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Is board composition a correct predictor of firm performance in family SMEs? A test of resource dependence and resource based theory

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Abstract

Research on boards of directors in the SMEs has received a growing attention in the last two decades. Similarly to the research on large firms, studies on governance bodies in smaller enterprises have been dominated by a tradition in which board composition is related to company performance.

In more recent years of new perspectives on the board-performance relationship have been developed. In particular, agency theory is integrated in a multi-theoretical approach and has been supplemented with other theories in designing the board role, such as stewardship, resource dependence, resource based and institutional theories. Moreover, it has been suggested a more critical approach towards the use of board composition variables: size, structure and characteristics of the board have been analysed in conjunction with the actual behaviour of the board, the levels of board task performance and the context in which the board and the firm operate, described for example in terms of competitive environment and/or stakeholders' expectations

Our research draws on these new directions of study to analyse the impact of board composition on performance within a sample of Italian SMEs.

Keywords: Family SMEs, Boards, Non family executives, Interlocking directorates, Performance

Introduction

Research on boards of directors in the SMEs has received a growing attention in the last two decades (for reviews, see for example Huse, 2000; Daily et al., 2002). Similarly to the research on large firms, studies on governance bodies in smaller enterprises have been dominated by a tradition in which board composition is related to company performance (Huse, 2005).

The theoretical perspective employed in these studies is mainly the agency framework, according to the US research approach to corporate governance, focused on the separation of ownership and control and the protection of the investors (Huse, 2000). This kind of research has however showed inconclusive results, both in large and small firms (Lynall et al.., 2003; Roberts, McNulty, Stiles, 2005). The inconsistency of the findings has led in more recent years to the development of new perspectives on the board-performance relationship.

In particular, agency theory is integrated in a multi-theoretical approach and has been supplemented with other theories in designing the board role, such as stewardship, resource dependence, resource based and institutional theories (see for example Gabrielsson and Huse, 2002; Hillman and Dalziel, 2003; Salvato and Corbetta, 2004).

Moreover, it has been suggested a more critical approach towards the use of board composition variables: size, structure and characteristics of the board have been analysed in conjunction with the actual behaviour of the board, the levels of board task performance (Huse, Gnan, Zattoni, 2006, Van Den Heuvel, Van Gils, 2006) and the context in which the board and the firm operate, described for example in terms of competitive environment and/or stakeholders' expectations (Gabrielsson and Huse, 2004).

Our research draws on these new directions of study to analyse the impact of board composition on performance of Italian SMEs.

The paper is structured as follows. In the section 1 we review the main developments shown in the last two decades by the theory and research on the board roles within the SMEs. In the second section we focus on the theoretical bases of our research and we discuss the hypotheses. In the section 3 we explain the methodologies and the variables employed in the empirical study. Section 4 presents the results of the research, and section 5 draws conclusions and suggests future developments.

1. Theories and research on board roles in SMEs

Agency theory has been the dominant theoretical perspective in the studies on board roles in SMEs (as well as in the large firms) during the past two decades (Huse, 2000; Corbetta and Salvato, 2004, Van der Heuvel et al., 2006).

Following the agency perspective, the board in the small privately held firms should perform primarily a control/monitoring role to align the interests of the owner-manager with those of other shareholders/stakeholders. Given the fact that SMEs are in the vast majority family firms, i.e. firms where the ownership and management functions are carried out mainly by one or few families, the researchers have traditionally assumed that in those settings the misalignment of interests is very uncommon. Small and medium enterprises will have tehrefore insignificant agency problems; the high owerlap between ownership and management and the presence of an owning family ensures motivation, commitment and goal congruence through clan coordination-and-control mechanisms (Eisenhardt, 1989; Daily et al., 2002; Mustakallio et al., 2003).

However, not all owner-family managed firms are the same, and the application of the agency theory to the study of the boards in SMEs has identified significant needs for monitoring functions that could be justified by various features of such enterprises. For example, the board has the task to protect the resource providers of the enterprise (minority shareholders, debt holders, employees) from the risk that the owner/manager may mix personal and business goals (Gabrielsson and Huse, 2005). Agency theory is also used to recommend the adoption of "external" boards which are able to: correct the cognitive biases of the business leader by improving the decision making process and introducing independent and "objective" considerations (Alderfer, 1986), guarantee the independence between owning family and enterprise, through the separation of family rules and business rules (Lansberg, 1999; Schulze et al., 2003); resolve the conflicts between members of the owning family (families) which have different roles in the ownership structure and management of the firm (Chrisman et al., 2004).

