it, and this may be costly (Allen, 1990).

Goal conflict is the predominant assumption about organizations, which agency theorists have formulated. This hypothesis has a strong connection with the assumption of self-interest behaviour of humans and is rooted in utility theory- and thus is a

neoclassical view- which requires that individuals make choices that maximize their own utility. So if both parties in a relationship are utility maximizers, there is a good reason to believe that the agent will not always act in the best interest of the principal (Jensen & Meckling, 1976), mostly when there is strong asymmetric information. As a result of this, the main concern of the principal becomes to limit this goal divergence via incentive and controlling mechanisms which, however, are not costs exempt.

The last assumptions on agency theory are related to *contracts* which are deemed to be *incomplete* and thus allowing problems of *risk sharing* (this aspect will be explained in depth in paragraph 1.2.3 due to its complexity). Contract theory, which can be encompassed in information economics, studies how economic actors can and do construct contractual arrangements, generally in the presence of asymmetric information. The first scholar that has treated formally this topic has been Kenneth Arrow in the 1960s.

Contract theory's focus is on the completeness of contracts which is related to the specification (in the contract) of all the legal consequences of every possible state of the world. However in recent years, an important part of the contract literature, pioneered by Oliver Hart and his co-authors, have advanced the *incomplete contracts* viewpoint, based on the assumption that parties are unable to write complete contingent contracts, and this is true mainly in the agency.

Hart (1995) argue that in practice, contracts cannot specify what is to be done in every possible contingency. The point is that at the time of contracting, future contingencies may not be describable. Moreover, parties can never commit themselves to engage in mutually beneficial renegotiation later on, in their relationship. Even more it would never be possible for the principal to keep away the agent to perform some activities, because of the impossibility to include a large variety of provisions in the contract, which is aggravated by the information asymmetry.

As described above an important role is played by the information asymmetry, which is the fundamental aspect present in each of these assumptions at the basis of the agency theory.

Table 1 Agency theory assumptions

EXPLANATION OF THE ASSUMPTIONS	
THE IDEA	<i>Principal- agent relationship should reflect an efficient organization deriving from the separation between ownership and control within the firm.</i>
THE PROBLEM	<i>This relationship leads to inefficiencies because the principal and the agent are utility maximizers so they have partly different goals, different risk preferences and the information asymmetry intensify these individuals' attitudes. They adopt contracts to overcome these problems but...</i>
INDIVIDUAL ASSUMPTIONS	<i>Self-interest Bounded rationality Risk preferences (risk averse or risk neutral)</i>
INFORMATION ASSUMPTIONS	<i>Information asymmetry Information as a commodity</i>
ORGANIZATIONAL ASSUMPTIONS	<i>Partial conflicting goals Firm as nexus of contracts</i>
CONTRACTING ASSUMPTIONS	<i>Delegation of power Incompleteness of contracts Risk sharing between contracting parties</i>

Source: adapted from Eisenhardt (1989)

1.2.2 Agency problem: an outlook on its costs

The explanation of the assumptions has been necessary in order to treat in an exhaustive and complete way the two remaining aspects of agency theory, that's to say those constituting the so called agency problem. These are the *agency costs* and the *risk preferences* (these ones will be treated separately in the next subparagraph).

Once assessed the existence of an agency problem in a cooperative relationship, it becomes necessary to know what type of costs this problem implies and under which specific circumstance these costs arise.

As already said, the owner is seen as a principal who contract with and is dependent on the actions of the agent (which is the manager). The term "contract" is used to connote the agreement between the two subjects and clarifies the rights held by each one during this relationship. However, cost may be generated in this relationship, and they are called agency costs (Tosi, Gomez-Mejia, 1989), because exists an information asymmetry that could give an advantage to one party (agent) in spite of the other

(principal) (see Fig.1.). Agency costs are a sort of internal costs borne by the principal to limit divergences from his interests, by the establishing an adequate *incentive system*. But he bears other costs, called *monitoring costs*, in order to reduce the aberrant activities of the agent (Jensen and Meckling, 1976). These monitoring costs do not include only those costs involved in measuring or observing the behaviour of the agent, but they encompass the costs incurred in appointing a board of directors, in including provisions within contracts, in establishing budget restrictions and so on. Another form of agency cost is the *residual loss*, that's to say the reduction of each unit of money experienced by the principal as a welfare loss, due to the divergence of goals. Jensen and Meckling (1976) sustain that the principal is not the only one that bears those agency costs in fact the agent, in some situations, will pay costs to ensure that he will not accomplish certain actions that would endanger the principal's interests or to ensure that the principal will be rewarded if he takes those actions. These are called *bonding costs*.

The extent of agency costs is not equal to all firms but vary among each one. It depends on some factors such as the tastes of managers, and on how easy they can exercise their own preferences as opposed to the profit maximization in decision making process. Together with these factors, the cost of measuring the agent performance and evaluating it, the cost of replacing the manager and the length of the relationship (Eisenhardt, 1989), affect the scale of agency costs too.

In this framework, Tosi and Gomez-Mejia (1989) see the agency theory as an alternative explanation of how owners controls managers to operate the firm in their interests, when there is such different informational endowment. But it is impossible for the owner to shrink this informative gap with the agent- hence ensuring that he will make the optimal decision for the principal- at zero costs and this is because, as abovementioned, information is obtained by paying a cost.

Again here information plays an important role because when there is such information asymmetry, the parties of a relationship have different knowledges (e.g. one party has more or better information than the other) and this translates into self-interest behaviours from the agent, who may take advantage from this situation thus causing inefficiency. So agency costs are created in order to surmount this inefficiency.

Examples of the informational problem described above are *adverse selection* and *moral hazard*.

The *adverse selection problem* was developed by Akerlof (1970) who analysed the market of automobiles and specifically the case of the market of used cars. Later this problem was mostly developed in the insurance field.

In this case, the agent that has the best information has clearly an advantage. We say that this advantage is *ex-ante* because, contrary to moral hazard, the advantage occurs before the contract is signed. And this is what happens with the insurance premiums. The person asking an insurance coverage is at an advantage versus the insurer, who therefore charges a premium for the risk derived from their imperfect information. This is also what happens within the agency relation scheme: the agent has some private information- from which he takes advantage- before signing the contract with the principal.

The *moral hazard problem*, instead, determines that the behaviour of the agent changes *ex-post*, after the contract is signed because it can have an advantage in exploiting the private information he has. Paul Krugman (2009) refers to moral hazard as “any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly”.

Nevertheless, moral hazard and adverse selection are not the only source of agency costs. In fact Jensen and Meckling (1976) state that these particular kinds of costs arise when firms try to get financial resources from the market. So the authors first analyse the agency costs of outside equity, and then the agency costs of debt by creating two sets of assumptions: permanent assumptions and Temporary assumptions (Jensen and Meckling, 1976, p.13)

For what concerns the effect of outside equity on agency costs, the authors compare the behaviour of the owner-manager when he has the 100 percent of the residual claims on the firm- which is the right of a shareholder to the profit of a company after the payment of all prior obligations, meaning the right over the dividends- with his behaviour when he sells a fraction of those rights to outsiders. When he owns 100 percent, the owner-manager is able to fully maximize his own utility because he is entitled to take egoistic decisions, even more satisfying non pecuniary aspects (we will find these when we'll talk about the socioemotional wealth theory) since there are no other owners.

If the owner-manager sells a portion of his equity claims on the corporation, agency costs will be generated because interests of outside owners (outside shareholders) must be considered and definitely satisfied. The agency problem, then, worsens as the owner-managers fraction of equity falls. This means that his rights on dividend distribution lessen and, for this, he is encouraged to appropriate large amounts of corporate resources in the form of perquisites, or more explicitly, benefits gained from his manager position. Since this situation is sub-optimal for outside shareholders, they attempt to reduce this opportunistic behaviour of the owner-manager by monitoring his behaviour (through auditing, formal control systems, budget restrictions and incentive compensation systems) to identify his interests more closely. However this means expending economic resources, which correspond to agency costs.

Nonetheless, this is not the only situation that creates agency costs. In fact an important issue to be considered when the owner-manager's rights to dividend falls, is that his incentives to bestow effort to create activities, such as searching out new profitable ventures, falls (Jensen and Meckling, 1976). This may happen because the owner-manager has no more the same power of before, so he may lose those incentives that a prior pivotal position gave to him.

Suppose that the owner-manager wants to reduce the incurrence of agency costs since doing so, the firm's efficiency upsurge and as a consequence, its value too. To do this he has to expend resources to guarantee to the outside equity holders that he would limit those activities that pursue his own interests. These expenditures are the abovementioned *bonding costs*, which encompass contractual guarantees to have financial accounts audited by a public account, explicit bonding against malfeasance on the part of the manager, and contractual limitations on the manager's decision-making power.

The result that we obtain through bonding costs is the same of that related to the monitoring ones: we have a reduction of the agency problem, which represents a corporate inefficiency, with a person (the manager or the shareholder) that bears them.

Despite the hypothetical result is this one, the reduced value of the firm caused by the owner-manager's consumption of perquisites is inefficient only when we take into account a world in which we could obtain compliance of the agent to the principal's wishes at zero costs or in comparison to a theoretical world in which agency costs were

lower or inexistent. So we can conclude that information symmetry is never perfect and, for this, there is argument to sustain that agency costs are an unavoidable result of the agency relationship and that through monitoring and bonding activities a firm attempts to improve its efficiency.

By exploring this particular corporate structure- the limited liability- and seeing that costs associated with agency relationships are unavoidable, one could ask why this organizational form of financing is so widely spread, although debt financing does not allow other investors to join the business. In this way, there will be only a single owner manager and so the inefficiency (costs) associated with the agency problem will be no more there. Despite this, as underlined by Jensen and Meckling (1976), diffuse-owner corporate firm financed by equity claims are prevalent as organizational form and there must be compelling reasons for this, which goes beyond the sole limited liability justification.

Following all that has been said until now on agency costs, companies should be financed mainly by debt and so by borrowing money but, however, the two authors sustain that there are a number of reasons for not choosing this latter alternative: (1) *the incentive effects associated with highly leveraged firms*, (2) *the monitoring costs these incentive effects engender* and (3) *bankruptcy costs*. All these costs can be defined as particular kind of agency costs which are associated with the existence of debt claims on the firm.

The incentive effects associated with debt are related to the impact that a completely debt financed firm have on the owner-manager's behaviour. With this type of financial structure he is incentivized to engage in investments which promise very high payoffs if they turn out to be successful, despite they have very low probability of success : if they success, the owner-manager capture the greatest part of the success, while in the opposite case, the most of the costs are borne by the creditors.

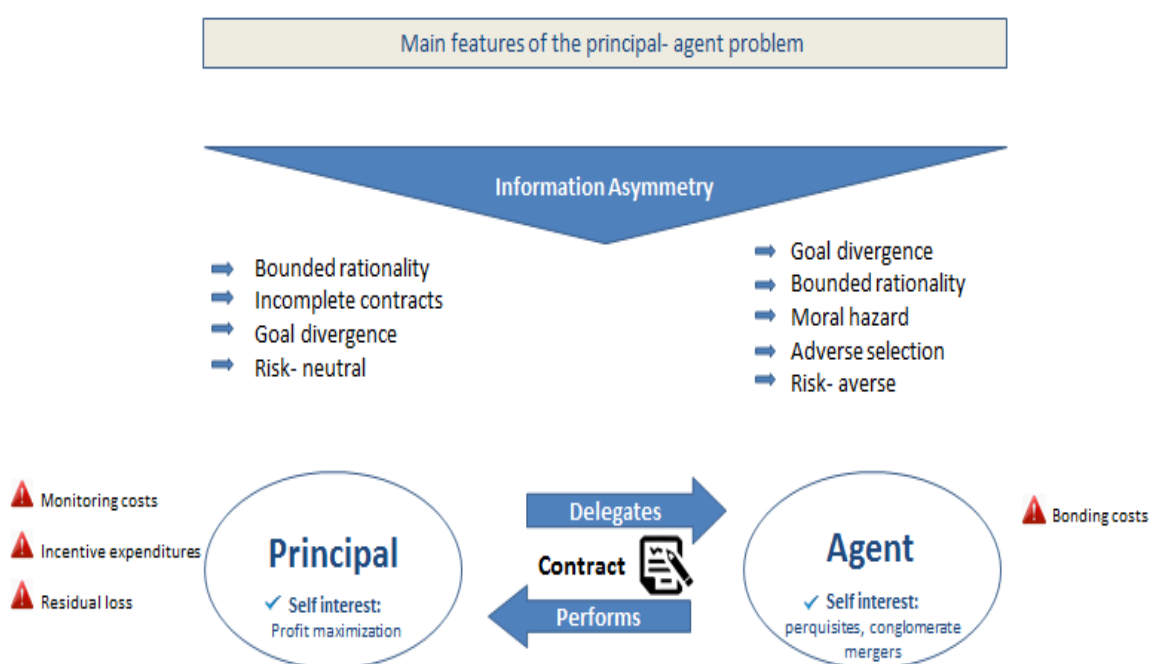
The second reason that makes firms financed mainly by equity claims are *the monitoring and bonding expenditures*. Bondholders, to protect themselves from the incentive effects that debt financing have on the manger's behaviour, they include various covenants and provisions in contracts. These, nevertheless, must be absolutely detailed in order to wrap most operating aspect of the enterprise, including limitations to undertake risky actions. The costs of those covenants, however, are not trivial because

management is a dynamic and ongoing decision-making process, whose all possible implications cannot be anticipated within provisions.

Bankruptcy is the third major component of the agency costs associated with debt. It occurs when the firm cannot meet a current payment, a debt obligation, or when one or more of the other provisions providing for bankruptcy is not respected by the firm (Jensen and Meckling, 1976). In this case debtholders' claims on the firm are lost and so they bear the costs associated with the difference between the face value of the debt and the market value of the firm. Obviously if, in this case, the face value of the debt and the market value of the firm were equal, bankruptcy would have not any cost.

The agency costs associated with debt lately discussed tend to discourage the exclusive use of corporate debt, thus fostering mainly the use of equity financing structure.

Figure 1 Description of the Agency problem



Source: personal elaboration of the Agency relationship

1.2.3 Agency perspective on risk

As stated in the subparagraph related to the assumptions, the matter of risk is really complex and has been studied a lot in the agency literature. The concept of risk became important during the 60s and early 70s, when economists of the calibre of Arrow,

explored the risk sharing among individual or groups (Eisenhardt, 1989). This literature described the risk-sharing problem as one that occurs when two or more cooperating parties have different attitudes toward risk, because they prefer to bear different degree of risk in making choices. Later, agency theorists have enlarged this risk-sharing concept to include the agency problem that, as already anticipated, occurs when cooperating parties have different goals.

Starting from the model used before to describe the existence of minority shareholders and bondholders in the capital structure of the firm, it implicitly assumes that an owner-manager has invested all his money in the firm. This is because it is clear that to apply for outside forms of founding the owner-manager's wealth must not be available anymore to be injected in the firm. So the problems of risk bearing and risk preferences in agency relationship, are anchored on the specific situation in which an individual has all his wealth invested in the firm and so all his prosperity is related to the firm performance, with this situation not true for another individual. Before clarifying this aspect it is necessary to specify the notion of risk.

In *classical risk theory*, risk is commonly conceived as a variation in the distribution of possible outcomes, their likelihoods and their subjective values (March and Shapira, 1987). So the concept of risk is embedded in the larger idea that choice is affected by the expected return of an alternative. Usually theories on choices, sustain that people, in making decisions prefer choices that provide larger expected returns to smaller ones, assuming the risk as a constant. When the risk is not a constant but is a variable that have to be taken into account, people formulate some risk preferences.

Risk preference identifies the tendency of an individual to choose a risky or less risky option. Generally, this concept of risk preference is often applied to investors and to the market dynamics related to securities, although the main field in which this notion is operated is in agency relationships.

Despite it is possible that risk preference - and so attitudes toward risk - may be a stable feature of an individual personality, there are different variables that can affect it. These can be, for example, mood, feelings, way in which problems are framed (which is a cornerstone of the behavioural agency model), experience and the context in which the individual find itself in the moment of the decision. The point is that there is always a

trade-off between risk and expected returns which individuals have to take into account when they formulate their own preferences.

The literature on risk recognizes three main “inclinations” of individuals in expressing a choice: *risk seeking/ risk lover preferences*, *risk neutral preferences* and *risk averse preferences*.

A *risk seeking/ lover preference* can be applied to a person who is willing to take higher risks to achieve above-average returns. The person making this type of decision should weigh all the factors involved in the risk and assess these risks against the probabilities of different outcomes. These people are those who prefer gambles over secure investments or choices, meaning that they prefer relatively high risks sacrificing some expected returns in order to increase the variation (March and Shapira, 1987).

An individual with *risk-neutral preference* does not care about the risks involved in the decision making. His only concern is about the end result. A risk-neutral individual will choose the assets with the highest possible gains or returns without taking into account possible outcomes. This means that for him the risk variable acts as a constant that allow him to choose only by taking in to account the highest outcome.

A person who is reluctant to take on a risk is *risk averse*. This kind of personality almost always chooses the safer investment instead of taking a chance on the probability of failure. Risk averse decision makers prefer relatively low risks and are willing to sacrifice some expected return in order to reduce the variation in possible outcomes (March and Shapira, 1987) so, differently from the risk lover individual, he dislikes gambling and searches for the safest decision.

As maintained by Eisenhardt (1989) the assumption on risk, within the agency perspective, is that the principal and the agent have different risk preferences. These different preferences are the main reason why parties may have conflicting goals even if they cooperate within the same organization. Surely the presence of the asymmetric information aggravates this “distance” among parties, hence creating agency costs.

It is assumed, by agency supporters, that the *principal is risk neutral* while the *agent is risk averse* (Eisenhardt, 1989), and this is a strong assumption which is influenced mainly by *portfolio theory*.

The argument behind this assumption is that agents, who are unable to diversify their employment, should be risk averse and principals, who are capable of diversifying their

investments, should be risk neutral. This is consistent with portfolio theory which maintains that the optimal portfolio (i.e. the one that has an optimal allocation of risk for any investor) is likely to be diversified across the securities of many firms (Fama, 1980).

According to this idea, stockholders (in the case of an equity financed firm) or the owner in general, can achieve the desired level of risk through portfolio diversification. Their main concern is to avoid having all their wealth entirely dependent on one firm and this is done by diversifying their investment.

On the other hand managers rent a substantial lump of wealth from the firm (Fama, 1980) which is the only source of their revenues. Since the manager's prosperity is tied to the firm performance, there is a compelling reason to believe that they will choose actions that will have a positive impact on firm performance (or conservative actions) in order to increase (preserve) their wealth. This is because the manager of a firm may not suffer any immediate gain or loss in current wages from the current performances of the firm, but the success or the failure of the firm impacts his future wages, which represent his wealth. For all these arguments it is evident how risk preferences are different between the principal and the agent: the former does not care about risk because is able to diversify his wealth, while the latter is not able to diversify and so he becomes risk averse and this, finally, creates agency costs.

March and Shapira (1987) compared the theoretical conceptions of risk studied by *decision theory*, and the conceptions of risk held by *executives* (which are the agents in the agency theory). The end result of their work is that managers take risks and exhibit risk preference through a process which is different from the classical process of choosing among alternative actions in quantitative terms, that's to say in terms of mean (expected value) and variance (risk) of the probability distributions of possible outcomes. In fact they assume that *managers* are quite insensitive to estimates of the probabilities of possible outcomes; actually their *decisions are mainly affected by the way their attention is focused on critical performance targets* (March and Shapira, 1987).

They have based their work on the studies conducted by MacCrimmon and Wehrung (1986) (who proposed questionnaires in 1973-1974 to 509 high-level executives in Canadian and American firms) and those of Shapira (on managerial perceptions of risk,

conducted between 1984- 1985). In order to affirm that manager see risk differently from what the decision theory says, they have found three dissimilarities: first, most managers do not deal with uncertainty about positive outcomes, but possibilities for gain are of primary significance in assessing the attractiveness of alternatives and *risk is seen as associated with negative outcomes* (MacCrimmon and Wehrung, 1986).

Second, for the interviewed managers, risk is not only a probability concept, but a majority felt that *risk could be better defined in terms of amount to lose (or expected to be lost)* than in probabilistic terms (March and Shapira, 1987).

Third, even if probability is used in discussing risk and managers base their decisions on information which are precisely based on risk estimates, many of them reject the option to reduce risk to a mere quantitative analysis..

In other words, managers have a negative attitude toward risk taking (risk aversion) because they interpret risk not much in terms of the magnitude weighted by its likelihood (unpredictability of outcomes), but rather in terms of the potential and the magnitude of a projected loss (costs) (MacCrimmon and Wehrung, 1986).

Table 2 Comparison between the two conceptions of risk

CONCEPTION OF RISK HELD BY EXECUTIVES	RISK IN CLASSICAL DECISION THEORY
<i>Let's consider a situation in which a manager of a firm is facing two alternative projects, X1 and X2, which have identical expected return but the risk associated with X1 is smaller than X2</i>	
<i>In this case the manager will prefer X1 since he is risk averse. This means that if he evaluates the risk in terms of something to lose, less risk means less wealth to be lost</i>	<i>In this case the manager is indifferent between the two alternatives, since here the concept of risk is mainly affected by the expected return of an alternative, and the two alternatives give the same expected return</i>
<i>Now let the expected return of X1 be smaller than that of X2. Even if X1 is still less risky than X2, however, choosing X1 would also mean bearing some opportunity cost</i>	
<i>In this case the manager choice is unclear since he is facing a trade-off between risk and return. The manager, however, may chose X1 when the avoidance of loss (or increase in his income) due to risk reduction outweighs the reduction in his certainty equivalent outcome due to smaller expected return of project X1</i>	<i>In this case the manager choice is clear: he will prefer X2 since it has an expected value which is higher than X1 and this means that X2 has a higher probability, with respect to X1, to give a greater outcome</i>

Source: personal elaboration inspired from Amihud and Lev (1981)

This “reverse way of risk thinking” is important because has opened new path for exploring the decision making process of managers and how they frame problems, which is the main concern of the *behavioural agency model*, but I will talk later about this in paragraph 1.3.

Still remaining under the agency theory umbrella, one could ask why a great part of the agency literature has devoted effort in order to study the risk phenomenon. How can the risk contribute to determine organizational inefficiencies (i.e. due to agency costs)?

This “different” risk conception of managers - *defined in terms of amount to lose* - supported by March-Shapira and MacCrimmon-Wehrung can be found also in a precedent work developed by Amihud and Lev (1981). These two authors maintain that conglomerate mergers, which are a way through which a firm can diversify, are used with the purpose of reducing risk for an organization. Although this is true, however, this is not beneficial for stockholders (principals) in perfect markets, because since they are risk neutral, they can diversify directly on their own by managing their portfolio of stocks, hence choosing the preferred level of risk to bear. Even with market imperfections the benefits for owners deriving from conglomerate mergers seem to be questionable. But if this is the situation, that would create costs inexorably, why conglomerate mergers- and diversification in general- are put in place? Because of the agency problem that stem from *managers’ risk aversion* assumption.

As stated above, managers’ (agents) income that derives from the employment in a specific firm, constitutes the major- if not the only- portion of their wealth. The critical aspect of this scenario is that income is closely related to the firm’s performance through profit-sharing schemes, bonuses and, sometimes, through the value of stock options held by the manager as incentive form (Amihud and Lev, 1986). Hence it is understandable that the risk associated with a manager’s income is closely related to the firm’s risk (performance). When a firm fails to reach the planned performance targets or is too much financed by debts hence collapsing in bankruptcy, the result is that the manager may lose his employment and so his main source of wealth. From this Amihud and Lev sustain that such “*employment risk*” cannot be diversified by managers in their personal portfolio, as stockholder may do, differently, in the case of firm’s low performance. A way to diversify their wealth could be by having many employers to work for, but this is an absurdity, firstly because there’s not the physical chance for a

manager to do this in a corporate context and second because this supposes that the labour market is completely perfect functioning.

Since this option is not concretely feasible, managers are intended to be risk averse and so they are expected to diversify their employment risk in another manner, that is to say by *engaging their firms in conglomerate mergers* which, as sustained at the beginning, generally stabilize the income stream of the firm and consequently, that of managers.

This implies that the main reason at the basis of conglomerate mergers- and diversification in general- is that managers are *loss averse* more than risk averse with respect to their employment - losing job means losing their wealth -. This way of diversifying- induced by the managers' behaviour- is not easy to be distinguished from synergistical mergers and acquisitions (by stockholders), and this generates the agency problem with the annex costs for solving it, which are borne by both the principal and the agent.

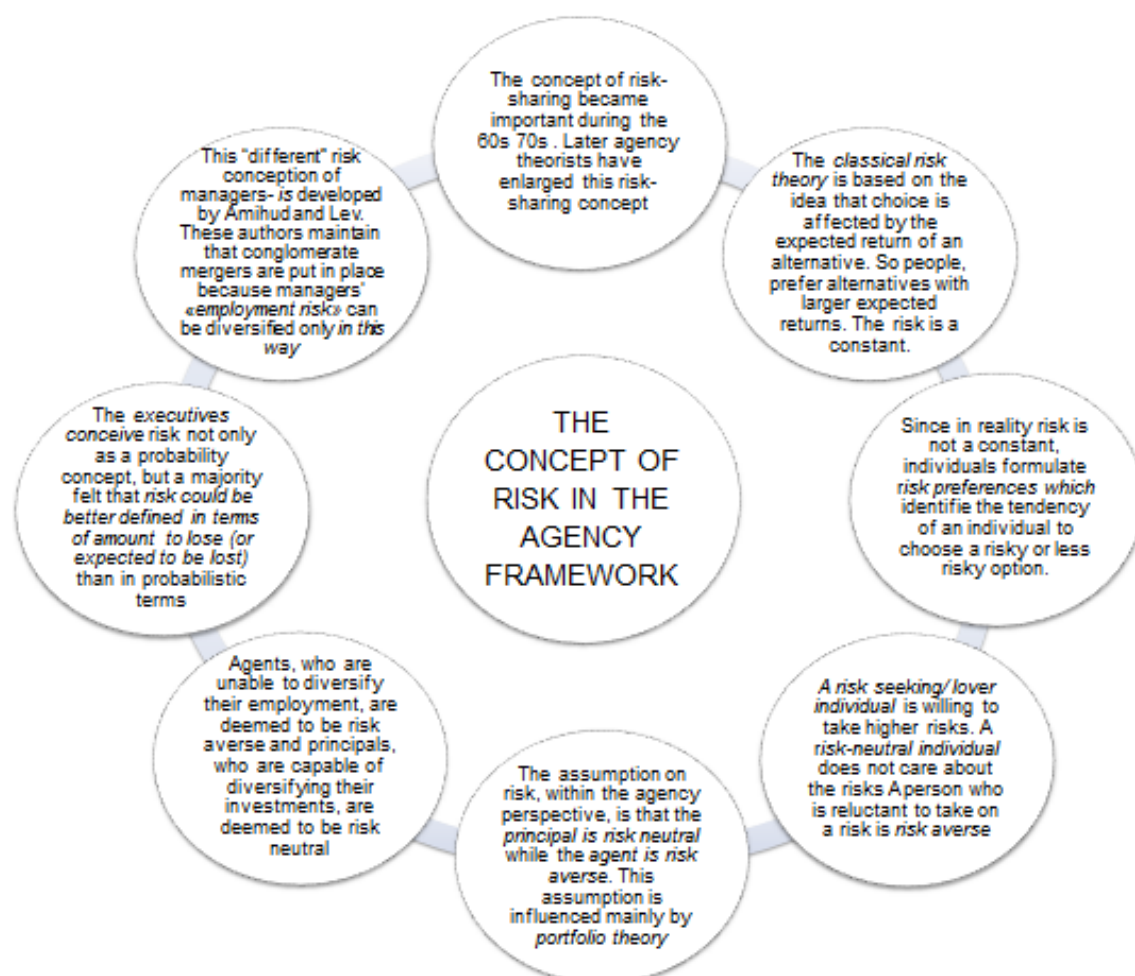
Summarizing what has been said up to now, we have that: first, since managers are utility maximizers, there's a compelling reason to expect them to engage in risk reduction activities in order to diversify their employment risk. Those activities, however, might be in conflict with the interests of the stockholders (owners) and this creates agency (costs) problem (Amihud and Lev, 1986). Second, since contracts are essentially incomplete, it would be difficult for stockholders to foresee such opportunistic behaviours of managers and, since there is the asymmetric information variable, they are not able to distinguish between the risk reduction and synergistic motives for a potential merger or acquisition.

