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A Review of Literature of Board of Directors' Composition in Family Firms to study its impact on succession planning

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Introduction

The global economy is changing rapidly and the business environment in which today's business is evolving is becoming more and more complex. Indeed, the changes of business environment have a great impact on how business works and the governance of organization. To manage those new challenges, firms, including Family Firms (FF), will take advantage of the diversity of the men and women who belong to these firms, mainly in their board of directors. In fact, FF represent the majority of businesses of the world (between 80% and 98%; source, Poza 2010). They contribute in the development of economy in different areas such as employment, production and wealth creation. Small and medium-sized FF are the most dominant form of family businesses in Europe[1].Therefore, we explore in this paper the governance of small and medium-sized family firms and particularly the composition of the Board of Directors in such firms.

This essay is a theoretical paper which is a part of a thesis on the influence of Board Composition on succession planning in FF. It draws attention to some of those differences as

[1] https://businessenhance.gov.mt/

they bear on the FF characteristics studied by Wilson, Wright, and Scholes (2013), specifically board composition.

In the literature, there are many definitions of a family firm (Chrisman et al., 2005; Westhead and Cowling, 1998). We use the definition of family firms posed by Litz (1995 p.78): “a business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve and/or maintain intra-organizational family-based relatedness”.

The essence of the significance of governance in a family business has been explained by Ward (1997 p.1x): “For the family-owned business, good governance makes all the difference. Family firms with effective governance practices are more likely to do strategic planning and to do succession planning. On average, they grow faster and live longer”. Corporate governance is considered as “the structure of rights and responsibilities among the parties with a stake in the firm” (Aoki, 2001 p.11). Boards are the internal governing mechanism that shapes firm governance, and establish the link with two other axes in the corporate governance triangle: managers and shareholders (owners). Abdullah and al.(2009 p. 89) has argued that “It may be important to consider the influences a firm has or affected by in order to grasp a better understanding of governance. Owing to vast influential factors, proposed models of corporate governance can be flawed as each social scientist is forming their own scope and concerns”.

Daspit and al. (2017) have mentioned that according to Yu, Lumpkin, Sorenson, and Brigham (2012), the involvement of the family within the business and the idiosyncratic goals of the family are what make the family enterprise unique (e.g., Gersick et al., 1997). FF are comprised of a family system that is at least partially governed by emotional relationships, and a business system that is subject to the economic logic of the market. Complexity emerges when these two systems are overlaid, resulting in substantial heterogeneity (Cohen and Sharma, 2016; Stewart, 2003). Given this complexity and heterogeneity, much remains to be studied about the causes and consequences of FF behavior on succession planning (Dyer et al., 2014; Gagné et al., 2014).

The article is organized as follows. We begin by presenting the roles of Board of Directors in FF. Next, we provide a brief literature review on the diversity in the Board of Directors in FF. Then, we list the various fundamental theories that have been used to underline corporate governance in FF. We conclude by presenting the gaps of the literature and we propose our research problematic.

1. Roles of board

"The Board of Directors is a governing body of an incorporated firm. Its members (directors) are elected normally by the subscribers (stockholders) of the firm (generally at an annual general meeting or AGM) to govern the firm and look after the subscribers' interests. The board has the ultimate decision-making authority and, in general, is empowered to (1) set the company's policy, objectives, and overall direction, (2) adopt bylaws, (3) name members of the advisory, executive, finance, and other committees, (4) hire, monitor, evaluate, and fire the managing director and senior executives, (5) determine and pay the dividend, and (6) issue additional shares"2.

Most small independent companies are FF; most FF are also small. In most small FF management and ownership coincide. In view of this the need for good corporate governance practices in FF cannot be underestimated. "Smaller family-owned businesses are often operated with a degree of informality that is both natural and efficient. The thought is that "corporate governance norms" are for someone else's business—the big guys with their in-house lawyers or big legal budgets"[3]. That attitude can be costly, particularly for a smaller, owner-operated business. FF governance includes both corporate governance, in the form of a board of directors, and family governance, in the form of a family council (Sarbah et al. 2016 p.20). Within each, there are many choices regarding degree of formality and levels of participation. There is no "one-size-fits-all", and while there are certainly "best practices" for each, even the best of these requires adaptation in order to function well in each individual family and family business circumstance. FF are fundamentally different in corporate governance from widely held public companies. These differences derive primarily from the discrete nature of their ownership. Family ownership concentrates control and allows greater agency in governance.