The studies carried out within this theoretical framework have often led to the conclusion that smaller enterprises should adopt the "good governance practices" developed by the mainstream literature on board of directors and designed for the big publicly held firms; therefore, the effective board for the SMEs should be relatively large, external/independent and characterized by the separation of Chairman and CEO positions. (see for example, Barach, 1984; Nash, 1988; Schwartz, 1991; Ward and Handy, 1988; Sapienza et al., 2000; Friegener et al., 2000; Schulze et al., 2001).

Those prescriptions can be however seriously misleading because they are not supported by consistent empirical evidence: so far, the studies that link board characteristics to firm performance have shown inconclusive results, both in SMEs and large firms (Dalton et al., 1998; Finkelstein and Hambrick, 1996; Lynall et al., 2003).

Given the inconsistency of the results, in recent years several explanations and improvements in the research methodologies have been proposed.

Some authors have suggested the adoption of a contingency framework to analyse the role of the board in the governance of the SMEs. The concept of the "one best way" for the governing bodies, inspired by the anglo-saxon concept of corporate governance, seeing the governance problem as a conflict between shareholders and managers, should be abandoned. Systems of corporate governance are highly country and context specific, ranging from the "market oriented" to the "network-relationship oriented" frameworks, and this heterogeneity of settings influences also the role and functions of the board of directors. Other contingencies can shape the role of the board, for example, the technological dynamics of the industry, the expectations of the external stakeholders, the institutional features of the environment (Salvato, 1999). Studies propose also that family related contingencies may affect board characteristics and performance (Huse, 1994, 1995; Corbetta and Salvato, 2004). Corbetta and Salvato (2004) present a model where board characteristics are a reflection of a family firm's configuration in terms of family power, experience and culture. Friegener et al. (2000) analyse how CEO ownership, family, and generational "stakes" in the business--indicators of CEO desire to protect discretion from board interference--are related to board composition and task performance.

Another important point refers to the inappropriate use of the board composition variables, whose predictive power was often "overestimated". Demographic composition variables have been used to describe characteristics and dynamics that, in turn, can be comprised only if one opens the "black box" of the boardroom (Pettigrew, 1992; Huse, 2005). Opening the black box means for example examining board working structures and processes. Board working structures include variables such as frequency of meetings, location of meetings, time of meetings, the setting and distribution of the board agenda, form, content,distribution and follow up of board minutes or protocols, the organization and leadership of the board (Zahra and Pearce, 1989; Huse, 2000). Board processes could be studied inside and outside the boardroom and consist for example of reciprocity among members, trust and integrity, emotions, power, coalitions or alliances and ruling techniques, as well as decision processes, small group dynamics, conflicts, use of knowledge and skills (Pearce and Zahra, 1991; Forbes and Milliken, 1999, Huse, Gnan and Zattoni, 2006).

Those insights have led in recent years to adopt broader and more holistic approaches to the role of board of directors and to the relationship board-performance; the common features of these approaches could be summarised as: (1) a greater emphasis on the board's resource provision, in addition to the traditional control role (2) the conjoint use of multiple theories to analyse the roles of the board and link between boards and performance.

The functions of resource provision apply to the service, advise and strategic roles of the board and rely on a stewardship model of corporate governance (Davis, Schoorman and Donaldson, 1997). Stewardship theory, in contrast to the agency framework, states that managers, employees and other stakeholders of the company are not motivated by the pursuit of individual goals, but act to maximize the value of the organization as a common end (for example in terms of growth, profitability, innovation, reputation). According to stewardship theory, the principal role of the board is not to monitor and control the behaviour of the managers (of the owner-managers in the case of small firms), but is to service, advise, and provide strategic knowledge and resources that support firm's leadership strategy. Stewardship model suggests, therefore, the adoption of a board which is mainly composed by insiders or by outsiders that have strong links to the organization and one to each other (Corbetta and Salvato, 2004, Sundaramurthy and Lewis, 2003).