Since previously has been recognized that the magnitude of agency costs is not equal for all the firms, now we can include this managers' loss aversion among the already mentioned reasons that allow this agency costs unevenness. According to this way of thinking, all firms in which there is the separation between management and control should have this specific agency problem, but it is reasonable to say that managers can exercise their risk preferences differently across firms, so two categories of firms can be recognized: *management-controlled* and *owner-controlled firms*.

In *management-controlled firms* the ownership is widely dispersed across many stockholders. Big public corporations that are listed are part of this category. Here managers are relatively free to exercise their own discretion, thus their risk preferences,

because the greater risk is borne by stockholders who do not have enough power to contrast managers. *Owner-controlled firms*, instead, encompasses all those firms where the ownership is concentrated – for Amihud and Lev the threshold is up to 10%) and for this, the owner-stockholder is able to exert a strict control over the managers’ decisions, retaining the rights to hire, fire and set the compensation of executives (Tosi and Gomez-Mejia, 1989). In these firms owners, often are also involved in the management of the company thus having the complete knowledge of management’s activities. This reduces agency costs related to the monitoring activities put in practice in order to prevent risk avoidant choices of managers. Empirical results obtained by Amihud and Lev (1986) confirm what said above, that is to say that management controlled firms engage in more conglomerate acquisitions (or more diversification in general) than owner controlled firms.

Figure 2 Summary on the risk concept



Source: personal elaboration

Agreeing with those results, one can think that those firms in which agency cost appear the most are manger-controlled. Despite this argument is as much valid as obvious, a part of the agency literature is doubtful about the low level of agency costs in owner-controlled firms and this is still an open debate.

1.3 Behavioural Agency model, a new perspective or an agency review?

The choice of discussing about risk in agency theory as a final argument has been made in order to create a ceaseless speech with the behavioural agency model, because the risk is a pivotal variable mostly in this theoretical approach.

With the intent of determining how executives face the risk taking problem, Wiseman and Gomez-Mejia (1998) have enlarged and enriched the agency-based perspective on risk.

In fact the authors sustain that the formulation of risk in the agency theory perspective has been too restrictive and this has prevented a fuller understanding on how executives make decisions and how they frame problems (or situations) in making such decisions. Another critique that they have formulated is that agency scholars assume stable risk preferences and this ultimately limits the agency theory's contribution in explaining how managerial risk taking affects firm performances (Wisemann and Gomez-Mejia, 1998). To overcome these limitations, these scholars sustain that agents have risk preferences – as in the agency theory - and that they use a contingent approach from behavioural research on risk taking, to allow a possible variation of agents' risk preferences (e.g., increasing or decreasing risk aversion) in a corporate governance context.

The starting point of this new approach is, however, the agency theory. As already said, agency theory sees the principal-agent relationship as a conflicting one. This is because the two parties have conflicting goals because of conflicting risk preferences that stem from the fact that they are utility maximizers. Principals are assumed to be is risk-neutral for firm actions, because they can diversify their shareholdings across different firms. Contrarily agents are assumed to be risk averse (as mentioned in the paragraph 1.2.3) in decisions regarding the firm (i.e. joining conglomerate mergers) because they

attempt to reduce the performance risk of the firm (and thus the risk on their income) even if this creates costs for the principal due to this opportunistic behaviour.

Nevertheless, Wisemann and Gomez-Mejia affirm, also considering other streams than agency theory such as behavioural theory of the firm (Kahneman and Traversky, 1979; Cyert and March, 1963), that exist a more complex relation between performance and managers' choices of risk than that described by agency . In sum, the agency theory contribution to corporate governance has been limited by its simplistic assumptions of consistent risk aversion among agents. Thus what the two authors have tried to do is to overcome these limitations through the contribution of behavioural decision models in executive risk taking.

Scholars of behavioural models of decisions advance that risk preferences of decision makers, as their risk taking behaviour, change in accordance on how they *frame problems*. Conversely, agency theorists assume that decision makers formulate their choices simply according to the rational expectation and utility theory- that have been already analysed- without considering the importance of how the problem is framed.

In behavioural decision models, agents take decisions by making a comparison between anticipated outcomes from available options and a *reference point* which can be, for example, their wealth or their employment. After this evaluation, decision makers could frame problems positively that occur when available options, with a certain level of risk and returns, promise acceptable expected values. Negatively framed problems, instead, occur when available options generally promise unacceptable expected results (Wisemann and Gomez-Mejia, 1998). The most important aspect here is that in framing the problem, the decision-maker makes a comparison between outcome and reference point. A *reference point* can be defined as a fact or element forming the basis of an evaluation or assessment, in our case it can be the current wealth, the aspiration of the manager or, as sustained by Amihud and Lev (1981), his employment. Having in mind these points for framing problems, as gain or loss, behavioural models predict that decision makers (agents in our case) exhibit *risk averse preferences* when selecting among positively framed problems and exhibit *risk seeking preferences* when selecting among identical but negatively framed problems (Wisemann and Gomez-Mejia, 1998).

This way of framing and deciding appears, however, to be opposite to what it should be for a normal decision maker, that is to say that when problems are negatively framed he

should exhibit risk averse preferences and when problems are positively framed, the decision maker should exhibit risk neutral preferences. We will return to this point because it is really interesting and peculiar.

What stems out of this shift of preferences between the two ways of framing problems is the concept of *loss aversion*- which is different from the classical risk conception-, already mentioned in the previous paragraph. This concept is based on the decision-maker's (executives) willingness to avoid losses (e.g. losing their wage), even if this means accepting higher risk for the firm. Loss averse agents are particularly sensitive to losing wealth than to increasing it, and this is the same aspect described by March and Shapira (1987, pg 1407) ten years before but under the agency perspective.

So this loss aversion framework (which is at the basis of the Behavioural Agency model) suggests that risk preferences of loss averse decision makers will vary with the framing of problems, in order to prevent or reverse losses and thus preserving their utility.

Wisemann and Gomez-Mejia (1998) affirm that "risk bearing"- which is the perception that an agent has on his wealth that can result from employment risk (Amihud and Lev, 1981) or other threats to his wealth - may have a mediation role in the problem framing process. This risk perception (together with loss aversion) is at the basis of the problem framing process and on the related risk preferences. It is what justifies the apparently opposite risk preferences formulation, according to this theory, when problems are structured. In fact under positively framed problems - when facing gains- decision makers perceive more risk to wealth since now they have something to lose (employment, salary, and so on). Differently, when they construct a problem negatively (because they are facing a loss condition), they perceive less risk to wealth since it is already lost. In this case their preference is to be neutral to risk because there is nothing more to lose and this is the same concept expressed by March and Shapira (1986).

By extending this Behavioural Agency theory perspective in the principal-agent setting applied when describing risk according to agency - according to which the wealth (and so risk neutrality) of the agent depends on the firm performance - it can be said that on the extent to which executives' wealth is impacted by firm performance, they are likely to perceive more risk to personal wealth (risk bearing) under conditions of gain, but less risk to that wealth under conditions of loss. This counterintuitive argument provides a

cognitive explanation for why the framing of problems as losses or gains may influence a decision-maker's risk preferences (Wisemann and Gomez-Mejia, 1998).

Even if the authors sustain that their contribution is aimed to overcome the limitations of agency theory, the same construct can be found in March and Shapira (1987). In this case the authors refer to a situation in which performance targets are met or not, still taking into account the risk (loss) aversion of the agent. The authors talk about the performance target of the manager, but since they are only measurable in terms of firm results, one can expect - and deduce from their paper - to have the same reasoning applied to firm performances. In general, if firm performances are above the target planned by the manager (as in positively framed problem), his primary focus is on avoiding actions that may place the firm below it. The point is that the dangers of falling more below the performance target reached, dominates the attention of the agent. The risk perception here determines a risk averse behaviour of the manager but since there is something to loose (e.g., the revenues coming from this above performance target in the form of rewards) he is, in a certain sense, loss averse.

For agents who experience or expect firm performance below the target, the desire to reach it focuses the attention in a way that leads generally to risk taking behaviours (as in the case of negatively framed problems). This is because the opportunities for gaining or reaching the target receive more attention than dangers. So if the firm performance is above the survival point the attention of the manager will be focused on preferring less risky alternatives because in this way they do not loose what they already have. If, instead, the firm performance is really close to the survival point, the emphasis is on more risky alternative, since there is more to lose than to gain. (March and Shapira,1987).

Table 3 Comparison of the concept of risk aversion between Wisemann and Gomez-Mejia; and March and Shapira

RISK AVERSION IDEA	WISEMANN AND GOMEZ- MEJIA (1998)	RISK AVERSION IDEA	MARCH AND SHAPIRA (1987)
POSITIVELY FRAMED PROBLEMS	<i>Under conditions of expected gain (with respect to their reference point e.g. salary), managers perceive more risk to wealth since now they have something to lose so they become risk averse, or even better, loss averse</i>	WHEN THINGS ARE GOING WELL	<i>The interviewed managers believe that fewer risks should, and would, be taken when things are going well</i>
NEGATIVELY FRAMED PROBLEMS	<i>When facing a loss condition (with respect to their reference point, e.g. salary), managers perceive less risk to wealth, since they perceive that it is already lost so they take more risk</i>	WHEN THINGS ARE GOING BAD	<i>The interviewed managers expect to take riskier choice when the organization is failing</i>
		CONCLUSIONS	<i>Risk taking is affected by the relation between current position and some critical reference points</i>

Source: personal elaboration taken from Wisemann and Gomez-Mejia; and March and Shapira

Concluding can be said that even if supporters of the behavioural agency model sustain that this model has been created in order to overcome the agency limitations with the contribution of the behavioural decision theory, it seems that this model - our main focus is on the first proposition developed by Wisemann and Gomez-Mejia (1998) - has “grasped” some agency fundamentals on risk already analysed by March and Shapira on one side and by Amhud and Lev on the other side, revising them into a more behavioural perspective, without leading to a complete twist of the agency theory. This conclusion has important implication mostly for the main argument of family businesses which is the Socioemotional wealth, considering that it is deemed to be rooted in the behavioural agency model.

Table 4 Agency theory assumptions vs. Behavioural Agency theory assumptions

	AGENCY THEORY	BEHAVIOURAL AGENCY THEORY
IDEA	<i>Agents tend toward opportunism because have interests which are different from those of the principals, this occur unless they are very closely monitored and significantly incentivized to act in the interests of shareholders</i>	<i>Agents have interests which are different from those of the principals but the agents' risk preferences are displayed through his or her choice behaviour on behalf of the firm and these choices hold implications for the firm performance and the agent's employment and compensation</i>
ASSUMPTIONS ON THE AGENT	<i>Self-interest Bounded rationality Risk preference: risk averse</i>	<i>Self-interest Bounded rationality Risk preferences: risk averse, risk neutral or risk seeker</i>
ASSUMPTIONS ON THE PRINCIPAL	<i>Self-interest Bounded rationality Risk preferences or risk neutral</i>	<i>We apply those of the agency since the Behavioural agency concerns only agents</i>
ASSUMPTIONS ON RISK BEARING OF MANAGERS	<i>The manager (agent is deem to be always risk neutral since he cannot diversify). However, the extent to which executives' wealth is impacted by firm performance, they are likely to perceive more risk to personal wealth (risk bearing) so they join conglomerate mergers</i>	<i>The manager (agent) may have risk-averse preferences when problems are framed positively risk-seeking preferences when problems are framed negatively</i>
PROBLEM FRAMING	<i>Agency theorists assume that decision makers formulate their choices simply according to the rational expectation and utility theory- without considering the importance of how the problem is framed (but March and Shapira seem to "introduce" the concept of loss aversion)</i>	<i>In behavioural agency model, The most important aspect is that in framing the problem, the decision-maker makes a comparison between outcome and a reference point and then takes risks accordingly. So they take risks taking into account the loss aversion with respect to their reference point</i>
THE ARGUMENT	<i>Decision-makers (executives) are willing to avoid losses (e.g. loosing their wage), even if this means accepting higher risk for the firm. Loss averse agents are particular sensitive to loosing wealth than to increasing it, and this is the same aspect described by March and Shapira (1987, pg 1407) but under the agency perspective</i>	

Source: personal elaboration inspired from March and Shapira, 1987 and Wiseman and Gomez-Mejia 1998

1.4 Family firms: a governance “panacea” for agency costs?

What has been written until now on Agency theory is what the literature calls the “Jensen and Meckling model on agency theory”. As already mentioned this model, also considering the works of Berle and Means (1932) and Fama (1980), views the *Limited liability concept* - a corporate structure that allows the separation between ownership and control - as the most efficient way to manage the company. This is not only because there it allows a better division of labour and attribution of responsibility, but mainly because if shareholders had a full liability with respect to the debt of a company, only few individuals would join a company. Despite this, the efficiency assumed for the limited liability construct is obscured by the opportunity of self-serving (opportunistic behaviours) for managers, thus by the agency problem. As stated above to overwhelm this agency problem (goal conflict, different risk preferences and information asymmetry) existing between the manager (agent) and the owner (principal) agency costs (in the form of incentives and monitoring activities) are borne by this one.

By saying this, Shulze et al. (2001 and 2003) affirms that the focal assumption in the Jensen and Meckling model is that the separation of ownership and control is the main source of agency costs and that, as a consequence, the more concentrated ownership and control are- as in owner-managed firms- the lesser are these agency costs.

Likewise, Amihud and Lev (1986) in describing the motivations that lead companies to join conglomerate mergers, they maintain that in *management-controlled firms* (those in which the separation of the ownership and control is emphasized) agents are quite free to exercise their discretion and pursue their own preferences. This contrasts with *owner-controlled firms* (in which the owner-stockholder is able to exert a strict control over the managers’ decisions) where owners could also have an active role in the management, thus knowing all about the managers’ activities. This implies that in the second typology of firms agency costs are less because there is a better alignment among the manager and owner’s interests and in this category of firms can be encompassed *family owned and managed firms*. Before going further it is necessary to analyse what *family businesses* are. According to Miller, Le-Breton Miller (2007), *Family firms are those in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time*. Within this framework it is clear that the family is able to influence the firm and they do this through their ownership control, their

managerial participation, the strategic preferences of shareholders, and the culture and the values that family shareholders impart to the firm. So what differentiate *family firms* from *management-controlled firms* are the intentions, values and strategy-influencing interaction of owners who are members of the same family (Poza, E, 2009).

Despite Family-owned firms account for approximately 90 percent of all incorporated businesses in the United States, they represent approximately the 80 percent of all companies in Spain and France and the 90 percent of all the companies in Italy, India and Latin America, this phenomenon has been understudied in the past. For this it has been deemed by agency theorists, until recent years, that family firms are composed by simple and less complex organizational structures that nullify those agency costs deriving from monitoring the agents (Shulze et al, 2001).

The point is that the Jensen and Meckling model on agency theory suggests that agent-principals such as family member-CEOs of family firms incur reduced costs due to the alignment of their interests with those of other owners, and thus will outperform agents who are at arm's length from principals (Fama and Jensen, 1983), that is to say management-controlled firms.

In sum, agency theorists argue that agents always tend to opportunism unless they are very closely monitored and significantly incentivized to act in the best interests of shareholders (Miller, Le Breton Miller, et al., 2014). Following this logic, it can be underlined that since family managers (or CEO) are also shareholders of their firms, their interest are aligned with those of the other owners and so with those of the other family members. In the case of non-family managers (or non-family CEO) things, however, do not change since family members are involved in the management of the company and for this they are able to closely monitor and influence them. It seems that classical agency theorists conceive firms only under two perspectives: the *stewardship perspective*- that sees family owners and managers acting as farsighted stewards of their business (Le Breton-Miller and Miller, 2011) - that, according to them, dominates family-controlled firms and in contrast to this one, there is *agency theory* that can be mainly found in the management-controlled firms. Is it really like this? What about the concept of *loss aversion* mentioned when discussing about the Behavioural agency theory (paragraph 1.3)? Let's see now how things change under this perspective.

Behavioral agency theorists predict something more than what Jensen and Meckling (1976) proposed about risk taking which, they maintain, is a function of existing endowments (reference points). In fact, a family CEO (or family managers in general) in order to preserve the *socioemotional wealth* - which refers to nonfinancial aspects or “affective endowments” of family owners (Gomez-Mejia, Haynes, Nunez-Nickell, Jacobson and Moyano-Fuentes, 2007) - *they derive from their business*, will eschew intelligent business risks and thus sacrificing economic performance. Socioemotional goals include *preserving control of the firm for the family, hiring family managers, using business resources and avoiding risk-bearing initiatives* to reach these goals (Miller, Le Breton-Miller, Minichilli, Corbetta and Pittino, 2014). Following this idea, family CEOs or family managers, in general, have an incentive to pursue more these SEW objectives at the expenses of economic performances, since they are driven by *altruism* toward the family, which - for Shulze, Lubatkin and Dino (2003) - is the aspect that creates agency costs also in family firms, given that the agency relationship in these organizations are embedded in the parent-child relationship found in the household. These authors posit that *altruism induces parents to care for their children, encourages family members to be considerate of one another, and fosters loyalty and commitment to the family and firm*. Under this perspective of altruism, it is reasonable to believe that family firms have not agency costs and that, furthermore, a stewardship (fare un box sulla stewardship) perspective can be adopted as Jensen and Meckling model seems to implicitly sustain. But what contradicts this as justifiable as questionable assumption, is that altruism, despite its benefits, has a negative side too. In fact it can give both parents and children incentive to take actions that can threaten the welfare of the family and the firm alike (Shulze, Lubatkin and Dino, 2003). The thing is that according to the abovementioned authors, agency relationships in family firms are *embedded* - this concept of embeddedness is sustained mainly by Le Breton-Miller and Miller (2011) - by the past on going parent-child relationship which is characterized by altruism. Altruism makes each member employed by the family- as a birthright- a de facto owner of the firm and for this they act to pursue self-interest also in the form of privileges, perquisites and other altruistic transfers.

Shulze et al.(2003) say that, in harmony with agency theory, ownership should align the interests among family agents toward growth opportunities and risk thereby reducing

the cost of reaching, monitoring, and enforcing agreements. Thus, there should be little need to monitor family agent performance.

Altruism should also increase communication and cooperation within the family firm thereby reducing information asymmetries among family agents and increase their use of informal agreements. Finally, altruism should create a heightened sense of interdependence among family agents, since employment links their welfare directly to firm performance. In short, the agency benefits of altruism should be pronounced in family firms. However, agency problems rooted in altruism are the *entrenchment*- which occurs when managers gain so much power that they are able to use the firm to foster their own interests rather than the interests of shareholders- and the *self-control*- which arise whenever parties involved into a contract have both the incentive and the ability to take actions that put in danger themselves and those around them. These are exacerbated when the privileges of ownership place control of the firm's resources at the CEO's or family managers' discretion. This broadens their capacity to make altruistic transfers (like employment, perquisites, and privileges), and entitles family members to benefits that would not have been received if they were employed elsewhere. These privileges can create a variety of agency costs (Shulze, et al., 2003).

First, they *increase the need to monitor the work of family agents*, and this is because their hire is determined more for their family membership, rather than their professional qualifications. So, as in the case of management-controlled firms, altruism exposes family firms to *adverse selection* which is the agency threat associated with lack of ability as opposed to lack of effort (*moral hazard*). Again here to overwhelm this problem, agency costs in the form of monitoring activity are generated.

Second, altruism *reduces the owners' ability to effectively monitor and discipline family agents*. This occurs because altruism systematically biases the family owners' or family CEOs' perceptions and hence the information that they filter and process, about employed children- this is the reason why it is often hard for family firms to professionalize-.

Moreover, *altruism reduces the effectiveness of a family CEO's supervision* because family agents, since they well know how to behave toward family members, tend to free ride on the CEO whenever the responsibilities of this one and of the family agent overlap (this overlapping problem will be treated deeply in the paragraph 2.6)

Finally, *the CEO's ability to discipline family agents is compromised by the potential damage* that such action might have on familial relationships inside the firm and among the extended family outside the firm.

Concluding differently from what agency theorists says on family firms, a different proposition can be deducted as sustained by Shulze et al.(2003): the desire to maximize family welfare can compel family firm CEOs, or owner-managers in general, to take actions that create agency costs. However, because altruism compromises the owners' ability to monitor and discipline family agents, these authors have found that the majority of U.S. family firms offer to employed family members *short and long term performance-based incentive pay*. Consequently, and contrary to the prediction of agency models that do not account for altruism, family ownership *does not appear* to represent the kind of *governance panace* - for agency costs - that Jensen and Meckling (1976) and later Fama and Jensen (1983) attribute to (family) owner-managed firms. Rather, family firms *seem* to experience agency problems that are costly to mitigate as it is for management-controlled firms.

1.5 The Agency problem in Small and Medium Enterprises (SMEs)

The study of family firms is one of the most complex in economic literature since it is characterized by many contrasting opinions among authors. This tendency is generally exacerbated in the studies of theories that could, as better as possible, capture the construct of family firms phenomenon, and this is what has been done by agency theorists. As affirmed in the previous paragraph, Shulze et al. (2001) retains that obviously agency problems exist in family business, but it still remains unclear whether they are less prevalent in family businesses than in non-family businesses. Certain studies (Jensen and Meckling, 1976, Gomez-Mejia et al. 2001) have suggested that family firms outperform their non-family counterparts, while others maintain that the opposite is true (Shulze et al. 2001, Cucculelli and Micucci, 2008). However I can say that these contrasting and mixed opinions will still exist if a distinction among different contexts is not done in making these studies. The problem is that the concept of family firms could be misleading, in the sense that family businesses are often intended as a synonymous of Small and Medium Enterprises (from now SMEs). In fact I can not say that many agency authors in writing about the family firm phenomoenon often,

implicitly, have in mind SMEs. The thing is that in reality family businesses may have higher or equal agency costs simply because they are not so different from their non-family counterparts in terms of size, organizational structure, management processes. Surely the influence of the family in the firm has an important impact, but this does not mean that the presence of the family automatically leads to lesser or non-existent agency costs. In fact larger public family businesses exist too and due to their dimensions, they need a separation between ownership and control for a more efficient management that, with either the presence of family or non-family managers - inevitably creates agency cost deriving from monitoring activities and from the use of incentive systems. Although most family firms are very small and simple, many studies of agency in family businesses have been done preferably on large and quoted companies or public corporations because of the difficulty in finding data for SMEs and in particular for family SMEs. But it must be taken into account that in family SMEs, the sense of family extends across the entire family and all the family members may feel as though they are part of the family business, since these firms have, often, a very simple structure (Herrero, I, 2011). So now the focus of this paragraph is to understand if the agency problem- with the related costs- exists in SMEs and when they emerge the most.

The description of agency theory in family firms of the previous paragraph, can be based on two assumptions on family firms: firstly it refers mainly to *large and "growing" family firms*; this means that the family owner's desire to make the business growing is predominant because it allows to accommodate family members (Kotey, B, 2005) and this practice increases the possibilities of altruistic behaviours. Second the perspective used by many authors in describing agency theory in family firms is, in my opinion, anchored too much in the idea that the aim of owners is the mere maximization of the profit of their firms, thus implying that the achievement of a different objective- such as familiar ones- is seen as a sure source of such altruism that entail agency costs.

These two non-declared assumptions, that I dare to deduce, are clear in the moment in which family and non-family SMEs are deeply analysed.

Herrero (2011) considers small firm to be a family firm if the manager and/or some of the employees have familial ties to the owner and - differently from big family businesses - they often have a single owner, which means that the presence of

shareholder is rare. Despite some authors (Jensen and meckling, 1976, Fama and Jensen, 1983) affirm that family businesses are better performers than non-family firms in “agency terms”, others argue that since managers are not chosen in a competitive context but within the family- through unfair advantages because of family ties- maybe they are not the best candidates for that position, thus leading to inefficiencies in the form of weaker performances (Shulze et al., 2001, Cucculelli and Micucci, 2008) and of altruism. This problem, as said previously, is known as adverse selection. These authors sustain that family managers may lack the education and the professionalism needed for their specific role. However, in some activities, not related to knowledge intensive firms, like high tech firms - where, however small family firms do not operate so much because this sector is highly risky - experience is considered an alternative to education in the development of skills, competences and abilities (Herreo, 2011). The main idea is that small family firms benefit from an age-related learning process (Cucculelli, Mannarino, Pulpo, Ricotta, 2014) that help them to improve efficiency overtime. For example, the hired CEO in non-family firms usually starts with a series of competencies and abilities already structured, whereas family CEOs do not. Founders and family successors learn how to run the business over time and their experience- which is conditional to the firm survival- grows with age.

So what Herrero (2011) sustains is that in small firms (with the exception of those in sectors that are knowledge intensive) the qualifications needed to manage the firm do not need to be extensive and this means that family SMEs do not need external managers that could have different objectives or risk preferences. This implies that if the family manager takes his experience in the firm and mixes it with the family values and traditions, there is a compelling reason to believe that small family firms exhibit high efficiency due to less agency costs. In fact, if the family manager is appropriate for the post in small firms, then the *executive entrenchment* should not represent an important source of agency costs as it occurs in large firms. Moreover, for those incompetent offspring in the context of small businesses, there is not the same lucrative or prestigious ambition of big family firms and so there may be no pressure on fathers to promote them as managers, unless the latter actually want to take them. This reduction of agency costs in family SMEs can be observed also when there are non-family managers since in these firms there is not a formal management structure (Kotey, B.,

2005), they work closely to the family owners and this allows the alignment of their interest with those of the family.

Another argument that Shulze et al. (2001) argues is that in family firms it is difficult for owners to impartially monitor relatives who work in the firm. Again in small family firms it is not like this: the control exerted by managers is very strong since people work very closely one another since there is not a complex organizational structure. Furthermore, the absence of a hierarchy may encourage family employees to experience a sense of belonging to the family business thus allowing an appropriate behaviour. This contrasts with large family firms in which if family members are not employed at managerial level, they may assume contrasting behaviours that lead to conflicts or altruistic behaviours from parents to cease them. Here the sense of “being in the same boat” is very strong and so conflicts – as agency costs - potentiality may be reduced (Herrero, I, 2005).

Kotey (2005) in conducting a study on Australian family and non-family SMEs affirms that the former differs from these latter in their *goals, management* and *performance*. The authoress asserts that there is, in general, a close link between the personal *goals* of managers, management practices and performance of their firms. By dictating the goals of the firm the managers (or the owners) are able to influence the strategies of the firm and as a consequence the performance of the firm itself. This however is strong in small family firms where business goals are inseparable from the personal goals of the owners (which are also managers) and that reflect the personal needs, values, structure or beliefs of the owners. These goals, are not necessarily optimal or economically rational (profit maximization) but they may provide to give the priority to the *socioemotional wealth* that they obtain by controlling the firm, thus representing the best for the family. So, in this sense, they are more likely to accept greater performance hazard to mitigate the loss of this socioemotional wealth endowment and, for this, small family firms are less likely to take on risky projects that may lead to change the status quo (Cucculelli, 2012). But as said before, this changes the perspective (objectives of family firms) without entailing a necessary loss of efficiency in the form of agency costs. In fact, in family SMEs there is typically one owner-manager whose personal goals dominates business goals and who prefer to keep the firm small in order to maintain ownership and control in the long term (Kotey, B, 2005). So business longevity and the well-being of

the family members are placed ahead of growth and wealth maximization as business goals and this, however does not mean losing efficiency. In fact, in general the *performances* of family firms (on profits and firm value) are better than non-family firms despite these latter have higher growth rates because they try to expand rapidly to attract outside resources. This practice is not applied by family firms which grow less to maintain the ownership within the family.

For what concerns *management practices* Kotey (2005) sustains that in family SMEs these are conservative, informal and centralized, with one (the founder) or few individuals dominating the decision making process so this reduces the need for formal monitoring and control systems. This inevitably makes agency costs less or inexistent because the organizational structure is flat. This is true unless the owner's willing to grow predominates, thus leading the firm to become larger: in this case a more formal organizational structure is needed and it may even require the separation of ownership and control with the annex procedures (costs) to reduce the agency problem.