According to Sarbah and al., 2016, the core roles of a well performing board of directors in FF are to set the overall strategy of the firm; oversee the management performance; and ensure that an appropriate corporate governance structure is in place, including a robust control environment, sufficient disclosure levels, and an adequate minority shareholders' protection mechanism. The amount of time and effort allocated by the board to each of these areas will depend on the size and complexity of the FF. The board should make two contributions to the

[2] http://www.businessdictionary.com/definition/board-of-directors.html
[3] https://www.familyownedbusinessadvisors.com/2014/06/corporate-governance-in-a-family-business-who-needs-it/

FF: 1) Overseeing the managerial activity (monitoring); 2) Offering expertise, knowledge and support to the management (resource provision) (Mace, 1972; Zahra and Pearce, 1989; Sarbah et al. 2016).

Moreover, Briano-Turrent and al. (2017) have emphasized on the role played by the board of directors in FF in mitigating agency problems, not only between shareholders and managers (type I agency problem) but also between majority and minority shareholders (type II agency problem) (Acero & Alcalde, 2016). The board of directors constitutes an important control mechanism, as it is responsible for monitoring and preventing managers' opportunistic behavior in protection of minority shareholders (Cueto, 2013). According to Gillan (2006) and Carter et al. (2010), board monitoring includes overseeing continuous compliance with corporate governance regulations. In markets where disclosure is voluntary, board structure complements or substitutes for other corporate governance practices (Brown et al., 2011). Moreover, the board of directors serves as an advisor to the FF, ensures fluent communication with all the company's stakeholders, maximizes corporate performance and lowers uncertainty (Jensen & Meckling, 1976; Su&Lee, 2013). As described in Anderson and Reeb (2004), an effective board protects from resource expropriation by controllers. They highlight the importance of independent directors in mitigating conflicts between shareholder groups and imply that the interests of minority investors are best protected when, through independent directors, they have power relative to family shareholders. Therefore, the composition of the board of directors might alleviate the conflict between controlling and minority investors.

The board of directors is regarded as one of the most critical governance mechanisms in all and medium-sized family businesses (Van Den Heuvel, et al, 2006). Corporate family business boards of directors in the founder's generation may be simple statutory boards created merely to satisfy legal requirements. These early boards may include a family member (e.g. Spouse) and/or a trusted advisor (e.g. Corporate Attorney). When a business gets more complex, the skills needed may exceed the capabilities of the founding family. It is inevitable then that more non-family members will occupy senior management roles. This will have implications for board structure and size (Sarbah et al. 2016).

The evidence supports the view that directors perform multiple functions. They monitor managers, give advice on strategic issues, and provide access to crucial external resources. The need to balance these multiple roles requires close attention to board composition in terms of directors' personal characteristics.

2. Diversity in the Board of Directors of Family Firms

BLAU (1977, p.276) has defined diversity as “the great number of different statuses among which a population is distributed”. Diversity is difference. It is a reality created by individuals and groups from a broad spectrum of demographic and cognitive differences. We consider that these diverse individuals belong to the same firm, their firm, and particularly to the Board of Directors and that they will be having different ideas and opinions about the situations they will be facing.

Among the different dimensions of boards of directors, board composition has received a great attention in the literature (Zahra and Pearce 1989; Rao and Tilt, 2015; Muneza Kagzi, Mahua Guha, 2018). The papers studying board composition in Family Firms have covered different topics: the affiliation of directors, the distinction between inside and outside boards (Finkelstein and Hambrick 1996; Johnson, Daily, and Ellstrand 1996), the determinants of outside directors’ involvement in private firms using a multivariate model (Fiegener et al. 2000a; Westhead 1999). In a 2005 study, Petra examined the effects that outside independent directors had on firm performance and shareholder wealth (2005). He concluded that independent directors do strengthen corporate boards. Similar studies by Gordon (2007) and Mura (2007) came to analogous results.

