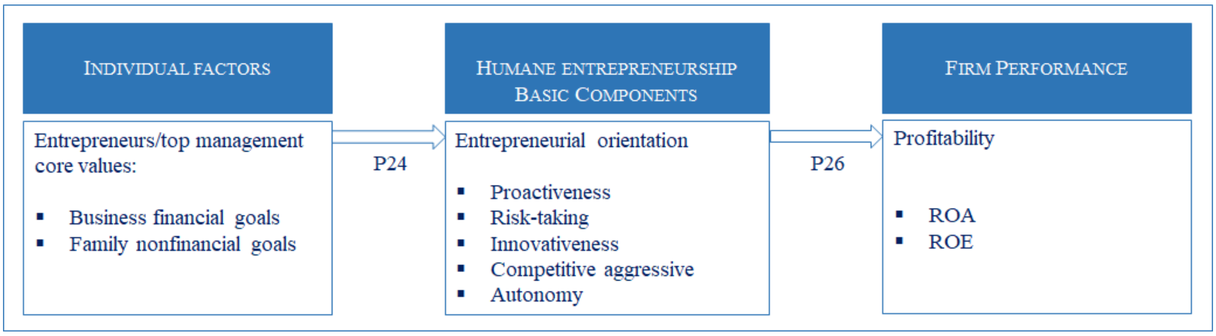
The Effect of Financial and Nonfinancial Goals on Performance: An Empirical Application of Humane Entrepreneurship theory in Family Firms' Context

The present research draws on Humane Entrepreneurship theory (hereafter HumEntr) (Parente, ElTarabishy, Vesci, and Botti 2018) with the aim to empirically test the effect of the individual factors on the basic components of HumEntr and thus on firm performance, in the specific family firms' context. In details, it focuses on "entrepreneurs/top management core values" (Schwartz 2007) as individual factors and, because it measures these aspects in family firms' context, specifically it considers business financial goals and family nonfinancial goals (Molly, Uhlaner, De Massis, and Laveren 2018). Among the others basic components of HumEntr, it focuses on entrepreneurial orientation (hereafter EO) measured through its five dimensions (proactiveness, innovativeness, risk-taking, competitive aggressive and autonomy) (Lumpkin and Dess 1996). Finally, to assess the effect on performance, it measures profitability, in terms of ROA (return on assets) and ROE (return on equity). In doing so, it seeks to provide empirical evidence to the propositions 24 and 26 as stated by Parente, ElTarabishy, Vesci and Botti (2018). The figure below shows the conceptual model.

Figure 1 – Conceptual Model



Theoretical framework, background and motivations - Humane Entrepreneurship theory (Parente, ElTarabishy, Vesci, and Botti 2018) suggests that firms' outcomes can be viewed as a reflection of Humane Entrepreneurship, in turn influenced by external, internal and individual factors. HumEnt may be defined by the integration of three dimensions: entrepreneurial orientation, sustainability orientation, and humane resources orientation. Put it differently, it is based on the idea that entrepreneurs should extend their priorities beyond their profit margin, a concept that has always been familiar for family firms. Indeed, as previous studies (e.g., Chrisman, Chua, and Sharma 2005; Sharma 2004; Westhead and Howorth 2007) have suggested family firms differ from nonfamily firms in their greater propensity to assess strategic decisions in relation to both financial and nonfinancial goals. Besides, while both family and nonfamily firms are likely to pursue financial goals, family firms more uniquely pursue also nonfinancial goals, also defined as family-centered goals in family business literature (Williams, Pieper, Kellermanns, and Astrachan 2018). Therefore, family firms offer a unique context of investigation to test the effect of entrepreneurs/top management values on orientations and performance (Chrisman, Chua, Pearson, and Barnett 2012). As financial and nonfinancial goals are actually a reflection of the values, attitudes, and intentions of a firm's dominant coalition, being the family a dominant coalition (Chua Chrisman, and Sharma 1999), it has the power to influence the extent to which family nonfinancial goals and business financial goals are pursued and, consequently, to affect behaviors and performance (Astrachan and Jaskiewicz 2008; Hofer and Schendel 1978). Specifically, moving from previous studies we hypothesize that while financial goals have a positive effect on EO and thus on performance (e.g., Huybrechts, Voordeckers, and Lybaert 2013; Cruz and Nordqvist 2012), nonfinancial goals exert a negative influence (e.g., Koropp, Grichnik, and Kellermanns 2013; Kotlar and De Massis 2013).