In sum, there is a general preference among owner-managers of SME to limit growth of their firms in order to maintain ownership and control in the long term thus preserving also non-financial endowments (Gomez-Mejia, 2007). Moreover majority of ownership and control by owner-managers enable small firms to persist with informal basic management practices. But this situation changes when proprietors of small firms (either family and non-family) desire to grow in order to attract outside resources (particularly for small non-family firms) or to accommodate other family units (for small family firms) (Kotey, 2005). As a consequence, to effectively manage the growth, formal management practices are necessary and this creates agency costs mainly in the non-family firms because in these firms the desire to grow is more urgent.

In conclusion it could be stated that while at the beginning the presence of very low or inexistent agency costs could be the same within family and non-family SMEs, they tend experience them with growth. Surely non-family firms tend to grow more than non-family firms because the former tend to follow more a profit maximizing approach, while the latter tend to maintain the ownership of the firm to mainly satisfy non-economic goals (socioemotional wealth) even generating profits.

1.6 Conclusions

The explanation of all the aspects related to the agency approach was developed in this chapter. This was done in order to have a deep understanding of the agency assumptions and consequences (costs, deriving from differences in interests and in risk preferences among agents) to better track their existence within the framework of Italian tobacco shops, which exhibit the two main settings under which the analysis of agency theory has been developed in this chapter: they are family firms and they are small and medium enterprises. As already mentioned, in family firms the Socioemotional wealth concept is really important since it is a construct that encompasses all the different facets of family firms and according to this reason, a comparison between the risk concept studied by agency theorists (March and Shapira, 1987), and the risk concept analysed by behavioural agency model (Wisemann and Gomez-Mejia, 1998) - which is the root of the SEW construct-, was made. From this comparison, some congruencies have emerged, which have stimulated the possibility to see and verify this aspect through the case study reported in chapter four.

For what concerns the aspects related to the agency costs, deriving from all the assumptions that this kind of relationship implies, there are different perspectives adopted by the principal agency theorists. Despite these costs are inevitably in certain organizations – which see a separation between ownership and control (management) of the firm – Jensen and Meckling (1976) affirm that for those organizations in which the separation between ownership and control is mild or inexistent since the owner is directly involved in the business' management, suffer obviously less agency costs. These firms intended by authors are mainly family firms – or ownership-controlled firms as defined in their work – in which agency costs should be lesser since there is a strong alignment between individuals' interests. However Shulze et al. (2001) underlines the existence of agency costs within family firms because of the altruistic attitudes that family members have toward each other. This contrasts with what is maintained by Herrero, I, (2011) and Kotey (2005) who state that even if this altruistic attitudes can be true for big family firms since there is not a close control over family members, the strong ties and the lack of a complex and sophisticated organizational structure in family run SMEs, allows the possibility to reduce agency costs. Moreover the fact that Shulze (2001) identifies the agency costs due to altruistic behaviours in

family firms, means according to Cucculelli (2012), that family firms – irrespective of their dimension – have also other goals which are not rooted on the mere profit maximization, and which have not been taken into consideration by Shulze (2001), thus allowing goals different from profit maximization to be seen as a source of agency. These goals are inseparable from the personal objectives of the owners and they reflect their personal needs, values, structure or beliefs. So they are not necessarily optimal or economically rational but they may provide to give the priority to the *socioemotional wealth* that owners and the family obtain by controlling the firm, without implying a loss of efficiency. Under this perspective the problem of altruistic attitudes in family firms – and of agency costs - in SMEs should be not significant. This aspect, however, will be analysed through the case study proposed in this study in chapter four.

INSTITUTIONAL LOGICS APPROACH: AN EXPLANATION OF ORGANIZATIONAL ACTIONS

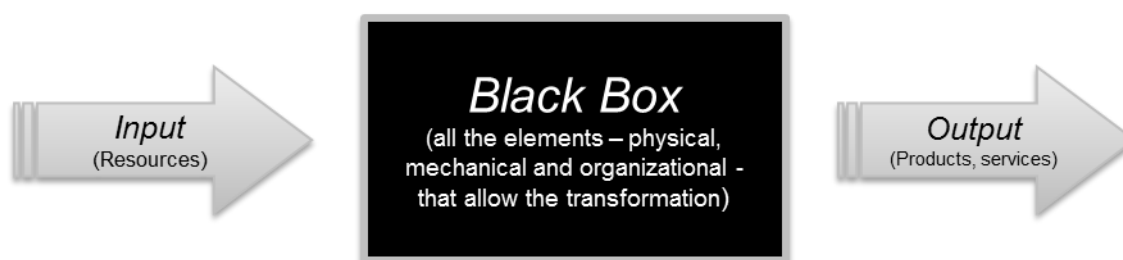
2.1 Premise

The focus of this second chapter is on the analysis of a (relatively) recent approach developed in organizational theory, which is the *Institutional logics* approach. In order to do this, however, it is necessary to move from an internal perspective of firms, to a more extensive perspective which takes into account the external (institutional) environment of firms. Institutions, intended as the rules of the game of a society (North, 1990) becomes important in shaping organizational and individual action mostly when the firm is considered as an open system. So analysing institutions and the related institutional logics it became possible to understand why organizations are structured in a specific way and why they behave in a certain manner. In order to better understand what are institutional logics, whose meaning is often used not properly, the chapter starts with the definition and the description of what institutions are and how institutional theory has evolved, thus arriving to its “third wave” which is represented by the institutional logic approach. Then an analysis of the principles underlying this recent approach is reported in order to better understand the conflict among different and coexisting logics within a specific context. Later an analysis of the Institutional overlap (Lansberg, 1983) existing in family firms is done in order to understand which are the main logics that exist in family firms.

2.2 The open system perspective of the firm: an introduction to institutions

As stated in the previous chapter, it can be recognized that the initial (or starting) perspective about firms which is used in for my proposition is that assumed by the neoclassical economics literature - that's to say the "Black Box" perspective - according to which the firm is operated in order to obtain the maximization of profits by transforming inputs (e.g., raw materials) in outputs (e.g., end products or services). This view, clearly, is more concerned with internal processes of the firm since profit maximization through the input transformation is a salient aspect – but not the only one- of the internal management of the firm.

Figure 3 The firm as a Black Box



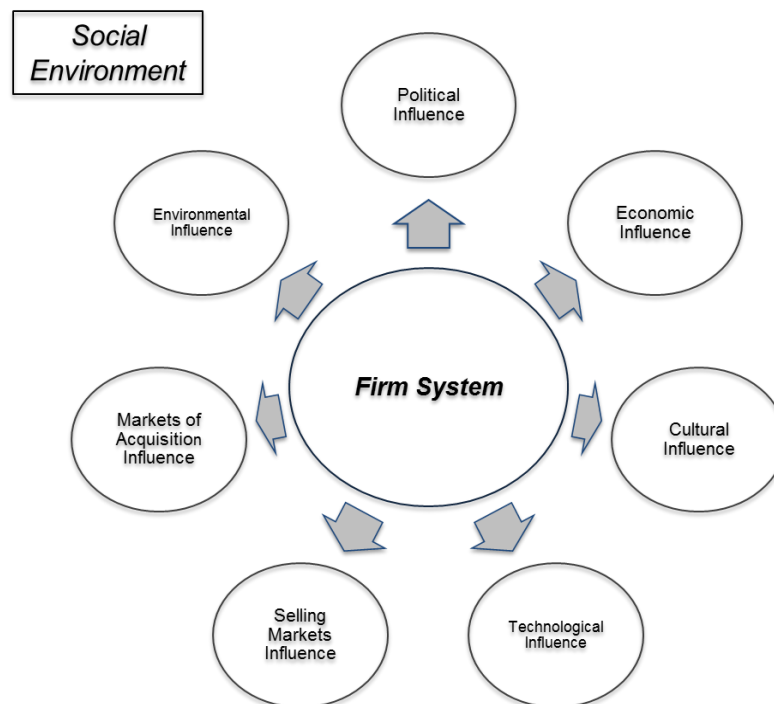
Source: personal elaboration

However, as already said, this conception has met some limitations that firstly have been emphasized within the *Agency theory* sphere and then by the more recent models that look on the firm as an *Open and Social System* which no more falls back only on internal practices, but is also able to interact with, be aware of and be influenced by the surrounding environment. Again the neoclassical model is no more adequate to define and capture the essence and the highlights of the firm relatively to its external environment. So under this umbrella there is room for theories related to *institutions*.

The modern open system view (Scott and Davis, 2007) considers the organization as a productive system which interacts with its environment, drawing certain inputs from the environment and converting these to outputs that are offered to the environment. Through its production process the firm can gain utilities, allowing, meanwhile, other agents who have relationships with it to obtain benefits too.

However, the firm is not alone but operates within an environment which is composed by other economic systems (or forces) with which the firm interacts, from which is influenced (Di Maggio and Powell, 1983) and with which it competes (Porter, 1979). So as a “social and open system”, the firm is strongly swayed by the external environment in which it operates: in fact all the resources (material or immaterial and also relationships) that it needs are taken from this external environment, and something is given back to the environment in the form of products and services. So the “Black box” conception remains as a pivotal structure but it is integrated within a bigger context which is the surrounding environment.

Figure 4 Firm as an open system



Source: personal elaboration

In this way the firm interacts internally and externally thus making it necessary to take into account the aspects of the *social environment* in order to survive in the long run. This adaptation is necessary in order to create the equilibrium between internal and external factors that concern or have a connection with the firm. With social environment I mean what North (1990) defines as *Institutions*.

Institutions are the rules of the game in a society (or social environment) or, more formally, are the humanly devised constraints that shape human interaction (North,

1990). For a society institutions are really important because they reduce uncertainty by providing a structure to everyday life, in the sense that they are a sort of guide to human interaction. In fact institutions are able to tell us how to greet friends, drive, buy stuffs, form a business, or whatever we know and, if not known, how to perform all these tasks. It is necessary to observe that institutions are specific to a certain area: if we perform the same transactions of before but in a different country, surely the rules differ (e.g. left-hand drive in UK).

Institutions can be intended as any form of constraint that shape human interaction (North, 1990), and they can be both *formal constraints* – such as rules that human beings devise – and *informal constraints* – such as conventions, values, and codes of behaviour. Institutions may be created, as in the case of law, or can simply evolve over time as culture. Institutional constraints, in sum, include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are allowed to undertake certain actions. According to North organizations provide a structure (arrangement) to human interaction, since they are a group composed by individuals which are bounded by some common purpose to achieve objectives. However, how organizations come into existence and how they evolve is fundamentally influenced by the institutional framework and, in turn, organizations influence how the institutional framework evolves. The core idea is that organizations are deeply embedded in social and political environments suggested that organizational practices and structures are often either reflections of or responses to rules, beliefs, and conventions built into the wider environment (Di Maggio and Powell, 1983). So what North maintains is that while institutions are the rules of the game, organizations are created with the purposive intent to pursue opportunities “lavished” by the existing set of constraints (institution) and in this way they become the agents of the institutional change that, surely, takes time to occur (Friedland and Alford, 1991).

2.3 Approaching the institutional logics perspective, as a wave of the institutional theory development

Recently, a large number of scholars have started to use the concept of Institutional logics in their research. But seldom is this concept not used properly so, in order to avoid misinterpretations, I deem that before defining the institutional logics perspective

it is necessary to place it within the broader context of institutional theory to better understand the enlargement that this theory has taken to the institutional view. In fact, the institutional logics approach is part of a broader of complexity studies on institutions, which could be identified as the “*third wave*” of institutional theory (Johansen and Waldorff, 2015).

As sustained in the previous paragraph, the core idea of institutional theory is that organizations are definitely connected with the surrounding environment (social and political) so that not so rarely organizational practices or structures are a reflection or a response to the wider environment and its rules, codes, values, norms and conventions (institutions). In line with this it can be said that organizations act not only according to an economic reasoning and rational strategic goals, so a variety of social norms and values put organizations constantly under pressure.

2.3.1 The “first wave” of institutional theory: the “*old institutionalism*”

Making some steps back in time, the first wave of “old institutionalism”, whose main exponent is Philip Selznick, distinguished “institution” from “organization” and placed the organization in larger contexts, that is to say institutional environments.

In his paper “Foundations of the Theory of organization” (1948) Selznick notes that “the most important thing about organizations is that, though they are tools, each nevertheless has a life of its own”. For him, organizations (trades unions, governments, business corporations, political parties, and so on) are all formal structures since they represent rationally ordered instruments for the achievement of goals which are established at its basis.

Despite the rational view of organizations is strong, Selznick notes that these formal structures can never be able to overcome non rational dimensions since they are mainly composed by persons who generate a persistent pressure for the institutionalization of relationships within them (Selznick, 1948). This means that the focus is on the purposeful efforts of individuals to respond to environmental pressures in way consistent with the institution’s rituals and formality and based on values that are important to the institution (Leaptrott, 2005). In line with this perspective he concludes that organizations do not act purely based on formal structures because individuals do not act purely based on their formal roles within the company, but they bring other commitments to the organization that can restrict rational decision-making. In this sense

the individual raises new problems for the organization, partly because of the needs of his personality, partly because he brings with him a set of established habits as well as commitments to special groups outside the organization (Selznick, 1948). In this way the needs of individuals (as his values and habits), do not permit a single-minded attention to the stated goals of the system, so the organization strikes with the environment that can restrict its current goals or limit future possibilities, since being based on individual actions and environmental pressures.

As a consequence, deviations from the formal system tend to become institutionalized within the organizations (Selznick, 1948). However, these deviations tend to force a shift away from the purely formal system in order to embrace the informal patterns and this will (at the end) result in the formalization of these last, thus changing the original structure. In sum, he defines institutionalization as "the process," as something "that happens to the organization overtime" (Scott, 1987), thus being an adaptive process that infuses value beyond the technical requirements of the task at hand (Selznick, 1957).

2.3.2 The "second wave" of institutional theory: the "*new institutionalism*"

The second wave arrived around the late 70's, with a strong focus on the socializing effects of institutions, contrasting what was deemed to be a "rationalistic" and overly action-oriented approach – of the first wave - to organizations' ability to adapt to their institutional environments (Johansen and Waldorff, 2015).

The articles of *Meyer & Rowan (1977)*, *Zucker (1977)* and *Di Maggio & Powell (1983)* are at the foundation of this new view on institutions.

The above mentioned Institutional theorists - albeit in different ways - assert that the institutional environment can strongly influence the development of formal structures in an organization, so the relation institutions-organizations is no more seen as a problematic one as Selznick's approach suggested.

Meyer and Rowan (1977) argue- adopting a macro-perspective - that many formal organizational structures arise as reflections of rationalized institutional rules and that these one, function as myths which organizations incorporate, gaining legitimacy, resources, stability and enhanced survival prospects.

The starting point for the authors is that in modern societies formal organizational structures arise in highly institutionalized contexts so this permits many new organizations (as well as the existing ones) to incorporate the practices and procedures,

which are defined by the prevailing rationalized concepts of organizational work and institutionalized in society. By doing this, organizations increase their *legitimacy* and so their survival prospects, independently from the immediate efficacy of the acquired practices and procedures (Meyer & Rowan, 1977). So this new institutionalism added a greater consideration on legitimacy (which will be analysed better in chapter three)

Institutionalized products, services, techniques, policies and programs function as powerful myths, and this is why many organizations adopt them ceremonially. However adopting these myths give the impression to be a double-edged sword: on one side, conforming to institutionalized rules often conflicts sharply with efficiency criteria and, on the other side, coordination and controlling activities that promote efficiency undermines an organization's ceremonial conformation (meaning the conformity to the institutional environment) thus, sacrificing its support and legitimacy (Meyer & Rowan, 1977). The two authors give a meaning to institutions which is different from that given by Selznick, in fact for them *institutionalization involves the process by which social processes, obligations, or actualities come to take a rulelike status in social thought and action* (Johansen and Waldorff, 2015).

Meyer & Rowan underline that the main problem of the prevailing theories in organizational theory is that they have neglected the legitimacy as an alternative explanation to the source of formal structure of organizations. In fact, in prevailing theories, legitimacy is a given, but this represent a sort of limitation because for the authors, in modern societies the elements of rationalized formal structures are deeply rooted in and reflect the widespread understandings of social reality (Meyer & Rowan, 1977). So in line with this thinking, the elements of formal structures (positions, policies, programs and procedures) are manifestations (or reflection) of powerful institutional rules which function as highly rationalized myths that are binding on particular organizations. These institutional rules – and the adaptation of organizations to them- ensure the legitimation of the organization and the consequent survival in the long run, even eliminating the liability of newness - theorized by Stinchcombe - for young or even new organizations.

There is a clear and strong relationship, according to Meyer & Rowan, between organizations and their institutional environments: the former are structured by phenomena which are present in the latter, hence tending to become *isomorphic* to

them. An explanation of this isomorphism - which is also at the basis of the Di Maggio and Powell's understanding of institutionalization – is that formal organizations become matched with their environments by technical and exchange interdependencies, thus reflecting socially constructed realities.

In sum this isomorphism promotes the success, the stability and, as a consequence, the survival of the company, even putting aside the efficiency of the company in stricto sensu. So according to the institutional conception developed by Meyer & Rowan (1977), organizations tend to disappear as distinct and bounded/ closed units, but they are implicitly thought as open systems involved in exchanges with their environments, as stated in paragraph 2.2.

Differently from the work of Meyer & Rowan is that of Zucker (1977), which emphasizes – from a micro perspective - the taken-for-granted nature of institutions, and the role of *cultural persistence* as a measure of institutionalization. In Zucker's approach, the focus is on a single pattern or mode of organizational behaviour and the emphasis is placed on the rationale for (or nature of) the process underlying adoption of (or) conformity to the pattern. The author defines *institutionalization as the process by which individual actors transmit what is socially defined as real and, at the same time, at any point in the process the meaning of an act can be defined as more or less a taken-for-granted part of this social reality*. These institutional acts, however, must be perceived both as *objective* and *exterior*, meaning that they are repeatable by other actors without changing the common understanding of the act (acts objectivity) and their subjective understanding of acts make them interpret the acts as part of the external world (acts exteriority) (Zucker, 1977).

For what concerns the last authors, whose work is at the heart of this “new institutionalism”, they are Di Maggio and Powell (1983). These authors have extended the Meyer and Rowan's (1977) focus on *isomorphism* from the societal level to the level of organizational fields (Thornton and Ocasio, 2008). This extension of the focus on isomorphism, has lead them to term this new pattern as the “new institutionalism” which rejects the rationality to explain the organizational structure, hence emphasizing legitimacy rather than efficiency as an explanation for the success and survival of organizations in the long run, which were already introduced by Mayer and Rowan.

Starting from the description of the causes that for Weber are the determinants of bureaucratization (competition among capitalist firms in the marketplace; competition among states and bourgeois demands for equal protection under the law), Di Maggio and Powell (1983) argue that the causes of bureaucratization (as a widespread and most efficient and – formally - rational way in which human activity can be organized, in the modern world) were changed: in fact, the bureaucratization of the state and of the corporations was achieved, but despite this organizations were still becoming homogeneous. Analogously, what they observed was that structural change in organizations seemed less and less driven by competition or by the need of efficiency. So they maintain that the change of any organizational form (as, for example, the bureaucratization) occur as the result of processes that make organizations more similar without necessarily making them more efficient (Di Maggio and Powell, 1983). Once reached this result, the authors have tried to give an answer to explain *homogeneity in structure and culture*.

They argue that at the beginning of their life cycle, organizations – which are in the same organizational field – perform considerably divergent approaches and forms, but as soon as an organizational field – defined as those organizations that, in aggregate, constitute a recognized area of institutional life - becomes well established, this leads to pressure towards homogenization of the organizational structures and approaches of the diverse set of the existing as well as the new organizations within it. Here the thing is that organizations in a structured field, respond to an environment that consists of other organizations responding to their environment, which consists of organizations responding to an environment of organizations' responses (Di Maggio and Powell, 1983).

Following what has been said until now, the concept that best captures the process of homogenization is the isomorphism. Isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. Such approach suggests that organizational characteristics are modified following the route of increasing the compatibility with environmental characteristics (Hawley, 1968). Di Maggio and Powell argue that isomorphism can result because organizational decision makers learn appropriate responses and adjust their behaviour accordingly. The two authors identify three mechanisms through which institutional

isomorphic change occurs: a) coercitive isomorphism that is generated by political influence and the problem of legitimacy; b) mimetic isomorphism which is a result of standard responses to uncertainty – it is necessary here to remember that institutions are able to reduce uncertainty by establishing shared and consolidated norms, values and habits -; c) normative isomorphism which is associated with professionalization. Despite these three types of isomorphism are combined in empirical setting, they tend to derive from different conditions, hence leading to different outcomes.

Organizations may become more effective because they are rewarded for being similar to other organizations in the same field, thus making for each single organization easier to transact with the others. In this way they are legitimated by the surrounding environment (Di Maggio and Powell, 1983).

2.3.3 The “third wave” of institutional theory: the *institutional logics perspective*.

The second wave of institutional theory has been deemed to be functionalistic and abstract, suffering the lack of an explanation of the causes or the actions that determine the institutional change (Johansen and Waldorff, 2015).

For this reason the evolution of the institutional theory has led starting from 90’s to the third wave of institutionalism - called by Johansen and Waldorff “change and complexity institutionalism” - whose main objective is to understand how organizational individuals and groups are active agents in institutional change. This highly agentic approach is based on the *Institutional logics approach*. Friedland and Alford’s (1991) and Thornton and Ocasio (1999) created a new approach to institutional analysis which posited institutional logics as defining content and meaning of institutions. Despite this new approach shares the concern with how cultural rules and cognitive structures shape organizational structures (Meyer and Rowan, 1977; Zucker, 1977; Di Maggio and Powell, 1983), the focus is no longer on isomorphism but on the effects that different institutional logics have on individuals and organizations in a large variety of contexts, including markets and industries (Thornton and Ocasio, 2008).

Institutional logics shape rational, mindful behaviour, and individual and organizational actors have some hand in shaping and changing institutional logics (Thornton, 2004).

So this third wave of institutional logics approach provides a *link between institutions and action*, thus representing a bridge between the macro, structural perspectives of

Meyer and Rowan (1977) and Di Maggio and Powell (1983) and Zucker's more micro approaches.

Table 5 Institutional waves comparison

	1 ST WAVE THE OLD INSTITUTIONALISM	2 ND WAVE THE NEW INSTITUTIONALISM	3 RD WAVE CHANGE AND COMPLEXITY INSTITUTIONALISM
MAIN AUTHORS	<i>Philip Selznick, 1948</i>	<i>Meyer & Rowan (1977) Zucker (1977) Di Maggio & Powell (1983)</i>	<i>Friedland and Alford (1991) Thornton and Ocasio (1999)</i>
FOCUS	<i>On the adaptation of organizational attributes, such as particular structures, as responses to environmental pressures</i>	<i>Isomorphism, which results from an organizational need to obtain and maintain legitimacy, the need to deal with uncertainty, and normative influence from authoritative sources</i>	<i>Institutional logics, which define the meaning and content of institutions, since they are the way in which a particular social world works. They are embodied in practices and symbols available to individuals within society.</i>
APPROACH	<i>Micro-perspective, rationalistic and action oriented</i>	<i>Macro-perspective, moving from efficiency to legitimacy</i>	<i>Individual, organizational and institutional level of analysis to explain the institutional change consequent to a shift in institutional logics</i>

Source: Personal elaboration

2.4 Some introductory and preparatory considerations on the Institutional logics approach

Before discussing about this ultimate wave which has provided institutional theory with a deeper perspective, it is necessary to point out an aspect of the “new institutionalism”, which has been very important in delineating the institutional logic approach: the rejection of the rationality as an explanation for organizational structure (Thornton and Ocasio, 2008).

This forsake of rationality, is strongly accentuated in the work of Friedland and Alford (1991), which represents the “opening oeuvre” of the institutional logics topic.

The authors argue that theories which “retreat from society” – that emphasize market mechanism that allow to aggregate individual utilities and preferences, organizational competition and resource dependence – begin to fail since it is impossible to

understand individual or organizations' behaviours without locating them into a social context. This is what the evolution of the institutional logics, and the institutional theory as a general umbrella, has tried to do.

According to this, the most radical retreat from society has been through the instrumental and rational individual, whose choices in myriad of exchange are seen as the primary cause of societal arrangements: the society changes because of specific choices taken by individual actors (Friedland and Alford, 1991). Rational choice theory and agency theory – previously analysed – reflect this premise.

Rational choice theorists derive organizational arrangements – party, state, family or firms – from the rationality of individuals in attempting to maximize his or her utility by exchanging scarce and usually material resources. Similarly agency theorists analyse organizations as a network of contracts (Jensen and Meckling, 1976). Here the thing is that organizational structures derive as solutions to problems of opportunism where self-interest and the costs of monitoring might otherwise interact to produce shirking (the avoidance of a duty or a responsibility) (Friedland and Alford, 1991).

As already said in the previous chapter, this line of analysis has been strongly influenced by neoclassical economics, which has in turn marginalized institutional analysis, and so focusing on the way individuals takes preferences. In fact, one neoclassical economic theory's assumption is that preferences are deemed to be exogenous (from the social context), ordered and stable, thus being solely influenced by the individual's egoism that consents the individual's utility maximization. But the problem, according to Friedland and Alford (1991), is that once one moves away from material goods or the mere material gain, the neoclassical framework is in "dangerous waters" since it does not have a theory that explains how the utilities are formed anymore. Without priced commodities, the assumptions of rational utility maximization become tautological since the one cannot maximize what is not quantifiable. Conversely, Friedland and Alford (1991) sustain that the market is not simply an allocative mechanism but also an institutionally specific cultural system for generating and measuring value. So in a certain sense, utilities are formed because of the institutionalization of the market.

Moreover, without a theory of utility formation (we are beyond the pure materialistic view), it can be said that a market cannot operate efficiently because it would not be

understandable how activities are coordinated, since individuals are instrumentally egoistic only. This is a failure because this framework assumes that individuals interact solely through exchanges. But the evidence that people form preferences taking into account the options open to them, explodes neoclassical welfare from the inside out: utility formation is institutionally specific since the individual is not isolated by the institutional context to which it belongs. Like the market institution, Friedland and Alford (1991) identify other institutional realms – families, states and religions – which are more likely to generate values and hence utilities as absolutes which cannot be traded off against alternatives. So individuals formulate preferences within each of these institutional realms or “*institutional orders*” and within which, the exercise of a choice expresses a different kind of individuality.

2.4.1 Institutional logics meaning and definition

While institutionalists have studied the fact of organizational homogeneity as a result of isomorphism, they have not studied why specific institutional arenas are patterned in the way that they are or the conditions under which the new institutional forms develop (Friedland and Alford, 1991). This implies that they have not developed a tool that explains and understands the content of an institution, which instead is the ingredient that shapes the mechanisms by which organizations are able to conform or deviate from established patterns (Friedland and Alford, 1991).

In harmony with all which has been said until now with the institutional logics approach there is the definition of the content and meaning of institutions or more precisely, the definition of the effects that differentiated (institutional) logics have on individual and organizations in a larger variety of contexts, including markets, industries, and different organizational forms. Institutional logics shape rational, mindful behaviour and by being part of the institutions, individual and organizations have some hands in shaping and changing institutional logics: in this way we have a deeper understanding on how institutions affect individual and organizational (choices) and behaviours, so having a link between institutions and actions which was not specified by prior institutional theorists. It is attributed to Friedland and Alford’s work of 1985 the introduction of the term institutional logics. Later, the same authors further have developed the concept of institutional logics within the context of exploring the interrelationships that occurred between individuals, organizations and society (Thornton and Ocasio, 2008). They view

institutions as “*both supraorganizational patterns of activity by which individuals and organizations produce and reproduce their material subsistence and organize time and space. They are also symbolic systems, ways of ordering reality, thereby rendering experience of time and space meaningful*” (Friedland and Alford, 1991). Focusing on macro-societal phenomena, the authors identify several key institutions (or institutional orders) – the *capitalistic market*, the *bureaucratic state*, *families*, *democracy*, and *religion* – each guided by a distinct and central logic that guides its organizing principles and provides social actors, within them, with a sense of self, that is to say a sense of identity.