Theories which emphasize the resource provision role of the board are the stakeholder view of the firm (Freeman, 1980; Donaldson and Preston, 1995), the resource based perspective, the resource dependence view. The stakeholder view sees the board as an instrument to create consensus among the different constituencies that are involved into the firm toward a common goal (Donaldson and Preston, 1995, Johnson and Greening, 1999). The resource based perspective suggests that the board is a source of human capital which is crucial to the development of enterprise's strategy. Human capital provided by the board members, which is sometimes labelled as board capital (Hillman and Dalziel, 2003) can be defined in terms of specialized knowledge and skills, expertise, reputation, social ties. Resource dependency theory argues that the survival and success of a firm depends on its abilities to control the external environment in order to reduce the vulnerability with respect to critical resources (Thompson, 1967; Pfeffer and Salancik, 1978). The board, especially through the outside directors, is therefore seen as a connecting mechanism between the firm and its environment, that help to maintain control over critical relationships, assets and contacts (Gabrielsson and Huse, 2005).

Recent studies have adopted and tested these frameworks in a multi-theoretical perspective; for example, Ruigrok et al. (2006a, 2006b) employ agency and resource dependence theory to asses the degree of board's strategic involvement and the role of board's nomination committees; Gabrielsson and Huse (2004) asses the role of outside directors in SME boards using agency, resource dependence and resource based theory; Corbetta and Salvato (2004) develop a contingency framework for the board in family firms testing resource based and agency theory.

2. Board composition and performance in family SMEs: the hypotheses of the research

This paper contributes to the growing body of research that adopts a contingency and multi theoretical approach in the study of board roles in SMEs. In particular, we will study board composition and its effect on the company performance, taking into account the recommendations made by the reviews on the use of top teams and governing bodies demography to predict firm outcomes (Pettigrew, 1992; Priem et al., 1999; Huse, 2000, 2005; Certo et al., 2006).

We will not use demographic variables to (inappropriately) draw conclusions on board dynamics, working style and processes. Instead, we will employ board composition variables as proxies of phenomena which are not necessarily related to the functioning of the board. One important reason to do so is that in Italian SMEs, (which are the focus of our study), the board has often only a formal role and exists solely to accomplish legal requirements. Research shows that only around 20% of firms has a board that actually works as an autonomous governing body. In the remaining firms the governance role of the board is largely substituted or integrated by the informal meetings of the top management team and by the communication among the owners-managers in the daily management of the enterprise (Pittino, 2003, 2007).

We will assume that the board composition variables are expression of the organizational choices and strategic behaviors adopted by the owning CEO and/or by the entrepreneurial family. In particular, the configuration of the board will be interpreted as a reflection of organizational integration and external networking strategies of the firm. The adoption of those strategies will be related to firm's economic performance, using resource based theory and resource dependence perspective.

From a resource-based viewpoint, the board design in family firms is a way to acquire and exploit knowledge and specific competences, which lack to the owning family members and are embodied in the non family directors. Non family directors are therefore involved in the governance of the firm because they bring important contributions to the strategy formation processes, thanks to their human capital endowments, and positively influence the performance of the firm. The non family directors may be involved or not in the management of the firm.

If they are not involved as executives, they can be considered as real "outsiders", and their contribution to the organizational processes of the firm consists in adding new cultural perspectives to the entrepreneurial decision making dynamics or in bringing specialist knowledge related to the competitive, technological and institutional dimensions of the external environment (Johanisson and Huse, 2000). In family firms outside directors are typically consultants and professionals that the CEOs and family members trust, but can be also academics and important representatives of the local business and institutional community (Gabrielsson, Huse, 2004). Venture capital and external investors representatives constitute a particular category of outside directors, which not have an executive position but influence the decision processes and the managerial capabilities of the firm to protect their ownership stakes.