Methods - *Sample.* Hypotheses are tested on a sample of 256 Italian family firms, in the form of limited companies, periodically monitored by the Family Business Observatory – University of Salerno. The research data used is a combination of survey data and publicly available archival data. This offers us the possibility to verify respondents' reliability (Podsakoff and Organ 1986). However, as the survey respondent was just a single key informant, preferable the entrepreneur or the CEO, we also control for possible key informant bias, through the application of Harmans' one-factor test and partial correlation procedure (Podsakoff and Organ 1986; Lyon, Lumpkin, and Dess 2000).

Variables. As dependent variables, we use the *return on assets* (ROA), calculated as operative income/total asset ratio, and the *return on equity* (ROE), i.e., net income divided by equity capital, recorded in 2016. Both measures are commonly used to assess top executive and family impact on firm performance (Kowalewski, Talavera, and Stetsyuk 2010). Our main independent variables are financial and nonfinancial goals. We collected information about them through the survey administered in the 2015. Specifically, to measure *financial goals*, we considered to what extent maximizing sales, profit and return on investment and ensuring a sustainable level of cash flow were important goals for the respondent. To assess *nonfinancial goals*, we considered, as in previous studies (Molly, Uhlaner, De Massis, and Laveren 2018) family control, family harmony, succession, and employing family members. Finally, to measure *entrepreneurial orientation* (mediating variable), we collected information about its five dimensions (Lumpkin and Dess 1996) through survey. Each item was measured on a seven-point semantic differential scale (Osgood 1964). We include in all regressions also some control variables: *firm age, firm size, industry, debt/equity ratio, TMT size, family ownership and generation in ownership*.

Data analysis. We carried out factor analyses to yield consistent variables for financial goals, nonfinancial goals and EO. The related Cronbach's alpha coefficients exceeded the recommended minimum of .70, thus indicating a good level of internal consistency and sufficient reliability (Hair, Anderson, Tatham, and Black 2010).

The hypotheses are tested using a mediation model (Baron and Kenny 1986). The regressions were tested with heteroscedasticity-consistent standard errors. With respect to potential multicollinearity, we estimated variance inflation factors (VIF), ranging from 1 to 2, and the condition index, finding the highest value equals 12.43. Hence, we conclude that multicollinearity is not a major problem (Hair, Anderson, Tatham, and Black 2010).

Main findings - Our main findings suggest that while nonfinancial goals have a negative effect on EO, financial goals have a positive one and in turn positively affect profitability. To put it differently, in family firms, where financial and nonfinancial goals coexist, the positive effect of EO on performance is fostered by financial goals and is hindered by nonfinancial goals.

Contribution and limitations - This research, although in an embryonal phase, has aimed to provide empirical evidence to the Humane Entrepreneurship theory (Parente, ElTarabishy, Vesci, and Botti 2018). Specifically, it has sought to answer to the RQs 1, 3a and 4 proposed by Parente, ElTarabishy, Vesci and Botti (2018), by applying the theory to the specific family firms' context; and to the RQ5, by studying the effect of financial and nonfinancial goals on EO and performance. However, the work does not provide a full application of the theory, while it would be interesting to test the effect of other internal and individual factors on all the basic components of Humane Entrepreneurship and thus on performance, also in family firms' context, to contribute to both entrepreneurship and family business fields.

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