The central logic of each of the institutional orders (or core institutions of society) shape both the means and the ends of individual behaviour and, as a consequence, are constitutive of individuals, organizations and society (Thornton and Ocasio, 2008). In a nutshell, *institutional logic is the way in which a particular social world works, and they are embodied in practices and symbols available to individuals within society*. Institutional logics are socially constructed, coherent, and integrated sets of “assumptions, values, beliefs and rules” (Thornton and Ocasio, 1999: 804) that give actors “organizing principles” prescribing legitimate ends and “the means by which those ends are achieved” (Friedland and Alford, 1991: 248). In a nutshell, *institutional logic is the way in which a particular social world works, and they are embodied in practices and symbols available to individuals within society*.

These practices and symbols are available to individuals and organizations, which can use them to their own advantage (Friedland and Alford, 1991).

Thereafter the important works developed by Friedland and Alford (1985, 1991), the institutional logics concept has been deeply treated and further developed by Thornton and Ocasio (1999). In this oeuvre they define institutional logics as “*the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality*”. As can be seen, this definition appears to be deeper and more complete, thus providing a link between *individual agency* and cognition and socially constructed institutional practices and *rule structures*. So differently from the approach used by the new institutionalism authors - Di Maggio and Powell – the focus is no more on the isomorphism and so on the

explanation of how institutions affect organizational structures and processes into a specific organizational field, but the institutional logics approach offers a way to understand how individual and organizational behaviour is located in a social context and the social mechanisms that influence that behaviour. However, the aim of stressing on the main definitions of institutional logics is to emphasize one important preconception of this approach that is to say a core meta-theory: this means that in order to understand individual and organizational behaviour, it is necessary to locate them into a social and institutional context, and all at once, this institutional context both regularizes behaviour and provides opportunity for agency and change (Thornton and Ocasio, 2008), this will be treated later in the paragraph “five principles underlying the meta-theory of institutional logics”.

Box 1 Agency and Structure concepts

It is important to specify that in the social sciences there is a standing debate over the primacy of *structure* or *agency* in shaping human behaviour. *Structure* refers to those factors (social class, religion, gender ethnicity or customs) which influence or limit the choices of an agent and opportunities available for him. Agency, instead, is the capacity of individuals to act independently and to make their own free choices and this ability is affected by the cognitive belief structure which one has formed through one's experiences, and the perceptions hold by the individual. The structure versus agency debate may be understood as an issue of socialization against autonomy in determining whether an individual acts as a free agent or in a manner dictated by social structure.

Source: Adapted from Wikipedia.

2.4.2 Institutional logics mechanisms for shaping individuals and organizations actions

As stated above one of the news offered by the institutional logics approach is that it offers a means, once the individual or the organization is placed within a social context, to define how logics shape their behaviours and actions. According to Thornton and Ocasio (2008), mechanisms through which institutional logics exert their effects on individuals and organizations, thus shaping their actions, are four: *Collective identities and Identification*, *Contests for status and power*, *Classification and categorization* and finally *Attention*.

- A *Collective identity* is the shared sense of belonging to a group and it represent the cognitive, normative, and emotional connection which is experienced by the members of a social group due to their perceived common status with other members of the social group (Thornton and Ocasio, 2008). This collective identity is developed among individuals thanks to the social interactions and communications among

them and the other members of the social group to which they belong. As a result of the identification with the collective identity of their social group, individuals are more likely to cooperate with the social group, accepting and thus obeying to the group (social) norms and prescriptions, seeking to protect the interests of the collective and its movement, professions and so on (Thornton and Ocasio, 2008).

The most important aspect is that once the collective identities emerge and become institutionalized, they develop their own institutional logic which, in turn, prevails within the social group (Jackall, 1998) and this means that the identification with the respective institutional logics occurs directly, since the identification with the collective is a synonymous of identification with the institutional logic prevailing in the collective, regardless they are organizational forms, market competitors or any other social group (Thornton and Ocasio, 2008).

- Other mechanisms for understanding how institutional logics shape individual and organizational actions are the *Contests for status and power*. These two mechanisms are present, with some differences, in every context in which two or more people come to have a relationship or, however, are in close contact. It is important to identify the sources of power and status to better know their meaning and their implications, and this can be done only by understanding how these power and status differences are associated with the prevailing institutional logic, by which these two mechanisms are conditioned. Status can be identified with the prestige, respect and esteem that a party has in the eyes of the others; it is an index of the social worth that others ascribe to an individual or a group. Status originates externally and is rooted in the evaluations of others through status-conferral processes. Differently, power is best conceptualized as control over critical resources.

Interestingly, "although power and status are often thought of as two sides of the same coin, they in fact have opposite effects on the fairness of people's behaviour. (Blader and Chen, 2012). The association of the status and power with the prevailing institutional logic occurs since social actors rely on how they understand and conceive the institutional logics in the competition for power and status and, in doing so they create the conditions that allow the reproduction of the prevailing institutional logics. This means that logics determine how status and power are gained, maintained and lost.

- *Classification and categorization* is another way through which institutional logics shapes individual cognition and as a consequence individual actions, so given the institutionalization of categories, individuals tend to take for granted a specific category of organizing activity. Institutional logics approach, provide agents within organizations with socially constructed systems of classifications that constitute categories of social actors, organizational firms, products and so on. This means that changes in institutional logics lead to the creation of new categories, thus determining also changes in meaning of the existing ones (Thornton and Ocasio, 2008).
- The last mechanism through which institutional logics shape individual and organizational actions is the *Attention*. The emphasis here is on organizational attention that is to say how organizational decision makers mediate and affect organizational responses to economic and social factors. Institutional logics theorists – Ocasio (1995) in the specific case – argued that institutional logics are able to affect the attention that individual poses to alternative schemas to perceive, interpret, evaluate and respond to environmental situations. Here an important theory that is behind this mechanism is the Attention allocation theory. Starting from the work of Gabaix et al. (2002) - which in my opinion clarifies why this attention allocation is strictly connected with economics even if it has psychological facets – it can be highlighted that economic models assume that all thinking is instantaneous. However, real people have limited processing speeds and consequently make most decisions under various pressure. Like players in a chess tournament or students taking a test, individuals do not have the luxury of taking much time to make decisions. So there is the necessity to stop thinking about most problems before we have a perfect solution. The combination of limited processing speed and scarce time bounds the quality of the decision-making and defines a fundamental resource allocation problem: decision makers need to continuously decide what to think about. This attention allocation process has numerous intuitive implications. Economics is often defined as the study of the allocation of scarce resources. So the allocation of attention, and its consequences for decision-making, seems like a natural topic for economic research. Following this reasoning, the institutional logics approach offers to individuals and organizations a set of rules and conventions that help them to decide on which problems focus their attention, which solutions to consider and which solutions are

linked with the specific situation. So briefly, institutional logics allow decision makers to focus their attention on issues and solutions that are consistent with the prevailing institutional logics, thus determining the appropriateness and legitimacy of the attention (Thornton and Ocasio, 2008).

Table 6 *How logics determine individual and organizational action*

MECHANISM EXPLANATION	
COLLECTIVE IDENTITIES AND IDENTIFICATION	<i>Collective identity is the shared sense of belonging to a group and it develops among within a social group and once institutionalized, the collective identities develop their own prevailing institutional logic. So identifying with the collective is a synonymous of identification with the institutional logic prevailing in the collective.</i>
CONTESTS FOR STATUS AND POWER	<i>To better know the meaning and the implications of power and status to it is necessary to first understand how these power and status differences are associated with the prevailing institutional logic. This means that logics determine how status and power are gained, maintained and lost.</i>
CLASSIFICATION AND CATEGORIZATION	<i>Institutional logics approach, provide agents within organizations with socially constructed systems of classifications that constitute categories of social actors, organizational firms, products and so on. This implies that changes in institutional logics lead to the creation of new categories</i>
ATTENTION	<i>Since individuals cannot take much time to make decisions, institutional logics are able to affect the attention that individual poses to alternative schemas to perceive, interpret, evaluate and respond to environmental situations. It is a matter of conformity of the decision with the logic</i>

Source: personal adaptation from Thornton and Ocasio, 2008.

Box 2 Classification and categorization

The term “*classification*” is used to refer to a system of classes, ordered according to a predetermined set of principles and used to organize a set of entities. Classification is a tool used to organize a collection of information resources, thus involving the orderly and systematic assignment of each entity to one and only one class within a system of mutually exclusive and nonoverlapping classes. *Categorization* refers to the process of dividing the world into groups of entities whose members are in some way similar to each other. Recognition of resemblance across entities and the subsequent aggregation of like entities into categories lead the individual to discover order in a complex environment.

Source: Jacob, 2004.

2.4.3 Five principles underlying the meta-theory of institutional logics

In accordance with what has been said until now, institutional logics – both symbolic and material - provide the formal and informal rules of action, interaction, and interpretation that guide and constrain decision makers in accomplishing the organization’s tasks in obtaining social status and rewards (Thornton and Ocasio,1999). These rules constitute a set of assumptions and values, usually implicit, about how to

interpret organizational reality, what constitutes appropriate behaviour, and how to succeed (Jackall, 1988) and more general, as already sustained previously, institutional logics define the content and the meaning of institutions or more precisely the effects that differentiated (institutional) logics have on individual and organizations in a larger variety of institutional contexts.

However what said until now is not sufficient to explain entirely how institutional logics approach works. In fact it is important to say that the institutional logics approach incorporates a broad *meta-theory* (it means a theory which has for object other theories which are defined as object-theories) on how institutions, through their underlying logics of action, shape heterogeneity, stability and change in individuals and organizations. This meta-theory is based on five principles: *Embedded agency*, *society as an inter-institutional system*, *the material and cultural foundations of institutions*, *institutions at multiple levels* and finally, *historical contingency*.

- *Embedded agency* is maybe the core assumption of the institutional logics approach since interests, identities, values, and assumptions of individuals and organizations are embedded within the prevailing institutional logics. This means that decisions and outcomes are a result of the interplay between individual agency and structure (Friedland and Alford, 1991). So while individual and organizations may seek power and status or any other kind of advantage, the means and ends of their interests are enabled and constrained by the prevailing institutional logics.

According to Friedland and Alford (1991) in order to better understand society – and as a consequence institutions – an adequate (social) theory must take into account the three levels of society: individual competing and negotiating, organizations in conflict and coordination, and institutions in contradiction and interdependency. So theories that focus only on institutions, as those that focuses only on individuals and organizations, are not adequate to understand society, and this is because all the three levels of analysis are necessary to understand the society because they are nested (embedded). But in which way are these three levers nested? Well, surely individual and organizational actions can be explained only within an institutional context, and since institutions are socially constructed they are constituted by the action of individuals and organizations (Friedland and Alford, 1991; Thornton and Ocasio, 2008). However Thornton and Ocasio in their work of 1999 examined

another additional level at which institutional logics operate and it is the industry. The authors, in analysing the change from an editorial logic to a market logic within the Education Publishing industry, suggest that an industry is a relevant boundary for identifying institutional logics because industry producers develop common identities that structure the decision making and the practices of the players in a product market (Thornton and Ocasio, 1999).

Box 3 The paradox of embedded Agency

Within institutional theory, this broader structure-agency debate is often referred to the paradox of embedded agency. The theoretical puzzle is as follows: if actors are embedded in an institutional field that defines their interests and produce their identities, how are they able to envision new practices and then subsequently get others to adopt them?

One answer to this puzzle lies in conceptualizing agency as being distributed within the structures that actors themselves have created. Consequently, embedding structures do not simply generate constraints on agency but, instead, provide a platform for the unfolding of entrepreneurial activities. According to this view, actors are knowledgeable agents with a capacity to reflect and act in ways other than those prescribed by taken-for-granted social rules and technological artefacts.

Source: R. Garud, C. Hardy, S. Maguire, 2007

- The innovative aspect that makes the institutional logics approach different from the theorists of the new institutionalism is the conceptualization – formulated by Friedland and Alford (1991) - of the *society as an inter-institutional system*. Before analysing in deep this assumption, it is necessary to remember two things: a) differently from the other and past waves of the institutional theory, now the focus is on understanding the content of institutions and, as a consequence, on what affect individuals and organizations' behaviour; b) and that rather than focusing on homogeneity and isomorphism in organizational fields (Di Maggio and Powell, 1983), the institutional logics approach views any context as potentially influenced by contending logics of different societal sectors. So, as maintained by Friedland and Alford, to locate behaviour in a context requires theorizing an inter-institutional system of social sectors in which each sector represents a different set of expectations and human and organizational behaviour (Thornton and Ocasio, 2008). Following the authors' assumption, the central institutions of the contemporary capitalist West are the capitalist market, bureaucratic state, democracy, nuclear family, and Christian religion - later Thornton (2004) will include six sectors markets, corporations, professions, states, families and religion -, each of which has a proper distinct institutional logic that's to say the set of material practices and symbolic constructions which allows for heterogeneity since they are potentially contradicting, thus making available

multiple logics to individuals and organizations. These central institutions are symbolic systems which have nonobservable, absolute, transrational referents and observable social relations which concretize them (Friedland and Alford, 1991). This occurs through concrete social relations that allow individuals and organizations to achieve their ends, thus making life meaningful and creating institutional specific routines which are connected to rituals which define the order of world, and the position that each have within it. To make some examples, According to the aforementioned authors, the institutional logic of capitalism is accumulation and commodification of human activity; that of the state is rationalization and regulation of human activity by legal and bureaucratic hierarchies; that of democracy is participation and the extension of popular control over human activity; that of family is community and the motivation of human activity by unconditional loyalty to its members and their reproductive needs; finally, the institutional logic of religion is truth, and the symbolic construction of reality within which all human activities take place.

- The other assumption at the basis of the institutional logics approach is that each of the institutional orders of the society has both *material and cultural characteristics* (Friedland and Alford, 1991; Thornton and Ocasio, 2008). In fact, traditionally markets have not been considered part of the cultural sphere despite them, instead, are shaped by culture and social structure (i.e. networks of social relationships). The same, but in a reverse fashion, can be said for family and religion institutions since they are directly involved in the production, distribution and consumption of goods and services.

Following this path, Thornton and Ocasio specify that the institutional logics approach recognizes that institutions develop and change as a result of the interaction between cultural and material aspects of institutions, rather than focusing on one of these two forces.

- In addition to the other assumptions, the institutional logics approach, conceived as a metatheory, allows the possibility to develop theories and *research at a variety of different levels of analysis* regarding a specific institution. In fact, to make the institutional logics approach more precise, it is necessary to specify the level of analysis (e.g. individual, organizational, societal, markets, industries, inter-organizational networks, geographic communities, or organizational fields) with respect to the in-

stitution which is analysed (organizations or groups). So the level of analysis at which institutionalization occurs should be clarified, whether a societal level or at other levels in order to better understand it (Thornton and Ocasio, 2008).

- The last assumption of institutional logics as a metatheory is the *historical contingency*. This assumption is consistent with the institutional theory in the sense that it focuses attention on how larger environments affect individual and organizational behaviours. The objective of recognizing historical contingency as a metatheory assumption is to explore if the effects of economic, political, structural and normative forces that affect individuals and organizations (logics) are historically contingent, that is to say are particular to an historical time. So logics may change overtime (Thornton and Ocasio, 2008).

The metatheory approach is really helpful because on one side it captures all the main aspects and assumptions of the institutional logics view, and on the other side it makes us understand how this view is not trivial, since based on assumptions that are based on sociological aspects. Moreover it makes us understand that institutional logics are more than strategies or logics of action, since they provide legitimacy, a sense of order and an ontological security.

Box 4 Ontological security

Ontological security is a stable mental state that derives from a sense of continuity in regard to the events in one's life. Ontological security can be viewed as a sense of order and continuity with regard to an individual's experiences. Meaning in one's own life is found by experiencing positive and stable emotions, and by avoiding chaos and anxiety. If an event, which is not consistent with the meaning of an individual's life occurs, this will threaten that individual's ontological security.

Source: adaptation from Wikipedia and Giddens (1991)

Table 7 Institutional logics metatheory assumptions

ASSUMPTION EXPLANATION	
EMBEDDED AGENCY	<i>individuals and organizations are embedded within the prevailing institutional logics. This means that decisions and outcomes are a result of the interplay between individual agency and structure: this means and ends of individuals and organizations' interests are enabled and constrained by the prevailing institutional logics.</i>
SOCIETY AS AN INTER-INSTITUTIONAL SYSTEM	<i>The institutional logics approach views any context as potentially influenced by contending logics of the different societal sectors. To locate behaviour in a context requires theorizing an inter-institutional system of social sectors in which each sector represents a different set of expectations and human and organizational behaviour.</i>
THE MATERIAL AND CULTURAL FOUNDATIONS OF INSTITUTIONS	<i>The institutional logics approach recognizes that institutions develop and change as a result of the interaction between cultural and material aspects of institutions</i>
INSTITUTIONS AT MULTIPLE LEVELS	<i>To make the institutional logics approach more precise, it is necessary to specify the level of analysis (e.g. individual, organizational, societal, markets, industries, inter-organizational networks, geographic communities, or organizational fields) with respect to the institution which is analysed (organizations or groups).</i>
HISTORICAL CONTINGENCY	<i>Understand if the effects of economic, political, structural and normative forces that affect individuals and organizations are historically contingent, that is to say are particular to an historical time. Institutional logics may change overtime</i>

Source: personal adaptation from Thornton and Ocasio, 2008

2.5 Conflicting institutional logics as main determinants of the institutional change

Most of the studies about conflicting and competing institutional logics have been developed in order to explain what guides the institutional change. However, the competing/conflicting logics are not an explanation of the institutional change per se, but they are an antecedent or a consequence of the change (Thornton and Ocasio, 2008), and in this paragraph I will try to explain why.

Institutional logics provide the “master principles of society” and guide social action. They are taken-for granted resilient social prescriptions that enable actors to make sense of their situation by providing “assumptions and values, usually implicit, about how to interpret organizational reality, what constitutes appropriate behaviour and how to succeed” (Thornton 2004, p. 70). As previously said, and starting now with this definition, Institutional logics are important because they are organizing principles that

shape the behaviours of participants of a specific context (organizational field, industry and so on).

As a consequence of this, organizational forms, strategies and managerial practices adopted are manifestations of, and legitimated by, institutional logics. Thus, to understand how and why organizations exhibit similarity and variation in their use of such forms and practices it is necessary to trace the relationship between organizations and the logics that constitute their institutional context (Green et al., 2010).

For Friedland and Alford (1991), organizational fields and industries may have their own logics but these are nested within the “central institutions of the contemporary capitalist West” which are potentially contradictory and hence make multiple logics available to individual and organizations. The same is maintained by Thornton (2004), who, in the most developed application of the nested hierarchy framework, states that Western society is comprised of multiple institutional orders or societal sectors, each of which has a central logic both material practices and symbols that comprise its ongoing principles and that are available to individuals and organizations to elaborate. The main institutional orders, according to Thornton (2004, p. 12), are “*the market, the corporation, the professions, the family, the religions, and the state.*” This means that a specific organizational field or industry since is nested within the central institutional orders, may feel the influence of any of the central institutions. This means that the presence of different institutions in the same field determines the presence of different conflicting or complementary institutional logics in the same field. As a general rule, describing the institutional logic that shapes/guides actors’ behaviours is useful in order to define the specific field of reference, but when multiple and conflicting logics “temporarily” co-exist within the same field, this is difficult to do (Reay and Hinings, 2009). I use the term temporarily because in general, two or more conflicting logics cannot survive overtime, since actors of the specific field (context) tend to adopt and legitimate the values and beliefs of the dominant institutional logic, so that this logic affects their focus of attention on specific solutions and, consequently, the decisions of organizations which are consistent with the dominant logic. As an implication, the shift from a dominant logic to another leads to an institutional change (Greenwood et al. 2010). Shifts in institutional logics are able to affect which economic conditions are viewed as problem-

atic and how they can be adopted by a change in the strategy and structure of an organization (Thornton, 2002).

It is important to mention the role that powerful actors (such as institutional entrepreneurs) have in determining the institutional change since they are better able to exploit the contradictions existing between different institutional logics in order to fulfil their self-interest. So if an institutional logic is supported by the powerful actors, this contributes to maintaining the status quo (Reay and Hinings, 2009) but when a new logic is introduced in an established field, rivalry among key actors occurs because some of them support the new logic and others the old one. However these conflict logics coexist temporarily, that is to say only during transition times until one of the two prevails thus allowing the reformation of the field around the dominant logic, or around a new logic which is a hybrid version of the previous logics.

A clear example of what is the conflict between institutional logics and the change in the dominant logic is that of Thornton (2002) about the shift from an “editorial logic” to a “market logic” in the U.S. publishing industry that lead to a structural change of organizations.

The work of the author describes that until 1960s the prevalent logic in higher education publishing was the editorial logic (which adopts a professions logic) while starting from 1970s, the prevalent logic becomes the market one (see table 5). However, this shift in logics is the result of some factors (change in market demand, need for new sources of capital, fast growing industry, and increase in competition) that lead to conflicting institutional logics that created pressure for the change in the organizations’ structure. So once one institutional logic becomes dominant, it affects a firm’s strategy and structure by focusing the attention of decision makers toward those issues that are consistent with the logic (Thornton, 2002; Thornton, 2004).

Table 8 Two types of institutional logics in Higher Education Publishing

CHARACTERISTIC	EDITORIAL LOGIC (UNTIL 60s)	MARKET LOGIC (FROM 70s)
ECONOMIC SYSTEM	<i>Personal capitalism</i>	<i>Market capitalism</i>
ORGANIZATIONAL IDENTITY	<i>Publishing as a profession</i>	<i>Publishing as a business</i>
LEGITIMACY	<i>Personal reputation</i>	<i>Market position of the firm</i>
AUTHORITY STRUCTURES	<i>Founder-editor</i>	<i>CEO</i>
	<i>Personal networks</i>	<i>Corporate parent firm</i>
	<i>Private ownership</i>	<i>Public ownership</i>
MISSION	<i>Build prestige of house</i>	<i>Build competitive position</i>
	<i>Increase sales</i>	<i>Increase profits and cash flow</i>
FOCUS OF ATTENTION	<i>Author-editor networks</i>	<i>Resource competition</i>
STRATEGY	<i>Organic growth</i>	<i>Acquisition growth</i>
	<i>Build personal imprints</i>	<i>Build market channels</i>
LOGIC OF INVESTMENT	<i>Capital committed to firm</i>	<i>Capital committed to market return</i>
GOVERNANCE	<i>Family ownership</i>	<i>Market for corporate control</i>
	<i>Trade association</i>	
HISTORICAL REASONS (CONTINGENCY)		

Source: personal adaptation from Thornton, 2002.

2.6 A Systemic and Socioemotional wealth outlook for determining family firms' institutional logics

Analysing family businesses with a focus on institutions is not a new practice in literature but, however, is not an easier one. Despite this, adopting an institutional outlook and an institutional logic viewpoint may help the field of family firms in understanding, respectively, family firm's culture – intending it as the unique way that a family forms itself in terms of rules, roles, habits, activities, beliefs, practices - (Vallejo, 2007) and mostly if there exist a dominant logic or a conflict among multiple logics (Lansberg, 1983, Bhappu, 2000). In order to explain all these aspects it is necessary to remain linked with the Socioemotional wealth (SEW) approach, which acts as a construct that tries to encompass the multiple facets that characterize family firms. In fact this approach give us an explanation, that I take for granted, of how family firms act, behave and why they are different from non-family firms.

Despite many different typologies of family firms do exist (they range from SMEs, to big public companies) and operate in different industries (from the most widespread and recognised to the less appreciated and so controversial) one common trait holds true for all of them: these types of organizations exist on the boundaries of two institutional

orders of society, that is to say the *family* and the *business*, each of which has its own norms, material practices and symbolic structures that constitute their organizing principles (Bhappu, 200), in one world its own institutional logics.

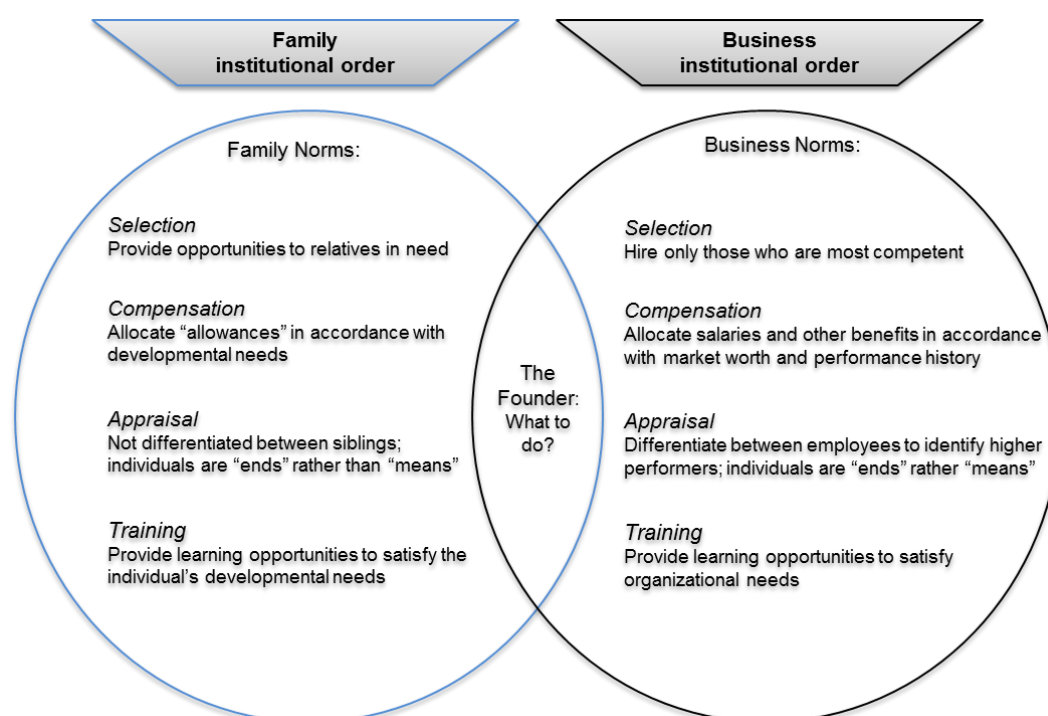
Lansberg (1983) without adopting an institutional logics approach – since it was not introduced yet – sustains that there is an institutional difference between family and business, based essentially on the difference between the reason for their existence. Family exists because its primary social function is to assure the care and nurturance of its members, so social relations in the family are structured in order to satisfy family members' needs. Differently from the family, the primary reason for the business existence is the generation of goods and services via organized task behaviour and, consequently, social relations within firms are structured to facilitate (improve) the productive process (Lansberg, 1983).

In accordance with Lansberg, but following the approach followed by Friedland and Alford (1991) – so using the institutional logics which are proper of the central institutional orders of the society– it can be highlighted that *family* and *capitalism* are the prevalent institutions within the family businesses. *The central logic of the family is “to convert all social relations into reciprocal and unconditional obligations oriented to the reproduction of family members”* (Friedland and Alford, 1991, p. 249). Instead, the *central logic of capitalism – which relates to the business institutional order - is the “accumulation and the commodification of human activity”* (1991, p. 284). However today the family and business have logics which goes beyond to those described by Friedland and Alford, in fact family of today offers a broader function than the simply protection of the family reproductive process and, similarly the businesses of today serves to provide more than the accumulation of wealth under a system of capitalism. In fact this broader logic of the family institutional order is witnessed by the possibility of families to conduct and extend their positive and strict relationships through the (family) business, thus providing the potential to enhance the fulfilment of higher-order needs such as identity, security, and self-actualization for all family members involved in the business or, mostly, the family tries to satisfy its members' needs through participation and implementation of succession practices within family businesses, thus changing also the function that the business have, which reflects on a different logic

with respect to the capitalistic one (Leaptrott,2005). So this occurs thanks to the presence of the institutional logics of the family.

Lansberg defines the coexistence of these two different institutions (family and business) as the *institutional overlap* (see the figure 5) that characterizes family firms, and the person who mainly experiences these institutional contradictions is the founder since he sits at the head of both the family and the business.