The presence of non family executives in the board could also have an effect on family firm's performance. Recent theoretical developments argue that the investment in human capital of the non family actors is positively related to the level of organizational integration, i.e. the commitment of those persons to the organizational goals (Lazonick and O'Sullivan, 2000). Research suggests that human capital investments of the organizational stakeholders are influenced by the formal and informal corporate governance institutions, which act as incentive devices. Examples are the contractual forms, the composition and the working rules of formal governance bodies, but also the social and cultural processes which generate commitment among the stakeholders towards the firm's goals (Grandori and Soda, 2005, Grandori, 2002).

In the small and medium firms the conditions of organizational integration have for the most part a "social component" (Mustakallio et al., 2002). The sense of belonging and the affective-emotive commitment to the organizational goals are the principal factors which motivate the stakeholders to invest in specialized human capital and in new knowledge. Much less developed are the formal/contractual coordination and integration mechanisms, (for example performance-related executive compensation schemes or executive stock ownership). As a consequence, the main mechanism of organizational integration to encourage the innovative contribution by the relevant stakeholders is the participation to the strategic decisional processes. It has been argued that the sharing of the decision making power is a fundamental mechanism to enhance the contribution of the human capital providers to the firm performance, both in terms of strategic outcomes and economic results (Gianecchini and Gubitta, 2002, Pittino, 2007). Although in the small-medium firms the involvement of the stakeholders in the main decisions processes happens mainly in an informal way, because the formal governance bodies (like the board of directors) are under-utilized. (Pittino, 2003), nevertheless we could argue that the formal appointment of a non family manager in the board of directors is a strong signal of inclusion because it reflects the trust relationship between the person and the owning family.

We can thus argue that the organizational integration process, through the formal appointment in the board, encourages the investment in human capital by the non family managers and, therefore, their positive contribution to firm's performance.

On the basis of those arguments we can propose the following:

Hypothesis 1a The appointment of non family managers with a formal executive position in the board of directors positively influences the performances of the firm

Hypothesis 1b The appointment of outside (non executive) directors in the board of directors positively influences the performances of the firm

The resource dependence theory suggests that the firm may co-opt representatives from important external organizations and/or institutions of the external environment as board members in order to achieve organizational goals" (Pfeffer and Salancik, 1978). Outside members, in this perspective, provide various kind of resources. First, they add legitimacy and reputation to the firm (Daily & Schwenk, 1996; Hambrick & D'Aveni, 1992). This suggests that the prestige of directors can enhance the credibility and performance of the firm they serve (Hillman and Dalziel, 2003). As noted by Pfeffer and Salancik, "prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization" (1978: p. 145). External members provide also channels of communication between the firm and other organizations and give to the firm timely and valuable information that serves to reduce the transaction costs of dealing with uncertainties in the environment, and therefore improves performance (Hillman, Zardkoohi, and Bierman, 1999). This effect is enhanced if the external members serve in one or more other boards, thus representing an interlocking directorate. Interlocking directorates are important in spreading information across firms (Burt, 1980; Palmer, 1983; Useem, 1984), reducing vertical and horizontal coordination costs (Bazerman and Schoorman, 1983), and in serving as a mechanism for the diffusion of innovation (Wejnert, 2002; Hillman and Dalziel, 2003). Moreover, interlocking directorates may be crucial in acquiring resources from important actors outside the firm, for example through influence on financial capital providers, or influence on political bodies or other important stakeholder groups such as customers, suppliers or representatives of social communities and groups of interest.

Research on board networking strategy in SMEs is very limited. Rosa and Scott (1999) explored the existence of multiple directorship among Scottish start ups. George et al. (2001) analyzed 70 small community banks studying board composition, interlocks, entrepreneurial orientation and environmental hostility. They found that firms with a networking strategy performed better (higher return on assets and higher return on equity) than those firms that did not actively pursue the development of networks. Other researchers have studied the determinants of board networking strategy in SMEs (Fiegener et al., 2000; Borch and Huse, 1993; Johanisson and Huse, 2000), emphasizing the role of external members in developing and maintaining a system of key external relationships.

In our research we assume that the board interlocking strategy might influence firm performance in two ways, through (1) the intensity of the interlocks and (2) the extension of the interlocks.