Diversity in Boards is a fundamental research topic because director heterogeneity plays a key role in how boards function. But there is a real debate about the impact of diversity on governance and consequently on performance. Karen J. Curtin, a former executive vice president of Bank of America, describes the interaction of the two propositions of board diversity in the following statement, “There is real debate between those who think we should be more diverse because it is the right thing to do and those who think we should be more diverse because it actually enhances shareholder value. Unless we get the second point across and people believe it, we’re only going to have tokenism” (Brancato & Patterson, 1999:7).

Research on diversity had covered different types of diversity. Lately, they have focused on gender diversity. This literature was motivated by the recent political measures adopted by many European countries to encourage a greater representation of women in firm board of directors[4]. Some countries (e.g., France voted in 2011 a law requiring publicly traded companies or firms exceeding certain thresholds to appoint women to their boards), have even introduced formal laws requiring female representation on corporate boards. In France, the law

[4] 2018 Report on equality between women and men in the EU.pdf

is applied to companies quoted on the stock exchange, or those with more than 500 employees, with a turnover exceeding €50 million over the previous three years.

This paper analyzes diversity within a particular governance system, family firms. In fact, the family business would behave differently because the family component predominates and undoubtedly influences the company's progress, and in particular the system of governance (Esra Memili 2015). Family businesses are complex entities in which the respective roles of family, management and shareholding are often confused (Gallo and Kenyon-Rouvinez, 2004, Lievens, 2006). They represent particular organizations that require special governance (Nordqvist and Melin (2002). Hirigoyen (2002) recognizes "the family as a governance structure." This family governance encompasses the pre-existing relationship between family members and could then be interpreted as the explanations and descriptions of its structures, evolution and functioning. Nordqvist et al. (2014), for example, highlight the heterogeneous governance structures found among family firms and delineate the configurations that result from the various mixtures of family involvement in firm ownership and management.

The governance system is more complex in family firms than in other businesses: the presence of the family dimension in the firm makes it a place of confrontation between the values of the family and the economic goals. Therefore, organizational, personal and family considerations affect together the definition of the structure of the governance system within the company (Gubitta and Gianecchini, 2002).

The concentration of property rights and control in the hands of a family showed mixed results although the positive relationship between family concentration ownership has been demonstrated by the literature (Anderson and Reeb, 2003, for the U.S.; Sraer and Thesmar, 2007, for France; Favero et al., 2006, for Italy; Barontini and Caprio, 2006, for Europe, among others). According to Jensen and Meckling, (1976) it provides better incentive and contributes to reduce the agency costs. Lauterbach and Vaninsky (1999) and Barth et al. (2005) found it risky because top managers are recruited within the strict perimeter of the family rather than from the general market of managers. They argued that "the management teams of owned-managed firms, and in particular of family-managed firms, are likely to present a lower quality and turnover as compared to publicly held firms" (p.15). Gomez-Mejia et al. (2001) have defended the positive consequences of family-owned firms. According to these authors, emotional motivations could lead the owner-manager to pursue long-term strategies and to preserve the firm survival.

One weakness that bedevils many family businesses which was identified previously is the ambiguity of the different roles played by family members in a family business which can lead to confusion between the roles of management, family and shareholders (IFC 2008). Sound governance therefore promotes a clear understanding of the various role players in a family organization and what their roles are.

Le Breton-Miller and Miller (2013) have suggested that as noted by Wilson et al. (2013), firm demographics—size, age, and industry—as well as board characteristics can influence firm survival. They have proposed that there is another major distinguishing characteristic of family firms—namely the nature of family participation in the business at the different stages of its evolutionary life cycle.

Moreover, many research projects examined the board's composition in FF. Despite a large literature examining the presence of women in the boards, the relationship between female board representation and firm performance has not been proved. Some studies suggest that female directors add value, finding that firms with more female directors tend to generate higher returns on assets (Nguyen and Faff, 2012; Singh, Vinnicombe, and Johnson, 2001) and elicit positive stock market reactions (Campbell and Minguez-Vera, 2010). In contrast, other studies suggest that female directors decrease firm performance, finding that firms with more female directors' experience lower accounting returns (Darmadi, 2011; Minguez-Vera and Martin, 2011) and an overall loss of value for stockholders (Bøhren & Strøm, 2010). In a recent article, Vandebeek, Voordeckers, Lambrechts, and Huybrechts (2016) has used gender as one of the three attributes to measure fault lines in the board of directors that may affect board control and service performance.

