# CORPORATE GOVERNANCE AND PERFORMANCE OF FAMILY FIRMS: EXPLORING THE ROLE OF MIXED BOARD COMPOSITION

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### Abstract

This research study examines how mixed board composition, family and non-family members serving together, affects the performance of family firms. While governance literature highlights the benefits of board diversity, evidence within family business contexts is mixed. Drawing on agency and stewardship theories, the study adopts a qualitative multiple case study approach of Italian and Spanish family firms. Data are collected through interviews, documents, and observations, and analyzed with grounded theory methods. Preliminary findings indicate that non-family directors enhance firm performance when relational trust and communication are established, but tensions may arise when cultural or generational divides persist. The study contributes to family business research by clarifying the role of governance dynamics in shaping strategic outcomes and provides practical insights for designing effective mixed boards.

## 1. INTRODUCTION

Family firms represent a dominant form of business worldwide, contributing significantly to employment, gross domestic product (GDP), and regional development (La Porta et al., 1999; Miller & Le Breton-Miller, 2006). Despite their prevalence, family firms exhibit a wide heterogeneity in governance structures, particularly in the composition of their boards. The coexistence of family and non-family members on the board — defined here as *mixed board composition* — raises critical questions regarding firm performance, strategic decision-making, and long-term sustainability (Anderson & Reeb, 2004; Minichilli et al., 2010).

Corporate governance literature suggests that board diversity in terms of background, independence, and experience improves oversight and reduces agency conflicts (Fama & Jensen, 1983). However, in the context of family firms, this dynamic is nuanced. Family involvement can foster stewardship and long-term orientation (Chrisman et al., 1998), but it may also lead to entrenchment and resistance to external influence (Gómez-Mejía et al., 2007). The inclusion of non-family members may counterbalance these effects, offering professional expertise and objectivity (Corbetta & Salvato, 2004). Yet, empirical results remain inconclusive, and the mechanisms through which board composition affects performance are still underexplored.

This study aims to investigate how the presence of both family and non-family members on the board influences firm performance in family businesses, through a qualitative, exploratory lens.

The goal is to understand *how and why* mixed board composition affects strategic and financial performance in family firms. In particular, the study addresses the following research questions:

*RQ1: In what ways does the interaction between family and non-family board members influence strategic decision-making in family firms?*

*RQ2: What are the perceived benefits and challenges of mixed board composition for firm performance?*

*RQ3: How does the level of family ownership and generational stage moderate the impact of board composition on performance?*

These questions are rooted in the theoretical tension between *agency theory*, which emphasizes the monitoring role of non-family directors (Jensen & Meckling, 1976), and *stewardship theory*, which highlights trust, loyalty, and long-term commitment by family members (Davis et al., 1997).

## 2. LITERATURE REVIEW

Prior studies suggest that family firms with non-family directors on the board tend to outperform those with purely family-based governance, particularly when external directors bring industry knowledge and independence (Anderson & Reeb, 2004). However, the effect varies across contexts. For instance, Minichilli et al. (2010) found that performance gains depend on the quality of interaction between board members, not merely their status.

Additionally, the *resource-based view* (Barney, 1991) underlines how board heterogeneity can enhance access to diverse skills and networks, potentially leading to superior firm capabilities. Conversely, scholars like Schulze et al. (2001) caution that conflicting interests and emotional ties in family firms may hinder effective governance, particularly when professional outsiders challenge traditional decision-making norms.

More recent work (Kellermanns et al., 2008; Nordqvist et al., 2014) has highlighted the importance of *board dynamics*, including trust, psychological ownership, and communication, as mediators in the relationship between board composition and performance.

## 3. METHODOLOGY

This research adopts a *qualitative multiple case study* approach, well-suited for exploring complex social processes in organizational contexts (Yin, 2018). The focus is on small to medium-sized family firms in Italy and Spain, selected for their mature governance structures and willingness to participate in in-depth interviews.

*Sampling criteria*:

- family ownership > 50%;
- active family involvement in governance;
- presence of at least one non-family board member;
- at least second-generation leadership.

*Data collection methods*:

- semi-structured interviews with family and non-family board members (10–15 per firm);
- analysis of internal documents (minutes, strategic plans, governance codes);
- observational data (when possible) during board meetings.

## 4. DATA ANALYSIS

Interview transcripts and documents will be coded using a grounded theory approach (Glaser & Strauss, 1967), allowing for inductive emergence of themes. NVivo software will support the organization and analysis of qualitative data. Particular attention will be given to perceived contributions of non-family members, conflict resolution mechanisms, and links between board decisions and key performance indicators (e.g., return on assets, growth, innovation, family satisfaction).

Triangulation across data sources will enhance validity, and cross-case comparisons will identify patterns and contingencies related to board composition and performance.

## 5. PRELIMINARY INSIGHTS, CONTRIBUTION, CONCLUSION

Preliminary evidence suggests that *mixed board composition* enhances performance when non-family members are integrated not only structurally but also *relationally*, through trust, shared values, and communication. However, when cultural and generational gaps are significant, the board may become a site of *latent conflict*, reducing its strategic effectiveness.

The study contributes to the literature by:

- unpacking the *microfoundations* of board effectiveness in family firms;
- proposing a framework that links governance structures, board dynamics, and performance outcomes;
- informing practitioners about best practices for composing and managing mixed boards.

Understanding the interplay between family and non-family board members is critical for the sustainable performance of family firms. By focusing on the lived experiences and governance processes within these firms, this research sheds light on how relational dynamics shape strategic outcomes. The findings aim to enrich both academic discourse and practical governance models in the family business field.

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