Figure 5 The institutional overlap in family firms



Source: Lansberg, 1983

This institutional overlap implicitly implies that there is the compresence of two different institutional logics that, following the reasoning applied in the previous paragraph, are conflicting at a specific time. However if the conflicting institutional logics perspective is followed, it can be said that there is a moment in which one logic should prevail on the other, and this is what Lansberg sustains too. In fact the author maintains that while the institutional overlap is helpful at the introduction and growing phase of a

company's lifecycle, it can be problematic during the maturity phase. This can be explained by the fact that during the first stages of the firm's life, the family logics (practices and symbols) allows the development of a sense of commitment and identification within the firm while when the business matures, new organizational forms and practices are necessary to survive and business logics (capitalistic logics) emerge, thus creating an institutional overlap problem that concretises in a conflict of logics.

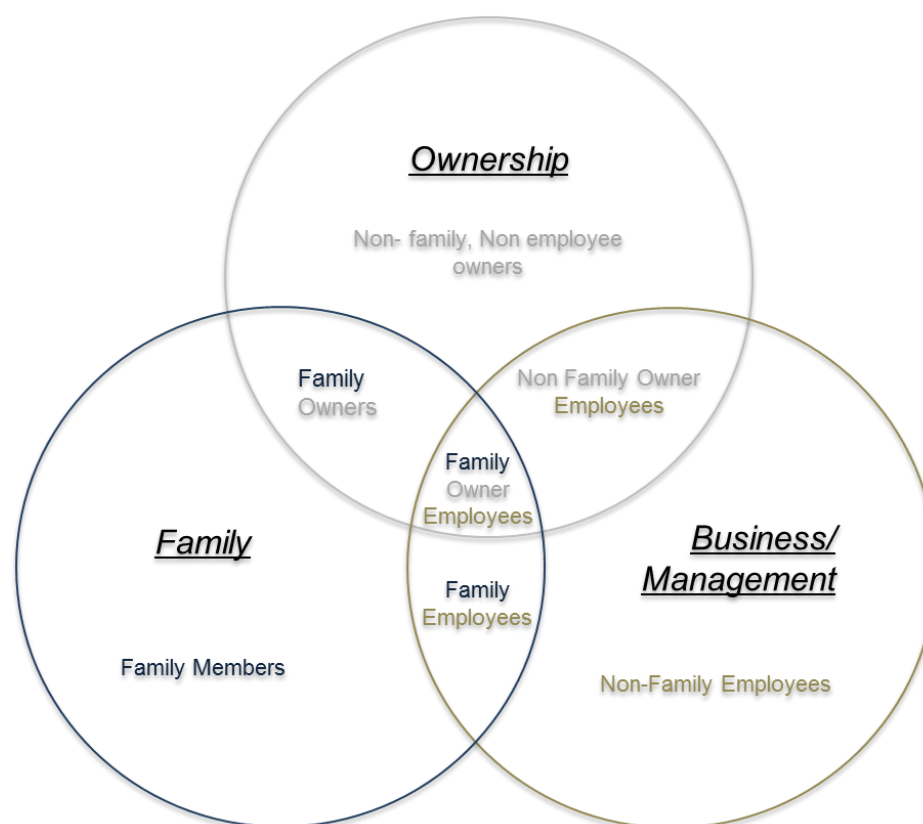
Tagiuri and Davis, by introducing the "*three circle model*" (see the figure 6) (1982) maintain a *systemic view* of family businesses, which are composed by three subsystems: *ownership, family* and *business*.

This systemic approach is in line with the *historical contingency* assumption proper of the institutional logics as a metatheory. In fact, as a logic prevails in a specific period of time due to some specific institutional events, in the same way a specific subsystem (or logic) may prevail in family businesses – thus having Ownership-first businesses, Family-first business or Business/management-first businesses (Poza, 2010) – that may develop in a specific field according to specific reasons, as occurred in the case of the organizations' structural change occurred in the U.S. publishing industry described by Thornton (2002).

So, the conflict between the two dominant institutional logics occurs and one dominates the other at a specific time by applying the view of Lansberg and the systemic approach (Davis, 1983).

But if a different view of family businesses is followed, that is the SEW construct, what about the conflicting institutional logics? Does one prevail over the other into a specific time or do they coexist?

Figure 6 The System's Theory Model of Family Business



This diagram is referred to as the Three Circle Model by Tagiuri and Davis. This diagram illustrates the unique dynamics and proper balance of family businesses as a unique system composed by three subsystems (Ownership, Family and Business). There are 7 unique interwoven and interdependent groups all with their own perspective, needs, and goals.

Source: Renato Tagiuri and John A. Davis. Found in "Bivalent Attributes of the Family Firm." 1982

Socioemotional wealth is a latent explanatory construct that tries to capture the most important traits of family businesses (Gomez-Mejia et al., 2010).

Simply put, the SEW model suggests that family firms are typically motivated by, and committed to, the preservation of their SEW, referring to nonfinancial aspects or "affective endowments" of family owners. In this formulation, gains or losses in SEW represent the pivotal frame of reference that family-controlled firms use to make major strategic choices and policy decisions (Berrone et al., 2012). So this came to be in line with what said before: the institutional logics of the family and of the business become brader - going beyond those described by Friedland and Alford (1983) about family and capitalism -. This occurs because these logics tend to become strictly connected and interdependent since the business becomes the means through which the family logic can be supported, and the family becomes the reason of the (family) business existence.

In this perspective, the logic of the family business - despite the wealth creation remains influent - becomes the value creation, since also the pursuit of non-economic goals remains pivotal (Chrisman et al., 2003), while the logic of the family becomes the desire to exercise authority, enjoyment of family influence, maintenance of clan membership within the firm, appointment of trusted family members to important posts, retention of a strong family identity, continuation of the family dynasty (Gomez-Mejia et al., 2007) – the socioemotional wealth model.

However it is impossible to track a boundary between these two logics within family firms because they are “nested”, meaning that they feed off each other and this affects the organization’s goals, strategies and structure, thus allowing legitimacy by the family and by the business logics and survival in the long run.

This seems to be in line with what is sustained by Bhappu (2000) who focuses her work on identifying the reasons at the basis of the persistence of Japanese organizational models - corporate networks or *keiretsu* – despite there is a pressure to emulate of Western organizational models in Japan. The authoress in describing the historical evolution of Japanese organizations, defines the *ie* – which was the basic unit of the Japanese society until the second world war and which identifies people within the same roof – as the foundation of the Japanese industrial organizations. This system is based on the *ko* and *on* – *ko* refers to duty to parents and *on* refers to the reciprocal obligations between family members. This system of duties and rights (*ko* and *on*) was adopted by merchant households to regulate their groups of companies (the parent was the *honke* while the branch was the *bunke*) that they began to establish. These groups of companies were identified as *dozuku* which became the structural template for the family firms conglomerate in Japan, which during the industrialization period brought the name of *zaibatsu* (Bhappu, 2000). After the Second World War, there were pressures from Western occupants to make Japanese industrial organizations to abandon this *zaibatsu* structure. Today Japanese corporate networks are called *keiretsu* which are not only composed by family members, but whose structure still remains embedded in family *honke-bunke* arrangement typical of the *dozuku* which is the institutional logic for Japanese firms (Bhappu,2008).

All this supports and reinforce the embeddedness between the business and family logics in family businesses and, actually confirms that since the more the two

institutional logics become nested, the more they survive in a specific organizational field even if one institutional order (as the family in the Japanese evidence of keiretsu) comes to be less present with the course of time.

2.7 Conclusions

The main aspects resulting from this chapter is that institutions are in a situation of complementarity with the choice and decision-making aspects of agents. This complementarity is based on the fact that institutional theory is at the basis of individual choices in the sense that these ones may be taken considering the influence that some constraint or values may have on the individual agent: for example, considering the assumptions of Agency theory “self-interest” and “risk-aversion” I could say that maybe they exist because the agent is influenced by specific rules, norms or values in expressing his own preferences, thus implying a behaviour which is opportunistic with respect to that of the principal. These constraint, values beliefs and norms are Institutions.

What is really important to understand is that it is not possible to comprehend individual or even organizational structures and behaviours without locating them into a societal context, which is the institutional context. According to what has been said, the attention on this chapter has been put in the analysis of how institutions through their logics, shape organizations’ behaviours, actions and structures. Although as a general case it can be said that in all organizations exists a conflict among institutional logics – since, in general, they co-exist overtime since the organization is always put under pressure from the external environment –, family firms experience according to Lansberg (1983) the so called “institutional overlap” problem, this meaning that there is the co-existence of two different logics, that of the family and that of the business. Even thought, in general, the conflict among different institutional logics is limited in time since one logic defeats the other, in family businesses there is not such scenario, but the coexistence of these two logics makes these type of businesses to behave or to take actions in specific ways that do not take into account only profit maximization but which consider also more socioemotional aspects which are mainly related to the family logic. However the possibility to track a boundary between these two institutional logics

is really impossible since they are nested and in chapter four will be reported the results that witness this particular overlap, and the role that it has in family run tobacco shop.

LEGITIMACY AND STIGMATIZATION OF CONTROVERSIAL INDUSTRIES: A FOCUS ON GLOBAL AND ITALIAN TOBACCO INDUSTRY

3.1 Premise

The analysis of this chapter about legitimacy on one side and on stigma on the other side is done in order to underline the condition in which controversial firms or firms operating in controversial industries find themselves: they strive to gain legitimacy (Reast et al., 2013) in order to survive in the long run. Legitimacy can be defined in a nutshell as a sort of “social acceptance” of organizations and their activities since they are fully compliant with the surrounding institutional context. Controversial industries – as companies which commercialize goods like tobacco, weapons or alcohol - are seen in a negative way by external people and for this reason, these are contested organizations or, even better, stigmatized organizations. Using a simple definition, stigma can be intended as a set of negative and often unfair beliefs that a society or group of people have about something (Merriam-Webster). Since this problem of stigma exists also in tobacco shops – which are at the basis of this study – it is necessary to understand if they feel a stigma and what are the elements that legitimate their activity.

So the analysis of legitimacy and stigma is done in order to track the characteristics of a sector, that of the tobacco shops, which is at the basis of this work.

Moreover an overview of the tobacco market is done, firstly at global level and later at the Italian level, in order to better understand the market of tobacco and the sector of tobacco shops since they are important for the Italian economy and for the family business literature in particular due to their specific nature that make them to be only family run.

3.2 Legitimacy

The concept of legitimacy, as stated in the previous chapter, emerged between '70s and '80, when “new institutionalists” reconceptualised the excessive and no more adequate rational view of institutions. Surely also the abandon of the rationalistic perspective (Black Box), and the acceptance of the open system perspective on organizations (Scott, 1987; Maurer 1971) contributed to the widening of the firms' boundaries, thus allowing a focus on legitimacy (Meyer and Rowan, 1977; Suchman, 1995) and isomorphism (Di Maggio and Powell, 1983).

Meyer and Rowan (1977) affirm that since organizations exist in highly institutionalized contexts, they incorporate practices and procedures – or logics - which allow legitimization. By doing this, organizations increase their *likelihood* to survive since they are socially accepted. So legitimacy can be intended as an alternative explanation to the sources of formal structure of organizations : formal structures (positions, policies, programs and procedures) are manifestations (or reflection) of powerful institutional rules which function as highly rationalized myths that are binding on particular organizations.

According to Suchman (1995) legitimacy can be defined as “*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*” – which means appropriate with respect to institutions.

According to Suchman, organizations seek legitimacy for many reasons, but the most important are essentially the attainment of *continuity and/or credibility*, and the attainment of *passive and/or active support*.

However, in general legitimacy enhances the *stability* and also the *comprehensibility* of the organization and, specifically, of the organizational activities. These two aspects, however, often enhance each other – mutually reinforcing - even if organizational behaviours do not foster them in equal degrees (Suchman, 1995). So if an organization is legitimated, it would appear desirable and proper in the eyes of the external audience, and this improves its understanding and persistence.

Studies on organizational legitimacy can be divided on two camps: the *strategic legitimacy* – which depicts legitimacy as an operational resource that organizations extract, competitively, from their cultural environment and that they exploit through

managerial practices in order to achieve their goals -, and the *institutional legitimacy* – which depicts legitimacy as an institutionalization process – abundantly analysed. However Suchman in his article (1995) by extending the meaning of 'legitimacy', without referring to the strategic or the institutional legitimacy but rather to the organizational one, distinguishes also among three broad types of legitimacy - which are not mutually exclusive and often coexist -, considered as a perception and response by external audiences to an organization. They are the *pragmatic*, the *moral* and the *cognitive legitimacy*.

- *Pragmatic legitimacy* relies upon the self-interests of an organization's immediate stakeholders and their think about actions and behaviours taken by the organization and their effects. This immediacy involves direct exchanges between the organization and the stakeholders (Suchman, 1995).
- *Moral legitimacy*, differently from the pragmatic legitimacy, is “sociotropic” in the sense that relies on the judgement about whether the activity performed by the organization is the right thing to, that is to say moral. This legitimacy focuses more on if the social impact of an organization's activity is positive (Suchman,1995).
- The last type of legitimacy is the *cognitive legitimacy*. This is created when an organization pursues goals that society deems to be proper and desirable (Suchman, 1995). Stakeholders support the organization because of its taken-for-granted cultural character, so in a certain sense its adequacy with institutions. So with cognitive legitimacy organizations are deemed necessary or inevitable.

These three types of legitimacy are interrelated and they do not constitute a strict hierarchy. It should be pointed out that while moral and pragmatic legitimacy deal with some form of evaluation, cognitive legitimacy does not. However since pragmatic legitimacy is based on audience's self-regarding utility while moral and cognitive legitimacy imply more cultural aspects, according to Suchman these last two types of legitimacy are more difficult to obtain and to manipulate because they are more profound and rooted in cognitive aspects.

The existence of these different types of legitimacy dynamics allows room for organizations to implement different strategies to challenge legitimacy gaining, legitimacy maintaining and legitimacy repairing.

Table 9 Legitimacy challenges and strategies

CHALLENGES	STRATEGIES
<i>Gaining: obtaining acceptance among the public</i>	<ul style="list-style-type: none"> • <i>Conform to environments</i> • <i>Select among environments that will grant legitimacy</i> • <i>Manipulate environments according to organizational needs (usually through product advertising)</i>
<i>Maintaining: coping with shocks and problems that undermine legitimacy</i>	<ul style="list-style-type: none"> • <i>Perceive changes and foresee future challenges</i> • <i>Protect past accomplishments</i>
<i>Repairing: restoring legitimacy after an unexpected crisis</i>	<ul style="list-style-type: none"> • <i>Offer normalizing accounts (denying, justifying or explaining the problem)</i> • <i>Do a strategic restructuring</i> • <i>Avoid panic and act patiently instead of desperately trying to recover legitimacy</i>

Source: Adapted from Suchman, 1995

3.3 Legitimacy seeking strives for controversial and stigmatized organizations.

Organizational legitimacy is an important requisite for an organization, to survive in long run. However, the social acceptance of every organization operating in a specific institutional context is not guaranteed, especially for those organizations which are deemed to be controversial or operate in a controversial industry. These types of organizations suffer from illegitimacy, meaning that they are socially negatively evaluated because of their attributes, thus being categorized with a spoiled image or *stigma* (Hudson, 2008).

3.3.1 Stigma and organizational responses for its avoidance

An organization social acceptance cannot be taken for granted. Despite many organizations operating in a specific industry or sector, they may be disapproved by some audience while being approved by others. Those organizations which do not or cannot experience legitimacy are stigmatized. Hudson (2008) identifies two types of stigma on the basis of its persistence over time, so that the stigma (or illegitimacy) resulting from anomalous and episodic events can be referred as *event-stigma*, while if illegitimacy – that can be intended as stigmatization – is attributed because of the nature of the organization's activities or attributes, we have the *core-stigma*. *Core-stigma* –

which is the main stigma that affects controversial organizations – is an “*evaluation held and often expressed by some audiences (stakeholders) that an organization or set of organization is discounted, discredited, and/or tainted in some way owing to some core attribute or attributes*” (Hudson, 2008). So given this distinction, organizations as abortion service providers, strip clubs, pornographers, multinational companies and gambling and tobacco companies are all organizations that suffer some degree of core-stigma because of their very controversial nature.

According to what has been said, for an organization being stigmatized indicates that there is something of its aspects that others in the environment deem incompatible with their own values, thus leading the organization to be seen as suspect, untrustworthy and damaged. This core stigmatization is the result of a comparison that individuals make between the organization’s core activities or attitudes and their own values, belief systems and ideologies, in one word with existing institutions. So the more is the difference between audience values, beliefs, and ideologies and the core attributes of the organization, the more is the likelihood of being stigmatized.

As an implication, core-stigma is related with sociocultural aspects and historical periods because the same organizations may be stigmatized in a specific social environment or context while in another not as they could be now stigmatized (e.g. as the discovery of negative environmental impacts of a company’s activity) while in the past they were not.

Since the core stigma seems to do not leave space to organizations’ survival, how do organizations release themselves from this negative attributions ordeal with them?

Organizational responses identified by Hudson (2008) to core-stigma attribution and impact are divided in three combinable strategies: *strategic responses*, *structural responses* and *network level responses*. The aim of these three responses is surely that of fostering the long term living through the overcome or coexistence of the core-stigma.

- *Strategic responses* are put in practice with three sub-strategies which are:
 - *Specialist strategies*, whose aim is to bypass stigma operating as specialists rather than generalists. This means operating as a single business specialized in one or few of their units, instead of expanding their busi-

ness because diversification is complex to achieve because of the threat of transferring stigma to new lines of business.

- *Hiding strategies*, whose aim is to operate by using dislocate or not much visible locations, architectures or advertisement in order to avoid a greater exposure to stigmatizing audiences.
- *Challenging strategies*, whose aim is to cope with negative evaluations deriving from the stigmatizing audiences. Her the organization tries to “fight” against these who formulate a negative judgement, publicizing their activity.
- *Structural* responses deal with core-stigma by acting on the structure and size of the organization. Usually, highly stigmatized companies keep a small structure and dimension in order to follow hiding strategies.
- *Network-level responses*, finally, deal with core-stigma by focusing efforts in order to avoid transferring stigma to network partners because this may cause negative economic consequence.

Coping with core-stigma is really important for the acceptance and legitimization of organizations, since it is a chronic and persistent condition that the organizations which are classified as controversial experience. The analysis of these organizations will be analysed in the next subparagraph.

3.3.2 Controversial organizations defined

Previous paragraphs concerning the problem of legitimacy and stigmatization with respect the institutional context in which an organization operates, have been pivotal in order to understand the research conducted on the Tobacco shops. In fact legitimacy and stigmatization problems mainly concern those firms which are not socially accepted because they operate in controversial industries or because their mission or the activities they perform are not related to the values and beliefs proper of a specific institutional context. However the categorization of controversial industry sectors, industry or organization is not so easy, since this categorization (as for stigma) strongly depends on the time period in which the organization operates and on the culture which characterizes a specific industry, so what is controversial today or in a specific region, was not controversial in the past or is not controversial in another region. Reast et al.

(2013) defines controversial industries as those who “*relate to products, services or concepts that for reasons of delicacy, decency, morality, or even fear, elicit reaction of distaste, disgust, offence or outrage when mentioned or when openly presented, such as alcohol, gambling firearms, pornography, or tobacco*”. Since stakeholders evaluate organizations’ legitimacy on the basis of how much their mission and actions are distant from their values, culture or beliefs, these organizations are strictly scrutinized, thus making the legitimization problem really chronic for them. Even if we adopt an institutional logic perspective, it seems to be difficult to track which are the prevailing logics that give legitimacy to these controversial organizations and, through the application of the institutional logics approach in family run tobacco shops, I try to explain and understand the legitimizing effects that institutional logics have on the sale of more (less) controversial products.

3.4 A focus on a controversial industry: the tobacco industry

3.4.1 The tobacco industry worldwide.

Since its early discovery, tobacco represented an important element of Native Americans’ culture. Later, thanks to the colonization process started by Europeans toward the America, from the new continent tobacco started to spread also in the Old Continent. Tobacco represents an important resource for different countries since it is the main source of wealth and also because it fosters employment, thus making its production and its related activities significant for them (Warner, 2000). The main tobacco producers are reported in the table below.

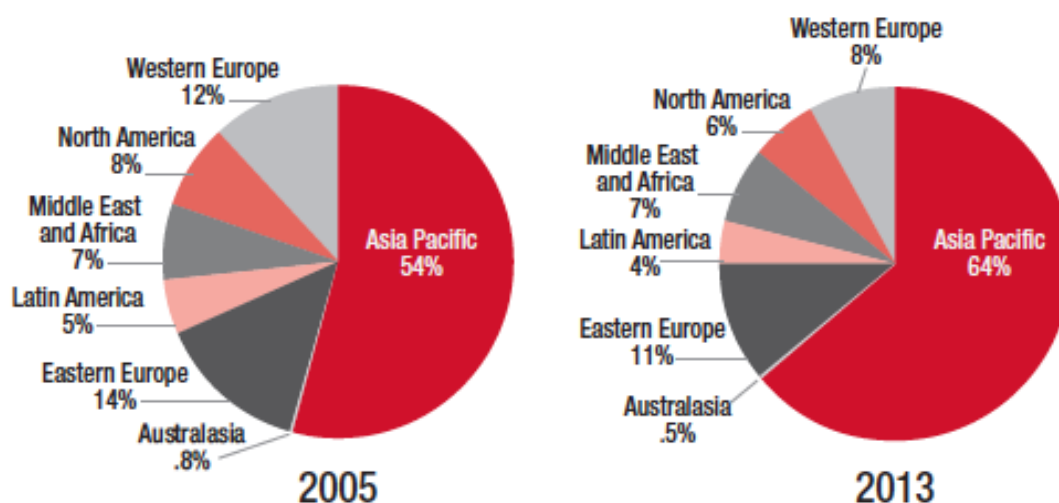
Table 10 *Leading tobacco producing Countries 2015*

COUNTRY	PRODUCTION IN ONE THOUSAND METRIC TONS
<i>China</i>	<i>2.995,4</i>
<i>Brazil</i>	<i>862,4</i>
<i>India</i>	<i>720,7</i>
<i>United States of America</i>	<i>379,5</i>
<i>Indonesia</i>	<i>196,3</i>
<i>Pakistan</i>	<i>129,9</i>
<i>Malawi</i>	<i>126,3</i>
<i>Argentina</i>	<i>119,4</i>
<i>Zambia</i>	<i>112,05</i>
<i>Mozambique</i>	<i>97,08</i>

Source: www.statista.com

In the world today over 1 billion of smokers can be counted and they smoke 6 billions of cigarettes in a year. So on average each smoker smokes about 6.5 kg of tobacco per year, with a consumption of about 1600 cigarettes per year. However this trend is increasing in the developing countries since 1970s (where the tobacco consumption is increased of the 64%) where surely anti-smoking campaigns are not as strong as those in Europe, thus allowing multinational tobacco companies to have a stronger presence in there (Warner, 2000). As also illustrated in the previous table, the main tobacco producer remains China, where about three thousands millions of smokers consume 1.880 billion of cigarettes per year, meaning that one smoker on four is Chinese (www.smettere-di-fumare.it). This trend is confirmed by Figure 7 which shows that from 2005 to 2013, the Asian Pacific region market increased its percentage of the global cigarette market from 54% to 64%, while Western European and North American markets reduced respectively from 12% to 8% and from 8% to 6%.

Figure 7 Global cigarette market by region



Source: Euromonitor International, 2013, qtd. in global.tobaccofreekids.org, 2014

However that fact that the global cigarettes market is changed in this way, mostly depends on the strict regulations that different countries have imposed to cigarettes and on the tobacco industry in general. At the basis of these regulations there is the necessity to mitigate the negative effects deriving from smoking cigarettes, so regulation acts as a way of monitoring and creating incentive to reduce the consumption of smoking.

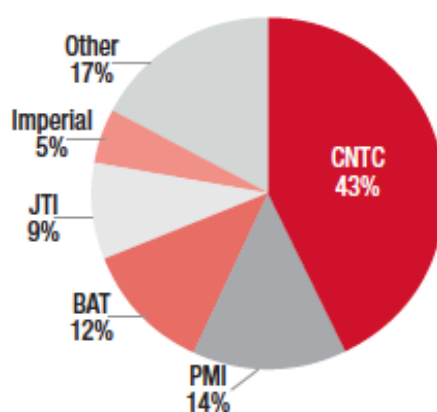
For this reason, companies which produce this good, as well as retailers who sell it, are always subject to laws and state interventions, which differ from Country to Country.

The main problem is that the intervention of the State in almost countries through the development of monopolies (Wettenhall, 2011) may create a problem of legitimacy for the state itself and this is because it acts as “victim and also as butcher”. This is due to the fact that on one side the state must take care of the community and so it acts against tobacco industries in order to reduce the consumption of tobacco products, but on the other side the state is not able to fight against these products because they are a secure and big source of its revenues, given the monopoly. The only way to fight is though the health care spending. So some people criticize the state intervention and others instead regard positively this intervention.

In fact in Italy, for example, according the fifteenth Nomisma Report on tobacco industry, the state in 2010 earned, from cigarettes and tobacco associated products, 13,7 billions of euros of which 10,62 billions derived from “accise” duties.

Before analysing the Italian tobacco market, it is necessary to underline that only few multinational companies dominate the cigarette market, as showed in the figure 8. Ordering them according to their market share, they are: China National Tobacco Corporation (43%); Philip Morris International (14%), which owns Marlboro, the most recognized cigarettes brand; British American Tobacco (12%), whose main labels are Pall Mall and Lucky Strike; Japan Tobacco International (9%), the one that produces Winston cigarettes; and Imperial Tobacco (5%), which has among its key brands Davidoff, West and Rizla.

Figure 8 Tobacco company shares of global cigarette market, 2013



Source: Euromonitor International, 2013, qtd. in global.tobaccofreekids.org, 2014

3.4.2 A closer look at the Italian tobacco Industry.

In Italy, the tobacco economy is in the hands of the Autonomous Administration of State Monopolies (AAMS), born in 1927 (Wettenhall, 2011).

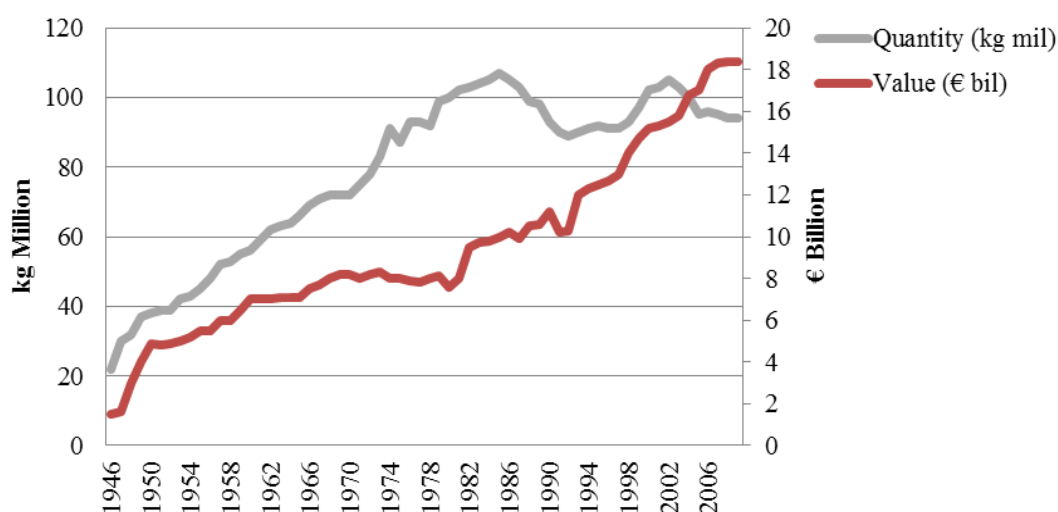
Today smokers in Italy are around 11,5 millions which means that the 22% of the Italian population smokes and is addicted to cigarettes: 6,9 millions of males (the 27,3% of the total male population) and 4,6 millions of females (representing the 17,2% of the whole female population). Non smokers are 33,8 millions and they represent the 64,4% of the Italian population, while ex-smokers are 7,1 millions, thus representing the 13,5% of the entire Italian population.

It can be observed a small increment in 2016 of the prevalence of smokers with respect to the 2015 males pass from the 25,1% to the 27,3% while females pass from 16,9% of 2015 to the 17,2% in 2016.

The average consumption of cigarettes among smokers amount to 13 per day for each smoker. The 71,1% of smokers have lighted their first cigarette when they were between 15 and 17 old: and this age is really critical for people to start smoking.