The intensity is defined by the degree of overlap between the boards of the interconnected firms and depends on (1) the number of board members that are involved in a directors' interlock and (2) the number of board members that serve together in other boards. The higher is the intensity of the interlocks, the higher is the density of the interpersonal network among the members of the interconnected boards. High intensity of interlocking directorates leads to benefits similar to a partnership, such as efficient use of common information, efficient decision making, easier communication, scope economies in the use of knowledge. High intensity interlocking directorates help to reduce vertical and horizontal coordination costs and information asymmetries between firm, by reducing threats of opportunistic behavior and by promoting the development of shared languages and routines (Gulati, 1998: Uzzi, 1997).

The second dimension is the extension of the interlocks, that is the number of other boards where sit the directors of the focal firm. The number of one director's interlocks is positively related to the performance of boundary spanning roles, because it enhances the information brokerage activities and the access to diverse sources of knowledge. The broader is the extension of the firm's network through direct interlocks, the higher is the likelihood that in the firm-centered network exist "structural holes". According to the definition of Burt (1992), who has introduced the concept, structural holes are gaps in information flows between actors linked to the same firm, but not linked one to each other. Structural holes provide therefore access to mutually unconnected partners and to distinct information flows. This could have a positive effect on performance in two manners: it enhances firm's innovative potential improving the access to non redundant information and new knowledge and it improves the ability of the firm to control different sources of environmental uncertainty.

We can summarize the above considerations in the following:

Hypothesis 2a The intensity of the interlocking directorates is positively related to firm performance

Hypothesis 2b The extension of the directors' interlocks is positively related to firm performance

3. Data and Methodology

Sample

The analysis has been carried out on a sample of firms composed by the largest 99 family enterprises registered in the Chamber of Commerce of Vicenza (North East of Italy). None of those firm is publicly listed. The ownership is highly concentrated in the hands of one, two or few families. Usually, the family leader is the major shareholder. The average number of employees is 144, ranging from 111 to 291; average level of turnover over the years 2002 to 2004 is 55 millions euros, ranging from 29 millions to 87 millions. Most businesses belong to traditional and specialized sectors: metal and mechanical industries (22%), textile and clothing (30%), food (20%).

Data on governance and economic performance of the firms have been collected from the databases of the local Chamber of Commerce. In the cases where the database information was ambiguous or unclear, it has been compared with other publicly available sources regarding the firm (newspaper articles, web sites, etc.) The board of directors and top executive team composition of each company has been analyzed in depth over a six year period, from 1999 to 2004, to identify the evolution of the governing and management bodies. The members of those bodies have been classified according to their formal role in the company and to their relationship with the owning family (families).

Information on economic performance of the firms refers to the period 1999 – 2004 and has been drawn from balance sheet data also available in the databases of the Chamber of Commerce.

Measures

To assess the relationship between board composition and performance we identified the following measures

Independent variables:

1) Number of the governance positions: this variable identifies the articulation of the formal governance system of the firm and has been created computing the number of formal governance roles within one firm (Chairman, CEO, directors, various Chief Officers, members of the executive committee, etc.).

2) Outside director ratio: this variable captures the incidence of directors who don't work as executives in the firm and do not have ownership stakes and has been computed by dividing the number of non executive directors appointed during the period 1999 - 2004 by the average total number of directors.

3) Non family executives ratio: this variable identifies the incidence of non family managers appointed in the board and has been computed by divid-

ing the number of non family executives appointed during the period 1999 – 2004 by the average total number of directors (family and non family members). Note that we have considered as family members also the non family actors with more than ten years of organizational tenure, because, following Klein, Astrachan and Smyrnios (2005) these actors, thanks to the long term socialization processes, usually have the same core values of the entrepreneurial family

4) Interlocking directors ratio: this variable captures the openness of the board by dividing the number of directors who sit in other boards by the total number of directors. It must be noted that we have excluded form the count the directors who sit in boards of firms owned by the same family group.

5) Network extension: this variable identifies the extension of firm-centred network in terms of number of different enterprises connected to the analysed firm through direct directors' interlocks

6) Network density: this variable approximates the density of the interpersonal network in which the interlocking directors are involved and is computed by dividing the average number of firms to which a single director is connected by the total number of firms in the firm-centred network (network extension): Density and Interlocking directors ratio have been observed together to assess the intensity of firm's interlocking directorates.