Researchers and managers acknowledge the importance of the composition of boards and added value of well-functioning boards of directors in smaller private firms. Johannisson and Huse (2000) and Forbes and Milliken (1999) argue that boards may even have a more important role in smaller than in larger incorporated firms. Several scholars have examined the roles of boards in unquoted family firms. Gabrielsson, Winlund (2000) and Nash (1988) highlighted the added value of the board by examining its strategy and control roles, Ward and Handy (1988) pointed out its general and technical advice and counsel and Whisler (1988) emphasized on its arbitration role among family members.

While there is no single best structure of a family business's board of directors, there is broad support for the importance of board independence, as the presence of independent directors on the board reduces the risk of appropriation of private benefits. By following this route, a family business progresses from an organization in which family relationships are dominant to an organization based primarily on business relationships. In parallel, the informal structure of a family business inherited from its formative years is replaced by a more formal structure in which responsibilities are clarified and the process for taking decisions becomes more regulated (Cadbury, 2000).

According to the literature, a traditional distinction resides between inside and outside boards. Several other affiliations have been added in board literature. Finkelstein and Hambrick (1996) differentiate between four types of directors: inside directors, outside directors, affiliated directors, and family directors. Pearce and Zahra (1992) compare the importance of two types of outside directors, namely affiliated and nonaffiliated. Fiegener et al. (2000b) have examined the category of the outside directors in small and medium-sized family firms and made a distinction between "owner directors" and "non-owner directors". Concentrating on family firms, Schwartz and Barnes (1991) have replaced the traditional distinction and differentiated between three kinds of inside boards as opposed to outside boards (differentiated in number of outsiders): (1) all-family boards, (2) family management boards, containing at least one family member and at least one representative of company management, and (3) quasi boards with at least one professional or retired company executive added to family and manager-directors. Ward and Handy (1988) differentiate between (1) outside boards with subcategories ideal board, majority board, advisory board, and minority board; (2) inside boards with subcategories family board, management board, and shareholder board; and (3) token boards. Finally, the traditional distinction between inside versus outside boards neglects the fact that generally two types of inside boards exist: (1) those solely composed of family members; and (2) those composed of family members and nonfamily managers.

According to Sarbah and al. (2016), independent directors play a vital role in monitoring management performance and limiting managerial opportunism (Fama and Jensen, 1983). The presence of independent members on the board promotes the ability to monitor managerial activity and committee effectiveness (Liu et al., 2016). Independent directors may mitigate the opportunistic behavior of controlling shareholders and improve the efficiency of corporate strategies, since their advisory role brings innovative knowledge (García-Ramos and GarcíaOlalla, 2011). Independent directors could help FF to enhance the organizational capability since they hold specialized professional knowledge and more connections and networks compared with insider members (Su and Lee, 2013). The presence of independent directors on the board strengthens corporate governance, enhances organizational capability, and reduces information asymmetry among investors, particularly in the context of emerging markets where institutions are weak (Kor and Misangyi, 2008). Outside directors play an important role in balancing the power of family firms, since they prevent the expropriation of firm resources and reduce type II agency conflicts improving firm performance (Shleifer and Vishny, 1997). As family firms have more representation of family members on boards and in management, independent directors could decrease the potential wealth expropriation by family controllers. Based on agency theory, independent directors may have greater incentives than inside directors to encourage companies to disclose more information about their corporate governance practices and hence have higher governance ratings (Hussainey&Al-Najjar, 2012). A firm that promotes independent directors demonstrates its willingness to implement better corporate governance practices and reduces incentives to withhold information (Liu et al., 2016). Therefore, family firms' compliance with corporate governance practices moderated by the influence of independent directors can be expected to be greater. By contrast, at low levels of board independence, family firms might decrease corporate governance compliance to the detriment of minority investors.

Studies of board diversity indicate that boards matter. In particular, board composition is correlated with various firm characteristics and outcomes.

3. Theoretical perspectives on the diversity of the Board

Various fundamental theories have been used to underline corporate governance. These theories range from the agency theory and expanded into stewardship theory, Resource Dependence Theory, Behavioral Theory, Human Capital Theory, Social Capital Theory, Social Psychological Theory and the Behavioral Finance Theory.