However these numbers support an Italian tobacco market, which according to the study of Federazione Italiana Tabaccai (2010), since the middle of the twentieth century the value of the sales of tobacco related products hasn't stopped growing; while, the quantity sold has not ever more gone over the peak of the middle 80's, with around 110 millions of kilos, as showed in Figure 9. In fact during 80s many tobacco shops were opened since it was a very profitable business, thus leading to the really capillary network that today tobacco shops represent: 55 thousands of shops are distributed within the entire Italian territory. However the progressive increase in the price of these products, which is more more than doubled from the one of the middle 80's, has lead to a decrease in the quantity sold.

Figure 9 Tobacco sales trend in the Italian market (1946-2006)

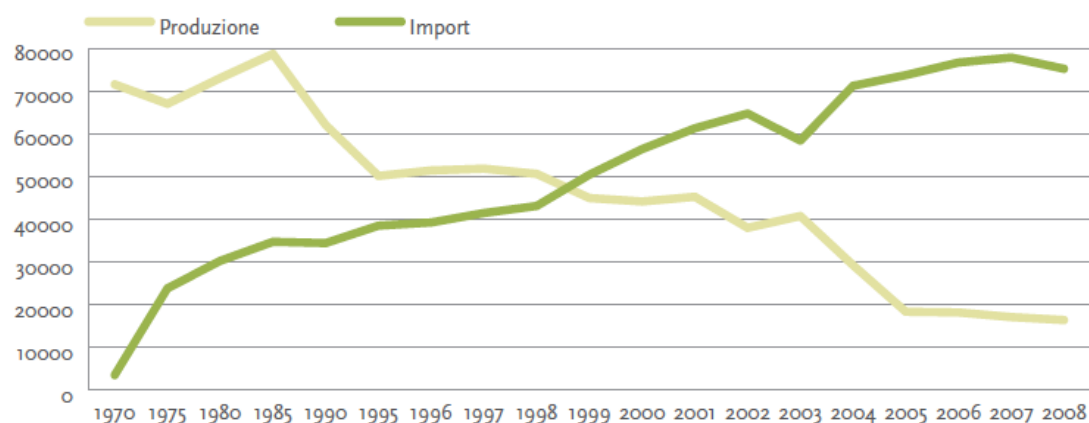


Source: Adapted from Federazione Italiana Tabaccai, 2010

This trend of the tobacco sales in Italy is also confirmed by the analysis resulting from the Nomisma Report of 2010, which affirm that the Italian production of cigarettes have decreased from 1975 to 2010, where starting from 80s we have a negative peak in

production. In contrast to this, the imports of cigarettes have started to increase in order to bridge the minor Italian production.

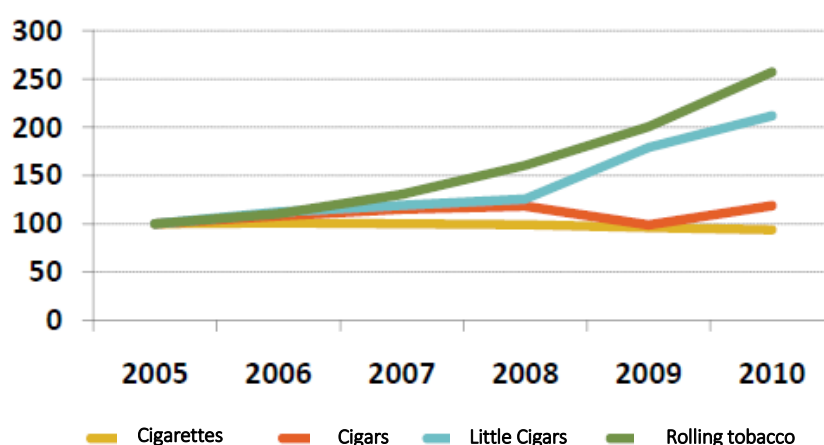
Figure 10 Import and export trends of Italian market



Source: Pantini and Lunati, 2009

For what concerns the tobacco products consumption the Italian tobacco market is interested by a decrease in the cigarettes consumption while other products consumption as cigars, small cigars and fine-cut (rolling) tobacco is increasing

Figure 11 Tobacco products consumption in Italy



Source: XV Rapporto Nomisma: la filiera del tabacco in Italia

Since this market in Italy have a great importance – as showed by data – a great attention has been given by the Italian state through different legislative interventions, in order to lessen the negative impacts of smoking, both on who actually consumes the

product, but also on those who are around him as well as on society at large. After the great smoking regulation given by the antismoking law in 2003¹, in Italy a new path of change has been followed thanks to the introduction of the Legislative Decree. N. 6 of 12 January 2016 transposing the European Directive 2014/40 / EU. This new decree has introduced many changes, of which the main ones are listed below:

- *Writings on packages.* Sentences Threatening phrases which have been for long are long on packages, now will be more precise explicitly describing the effects of smoking on one's own health. Moreover shocking images will be put on packages.
- *Minor and sanctions.* Tobacconist will receive a higher sanction if they sell cigarettes to minors which goes from a fine to the suspension or revocation of the license.
- *Places where smoking is forbidden.* In the car, in the presence of minors or pregnant women.
- *Packages of 10 and flavoured cigarettes.* Packages of 10 cigarettes are not sold anymore since costing less they are more appealing for young guys. It is also severely restricted the sale of aromatic cigarettes (menthol, vanilla) that cover the bad taste of smoking and therefore stimulate the habit. The amount of loose tobacco contained in a package is also limited: a maximum of 30 grams.

With these measures, aimed especially to reduce tobacco consumption among young people, it has been estimated by the EU Commission that this intervention may lower consumption by 2% in 5 years (Perrone, 2015).

For what concerns tobacco shops, it is necessary to highlight that, according to Federazione Italiana Tabaccai (2011), this sector is experiencing some kind of transformation of the services offered, and this can be seen both in a positive and in a negative sense. In fact, over the years there has been a common trend towards diversification for tobacco stores, selling products exchanged according to market rules, and not only goods subject to State Monopoly. So, besides commercializing traditional products, such as cigarettes, cigars and revenue stamps, most of them now include among their offer slot machines and other games (i.e. lotteries, soccer pools and other

¹ Legge 16 gennaio 2003 n.3

betting games), tickets for public transports, stationery products, foodstuffs and, according to the more recent trend, financial services, such as paying bills, topping up credit cards and cashing in vouchers.

The main emblem of the evolution of the tobacco shops has been the creation of an on-line bank (ITB) completely created for the category of tobacconists thought to allow them to offer banking services tailored to the needs of retailers of monopoly Genres. Collection and payment services designed to meet the needs of clients can be implemented in the tobacco shop thus allowing them to offer new services such as the payment of the F24, the issuance and payment of vouchers INPS, the RAV discount service and payment of all postal and banking Bulletins. Recently this platform has been acquired by Banca Intesa and the aim of this acquisition is to pass more bank services to tobacco shops, and this on one side slims down banks from traditional services and gives new opportunities for diversification to tobacco shops

Another particular feature of these shops is their capillarity: they are widespread in almost all Italian territory and it is estimated in Italy that there exists a tobacco shop every 1.000 people. This makes them the widest network of stores in the country. Nevertheless, they are slightly decreasing in Italy in recent years. The peak was reached in the middle 80's with nearly 62.000 tobacco shops, against the reduced amount of 55.000 of today.

Another aspect which is the most important for this study is that they usually are family-run businesses. This is due to the particular nature of the license which is necessary to run a tobacco store: it requires that its owner personally runs the shop. However since this is not always possible, usually the owner avails himself of someone among his closest relatives (e.g. his son or wife) which most of the times will inherit the enterprise. This original duty of the owner to personally manage his shop has been lessened in the last few years, from the first law of 1957, and now three kinds of people can work inside a tobacco shop:

- *Coadiutore familiare: Up to two people can be appointed to assist the owner in the management of the store and they need to be owner's close relatives.*
- *Assistente: It's an employee (assistant), who can also be a non-family member, but when he works, the presence of the owner or of the coadiutore is required.*

- *Rappresentante; when the owner cannot manage his shop for long periods of time, can appoint an agent who acts on his behalf. The agent can be a coadiutore, an employee or even an external person.*

Tobacco shops can be seen as a particular form of franchising, in which the franchisor is the State, which grants them the exclusive right to sell some products, in exchange for royalties and other duties.

Italian tobacco stores have to be distinguished among ordinary and special stores (i.e. those inside train and bus stations, malls and gas stations) in addition to highly attended bars which require a special license, called “patentino” to distribute tobacco products bought from the closest tobacco store. The license necessary in order to run a tobacco shop have to be requested to the State Monopolies, but it cannot be completely sold by the State, which owns it and only grants a concession regime. It lasts nine years, after which it can be renewed, and it can be transferred only according to special rules: for instance, it is often given to sons, close relatives or employees of the former owner.

There exist norms which impose, for example, that ordinary stores must be distant from 200 to 300 m each other, depending on the population of the town, and that there must be one store every 1.500 citizens in those towns which have up to 10.000 inhabitants.

Their licence lasts two years and may be renewed only if a certain amount of money is earned through the sale of tobacco products (www.agenziadoganemonopoli.gov.it, 2017).

According to the survey made by FIT (2014), tobacconists are deemed to be informed, trustworthy and reliable people, who comply with the law. Moreover, customers tend to go always to the same tobacco shop for convenience, but also for the politeness of the tobacconist. Finally, they don't perceive it as a tainted place, but as a reference point for the entire neighbourhood, in which a lot of social relations take place. These findings are surprising, as tobacconists actually sell harmful and sinful products, but they are not stigmatized as expected, according to the literature review examined in the previous paragraph. They have also public and economical roles, due to the particular products and services they sell; for example, they also collect taxes on behalf of the State. Moreover, contrary to common wisdom, tobacconists make very low margins on most of their goods. Table 12 shows the percentages of what a tobacconist effectively earn on 10€, which is the average amount of money spent inside a tobacco shop by a customer

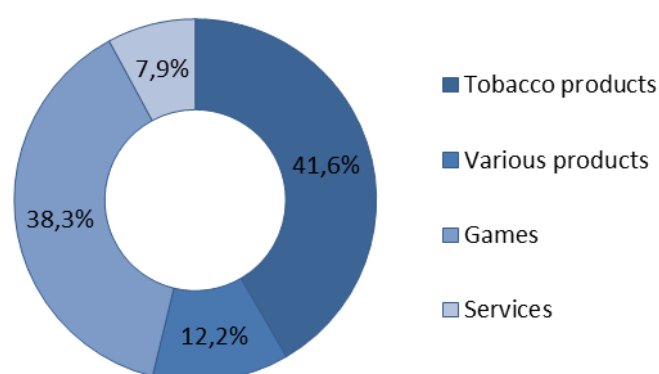
Table 11 *Tobacconists' margin over 10 euros spent*

	AVERAGE INCOME (CUSTOMER EXPENSE)	MARGIN (%)	MARGIN (€)
TOBACCO PRODUCTS	3,40€ (34,0%)	9,52%	0,32€ (41,6%)
VARIOUS PRODUCTS	0,20€ (2,0%)	48,13%	0,10€ (12,2%)
GAMES AND LOTTERIES	3,97€ (39,7%)	7,52%	0,30€ (38,3%)
SERVICES	2,45€ (24,3%)	2,53%	0,06€ (7,9%)
	10,00€	7,78%	0,78€

Source: Adapted from Federazione Italiana Tabaccai, 2010

From the previous table it can be seen that, on 10€ spent by a customer, the tobacconist earns only 0,78€.

Figure 12 *Products' contribution to final profits*



Source: Adapted from Federazione Italiana Tabaccai, 2010

Figure 12 shows the contribution of each type of product to this margin; the more profitable ones are tobacco products, followed by games and lotteries, while the less profitable ones are services and this is in line with what has been confirmed by the tobacconists interviewed for our case study, even if they have evidenced a decrease in tobacco products' profitability and an increase in that of games. This is one of the main drawbacks of this job, highlighted by many tobacconists, as they sell a product on behalf of the State, but the State itself takes great part of the earnings. Therefore, if a

tobacco shops wants to be profitable it has to focus on the quantity of the products sold, not on the single sale, and this is the reason why many of them include different products in their shops, preferably those ones that are not subject to the State Monopolies intervention (such as candies, stationery products and costume jewellery). Another important negative aspect associated to this job is the huge risk of robberies to which tobacconists are exposed. This happens because in these stores circulates more and more cash, due to the increasingly high number of services they offer, in particular financial ones, which is making them more and more similar to post offices, or even banks. But, differently from these two, a tobacco shop does not have advanced security systems like they have, and this makes these shops an attractive target for thieves. Moreover the presence of slot machines in certain tobacco shops increases the likelihood of repercussions since problematic people tend to spend much time in the shop. One particularly negative aspect of this kind of economic activity is the fact that tobacconists do not have many levers through which increasing the profitability of their store, which depends a lot on its location. Since prices of many products are fixed by the State (i.e. cigarettes and revenue stamps), the single entrepreneur makes money only through a low margin on these products and often feel frustrated since he invest much money but is not free to take personal entrepreneurial initiatives. The only possibility to increase margins is by introducing in its product/services portfolio products not related to tobacco which may even be controversial (as slot machines).

Table 12 summarizes all the strengths and weaknesses of the tobacco shops network together with the risks and opportunities of the Country's market

Table 12 Swot analysis of tobacco shops

THE MARKET		THE TOBACCO SHOPS NETWORK	
RISKS (THREATS)	OPPORTUNITIES	STRENGTHS	WEAKNESSES
- Consumption contraction	- Inelastic demand with respect to price increases for the non-substitutable good	- Protected market, both for the network and the single tobacconist (low competition)	- No marketing levers can be used
- Anti-smoking regulations	- Innovate by enlarging offering through controversial and non-controversial products	- Trustworthy customer relationships	- Low margins on Monopoly products
- Robberies	- Any new innovation deriving from the State intentions	- Link with the State enforced by the exclusivity	

3.4.3 Italian Tobacco Shops as Family firms

As said before, for the particular nature of the licence necessary to run a tobacco shop in Italy and also because of trust aspects which will be analysed later, this kind of companies are often family run and, for this reason, some considerations about family businesses have to be made. Moreover it is necessary to specify that tobacco shops are not big corporations, and this implies that, as they are simple retailers and for this they do not have any degree of stock ownership, thus best fitting also with the analysis of agency theory on SMEs described in the first chapter.

There exist a variety of definitions of family businesses in the literature. Poza's one (2010) synthetizes most of them, as it defines these businesses as "a unique blending of family, management, and ownership subsystems to form an idiosyncratic family business system"

According to the author, family businesses incorporate:

- *Ownership control by two or more family members*
- *Strategic influence by family members on company management*
- *Attention to family relationships*
- *The dream of continuity across generations.*

However in the application of the SEW approach the previous listed elements, which are incorporated by family business, are also at the basis of the family run tobacco shops which from this point of view are not an exception, and this is confirmed also by this definition of the main exponent of the socioemotional wealth approach and which considers family firms those where family owner influences and controls the company's business (Gomez-Mejia et al., 2011).

Taking into account all this, in this study the SEW construct is helpful because it can be used as the basis of (or to understand) the family logics within the tobacco shops' sector. In fact one way to understand why family run tobacco shops act in a specific way in terms of innovation followed and in terms of organizational aspects, is to understand the prevailing logics that influence these small enterprises. So what I do is to enlarge the concept of family institutional logics prescribed by Friedland and Alford (1991) in order to adapt it to the context of family business which is mainly rooted in the SEW construct. Ideally, these kind of tobacco shops are shaped by more than one logic (the family one), since they have to face struggles related to the presence of

controversial industry logics in which they operate and deriving from the fact that they, almost always, tend to offer products related to non-controversial industry logics. This, however, creates an overlap between logics: between family and business logics on one side, and the overlap between controversial and non-controversial industry logics on the other side since, as said before they offer within their shop both type of products. The way in which these two overlaps interact will be analysed in the next chapter.

According to what has been said until now, I propose which are (ideally) the main logics which are present within the family run tobacco shops, through the table 13

Table 13 Ideal logics simultaneously present in family run tobacco shops

FAMILY BUSINESS OVERLAP			CONTROVERSIAL AND NON-CONTROVERSIAL OVERLAP	
DIMENSIONS	LOGIC OF FAMILY	LOGIC OF BUSINESS	LOGIC OF NON-CONTROVERSIAL INDUSTRY	LOGIC OF CONTROVERSIAL INDUSTRY
MISSION (ROOTED IN GUIDING PRINCIPLES OF ORGANIZATIONAL GOALS)	<ul style="list-style-type: none"> - Sustain the well-being of family members; - Desire to exercise family authority; - Enjoyment of family influence. - Maintenance of the clan membership within the firm; - Appointment of trusted family members - Strong family identity; - Continuation of the family dynasty. 	Achieve and increase profitability also exploiting market opportunities	Gain customer loyalty	Avoid stigmatization and gain customer loyalty in order to gain customer loyalty
BASIS OF LEGITIMACY (ROOTED IN GUIDING PRINCIPLES ABOUT SHOP CONCEPTUALIZATION)	<ul style="list-style-type: none"> - Offer a job to family members 	Offer quality products and services	Offer "useful" and "socially accepted" products or services.	Offer "stigmatized/controversial" products or services, exploiting demand inelasticity
SOURCES OF LEGITIMATION (ALLOWED BY REFERENT AUDIENCE)	<ul style="list-style-type: none"> - Family members' acceptance; - Positive evaluation by customers and community 	Market acceptance	Market recognition	Community/proximate audience recognition

Source: Personal elaboration

The table is mainly divided in two sections which are the two overlaps existing in family run tobacco shops: between family and business and between controversial and non-controversial industry logics. Then for each logic it has been defined the *mission* which refers to the principles that guides the organization's goals following that specific logic, the *basis of legitimacy* which refers to the guiding principles that determine the shop conceptualization according to that specific logic, and finally the *sources of legitimation* which refers to who allows for legitimacy according to each logic. As it can be obvious, the family and business logics proposed have been enlarged with respect to those proposed by Friedland and Alford (1991) and this is because as stated in the paragraph 2.6 in family firms the co-existence of these two logics enlarges those proposed by the authors and this is because some socioemotional aspects have to be taken into account.

This table will be helpful during the analysis of the results obtained by the semi-structured interview proposed to the three tobacco shops, objects of this study and one of the main point is to understand how the relationship between these two overlap works.

3.5 Conclusions

The aim of this chapter is to provide some general theoretical insights, useful to help to understand the particular context in which tobacco shops operate.

These stores are part of a controversial industry as they commercialize unmentionable products, as tobacco and games for this reason it has been necessary to give a definition of stigmatized and controversial industries, and to understand also how they relate to the external environment.

The main contributions analysed in this field are those of Suchman (1995) and Reast et al. (2013) and, they allow having a clear definition of the concept of legitimacy and stigma.

As it can be intended, the explanation of the concepts of legitimacy and stigma is important in order to better understand tobacco shops system in general and why some of them present more controversial traits than others. However since these concepts are strictly related to the open system view of firms and to institutions, the contributions of

the aforementioned authors can help us to better understand the role that institutional logics have in shaping tobacco shops' controversial orientation.

After the first general part, dedicated to the explanation of the characteristics of the controversial industries, the chapter in the second part focuses on the analysis of the tobacco industry at global level and then, in particular, at the Italian level in order to start to approach with the tobacco shop sector and so understanding more deeply the target of this study.

It can be said that in general the situation of the tobacco industry presents very particular aspects, especially in Italy, since in additions to the aspects of stigmatization of its companies, there is a pervasive intervention of the State (for what concerns both the regulation and the appropriation of part of the income from tobacco products) and there are family businesses-related aspects.

As analysed in the chapter, tobacco sales volumes are declining in recent years and this happens both at global and at Italian level. The biggest cigarette market is in the Asian Pacific region, while in Europe and North America, this market is decreasing.

For what concerns the Italian market, the cigarettes production is decreasing, in favour of rising imports. The tobacco industry in this country is very bounded by the regulations imposed by institutions as the State.

However, tobacco shops are a widespread network of companies in Italy and for this reason it is interesting to analyse them from different theoretical approaches. This job has some positive aspects related to the nature of the goods, which always guarantee some work and to the link to the State, which grants some degree of protection. But tobacconists have to deal also with some negative aspects, like the very low earnings on the single products and the absence of marketing levers that can be used to increase profits.

The analysis of tobacco shops then focuses mainly on the identification of some elements of these businesses that for their very nature can make us to define them as family firms. Then, since the analysis of the institutional logic within tobacco shops perspective is important from the point of view of stigma and legitimacy, it has been necessary to identify ideally what are the main logics which are within these types of organizations. According to the theoretical aspects analysed, four logics have been deemed to co-exist in family run tobacco shops which, in their turn, create two

institutional overlapping situations. The first institutional overlap is that which characterizes all family businesses that is to say the overlap between family and business logics. The other overlap is strongly present in tobacco shops and is due to the compresence of the logics of controversial and non-controversial industries which guides their products portfolio and services offering. However the definition of the ideal family logic within tobacco shops cannot neglect to take into account aspects related to Socioemotional wealth, whose main elements (as the desire to exercise family authority, enjoyment of family influence, maintenance of the clan membership within the firm, appointment of trusted family members, strong family identity and continuation of the family dynasty) are at the basis of the family logic.

THREE CASE STUDIES ABOUT ITALIAN TOBACCO SHOPS: THEORIES APPLICATION

4.1 Premise

This chapter focuses on the empirical part and on the observations and findings that are the result of the semi-structured protocol of interview proposed to some tobacconists. The use of a case study methodology is helpful in order to try to build some novel theoretical intuitions from case studies, as stated by Eisenhardt (1989), mostly in a field which is so atypical in the family businesses' field. However the possibility to conduct an analysis of the theories analysed in the first and in the second chapter (respectively agency theory and Institutional logics approach), and to understand their implications in the field of family businesses (and in the tobacco shop sector in the specific case) represent an important challenge mainly because analysis on this field have not been in the spotlight. An important aspect is the fact that this analysis has been developed taking into account the socioemotional wealth (SEW) construct since this is a pervasive and all-encompassing construct that cannot be ignored when family businesses are analysed irrespective if tobacco shops are more or less controversial. The SEW approach mainly represent the way through which family logics can be understood.

The framework followed in this chapter is based on the objective to allow the reader to understand how the case selection has been developed, the description of the case which is important to understand what we are talking about, and finally the main results and some propositions are reported in order to determine what are the conclusions of the work developed, taking in to account the theoretical background analysed in the first chapters. The main areas in which the study has been conducted are:

- *The institutional overlap between the family and the business and the weight of each logic in deciding to invest in a controversial industry*
- *The role that the co-existence of business and family logics (institutional overlap) have on product and services portfolio and innovation path pursued.*
- *The institutional logics effects and function in fostering the legitimacy of the controversial products and services offered.*
- *Legitimacy and stigma issues toward the external environment.*
- *Agency theory consideration about costs, risk and about the loss aversion concept.*

After these findings some conclusions and key propositions are derived from the examination of the different cases. All of the analysis developed in this chapter is divided in the different sections previously mentioned and, moreover, is going to be supported by many sentences taken from the interviews made and accompanied by personal perceptions.

4.2 Case selection

The possibility of conducting an analysis of the theoretical approaches explained in the first and in the second chapter (agency theory and institutional logics approach) on tobacco shops has been guided for mainly two reasons: a) the possibility to understand why these kind of businesses act in a certain way, why they adopt certain decisions on products (being more or less controversial) and why they are patterned in the way they are. So the aim is to understand what is the prevailing logic that makes them to act in a more (less) controversial way; b) the possibility to analyse agency elements such as agency costs and risk preferences in family run SMEs, best fitted with the nature of tobacco shops since they are, despite being a specific retail sector, both family run - because of their very nature - and small businesses. So according to these two reasons, Italian family run tobacco shops, represent a good case study in order to understand the points of views adopted in this thesis, and the fact that in Italy this kind of retail is so capillary widespread and many families are employed in these retails, represent a good point in order to develop family business studies in the tobacco industries, thus enlarging the theoretical contributions of Agency and Institutional logics approach to family businesses. For the case study of this thesis, I selected 4 tobacco shops in order

to deeply understand firstly their reality since, as already said, this is a sector which has been rarely studied from the theoretical approaches adopted in this thesis. The criteria used for the selection of the cases were essentially three: a) all tobacco shops had to be family owned and managed, b) they had to be located in the area of Padua; c) they had to present different controversial degrees (inclinations) in their products and services offering.

Since the pilot case did not present the first characteristic, I decided to leave it aside in the cross case analysis. However from this case many findings have been obtained which have been useful to better understand the Italian tobacco shops' sector reality.

As analysed in the third chapter when talking about the Italian tobacco shops dynamics, there exist many kinds of retail stores in the Italian context: from the ordinary classic one, which sells tobacco products, revenue stamps, telephone charge cards and few games like "Gratta e Vinci" (scratch and win) and "Lotto", to the one which in addition to the already mentioned products offers also services as bar, news-stand, betting centre for sports events, telematics services, voucher and F24 payments or also offers the possibility to play at Slot machines. So, we tried to interview shops of various types, assuming that some of them are more controversial than others because even if for the agency theory analysis the product offering was irrelevant, it played an important role for the analysis of the institutional logics approach and the analysis of the institutional overlap which interests family businesses.

In order to identify the most controversial or non-controversial tobacco shops, I tried to follow the hiding strategies adopted by controversial firms to respond to the core-stigma defined by Hudson (2008). In fact by supposing that it exists an intrinsic controversial nature of tobacco shops, by seeing on the city maps where they were located and their shop's sign/name I could understand if they adopted a hiding strategies to cope with stigma thus meaning that they were more controversial. Fortunately, this intuition with the exception of the pilot case has helped me in the research.

By considering all these elements, the following list of three case studies, plus a pilot one which is not included in the analysis of the results, where the various tobacco stores are written, according to the order in which they were interviewed.

Table 14 List of the tobacco shops interviewed during our study

	LOCATION	NON-CONTROVERSIAL ² PRODUCTS AND SERVICES	CONTROVERSIAL ³ PRODUCTS AND SERVICES	STYLE OF THE SHOP
TOBACCO SHOP PILOT	<i>Padua (Arcella district), not so much hidden</i>	- Western union - Ticket One ticket - Bulletin payments - Poste pay recharge - Tickets for stadium - Stationery	- Betting services - 2 Slot machines - Sisal and Lottomatica games -instantaneous win games - Vast assortment of gratta e vinci	<i>Classic and little. Slot machines are separated by a panel</i>
TOBACCO SHOP A	<i>Padua (Arcella district) not hidden</i>	- Bar - Souvenirs - Various telematics services - Financial services - Western Union - F24 payment - Bulletin payment - Beauty products , accessories - Shaving products - Household products.	- Sisal and Lottomatica games - Gratta e vinci	<i>Modern and quite big. Given its dimensions it resembles more a Bar with a Tobacco shop inside</i>
TOBACCO SHOP B	<i>Padua (Mortise), hidden</i>	- Cell phone recharges above 25 euros -Pipes -Particular- rare Lighters - Cigars boxes - Electronic cigarettes and related recharges	- Cuban and other particular types of cigars - Lottomatica and Sisal games - Fine alcoholic bottles - Vast assortment of gratta e vinci	<i>Vintage- classical style. Quite big and elegant shop</i>
TOBACCO SHOP C	<i>Padua (Sacra Famiglia area) hidden</i>	- Costume and fashion jewelry. - Chips and other food products - Beverages and ice creams. - Stationery articles - Financial services	- Sisal and Lottomatica - 3 Slot machines -instantaneous win games - Vast assortment of gratta e vinci	<i>Classic style but not so little. Slot machines are not divided from the tobacco shop</i>

The shops which are highlighted in bold in Table 14 are those which, according to the products and services offered, and to the perception I had within the shop, have been

²⁻³ Each of the shops that were object of our study sold cigarettes, lighters, fine cut tobacco and other typical products belonging to this category, together with revenue stamps, cell phone charge cards all the tobacco shops that had been visited included at least some sweet and a cigarette vending machine. For this reason, all of these products are not included in our list, even though they were actually sold by all of the interviewees.

marketed as the more controversial ones (tobacco shops B and C). Since they exhibit different controversial inclinations due to the products and services offered, they can be categorized as partially controversial (B) and very controversial (C). However since both can be deemed to be more controversial than the tobacco shop A, they are going to be highlighted also in all of the following tables of our analysis without making a precise distinction about their controversial propensity when propositions will be formulated. In Figure 13 can be seen the photos of each tobacco shop in which I conducted the interview.