Dependent variables.

Growth, profitability and productivity measures have been employed to evaluate firm's performance.

1) Turnover performance: measures the growth ratio of the firm dividing the average turnover level in the period 1999-2001 by the average level in the period 2002 – 2004.

2) ROS performance: measures the variation of return on sales by dividing the average ROS level in the period 1999 – 2001 by the average level in the period 2002 – 2004

3) ROE performance: measures the variation of the return on equity and has been computed by dividing the average ROE level of the period 1999 – 2001 by the average ROE level of the period 2002 – 2004.

We have also considered as control variables the age of the firm, the number of employees and the industrial sector, following the classification of Pavitt (1984). The sectoral variable, in particular, has been employed because several studies show that the industry specific technological conditions may influence the corporate governance choices, both at macro and micro level (for example, Hall and Soskice, 2001; Tylecote and Visintin, 2007). Sector variable is categorised with discrete values ranging from 1 to 4 with 1: traditional sectors, 2: scale intensive sectors, 3: specialised sectors, 4: high tech – science based sectors.

The relationship between board composition and performance has been assessed by estimating multiple OLS regression models for each dependent variable. For each dependent variable we estimated three regression models. The first included only the board networking variables (Interlocking directors ratio, density, extension) and the control variables, the second included only the board structure variables (Non family executives ratio, outsiders ratio) and the controls. The third included both categories of variables plus the controls.

4. Results

The descriptive statistics and correlations for dependent and independent variables are shown in table 1. Correlation analysis (not reported) shows that the number of governance position is positively correlated with the percentage of outsiders and non family executives in the board and this suggests that in family firms the appointment of non executive directors and non family members does not imply a substitution of the family members and of the insiders in the board.

The percentage of outsiders is positively correlated to the degree of technological intensity of the sector. This seems to show that, under conditions of rapid technological evolution and environmental uncertainty, the firm tries to internalize industry specific competences to cope with the complexity of the environment.

The percentage of interlocking directors as well as the interlocking directors' network density are, on the contrary, negatively correlated to the technological intensity of the sector. This result could be explained by the fact that the firms of the sample that belong to the traditional sectors (in particular textile and clothing and leather), belong also to industrial districts. Within those contexts, strong relationships among firms, in some cases even in the form of interlocking directorates, are very common (Lazerson and Lorenzoni, 1999). Another possible explanation is that italian firms belonging to the traditional sector are facing, since the end of nineties, difficult competitive situations and, according to Johanisson and Monsted (1997) and Hillman et al. (2000) board networking strategy are often developed in response to hostile environmental conditions.

Network density is negatively correlated with network extension. Dense networks are therefore homogeneous networks, whereas less dense networks are also more heterogeneous. This seems to suggest that networks with greater extension are also richer in terms of "structural holes" (Burt, 1992) and therefore provide access to more diverse and innovative sources of information.

The control variables age and number of employees are not significantly correlated with the other dimensions of the sample.

Table 1. Descriptive statistics and correlation matrix.

	Mean	*S.D.*
Interlocking directors ratio	0,12	0,21
Network Density	0,20	0,35
Network extension	1,11	2,20
N. of Employees	144	114
Age of the firm	25,1	9,4
ROE performance	0,15	0,16
ROS performance	0,13	0,17
Turnover performance	1,071	0,22
Number of governance positions	7,4	3,67
Non Family Executives ratio	0,121	0,23
12 Outside directors ratio	0,118	0,17

Regression models results

The regression models with turnover performance as dependent variables did not show any significant result. Table 2 depicts the coefficients and significance levels of the regression models with ROS performance as dependent variable.