3.1 Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory is defined as "the relationship between the principals, such as shareholders and agents such as the company executives and managers". Agency theory describes the relationship between two parties, the principal and the agent-manager and suggests that managers will choose opportunistic self-interested behavior rather than behavior aimed at maximizing the principal's interest (Davis et al., 1997; Eisenhardt, 1989; Jensen & Meckling, 1976). Therefore, principals will enact governance mechanisms to monitor the manager's behavior, in order to foil what is not in the interest of the principal (Cruz, Gómez-Mejía, & Becerra, 2010; Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976). The board function of monitoring and controlling managers is a fundamental concept from agency theory (Jensen & Meckling, 1976). This theory was introduced basically as a separation of ownership and control (Bhimani, 2008. Nevertheless, when property rights and control are concentrated in the hands of the family, the principal and the manager are on the same side and have the same interests. We don't think it is relevant to examine diversity in the board of directors through the lens of the Agency Theory.

3.2 Stewardship theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman and Donaldson (1997) as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized" (p. 24). In this perspective, stewards are company executives and managers whose behavior is based on their desire to serve the firm and will therefore naturally align with the principal's interests (Corbetta & Salvato, 2004b; Hernandez, 2008; Zahra et al., 2008). Under the stewardship theory, company executives protect the interests of the owners or shareholders and make decisions on their behalf. Their objective is to create and maintain a successful organization so the shareholders prosper. Stewardship Theory focuses on Board advice. We don't think that the stewardship theory is the appropriate theory to be used to measure the influence of diversity in the Board of Directors in FF because our objective is to prove how the diversity of the directors influence their behavior.

3.3 Resource Dependence Theory

Pfeffer and Salancik (1978) argue that boards serve to link the corporation to other external organizations in order to address environmental dependencies. Pfeffer and Salancik (1978) suggest four primary benefits for the external linkages: (1) provision of resources such as information and expertise; (2) creation of channels of communication with constituents of importance to the firm; (3) provision of commitments of support from important organizations or groups in the external environment; and (4) creation of legitimacy for the firm in the external environment. Hillman, Cannella, and Paetzold (2000) used this theory to suggest five types of directors: insiders, business experts, support specialists, and community influencers. Each type of directors will provide different resources to the firm. They will be able to provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction. Therefore, by using this theory, we try to prove that the diversity (demographic and cognitive) in boards will provide more resources, which should lead to better firm performance.

The resource dependence view seems particularly useful when applied to characteristics such as functional background, experience, and social and political connections. But it is of limited appeal as a means to understanding the role of other demographic characteristics of directors. Understanding the role of characteristics such as gender or age requires paying attention to the impact of demographic diversity on director behavior and board dynamics.

3.4 The behavioral theory

The behavioral approach (Cyert and March, 1963) takes the firm as the basic unit of analysis. The theory argues that while small firms may operate under the guidance of the entrepreneur, such a simple model does not describe larger corporations. These larger firms are an adaptive political coalition, a coalition between different individuals and groups of individuals in the firm, each having different goals and hence possibly in conflict.

In the Behavioral Theory, Cyert and March redefined firms as heterogeneous organizations possessing standard operating procedures. Because these procedures are frequently difficult to codify, Cyert and March argued that they are not easily imitated by others or even replicated by the firm itself. This explanation of firm heterogeneity and inimitability provided an important foundation for understanding firm level capabilities. It established that the ability of the firm to adapt to its environment cannot be taken for granted, and that a firm skilled at innovation and change might possess an advantage over its competitors (Pierce and Teece 2005 p.4).

Behaviorally speaking, management is therefore the art of dealing effectively with the reality of bounded rationality in a changing environment. We think that that this theory won’t allow us to understanding the impact of the diversity of directors in FF boards on succession planning.

3.5 Human Capital Theory

In his work Human Capital, the American economist Gary Becker, defines human capital as "the set of productive capacities that an individual acquires by accumulation of general or specific knowledge, know-how, etc" (p.23).

Human capital is an asset, a wealth, a stock that can provide income. The same is true for human capital, which is a subset of this global notion of capital: human capital is a stock of knowledge and experience accumulated by its holder throughout his life by investments.

If an investment is an operation carried out by an economic agent to acquire means of production, in the particular case of human capital, it is for the investor to increase his productive potential, his future productivity and therefore his salary. Salary is considered as the return on human capital, the return on investment in education.
Human capital theory could be used to complement resource dependence theory to some of the concepts associated with board diversity.