Figure 13 Tobacco Shop A (Less controversial)



Figure 14 Tobacco Shop B (Partially controversial)

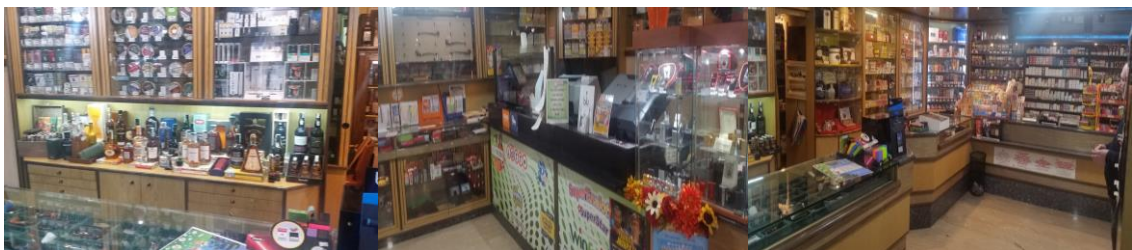


Figure 15 Tobacco Shop C (Very controversial)



4.3 Case description and method

The case study analysis has been conducted by adopting a qualitative approach since the possibility to use a standard protocol for semi-structured interviews would have allowed to understand aspects that maybe a more quantitative approach would have not

made possible. However, the qualitative analysis is the one that better conforms to the necessity to analyse tobacco shops by combining different elements of the organizational theories (agency and institutional logics approach) which are the focus of this study. Moreover, many of the paper examined used a qualitative approach for their case study mostly for those concerning the Institutional logics approach. In order to fulfil all that has been said, a protocol of interview composed by 35 questions was proposed to the owners of the tobacco shops selected for the analysis.

Since some of the question were open – and the reason of this choice was based on the possibility to collect many complementary and secondary answers that would have allowed finding elements related to the two theories- the interviews lasted from 40 to 60 minutes, also because tobacconists were often occupied with clients.

In order to verify the effectiveness of the format and to establish the pertinence of the questions – and of the answers as a consequence – a pilot interview was conducted that gave many insights on the sector, and thanks to which the final framework of the protocol was edited. All the conversations were recorded (with the expressed consensus of the interviewed) and they have been transcribed, and integrated with some notes about the impressions that the shops gave me and on the people with whom I spoke.

Before starting the interview, the subjects were informed that all the information given by them would have been treated anonymously, with respect to the privacy law and this has always been made in order to make them feel more confident when questions were proposed.

The aim of the questions was mainly related to the understanding of the points/aspects in which the elements of the theories analysed in this study (Agency and Institutional logics) appeared in a tobacco shop. Surely also other elements emerged during the questions, even if they are not related to the aforementioned theories, but which have allowed me to understand the sector and its evolution or to understand, for example which products and in which manners contributed to the average turnover of a tobacco shop.

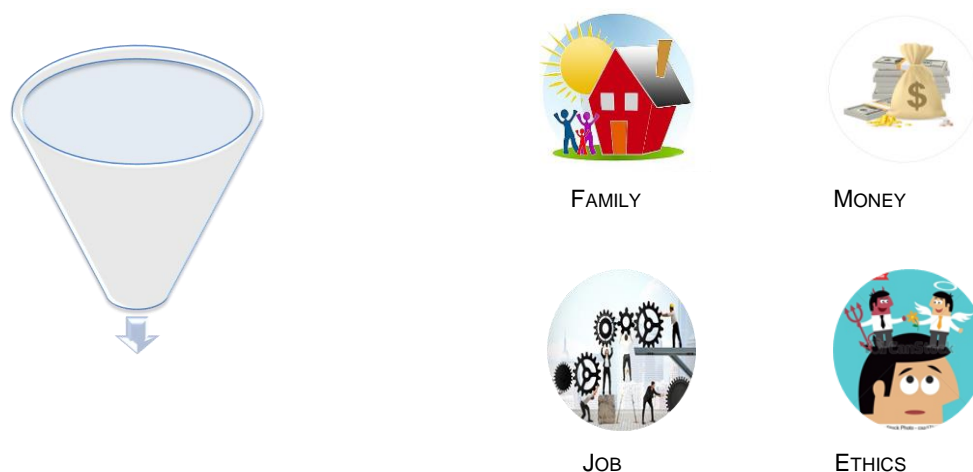
The protocol's questions were divided according to four main themes:

- *The tobacco shop*
- *People working inside the shop*
- *Relationship between the business and the family*

- *Environment*

Inside each of the four topics there were several questions, aimed at giving insights on information about the main theories object of this study. The protocol proposed can be seen from Appendixes A and B, which is the English version. In particular, the first section (*the tobacco shop*) included questions about the product and services offered, the influence of the family on their introduction and when they have been introduced, and questions about goals at the basis of the choice of investing in a tobacco shop thus understanding as a consequence the family-business overlap. The questions on *people working inside the shop* are mainly thought in order to understand agency within these kinds of family businesses and to understand if family is present in the conduct of the business (directly involved). Questions on *relationship between the business and the family* are mainly based on understanding how family values relate to the introduction or non introduction of slot machines and finally questions on the *environment* allow to understand if tobacco shop perceive a stigma and if they feel to be legitimated by the external environment and how its evolution have affected the tobacco shops' sector. For the analysis of the agency elements within family run tobacco shops the only questions proposed were sufficient, while for the analysis of the institutional logics approach they were not sufficient and for this reason I decided to build and use a more creative tool – whose results will be illustrated in the next paragraph – which can be defined as the “*means-ends cone*”.

Figure 16 Tool "means-ends cone" used for the case analysis



The decision to adopt this tool is related to the possibility of understanding the relation existing between the institutional overlap between the family and the business logics, and the more or lesser prevalence of controversial and non-controversial industry logics within the tobacco shops. This means that by understanding the means-ends relationship existing in tobacco shops between family and business elements (which are those proposed by the images – Family, Money, Job and Ethics) proper of the business and family logics, it can be understood why certain tobacco shops exhibit more or less controversial logics (inclinations) and so products in their offer. All this is done under the lens of legitimacy of selling certain products, which can derive from the family or the business logic according to the means ends relationship existing between the relative elements (images) used in the tool.

All this is based on the assumption that Institutional logics are socially constructed, coherent, and integrated sets of “assumptions, values, beliefs and rules” (Thornton and Ocasio, 1999: 804) that give actors “organizing principles” prescribing legitimate ends and “the means by which those ends are achieved” (Friedland and Alford, 1991: 248).

This means-ends relationship is understood by making the interviewed owner put 2 of the 4 images within the cone, one at the bottom and one should be left outside. The images have been divided according to their reference logic: the image of money and job are related to business logics, while ethics (mainly referring to the products offered) and family obviously refers to family logics. At the end of their own composition each tobacconist was asked to give his personal explanation of the tool composition. From this some conclusion about their more (or less) controversial nature will be formulated, and insights on if the role of the family dimension in Italian tobacco shops when they make certain kinds of “controversial” choices is relevant or not. The results obtained will be reported in the next paragraph.

4.4 Cross-case analysis

The methodology used in this thesis is the cross-case analysis. After interviewing the three tobacconists (four with the pilot case which however results are not significant for our analysis since it is not a family run business), a comparison of the results of their answers is done, by considering the questions proposed and what interviewed tobacconists have answered, in order to determine similarities, differences and identify some

key propositions, as required from the cross-case analysis definition given by Yin (1994). As already stated, the selection of the three cases has been done from different settings, thus providing opportunities to learn from various samples and gather some evidences which are explained at the end of each of the following sections.

4.4.1 The institutional overlap between the family and the business and the weight that each logic have in deciding to invest in a controversial industry

One of the main objectives of the interviews proposed to the tobacconists has been that of understanding if there exist a real overlap (as that maintained by Lansberg, 1983) between the two institutions (family and business) see Table 13 (page 101), and how the co-existence/conflict of the related institutional logics affect the tobacco shops' approach to offer more controversial rather than non-controversial products and vice versa, thus determining a more controversial (non-controversial) inclination of the shop. This means that according to the relationship between the family and the business logics, we understand why tobacco shops tend to be more or less controversial, thus engaging in the sale of certain products according to one or the other logic (controversial or not). Intuitively one should expect that those businesses in which the family logic prevails, should be those which are less controversial (also according to SEW considerations) and contrarily, those in which business logics prevail should be more controversial in their product offering. But since it is important to take into account all the decisions related to the business, it is fundamental to start with the understanding of the reasons behind the choice of investing money in order to start an activity which is, surely, controversial by its very nature.

Table 15 Outlook on the tobacco shops' institutional overlap

	HOW AND IN WHICH MEASURE DID YOUR FAMILY HAVE A ROLE IN THE CHOICE OF STARTING THIS BUSINESS?	LOGICS	WHICH WAS THE REASON (GOAL) BEHIND THE DECISION TO UNDERTAKE THIS BUSINESS?
TOBACCO SHOP A	<i>I inherited the first tobacco shop from my family. My father died when I was young and since I was the adult son, I abandoned studies to dedicate my efforts in the family business</i>	<i>Family logic</i>	<i>I decided to open this new shop in order to introduce my sons and so to give them a job</i>
		<i>Business logic</i>	<i>However the decision to open this shop is also related to market dynamics. That of my father was more a food shop and I decided to open a tobacco shop when big chains were introduced.</i>
TOBACCO SHOP B	<i>The willingness of my wife to have an easy employment, led me to enter for the first time in the tobacco shop sector twenty years ago. Later I opened this shop for my son.</i>	<i>Family logic</i>	<i>I have invested in this as in the other tobacco shop, in order to give a job respectively to my wife and to my only son which needed a job.</i>
		<i>Business logic</i>	<i>However the decision to invest in a tobacco shop has been also guided by the fact that the tobacco shop industry many years ago was able to generate enough stable profits.</i>
TOBACCO SHOP C	<i>My wife's desire to obtain a proper source of revenues was necessary to make me invest in a tobacco shop.</i>	<i>Family logic</i>	<i>Essentially I started this activity in order to give a job to my wife since I already have another job. However I help her in running this business.</i>
		<i>Business logic</i>	<i>The decision to invest in this sector has been done since five years ago this sector appeared to me the only one less hit by the recent crisis.</i>

The owner of tobacco shop A, differently from the other two, has a longer experience in the tobacco shop sector – since it is an executive of the union of the category - and when he opened the second shop, he did this in order to anticipate the consequences deriving from the changes of market conditions. Together with this reason, the possibility to

offer to his sons a secure job is at the basis of the decision to open a new tobacco shop where they could be willing to work, thus leading the shop to become quite big (seven people work inside it). In the case of the Tobacco shop B, despite the owner had not a great knowledge of the sector, he decided to invest in a tobacco shop since it was a simple and good activity that could generate enough profits despite it was a second source of earnings for the family (the owner had another job), mainly thought for his wife. Later, motivated by this experience he decided to open another shop, focused mainly on smoking products and more innovative than the first one, to give a job to his son. The Tobacco shop C case is similar from this point to the first investment done by the owner of the tobacco shop B that is to say to give a job to his wife. In this case the tobacco shop at the basis of the analysis is their first and only experience.

Analysing what they answered for first, it can be stated that despite these three tobacco shops present some differences in terms of dimensions and different degrees of “controversial engagement or inclinations” in terms of products offered, it can be underlined that the decisions to open a tobacco shop is mainly influenced by the possibility to give employment to family members which represent one of the elements which reside in our ideal logics which are present in a tobacco shop.

PROPOSITION 1a: In family run businesses operating in a controversial industry the decision of starting the activity is mainly influenced by family-related reasons so the family logics seems to prevail in this circumstance.

Even if it can be observed that in all of the three cases, the family logic have an important influence in determining the reasons at the basis of the decision to open and invest money in a tobacco shop, this does not mean that business logics, that is to say those related to the possibility of making an investment considering the likelihood of this last to generate a profitable return, cannot be neglected. In fact for the interviewed tobacconists (mainly for B and C), the decision of investing exactly in this sector was also based on the idea that the tobacco shops’ sector seemed to be one of the few which ensured a certain degree of profits stability since it was (and it is), form a market perspective and by its very nature, protected and strictly regulated by the State intervention. Moreover the profits stability, in the opinions of tobacconists, could be determined also by the fact that the presence of these shops is constrained by area limitations, thus not implying a strong competition. According to this, and also to the possibility to have a

secure and safe economic return deriving from a relatively easy activity, investing in a tobacco shop seemed to be the best investment compared to others.

PROPOSITION 1b: Despite the family logic carry weight in the decision of investing in this particular activity, business logics have also an important role in the decision of employing family efforts in this controversial sector.

4.4.2 The role that the co-existence of the business and family logics (institutional overlap) have on product and services portfolio and innovation path pursued.

This sector is strongly bounded by the presence of regulations and mainly by the presence of the State which represent the most important counterpart to which tobacconists have to confront with. Surely the fact that they are constrained to make monthly minimum orders for the gaming and betting products and they have to sell a minimum of these products (mostly in the case of scratch and win) they usually innovate by following the evolution of the tobacco industry – as the case of the electronic cigarettes – and also the evolution of the betting and gaming industries. This means that from a certain point of view the innovation related to the introduction of controversial products is (in a certain sense) stimulated by the launch of new products by gaming companies and by the state which obliges tobacco shops to do a minimum of orders. Another innovation path that tobacco shops follow is that related to the telematics/ financial services offered and this however is related to the historical evolution of the tobacco shops, since the willingness of the state is to make them as a reference points for different kind of services which are mainly offered by the Italian post offices and the creation of a bank for tobacco shops (ITB) witnesses this willingness. However, since the objective of this study is to analyse the role of the family and the business logic in determining a higher or lesser degree of controversial inclination of tobacco shops, it has been necessary to ask to tobacconists which products and services they have introduced in the shop to innovate, why and if the family had a influence in the introduction of products and services related (or not related) to the tobacco in stricto sensu, since it is the core activity of tobacco shops.

Table 16 Outlook on institutional logics' influence on product and service offering

	HAS THE SHOP OFFER ALWAYS BEEN THE SAME, OR HAVE YOU INTRODUCED NEW PRODUCTS OR SERVICES?	WHY HAVE YOU INTRODUCED PRODUCTS OR SERVICES RELATED (OR NOT RELATED) TO THE TOBACCO?	HAVE YOUR FAMILY MEMBERS HAD AN INFLUENCE IN THE DECISION TO INTRODUCE THESE NEW PRODUCTS?
TOBACCO SHOP A	<ul style="list-style-type: none"> - At the beginning the shop was only a tobacco shop but, then we took the decision to open the bar. - Then we have also extended the services offered – by joining the ITB – thus offering more telematics/financial services - we have introduced also new products related to games (Lotto and Sisal) - we have introduced beauty for both man and women. - we do not have slots (even if we had them for a brief period) because we together have thought that they are not in line with the image of the bar that we want to give 	<ul style="list-style-type: none"> - The decision to open the bar is related to the possibility to offer a service which could allow to innovate the shop. - However, despite the introduction of new services and games have followed the natural evolution of the tobacco shops, we have decided to invest in them in order to avoid remaining backward with respect to the market and thus creating also movement within the shop to foster the sales of the bar. - The same reason has been applied to the complementary beauty. In line with this reasoning now the shop follows the bar working time. 	<p>At the beginning the shop was only a tobacco shop, but then when my wife decided to stay at home and so to not working anymore, I decided to introduce in business something that could have been interesting for my sons so, together with them, we took the decision to open the bar. However I want to underline that today the shop is like this because I was helped a lot by my family. If my family had not supported me, today the shop would have been a simple and basic tobacco shop.</p>
TOBACCO SHOP B	<ul style="list-style-type: none"> - Initially, the shop we acquired was a tobacco shop specialized in smoking products. However It was specialized mainly in pipes. What we have done has been to reduce pipes and to introduce and increase the variety of cigars. -we have introduced the electronic cigarettes and the related flavoured recharges - we have also introduced fine alcoholic bottles that can be combined with different cigars - At the same time we have introduced cigar boxes that have a certain price -our tobacco shop do not offer telematics services because they are not convenient from an economical point of view since 	<ul style="list-style-type: none"> - We have decided to introduce new products related to the tobacco, in order to face the negative trend which is affecting the cigarettes which is due to the absurd terrorism of anti-smoking campaigns. -the same can be said for the electronic cigarettes - the introduction of fine alcohol bottles and the cigar boxes has been thought in order to complement the sale of cigars and to increase margins since they are not under the “accise” regime. - the decision to not offering telematics services is related to their non convenience and to the fact that we want to raise up the level of our target 	<p>-The decision of introducing cigars and the related products as the fine alcohol bottles and the cigar boxes has been influenced by my son. In fact he has the knowledge of these products, in fact I am not neither a smoker!</p>

	<p><i>their profit margin is very low</i></p> <ul style="list-style-type: none"> - <i>we have introduced new games</i> - <i>we do not have slots, even if in the past we had them</i> 	<p><i>customers</i></p> <ul style="list-style-type: none"> - <i>the introduction of new and more games is related to the fact that now they are yielding more than cigarettes</i> - <i>we do not have slots only because of the major's ordinance is restrictive</i> 	
TOBACCO SHOP C	<ul style="list-style-type: none"> - <i>When we bought the tobacco shop, many of the existing products were not present</i> - <i>We have introduced sweets, candies</i> - <i>We have introduced also Costume and fashion jewelry.</i> - <i>Products related to food since we have also the license.</i> - <i>We sell beverages and seasonal products as ice creams.</i> - <i>We have introduced stationery articles</i> - <i>We have increased the games, mostly those with an instantaneous gain since people do not want to wait anymore</i> - <i>We have enlarged the cigarettes and telematics services offered</i> - <i>We have also introduced another slot and now we have three slots in our shop.</i> 	<ul style="list-style-type: none"> - <i>The reason behind the introduction of new games, as 10 e lotto, slot machines and gratta e vinci, is related to the increasing trend in their sell. In fact they are performing better than cigarettes.</i> - <i>The introduction of the other products not related to games of to the tobacco, is done In order to satisfy customers and mostly to increase profits deriving from non monopoly products, which allow grater margins.</i> - <i>offering additional telematics services offer the possibility to attract people</i> - <i>the introduction of the other slot is based on the fact that they allows high margin despite they are subject to monopoly</i> 	<ul style="list-style-type: none"> - <i>My wife wanted to introduce costume and fashion jewels as all the other products which are, however requested by customers</i>

From this table and these answers some considerations are clear: tobacco shop A increasingly tend to intermesh the two activities, that of the bar and that of the tobacco shop. The perception that the shop gave me during the interview, was mainly that of a bar with a tobacco shop, and not the opposite, also because outside, the store sign that prevails is that of the bar. Despite the fact that obviously the family logic has a strong influence on adopting this path of innovation, it cannot be, again, neglected the focus on the market/business logic: in fact despite this shop is deemed to be less controversial than the others, the possibility to implement gaming products (as for services) is related to market necessities. The Tobacco shop B according to our findings is partially controversial, in fact they decided to introduce products related to the tobacco because of the son expertise on this field (cigars) and because this is in line with the trend of the market. In this case we have a situation in which the business logic prevails since they

sell products which can yield returns from products different from cigarettes since this market is experiencing a sales decreasing trend. But the fact that the son's influence in the introduction of cigars, alcohol and related products is strong and this is supported by the fact that the father is not a smoker.

The same approach is followed by the Tobacco shop C, which however tries to increase margins by selling also out of monopoly products which are mainly influenced by the decisions of his wife and by including another slot in the shop to increase margins. Again the offer of new products and services clearly focuses on the market dynamics and on the family willing and enjoyment in exerting an influence within the business.

According to what has been said the following proposition can be formulated:

PROPOSITION 2: In family run tobacco shops, regardless they are controversial or non-controversial, the product and service portfolio is enlarged by offering products and services which are in line with market and business logics but which are mainly introduced because of the knowledges and desires of family members.

As a consequence of the three previous propositions it can be maintained that:

PROPOSITION 3a: In family run tobacco shops the logics of the family and the logics of the business are nested since tobacco shops introduce new products and services which satisfy both the two logics thus rendering difficult to track a boundary between the two logics.

PROPOSITION 3b: The overlap between logics exists since the decisions related to the business are self-reinforcing: satisfying the business logic has consequences on family logics' satisfaction and vice versa.

This last proposition may be not so intuitive so it is necessary to give an explanation. The self-reinforcement of the two logics is given by the fact that since we have the overlap between these two logics, it seems that in family run tobacco shops the family logic is satisfied by the business since the family can influence the business deciding which products to offer according to their knowledge (as in the case of Tobacco Shop B), according to their desires (as in the case of Tobacco Shop A) or according to their style and preferences (as in the case of Tobacco Shop C). However these logics are not related to the mere profit maximization but are related to affective reasons (SEW). Furthermore, the business logic (achieve and increase profitability) is reached through the family logic thus creating an overlap which works.

Again, the findings underline the clear overlap that exist between the family and the business logics, thus allowing to offer products which clearly focus on the market

The owner of tobacco shop A (left image) put the family and the job within the cone, while at the bottom of the cone he put the image of money, the ethics remains outside.

The description:

I put the family and the job inside because if you do not have the strength deriving from working and deriving from the family which supports you, you cannot go further, and this is what happened in my experience since the help of my family have helped the business and to increase the money creation, which however is important to satisfy family needs. Ethics remains outside because I intend ethics more on behaviors rather than on products sold.

The owner of tobacco shop B (central image) put money and the job inside the cone while at the bottom he put the family, while again the ethics remains outside. The description:

I put money and the job within the cone because in order to survive and nurture your family you have to work and gain money. I do not care about products sold because there are many other products which are not good for the health, maybe more than cigarettes and game addiction.

The owner of the last tobacco shop C (right image), insert in the cone the image representing money and the image of work, while at the bottom of the cone he put the family with the ethics left outside. The description:

The ultimate end is the family. I put inside the job and the money, since they are functional to the nourishment of the family. I leave the ethics outside even if I never put money before the family. However since the ethics is about the products offering, I do not care about it, since these “particular products” yield me money and give a job to my wife, thus allowing the family’s needs satisfaction. These products (slot, betting games, scratch cards, and cigarettes) are not good for the human health but however it is not my fault if they are sold.

What emerges from this creative analysis developed is that, in line with the forecasts, that family run tobacco shops, despite they care about ethics in the form of behaviours to be adopted within the tobacco shop, they do not intend it (as I then proposed them) as ethics in what they sell. In fact when this aspect was specified they directly excluded the image representing ethics from the cone and this is mainly because they feel to be justified/legitimated by the fact that the state allows the sale of these products (as in the case of Tobacco Shop C), because there are also many other products that are as dangerous as or even more than cigarettes and games but no one talk about these (Tobacco shop B) and because tobacco shops are a guarantee since they offer services

under a state concession (Tobacco shop A). Adopting an Institutional logic approach, however it seems that those tobacco shops whose main aim was the family nurturance and satisfaction (family at the bottom of the cone) are those more controversial (B and C) while those whose main aim is to create money through the help of the family are those more non-controversial. So according to this the following proposition can be stated:

PROPOSTION 4 a: Those family run tobacco shops whose main end is to satisfy and nurture the family, are those which exhibit/adopt more controversial means in order to reach their end.

Consequently it can be stated that,

PROPOSITION 4 b: in the more controversial family run tobacco shops, the family logic legitimates the sale of controversial products and services.

4.4.4 Legitimacy and stigma issues toward the external environment

After having analysed legitimacy by taking into account the family logics, I would like to focus on the role that stigma and environmental legitimacy have for tobacco shops, so I conduct now a brief analysis of what are the perceptions that tobacconists think people have in the regards of the sector in which they operate. The thing here is that stigmatization and contestation are very high in an industry like that of tobacco. Thus legitimacy becomes a relevant topic for those who work in such controversial sectors since they strive to be legitimated by external actors and so to gain societal support despite, I have to remember it, they are mainly legitimated by the family logics. However, I decided to include some questions about legitimacy and if they perceive or not a stigma. In particular, we wanted to know how tobacconists feel about the fact that they commercialize controversial and unhealthy products, i.e. tobacco, but also games, putting aside the family nurturance as a legitimising reason.

During the interview it was difficult to touch this delicate point with tobacconists since they usually are against the negative (and in my opinion right) opinions that people, media and other subjects have in their regards, and this is witnessed by the fact that they express resentment toward the new anti-smoke campaigns.

Table 17 Outlook on environmental legitimacy and stigma

HOW DO YOU DESCRIBE THE SECTOR OF TOBACCO SHOPS SINCE IT CAN BE SEEN AS A PARTICULAR SECTOR BY EXTERNAL PEOPLE?	
TOBACCO SHOP A	<i>Today tobacco shops are able to offer many services and the since these are offered thanks to a state concession, this makes people to see tobacco shops in a positive way. The same reasoning can be applied to tobacco products and games. The seriousness is put in evidence thanks to the state concession</i>
TOBACCO SHOP B	<i>This is an easy and calm activity so it is a good sector to start the first business. However recently people have bad opinions about this sector and this due to the massive anti-smoking campaigns conducted. People is influenced by this and do not cares about the existences of other activities which are dangerous for the health. However since I sell products of the state to major people, I do not feel a bad person.</i>
TOBACCO SHOP C	<i>I think that this sector is highly contested but I am a sort of state's employee so I sell mainly its products so it is the state that should take care about this. But since there is a law and a concession that allows me to sell these products I feel ok. It is a business like other businesses with each having its own problems of health.</i>

Through the question proposed the aspect of legitimacy with the environment emerged. For the more controversial (Shop B and C) obviously they should perceive more the stigma, which, however, is overcome by finding the state a justification or better as a legitimising element. This is because the three tobacconists perceived that people should see them as they see all other business even if they not always offer healthy products, because they are a sort of state employees, since they work under a concessionary regime.

PROPOSITION 5: All tobacco shops, indifferently of their controversial or non-controversial nature, feel to be socially accepted since their presence is justified by the state concession.

4.4.5 Agency theory consideration about costs, risk and about the loss aversion concept

It is now time to analyse what said in the first chapter of this study about the agency elements in family firms in terms of costs and risks. Different questions have been proposed to tobacconists in order to firstly analyse agency costs related to self-serving behaviours and then to analyse the problem related to the agency costs deriving from the differences in risk preferences and problems related to the concept of risk preferences under the loss aversion perspective. In order to analyse agency costs in family run tobacco shops in terms of efficiency reduction, the following questions have been proposed.

Table 18 Outlook on agency considerations in tobacco shops

	ARE THE ACTORS THAT WORK WITHIN THE SHOP FAMILY MEMBERS OR NOT? WHY?	HOW ARE TASKS DIVIDED?	DOES EVERYBODY IS ALLOWED TO HAVE ACCESS TO CASH? ANY FEAR RELATED TO MISTRUST?
TOBACCO SHOP A	<i>In the shop we are In 7 of which 4 are family members. When we have introduced the bar (and consequently enlarged the shop) we needed more people to help us, so respectively two works for the bar and one for the tobacco sector.</i>	<i>As I have anticipated, 2 of my sons and one external manager manage the tobacco side, while the other son and the two external people are interested in the management of the bar. I help them when it is possible.</i>	<i>Yes everybody have the access to the cash, since the business have to always run, we cannot stop each time to control who does what. However we do not have any problem with external since we share most of the time together so we well know each other and we are in close contacts.</i>
TOBACCO SHOP B	<i>In the shop we are in two: me and my son. We are in two because the very nature of the tobacco-nist's licence obliges you to be helped only by family members and also because in this business you need trusted people to manage the cash.</i>	<i>My son mainly is interested in selling all the products related to the tobacco and the cigars, since he has the necessary knowledge to explain their characteristics to clients. I do the rest and when not busy, y son helps me.</i>	<i>We both accede to the cash. This is because I cannot not trust my son and also because if money is missing, it is missing for all the family so we think two times before appropriating money unduly.</i>
TOBACCO SHOP C	<i>In the shop we are in two: me and my wife. This choice is because of the regulations applied to the tobacco licence and also because for the dimensions of the shop. However since you do not print the receipt for all the products, you need trusted people too.</i>	<i>Me and my wife perform all tasks equally.</i>	<i>We both accede to the cash. However it cannot not be like this since this is a family ran business, so if the business goes bad, also the family suffers of this. The two aspects run together.</i>

According to the answers given, it can be underlined that results are consistent with what sustained by Jensen and Meckling (1983), that is to say that owner- managed firms suffer less agency costs because of the direct involvement of the owners. From all the three cases the fact that people stay together most part of the day and since they are close, their relationship of trust develops exponentially (even with non-family members as in the case of the tobacco shop A) thus creating a sense of “being on the same boat” and so for this, there is a compelling reason to believe that small family firms exhibit high efficiency due to less agency costs since altruism and opportunism is not present. Moreover the fact that in all the three shops each member have the access to the cash,

means that the risk related to self-serving behaviours are limited, and this is related to the fact that family interests are prevailing. However the nature of the tobacco shop and the regulations related to the license, allows mainly family members to work in the shop, thus eliminating the costs related to monitoring since exists a common sense of putting family needs before one's own interests. However the lack of a formal organizational structure, and the fact that people work closely and even with a high level of interchangeability, allows for a direct control which have zero costs.