Table 2 Regression models with ROS performance as dependent variable

	Model 1	*Model 2*	*Model 3*

Constant	,871	,711	,880
1. Percentage Interlocking directors	-0,42	-	-0,127
2. Sector	-0,67	-0,76	-,173
3. Network Density	-0,21 (*)	-	-0,142
4 Network extension	0,12	-	0,292(*)
5. Employees	0,042	0,088	-0,107
6. Age of the firm	-,084	-0,082	-0,147
7. Number of governance bodies	0,27(***)	0,267(*)	0,309(**)
8. Percentage NFExecutives	-	0,138	0,165
9 Percentage outside directors	-	0,164	0,380(**)

** significant at the .10 level; ** significant at the .05 level; *** significant at the .01 level.*

Model 3 supports hypothesis 1b and hypothesis 2b: the percentage of outside directors positively influences the performance of the firm and the extension of the firm-centered network through the interlocking directors has a positive impact on the ROS variation. It is interesting to observe that the percentage of the directors involved in an interlock as well as the density of the network have on the other hand a negative impact on the performance, although not significant, except for the variable "density" in the model. It seems, thus, that it is better to have one or few directors involved in a broad and diverse set of relationships rather than a larger number of directors involved in high-cohesion networks.

In the three models the articulation of governance bodies has always a positive and significant effect, and this is consistent with previous studies on family firms (Gnan and Montemerlo, 2001; Corbetta et al., 2004)

Control variables have no significant impact on ROS performance. The influence of the sector is negative, but not significant. Table 3 shows the results for the regressions with ROE performance as dependent variable.

Table 3 Regression models with ROE performance as dependent variable

	Model 1	*Model 2*	*Model 3*
Constant	-,127	-696	,880
1. Percentage Interlocking directors	-0,227(*)	-	-,205(*)

2. Sector	-171	-0,72	-,138
3. Network Density	-0,286 (*)	-	-0,157(*)
4 Network extension	0,123	-	0,161
5. Employees	0,089	,100	,083
6. Age of the firm	0,010	,025	,001
7. Number of governance bodies	-0,005	0,173	0,164
8. Percentage NFExecutives	-	0,233(**)	0,217(**)
9 Percentage outside directors	-	0,456	0,162

** significant at the .10 level; ** significant at the .05 level; *** significant at the .01 level.*

Model 2 and Model 3 provide support to the Hypothesis 1a. The appointment of non family executives in the board has a positive impact on performance. This confirms that family firms include managers without family ties in the main governing and management bodies in order to enhance their contribution in terms of knowledge and human capital. When the family owners/managers do not have the critical competencies to run the business, the involvement of external managers is the principal suggestion coming from the developments of human capital theory applied to family firms. According to this theory, individuals bringing skills that are critical to the firm management and value creation processes should participate in the strategic decision-making. Otherwise, they would not have any incentive to invest in knowledge, with a consequent decline in business performance. Regression analysis seems to support this view.

Hypothesis 1a is not supported. Instead, in the ROE regression, the impact of the intensity of interlocks (measured through network density and interlocking directors ratio)is negative. This finding could have different explanations. We could suppose that dense networks and highly interconnected boards are typical of the firms operating in industrial districts and within traditional sectors, which are facing hostile competitive conditions and experience a decline in performances due to structural reasons. In this cases, the impact of the environmental dynamics can be the major culprit for the negative performance (sign of the sector variable is negative, although not significant). We could also infer that networks with higher extension and lower density are more beneficial for the enterprise's performance. The advantage in terms of access to diverse sources of information and control of heterogeneous drivers of uncertainty is higher than the benefit coming from strong inter-firm relationship within homogeneous board networks.

Conclusions

This paper has tried to contribute, although at an exploratory stage, to the growing body of research that adopts a contingency and multi-theoretical approach in the study of board roles in SMEs. In particular, we have studied the relationship between board composition and firm's economic performance within a sample of Italian small and medium enterprises testing two theories that are alternative to the usual agency based approach in the analysis of board roles: resource based theory and resource dependence theory.
The assumptions of the resource based theory seem to be confirmed by the firms of the sample, with reference to the presence of non family members in top executive positions within the Board of Directors. Formal appointment of executives external to the family in the main governance bodies seems therefore to act as incentive device, since it reflects an "organizational integration strategy" towards the stakeholders which have human capital endowments that are critical for the success of the firm. Future research in this direction should explore the specific competences owned by the non family members. In particular, those competences could be analyzed with respect to environmental contingencies; in particular competences should be considered on the basis of their level of "fit" with the dynamics of the sector. An useful distinction could be made, for example, between firm specific competences and industry specific skills (Tylecote and Visintin, 2007; Russel, 2006). The presence of outside directors, which is positively related with the technological intensity of the industry, seems also to be an important driver for positive performances.
The research has also confirmed the findings of previous studies on governance in family business. In particular, the articulation of formal governance bodies has a positive impact in terms of performance, measured through the ROS.