According to human capital theory which considers human capital as diverse and unique, the role of the board will be affected by board diversity (David A. Carter, Frank D'Souza, Betty J. Simkins, and W. Gary Simpson, 2010). We question the fact that the personal capital of a human being such as education, experience, and skills could be used to the benefit of an organization and particularly in the Board of Directors of FF.

3.6 Social capital theory

The concept of social capital refers to the arrangements for accessing and using the resources contained in the social networks (Bidart, 2008). Three pioneering authors stand out (Baret and Soto-Maciel, 2004): Pierre Bourdieu, James Coleman and Robert Putnam.

Bourdieu seems to have been one of the first to use the term of social capital. He defines it as "all the real and potential resources related to the possession of a long-lasting network relations of knowledge and recognition more or less institutionalized; in other words, belonging to a group "(Bourdieu, 1980: 2).

Coleman (1988, 1990) was at the origin of the academic revelation of the concept of social capital. According to this author, social capital is defined by its function: "It is not a unique entity, but a variety of different entities that have two characteristics in common: they constitute an aspect of the social structure, and they facilitate certain actions of individuals who are within the structure. Like other forms of capital, social capital is productive, making it possible to achieve certain goals that could not be achieved in his absence" (Coleman, 1990, pp. 302-303). Social capital appears in Coleman's view (1988, 1990) as an alternative to the law and the contract to constrain behavior.

In the United States, Putnam (1995) has largely contributed to popularize the concept of social capital. He defines it as a notion relating to the characteristics of the social organization such as networks, standards and trust, which facilitate coordination and cooperation for mutual benefit.

The central premise of social capital is that social networks (of which boards of directors and corporate organizations are examples) have value. The theory of social capital includes a variety of benefits that flow from the trust, reciprocity, information and cooperation associated with social networks. Social capital creates value for the people linked by the social ties created by these networks. Applying this theory to the corporate governance, the diversity in board is an application to such a social network. As a group, a board of directors combines a mix of competencies and capabilities that collectively represents a pool of social capital for their organization. The social capital contributed by directors is a measure of the value added by the board in executing its governance function (Carpenter and Westphal, 2001). The Social Capital theory can be used in our research on the influence of the diversity of the directors of FF to complement the Human Capital Theory.

3.7 Social Psychological Theory

Allport (1924) has defined social psychological theory: "Social psychology is about the study of real or imagined person-to-person relationships in a given social context, as they affect the people involved in this situation."(p.12)

Social psychology asserts that man is by nature a social being. It develops a specific conception of man in society. She considers the situation of man through two aspects that structure his life and his activities: the individual and the collective. The task of social psychology is to take them into account in the study of the social phenomena that result from their relationship.
Therefore, diverse directors could influence the board as a result of the internal group dynamics of the board. In summary, this theory suggests that board diversity may have both positive and negative effects on board roles.

4. The theories we decided to apply to our paper

Firms have diverse boards to benefit from the various resources offered by the directors. The directors would be cognitive resources recruited to actively help the directors to build their vision of the future and develop their managerial intentionality: executives and directors would debate about an unprecedented combination of technological skills and its valorization on one or more markets with contours sometimes badly identified.

As argued by Wirtz (2006a), the board of Directors would be a place of exchange and combination of knowledge distributed more or less asymmetrically; a place where different patterns of reasoning and / or visions of the world would come together to construct a shared representation of the strategic opportunities to be grasped and how to exploit them.

4.1 The behavioral finance theory

The application of behavioral finance theory to corporate finance is now attracting the attention of academics. Behavioral finance offers descriptions and explanations how emotions and biases drive actions. It integrates psychology and economics into the study of human action, reaction, judgment and biases in decision making in a particular environment. Behavioral finance seeks to combine behavioral and cognitive psychological theories with conventional economics and finance to understand what influences investors who make irrational decisions.

We suggested the application of behavioral finance to corporate governance in order to explain the impact of diversity on the roles of board. In reality, people often behave irrationally. The idea is to demonstrate by using this theory that "who I am influence what I do". In family firms, emotions in addition to the demographic and cognitive diversity of the directors and other external factors influence them when it comes to making choices. These "irrational" behaviors prompted scholars to turn to cognitive psychology to explain the irrational and illogical behaviors that modern finance has failed to explain. We refer to behavioral finance theory to explain how directors' diversity lead their actions.