PROPOSITION 6: In family run tobacco shops the presence of a flat structure, the nature of the tobacco shop and the time spent in the shop, together play an important role in reducing or eliminating inefficiencies deriving from agency costs.

So it can be stated that the findings of our analysis are in line with what affirmed by Herrero (2011) who maintains that in family firms there are reduced or inexistent agency costs since people work very close and because there is not a complex organizational structure.

If we move our attention to another aspect related to the agency approach and the behavioural agency approach (and to sew as a reflection) we can underline the fact that in family run tobacco shops we firstly have an alignment between the risk preferences among owners since their goals are completely aligned and also because they have the same reference point which is the family business pace and consequently that of the family. As a consequence of this, a specific question has been made in order to understand the loss aversion concept in these particular type of businesses mainly when they introduce specific controversial products within their business. In this sense, the most part of this analysis is mainly referred to the fact that the tobacco shops have or not the slot machines inside them and this because having slots inside for the interviewed tobacco shops increases the risk of robberies because of the presence of not so good people within the shop.

Table 19 Outlook on Agency/SEW risk concept

WHY HAVE YOU CHOSEN TO HAVE OR NOT THE SLOT MACHINES?	
TOBACCO SHOP A	<i>We tried slots years ago, but then we decided to take them off because they allowed not good people to enter in the shop. However with the introduction of the bar, the presence of slots would have lengthen the time spent by these people within the shop, thus increasing the risks related to robberies and other any kind of threats to our business and to my family</i>
TOBACCO SHOP B	<i>We had slot machines until two years ago, but then we decided to take them off the shop. This is because they lead misfit people to stay within the business and this increases the possibility to have repercussions from these people. It's a matter of safety together with the limitations deriving from regulations</i>
TOBACCO SHOP C	<i>I had two slots and we introduced another one two years ago. We did this because the business at that time was not performing well and since the profits deriving from games are important in this sector, we took this decision. However since the shop is in a quiet area, this allowed me to feel safe.</i>

Before explaining this point, it is important to remember some considerations on the risk concept and on the loss aversion. According to the agency and the behavioural agency model, the concept of loss aversion is based on a reference point from which agents formulate their risk preferences and perceptions. So In general, if a firm's performances are above the target planned – reference point - by the owner (so he frames positively problems since he has something to lose), his primary focus is on avoiding actions that may place the firm below it. The point is that the dangers of falling more below the performance target reached, dominates the attention of the agent. The risk perception here determines a risk-averse behaviour of the owner and since there is something to loose so he is loss averse.

For agents who experience or expect firm performances below the target, the desire to reach it focuses the attention in a way that leads generally to risk taking behaviours (since in this case problems are negatively framed since he is loosing something). This is because the opportunities for gaining or reaching the target receive more attention than dangers. In tobacco shops, the main risk deriving from the possibility to have slot machines inside it, is to have problematic people within the shop which increases the likelihood of being subjects to robberies because of higher liquidity in addition to that generated by services, and increases the likelihood of the risk of loosing customers because of the prolonged presence of this people within the shop. What I have tried to do is to formulate questions to analyse this point.

Since tobacco shops A and B were performing well at a specific moment in time, they decided to eliminate slot machines in order to eliminate the possibility that the presence

of misfit within the shop would have led the performances of their business down, or even better, fostering the likelihood of repercussions and robberies. So if this situation is described according to the agency approach to loss aversion and how agents frame problems according to the reference point, it can be said that the two tobacconists were experiencing good firm performances (so they framed the problem positively according to the reference point which is the good firm performance) and since they had something to loose, they became averse to the risk/loss of lowering/damaging performances because of being more exposed to robberies and to the likelihood of losing customers, so they decided to take slot machines off the shop.

On the contrary, since the tobacco shop C was not performing well at that time he decided to introduce in the shop another slot machine. In view of the fact that the owner framed the problem negatively with respect to the reference point which is the negative firm performance (because he was already losing something), he acted with risk neutral preferences, thus allowing the improvement of the business performances by augmenting the number of slots in the shop, without caring about the increase of the likelihood of losing customers and to be exposed to robberies.

PROPOSITION 7: Family run businesses tend to be more controversial by introducing slot machines when they frame problems negatively with respect to their business pace, thus expressing risk neutral behaviors.

Since the concept of loss aversion – in family firms - according to the SEW construct is mainly based on the unwillingness of family firms' owners to loose the stock of affective endowments that they derive by conducting the business, it could be thought that for family run tobacco shops it may be the same, since lowering the firm performances can be seen as a threat to the family sew also because, as already seen, the family logics is strong in these firms. However, evident effects of this SEW loss aversion cannot be seen in these family firms, since this concept is based on the assumption that family firms are willing to accept more economic risks on their business (i.e. bad performances) if this can be helpful to preserve the family affective endowments. In this last tobacco shop case, they accept the eventual higher business risks (the likelihood of losing customers and of having not so good people within the shop) deriving from the introduction of slots in order to improve the firm performances (since slots allow good profits) and not in order to preserve affective aspects, thus seeming that the economic component prevails on the SEW loss aversion concept. For instance in this case in order

to preserve sew, they would have not introduced slots – which make the family firm more controversial – thus allowing a performance decline that, however would have allowed the SEW preservation (also because the reputational image of the family is also rooted within this construct).

PROPOSITION 8: Family run tobacco shops exhibit a certain extent of loss aversion with respect to their business economic performances rather than to family socioemotional wealth.

4.5 Conclusions

This last chapter was entirely dedicated to the case study analysis made on Italian tobacco shops in order to answer to our research questions about the role that institutional logics and the overlap between family and business logics play in decisions and inclinations of family run tobacco shops, questions about the perception of stigma and legitimacy problems with the external environment and finally the presence within family SMEs of agency elements (costs and loss aversion),

About the overlap between the two institutional logics the results of the analysis of the study highlight the fact that the overlap is strong, thus allowing families to invest in tobacco shops' sector and to sell and introduce products and services which follow the family logics (allowing the enjoyment of the family influence) and the business logics (related to the possibility of increasing revenues). Moreover, there is a self-reinforcement between the two logics which is given by the fact that in family run tobacco shops the family logic is satisfied by the business since the family can influence the business deciding which products to offer according to their knowledge (as in the case of Tobacco Shop B), according to their desires (as in the case of Tobacco Shop A) or according to their style and preferences (as in the case of Tobacco Shop C). However these logics are not related to the mere profit maximization but are related to affective reasons (SEW). Furthermore, the business logic (achieve and increase profitability) is reached through the family logic thus creating an overlap which works.

About legitimacy aspects, the presence of family logics should – also according to SEW- foster the non-controversial inclination the family run tobacco shops. However results showed that this is not like this since the family logic acts as a source of legitimacy for those tobacco shops which are deemed to be more controversial. Instead

for the stigma and the legitimacy with respect to the external environment, results show that tobacconists feel legitimated and do not recognize the stigma because they feel to be justified by the concession given by the state.

Finally, about the agency problem of costs and the loss aversion concept formulated in the first chapter, family run tobacco shops seem to have inexistent agency costs since there is not a division between ownership and control because the family members are those who work within the business and even if there are external people working inside the shop, the lack of a formal organizational structure allows them to exert a direct control without implying any cost. However, the crucial aspect here is that since people spend most part of the day together, they have a common feeling of being in the same boat.

Regarding the loss aversion concept – which has been analysed theoretically from the agency/SEW perspective – interviewed tobacco shops express more risk-neutral behaviours when they have nothing to loose because of the poor performances of the firm, thus meaning that they frame problems negatively with respect to the reference point which is the firm performance. In this case they introduce slots which may imply risks related to the increase of the likelihood of robberies because of the presence of misfit people. They exhibit risk-averse behaviours when they frame problems positively with respect to the good firm performances, because they perceive risks of losing what they already have from an economical point of view rather than from an affective point of view.

Concluding, and taking into account SEW considerations, the presence of the institutional overlap allows family run tobacco shops to act according to the two logics since they are nested, thus satisfying economic and non-economic aspects. However the results obtained about the concept of loss aversion allow saying that in these particular types of family firms the loss aversion is more toward economic aspects related to the business rather than to non-economic (affective) aspects.

All the cases existing in literature have some limitations and this thesis is not the exception to this rule. Limitations surely derive from the fact that these results cannot be generalised to all the family run tobacco shops since the analysis has been developed only on three tobacco shops even if it is a deep analysis. However in this sense some step forward can be done by continuing the studies of traditional theories (as the agency

theory) as of more recent theories (the institutional logics approach and socioemotional wealth) in this controversial sector in order to enlarge this first contribution given in this field by this thesis.

APPENDIX A: ORIGINAL INTERVIEW PROTOCOL

Le logiche dei tabaccai italiani: *Famiglia e Business*

Il progetto promosso dall'Università degli Studi di Padova (prof. Paolo Gubitta e dott.ssa Alessandra Tognazzo) **ha lo scopo di studiare in che modo la famiglia e l'impresa si relazionano nel settore delle tabaccherie.**

I risultati dello studio saranno utilizzati per comprendere le esperienze e, soprattutto, il ruolo che le famiglie hanno nel business delle tabaccherie, la cui industria è fortemente caratterizzata dalla presenza della famiglia.

Le faremo alcune domande per capire le Sue esperienze e le Sue proposte legate a questo tema.

Se Lei è d'accordo, durante l'intervista effettueremo una registrazione e prenderemo alcuni appunti.

Le assicuriamo che le informazioni da Lei fornite, verranno trattate in modo anonimo nel rispetto della Legge sulla Privacy D.Lgs 196/2003.

La ringraziamo per la cortese disponibilità.

Data _____

Firma dell'Intervistato

Firma del Ricercatore Universitario

Protocollo di intervista semi-strutturata per i tabaccai

Domande introduttive

- Mi parli di lei e del suo lavoro...
- Quando e come ha iniziato questa attività?
- Quanto e perché la sua famiglia ha avuto un ruolo nella scelta di avviare quest'attività?
- Perché (goals) ha deciso di iniziare quest'attività?

Domande sul business: focalizzi la sua attenzione sulla tabaccheria intesa come negozio.

- Potrebbe descrivere in breve il suo negozio? Quali prodotti/servizi offre?
- L'offerta è stata sempre composta da questi prodotti/servizi oppure ha dovuto introdurli in un certo momento storico?
 - Se sì...
 - Quali erano le sue aspettative o comunque le motivazioni che hanno portato al loro inserimento nel negozio? Ne citi qualcuna.
 - La sua famiglia, l'ha sostenuta oppure no nella scelta di vendere/offrire questi prodotti/servizi piuttosto che altri ed in che modo?
- Il tabaccaio nasce principalmente come rivenditore di sigarette o tabacco in generale... pertanto quando decide di introdurre un prodotto nuovo diverso da esso, per quale motivo lo fa?
- Se introduce prodotti non diversi o comunque legati tabacco, perché lo fa?
- Potrebbe parlarmi della composizione del suo fatturato? In quale misura i diversi servizi/prodotti contribuiscono?
- Quali rischi legati a questa attività vede/percepisce? Ed in quale misura?

Domande su famiglia del tabaccaio: pensi alla sua attività in relazione alla sua famiglia ed ai suoi valori

- Come è coinvolta la famiglia all'interno del negozio?
 - Per quale motivo?
- Riguardo le slot machine, ha qualche timore? E qualcuno nella Sua famiglia ha sostenuto o ostacolato l'idea di metterle?
- (Se non ha slot machine) Perché ha scelto di non avere nel negozio slot machine? Qualcuno nella Sua famiglia ha sostenuto o ostacolato l'idea di metterle?
- Desidererebbe cedere l'attività ai suoi figli o ad altri parenti in futuro? Spieghi il perché.

Domande sui dipendenti

- MI parli delle persone che lavorano all'interno del negozio...
 - Quante persone lavorano all'interno del negozio e da quanto tempo? Ci sono membri della famiglia oppure solo persone estranee alla famiglia?
 - Se ci sono membri della famiglia...

- Qual è la motivazione alla base di questa scelta?
- Come viene regolato il rapporto di lavoro fra lei ed i membri della famiglia?
- Se non ci sono membri della famiglia...
 - Qual è la motivazione alla base di questa scelta?
 - Quale tipo di rapporto esiste fra lei e i suoi dipendenti?
- Come sono suddivisi i compiti? Perché?
 - Chi può accedere alla cassa? Come mai? Effettua dei controlli sulla cassa?

Domande su environment:

- In generale, come descriverebbe il settore delle tabaccherie visto che può essere visto come un settore “particolare” dalla gente?
- Pensa che il settore delle tabaccherie in Italia è cambiato negli ultimi anni?
 - In che modo?
- Quale pensa sia l’andamento del settore in generale, magari anche confrontandosi con gli altri tabaccai?
 - Pensa di voler attuare delle strategie per essere in linea con tale andamento?
 - Se si...
 - Quali strategie?
 - E come mai?
 - Ci ha pensato da solo o anche con altri membri della famiglia?

Vuole raccontarci qualcos’altro che pensa sia rilevante per aiutarci a capire meglio il rapporto tra famiglia e impresa nelle tabaccherie italiane?
La ringraziamo per la Sua disponibilità, l’intervista è finita

APPENDIX B: ENGLISH TRANSLATION

The logics of Italian tobacco shops: Family and business

This project is promoted by the University of Padua (prof. Paolo Gubitta and dott.ssa Alessandra Tognazzo) and it has **the aim of studying the relationship between the family and the business in the tobacco shops' sector.**

The results of the study are going to be used in order to understand tobacconists' experiences and, mostly, the role that families play within the tobacco shops, whose industry is strongly characterized by the family presence.

We are going to make you some questions in order to understand your experiences and your proposals related to this topic.

If you agree, during the registration we will record it and we will take some notes.

We assure you that the information that you are going to provide will be treated anonymously with respect to the D.Lgs 196/2003 privacy law.

Thank you for your time

Date _____

Interviewee's signature

University researcher's signature

Semi-structured interview protocol for tobaccoconists

Introductory questions

- Let's talk about yourself and your job...
- When and how did you start this business?
- How much and why did your family have a role in the choice of starting this business?
- Why (goals) did you decide to start this business?

Questions about the business: please focus your attention on the tobacco shop

- Could you describe, briefly, your shop? Which products/services does it offer?
- Has the offering always been imposed by these products/services or have you introduced them at a specific moment?
 - If yes...
 - Which were your expectations that have led you to introduce them? Can you tell us an example?
 - Has your family sustained you in the decision of selling these products/services rather than others and in which way?
- Tobacco shops mainly sell cigarettes or tobacco products in general...so, when you decide to introduce a new product not related to it, why do you do this?
- If you introduce products related to the tobacco, why do you do this?
- Could you talk me about the composition of your turnover? What is the contribution of each product/service offered to the turnover?
- Which are the main risks related to this business that you perceive? In which extent?

Questions about the tobaccoconist's family: your business in relation to your family and your values

- In which way is your family involved in the business management?
 - Why?
- Concerning slot machines, some fear? Has someone of your family sustained or hindered the decision to introduce them in the shop?
- (If there are not slot machines) Why have you chosen this? Has someone of your family sustained or hindered the decision to introduce them in the shop?
- Would you like to leave the business in the hands of your offspring? Could you tell me why?

Questions about personnel

- Talk me about people working within the shop...
 - How many people are working in the shop? And How long? Are there any members of the family or not?
 - If family members work within the shop...
 - Why this choice?
 - How does your employment relationship regulated?

- If family members do not work within the shop...
 - Why this choice?
 - What kind of relationship do exist between you and the employees?
- How are tasks divided?
 - Who has the access to the cash? Why? Do you perform some controls on the cash?

Questions about environment

- In general, how do you describe the tobacco shops' sector, since it can be seen as particular sector by audience?
- Do you think that this sector, in Italy, has changed in recent years?
 - How?
- What do you think is the general trend of this sector? Do you confront yourself with other tobacconists?
 - Are you going to undertake strategies to be in line with this trend?
 - If yes...
 - Which strategies?
 - Why?
 - Have also your family helped you?

Do you want to tell us something else, which you think could be relevant in order to help us to better understand innovation in Italian tobacco shops?
We thank you for your availability, the interview is over.

REFERENCES

- AKERLOF, G.A., 1970. The market for "lemons": Quality uncertainty and the market mechanism. *The Quarterly Journal Of Economics*, , pp. 488-500.
- ALLEN, B., 1990. Information as an economic commodity. *The American Economic Review*, 80(2), pp. 268-273.
- BERLE, A. and MEANS, G., 1932. The modern corporate and private property. *McMillian, New York, NY*, .
- BERRONE, P., CRUZ, C. and GOMEZ-MEJIA, L.R., 2012. Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, 25(3), pp. 258-279.
- BHAPPU, A.D., 2000. The Japanese family: An institutional logic for Japanese corporate networks and Japanese management. *Academy of Management Review*, 25(2), pp. 409-415.
- BLADER, S.L. and CHEN, Y., 2012. Differentiating the effects of status and power: a justice perspective. *Journal of personality and social psychology*, 102(5), pp. 994.
- CHRISMAN, J.J., CHUA, J.H. and STEIER, L.P., 2003. An introduction to theories of family business, *Journal of Business Venturing* 18 (2003) 441 – 448
- CUCCULELLI, M., 2013. Family firms, entrepreneurship and economic development. *Journal of Applied Economics*, 31(2),.
- CUCCULELLI, M., MANNARINO, L., PUPO, V. and RICOTTA, F., 2014. Owner-management, firm age, and productivity in Italian family firms. *Journal of Small Business Management*, 52(2), pp. 325-343.

- CUCCULELLI, M. and MICUCCI, G., 2008. Family succession and firm performance: Evidence from Italian family firms. *Journal of Corporate Finance*, 14(1), pp. 17-31.
- CYERT, R.M. and MARCH, J.G., 1963. A behavioral theory of the firm. *Englewood Cliffs, NJ*, 2.
- DALPIAZ, E., RINDOVA, V. and RAVASI, D., 2016. Combining Logics to Transform Organizational Agency: Blending Industry and Art at Alessi. *Administrative Science Quarterly*, 61(3), pp. 347-392.
- DAVIS, J. and TAGIURI, R., 1982. "Bivalent attributes of the family firm", *Santa Barbara, CA: Owner Managed Business Institute*.
- DIMAGGIO, P. and POWELL, W.W., 1983. The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review*, 48(2), pp. 147-160.
- EISENHARDT, K.M., 1989. Agency theory: An assessment and review. *Academy of management review*, 14(1), pp. 57-74.
- FAMA, E.F., 1980. Agency Problems and the Theory of the Firm. *Journal of political economy*, 88(2), pp. 288-307.
- FAMA, E.F. and JENSEN, M.C., 1983. Separation of ownership and control. *The journal of law and Economics*, 26(2), pp. 301-325.
- FEDERAZIONE ITALIANA TABACCAI, 2010. Che impresa! La tabaccheria italiana e la sfi-da del cambiamento: presupposti economici ed opportunità di mercato. Roma
- FRIEDLAND, R. and ALFORD, R.R., 1991. Bringing society back in: Symbols, practices and institutional contradictions. In *The New Institutionalism in Organizational Analysis (25 October 1991)*, pp. 232-263
- GABAIX, X., LAIBSON, D., MOLOCHE, G. and WEINBERG, S.E., 2003. The allocation of attention: theory and evidence. *MIT Department of Economics Working Paper No. 03-31*
- GARUD, R., HARDY, C. and MAGUIRE, S., 2007. Institutional entrepreneurship as embedded agency: An introduction to the special issue, *Organization studies* 28(07): 957-969.

- GÓMEZ-MEJÍA, L.R., HAYNES, K.T., NÚÑEZ-NICKEL, M., JACOBSON, K.J. and MOYANO-FUENTES, J., 2007. Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52(1), pp. 106-137.
- GOMEZ-MEJIA, L.R., NUNEZ-NICKEL, M. and GUTIERREZ, I., 2001. The role of family ties in agency contracts. *Academy of management Journal*, 44(1), pp. 81-95.
- GREENWOOD, R., DÍAZ, A.M., LI, S.X. and LORENTE, J.C., 2010. The multiplicity of institutional logics and the heterogeneity of organizational responses. *Organization Science*, 21(2), pp. 521-539.
- HART, O. and MOORE, J., 1999. Foundations of incomplete contracts. *The Review of Economic Studies*, 66(1), pp. 115-138.
- HAYEK, F.A., 1945. The use of knowledge in society. *The American Economic Review*, , pp. 519-530.
- HERRERO, I., 2011. Agency costs, family ties, and firm efficiency. *Journal of Management*, , pp. 0149206310394866.
- HUDSON, B.A., 2008. Against all odds: A consideration of core-stigmatized organizations. *Academy of Management Review*, 33(1), pp. 252-266.
- JACOB, E.K., 2004. Classification and categorization: a difference that makes a difference. *Library trends*, 52(3), pp. 515.
- JACOB, K. and VOLKERY, A., 2004. Institutions and instruments for government self-regulation: environmental policy integration in a cross-country perspective. *Journal of Comparative Policy Analysis: Research and Practice*, 6(3), pp. 291-309.
- JENSEN, M.C. and MECKLING, W.H., 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), pp. 305-360.
- JOHANSEN, C.B. and WALDORFF, S.B., 2015. What are Institutional Logics-and Where is the Perspective Taking Us? *Paper for the Academy of Management conference 2015*.
- KAHNEMAN, D. and TVERSKY, A., 1979. Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the econometric society*, , pp. 263-291.

- KOTEY, B., 2005. Goals, management practices, and performance of family SMEs. *International Journal of Entrepreneurial Behavior & Research*, 11(1), pp. 3-24.
- KRUGMAN, P., 2009. The Return of Depression and the Crisis of 2008.
- LANSBERG, I.S., 1983. Managing human resources in family firms: *The problem of institutional overlap*. *Organizational dynamics*, 12(1), pp. 39-46.
- LEAPTROTT, J., 2005. An institutional theory view of the family business. *Family Business Review*, 18(3), pp. 215-228.
- MACCRIMMON, K. and WEHRUNG, D., Taking Risks: The Management of Uncertainty. 1986. *New York: Free Press, 1986. 380 pp.*
- MARCH, J.G. and SHAPIRA, Z., 1987. Managerial perspectives on risk and risk taking. *Management science*, 33(11), pp. 1404-1418.
- MAURER, J. G. 1971. Readings in organizational theory: Open system approaches. *New York: Random House.*
- MEYER, J.W., 2008. Reflections on institutional theories of organizations. *The Sage handbook of organizational institutionalism*, , pp. 790-811.
- MEYER, J.W. and ROWAN, B., 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American journal of sociology*, 83(2), pp. 340-363.
- MILLER, D., BRETON-MILLER, L., MINICHILLI, A., CORBETTA, G. and PITTINO, D., 2014. When do non-family CEOs outperform in family firms? Agency and behavioural agency perspectives. *Journal of Management Studies*, 51(4), pp. 547-572.
- OCASIO, W., 1995. The enactment of economic adversity-a reconciliation of theories of failure-induced change and threat-rigidity. *Research in organizational behavior: an annual series of analytical essays and critical reviews*, vol 17, 1995, 17, pp. 287-331.
- PANTINI D., AND LUNATI F., 2009. La filiera del tabacco in Italia. Impatto socio-economico e aspetti di politica fiscale. XIII rapporto. *Roma: Agra Editrice*
- PERRONE, M., 2015. Dai divieti alle e-cig: ecco le nuove regole in arrivo sul fumo. Il sole 24 ore. Available at <<http://www.ilsole24ore.com/art/notizie/2015-10-12/decreto-fumo-divieto-fumare-auto-se-ci-sono-minori>>
- POZA, E.J., 2010. Family business. 3rd ed., internat. ed. *Mason Cengage Learning.*

- REAST, J., MAON, F., LINDGREEN, A. and VANHAMME, J., 2013. Legitimacy-seeking organizational strategies in controversial industries: A case study analysis and a bidimensional model. *Journal of Business Ethics*, 118(1), pp. 139-153.
- REAY, T. and HININGS, C.R., 2009. Managing the rivalry of competing institutional logics. *Organization Studies*, 30(6), pp. 629-652.
- ROSS, S.A., 1973. The economic theory of agency: The principal's problem. *The American Economic Review*, 63(2), pp. 134-139.
- SCHULZE, W.S., LUBATKIN, M.H., DINO, R.N. and BUCHHOLTZ, A.K., 2001. Agency relationships in family firms: Theory and evidence. *Organization science*, 12(2), pp. 99-116.
- SCOTT, W.R., 1987. The adolescence of institutional theory. *Administrative Science Quarterly*, , pp. 493-511.
- SCOTT, W.R. and DAVIS, G.F., 2007. Organizations and organizing. Rational, Natural and Open Perspectives, *Pearson Prentice Hall*, 2007 - 452 pag.
- SELZNICK, P., 1957. Leadership in administration: A sociological interpretation. *Berkeley. Cal, Oxford University press*.
- SELZNICK, P., 1948. Foundations of the Theory of Organization. *American Sociological Review*, 13(1), pp. 25-35.
- SIMON, H.A., 1955. A behavioral model of rational choice. *The quarterly journal of economics*, 69(1), pp. 99-118.
- SMITH, A., 1776. The wealth of nations. *New York: The Modern Library*.
- SUCHMAN, M.C., 1995. Managing legitimacy: Strategic and institutional approaches. *Academy of management review*, 20(3), pp. 571-610.
- THORNTON, P.H., 2004. Markets from culture: Institutional logics and organizational decisions in higher education publishing. *Stanford University Press*.
- THORNTON, P.H., 2002. The rise of the corporation in a craft industry: Conflict and conformity in institutional logics. *Academy of management journal*, 45(1), pp. 81-101.
- THORNTON, P.H. and OCASIO, W., 2008. Institutional logics. *The Sage handbook of organizational institutionalism*, 840, pp. 99-128.
- THORNTON, P.H. and OCASIO, W., 1999. Institutional logics and the historical contingency of power in organizations: Executive succession in the higher

- education publishing industry, 1958–1990 1. *American journal of Sociology*, 105(3), pp. 801-843.
- TOSI JR, H.L. and GOMEZ-MEJIA, L.R., 1989. The decoupling of CEO pay and performance: An agency theory perspective. *Administrative Science Quarterly*, pp. 169-189.
- WARNER, K.E., 2000. The economics of tobacco: myths and realities. *Tobacco control*, 9(1), pp. 78-89.
- WETTENHALL, R., 2011. State enterprise for ethical reasons: mostly alcohol and tobacco. *Policy Studies*, 32(3), pp. 243-261.
- WISEMAN, R.M. and BROMILEY, P., 1996. Toward a model of risk in declining organizations: An empirical examination of risk, performance and decline. *Organization Science*, 7(5), pp. 524-543.
- ZUCKER, L.G., 1977. The role of institutionalization in cultural persistence. *American Sociological Review*, , pp. 726-743.
- YIN R. K., 1994. Case study research: Design and methods. 2nd ed. Thousand Oaks, CA: Sage Publications.
- XV NOMISMA REPORT, 2012. La filiera del tabacco in Italia.
<www.smetteredifumare.it>. Last Access 18/02/2017
<www.agenziadoganeemonopoli.go.it>. Last access 18/02/2017