The test of the Resource dependence theory is, at this time, one of the very few attempts to link board networking strategy of SMEs to firm performance. Rather surprisingly, the analysis has not confirmed the importance of the high intensity relationships which provide "partnership – like" advantages: the negative or insignificant impact of the intensity of board interlocks seems to indicate that interlocking directorates mainly used to improve horizontal and vertical coordination have no positive influence on company performance. Instead, it could be argued that belonging to highly cohesive networks hampers the dynamism and the innovation potentials of the firms, thus negatively influencing economic performance. On the other hand, the number of direct ties of directors seems have a positive impact on the performance of the firm. This indicates that the boundary spanning, information brokering and bridging functions of the interlocking directorates are exploited by the firms of the sample, and this behavior has relevant consequences on firm's performance. This result could suggest that valuable external ties in family firms are not anymore, or not only "strong ties", and that the firms which perform better start to perceive the value of the "weak ties" within more heterogeneous networks (Granovetter, 1983). Further investigation is needed to better explain those dynamics and to explore the social nature of the external ties, in particular to discover to what extent they are characterized by the same social basis which distinguishes the family/close friendship relationship. Future developments both within the resource based framework and within the resource dependence model should therefore explore in depth the individual and relational profile of the board members. The main limitation of the study is in fact the use of simple demographic and structural variables drawn from secondary sources. Different performance measures should also be adopted. In particular, future researches on this topic should consider intermediate variables in the relationship between board and performance, such as innovative output and corporate entrepreneurship.

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Table 1. Descriptive statistics and correlation matrix.

	Mean (SD)	1	2	3	4	5	6	7	8	9	10	11	12
1.Interlocking directors ratio	0,12 (0,21)	1	-,229 (**)	,384 (***)	,340	-,107	-,032	-,194	-,007	-,019	,010	-,114	-.417
2. Sector	-	-,229 (**)	1	-,173	,087	,088	-,074	-,094	,005	,057	,009	,037	,398 (**)
3. Network Density	0,20 (0,35)	,384 (***)	-,173 (*)	1	-609 (**)	-,107	-,147	-,082	,027	-,029	,056	-,065	-.031
4 Network extension	1,11 (2,20)	,340	,087	-609 (**)	1	-.292	,138	,237	-,207	-0,35	-,164	-,172	-247
5. Employees	144 (114)	-,107	,088	-,107	-.292	1	-,064	,097	,083	-,021	,134	,001	-.315
6. Age of the firm	25,1 (9,4)	-,032	-,074	-,147	,138	-,064	1	,032	-,077	-,065	,025	-,016	-380 (*)
7. ROE performance	0,15 (0,16)	-,194 (*)	-,094	-,082	,237	,097	,032	1	,365 (***)	-,081	,000	,188 (***)	,456 (*)
8. ROS performance	0,13 (0,17)	-,007	,005	,027	-,207	,083	-,077	,365 (***)	1	,210 (*)	,251 (**)	,121	,210
9.. Turnover performance	1,071 (0,22)	-,019	,057	-,029	-0,35	-,021	-,065	-,081	,210 (*)	1	-,033	-,030	,256
10. Number of governance positions	7,4 3,68	,010	,009	,056	-,164	,134	,025	,000	,251 (*)	-,033	1	,270 (**)	,574 (**)
11. NFExecutives ratio	0,121 (0,23)	-,114	,037	-,065	-,172	,001	-,016	,188 (***)	,021	-,030	,270 (**)	1	,463 (**)
12 Outside directors ratio	0,118 (0,17)	-.417	,398 (**)	-.031	-,247	-.315	-380 (*)	,456 (*)	,210	,256	,574 (**)	,463 (**)	1

* significant at the .10 level; ** significant at the .05 level; *** significant at the .01 level.