We consider that a dynamic relationship exists between the behavior of the directors and the governance; meaning governance mechanisms may be implemented based on the actual behavior of the directors.

4.2 The resource dependence theory complemented by the human capital theory and Social Capital theory

Through the lens of the resource dependence view, the board is seen as a potentially important strategic resource for the organization. This theory regards the board as an essential link between the organization and the key resources necessary to maximize its performance.

Diversity, in this context, provides a large variety of characteristics and backgrounds among directors to play the main roles of the board such as providing advice and counsel to the chief executive and management, and contributing to, or approving strategy.Many scholars experiences (Barney 1991; Castanias and Helfat 2001) argued that, by offering complementary expertise, the resource dependence theory provides a theoretical framework for analyzing the contribution of board members through their personal backgrounds and characteristics, professional competencies, skills and experiences.

As a result, diverse organizations have access to more talent because diverse directors may bring diverse perspectives and nontraditional approaches to problems.

Johnson, Daily, and Ellstrand (1996, p. 427) describe the resource dependence role of board of directors as "one of a number of instruments that management may use to facilitate access to resources critical to the firm's success." If we examine the situation within small and medium-sized family firms, we find that a critical factor of growth is the access to external financing sources. From a resource dependence perspective, a director can help small and medium-sized enterprises in accessing to external financing sources. Based on the different roles directors have to fulfill within a private family firm context, we can conclude that what is important is the added value they bring to the firm. Hence, board composition should then be driven by the governance, resource, advice, and information needs of the firm (Grundei and Talaulicar 2002).

From the resource dependence theory, Gabrielsson and Huse 52005) have argued that "board advice advances firm performance to the extent that the knowledge held by board members complements the management team's knowledge base". Scholars (Forbes and Milliken1999; Sirmon and Hitt 2003) have made a distinction between two categories of knowledge, namely firm-specific knowledge and general business knowledge. In family firms, family directors have acquired firm-specific knowledge, because they were raised and trained by family veterans in view of succeeding to the current generation.

The strong focus in many family firms on family objectives such as "keeping the firm in the family" suggest that the relationship between governance needs and board composition could be obscured by emotional and bounded rationality constraints of working family members.

According to Corbetta and Salvato (2004), board characteristics in family firms are a reflection of family characteristics and objectives. Furthermore, the results suggest that board composition in small and medium-sized family firms can be better explained from a resource dependence and added value perspective.

If we complement the resource dependence theory by the human capital theory, we can argue that the skills acquired by a director during his life help to distinguish him and make him a rare resource. Acquiring these skills also changes the behavior of this persons. These personal and professional resources that he has acquired would affect the roles he plays within the board.

Choosing whom to appoint to boards is a very delicate task. It is preferable to be aware of the competencies needed and then nominate persons who possesses these skills in order to be effective in the board.

In summary, an interdisciplinary set of theories provide a solid indication that a link between board diversity and board roles is a realistic possibility.

5. The Gap

The purpose of this paper was to review prior theoretical and empirical work on boards of directors within the unique organizational setting of FF. Interestingly, the literature review revealed that neither of these studies has focused on the impact of diversity of Directors on Board's behavior in small and medium-sized FF. This is a surprising finding given the fact that the board in a private family firm context may fulfill several important roles with a likely positive influence on performance.

The paper presented the different theories applied to this subject and identified multi-theoretic, process and contextualized approaches to the study of diversity in FF boards as being fundamental to the further progress of this research field. We want to highlight the use of the behavioral corporate finance theory to examine the impact of diversity on the directors' behavior and on board's roles. By doing so, this paper is preparing the field to advanced research on how (different types of) diversity in family firms' boards influence(s) the behavior of directors and affect succession planning.

Moreover, succession planning is one of the major worries of the family owners in FF. As a matter of fact, "Affective endowment" such as the emotional attachment of the family members, the identity with the firm and other non-economic aspects, may explain the behavior of Family Firms in succession planning.

Family owners aim to maintain family control of the firm across multiple generations (Allen & Langowitz, 2003), (Debicki 2016).In keeping with their desire to see their business survive and prosper over the long-term, most Family Firms owners design an exit strategy for themselves that will eventually transfer ownership and control of the firm to their offspring.

We will rely on the counselling role of the Board to prepare and organize transgenerational succession.

Our paper extends the literature on board composition in private small and medium-sized firms by integrating both dimensions of diversity, the demographic and the cognitive diversity. In the literature, the distinction between inside and outside boards has been made but it is not sufficient to study boards in family firms, as several types of inside boards exist.

6. Expected results

Regarding the methodological approach that we intend to use in our empirical study, we expect to obtain several results.

First, we expect from the exploratory interviews conducted with a larger number of managers and boards' directors in family firms to obtain a deeper insight on the impact of both types of diversity (demographic and cognitive). We hope to acquire better understanding of the influence of diversity on behaviors as a first step and to learn more about how behaviors affect strategic formulation and succession planning.

Moreover, giving the fact that this approach of diversity is innovative with regards to the known traditional approaches, we hope to learn more on the governance of family firms. By collecting all that information, we expect to obtain a sufficient amount of data that could serve us not only for our further empirical work in our research project, but also to write an article which will provide an innovative picture of diversity in boards.

The objective is, to prove the influence of diversity of the board on economic and non-economic aspects on the one hand, on the other hand, to propose, in the light of the cognitive and demographic diversity the influence of all these components on the succession planning.

By widening the number of directors as informants in our exploratory interviews, we expect to learn more about the way they proceed in building their succession planning as well as how they deal with the problems they encounter in the firm and with the family. We aim to highlight the emotional attachment of the family members, the identity with the firm and other non-economic aspects, which may explain the behavior of Family Firms in succession planning.

Finally, the large amount of information we have through the interviews should allow us to understand how succession planning is decided in family firms, what are the criteria set by the family to choose the successor and how diversity in boards could influence this choice.

7. Methodology

The qualitative research approach has been recommended in the family business field in order to collect essential data to understand the observed reality.

The contribution of information gathering methods is relevant for this work. Data collection is an important process in the methodology and an indispensable prerequisite, in order to draw a portrait of the situation. For data collection, we shall use a variety of sources such as documents and archival records. This wide sources of collected data will serve is to justify validity and reliability of our findings.

In the purpose of providing results with the necessary fidelity, we shall diversify our information resources by conducting data collection in three distinct stages. Observation, documentary analysis and interviews should be the means that will provide us with the information needed to reconstruct the empirical study.

Semi-directive interviews will be conducted with the managers and members of the board. The interviews with respondents chosen should allow us to benefit from their knowledge of the organization and their feeling towards governance diversity in the company. Interviews should have delivered points of view that could allow us to highlight some elements of the problematic in relation with the data already known.

The discussions will intend to ensure that all elements of the conceptual framework retained for analysis of best practices for managing diversity are covered.

For conducting interviews, we will build a series of general and specific questions. Having determined the targeted questions, we will organize these questions according to the themes of our analytical framework so that all dimensions and parameters of the conceptual framework are taken into account.

We will transcribe them so we could extract the information obtained and point out its relevance in the context of our research. The codification of the mass of information collected should allow us to classify, compile, analyze thoroughly and cross-check data and components under study, thereby facilitating the interpretation of results.

This step is crucial because the descriptive analysis resulting of these interviews will permit to draw a faithful portrait of the situation in order to build our empirical study and to explain the visions expressed by directors and managers about the diversity of governance in a Family Firm. Visions we mentioned concern concepts and fundamental notions, including competence, leadership, performance, governance practice, and ultimately the impact of diversity of governance on the company in general. These results will have applications both theoretical and practical.

Then, we intend to use GIOIA et al. (2001) approach which is built upon the scientific tradition of using qualitative data for developing inductively "Grounded theory" (Glaser, 1978, p. 2); (Glaser, 1998, pp. 3; 22). In order to build a data structure which will help us organize our findings, we shall first start with identifying the recurring terms and concepts of the informants in order to build first order categories. In this first stage, we shall use the tool NVIVO. The following steps will be to organize the obtained data into second order themes which we will finally merge according to the patterns of meaning into aggregate dimensions.

Conclusion

We think that our future research could have a practical implication on the recruitment of FF Directors.

As argued by Johannisson and Huse (2000), the introduction of non-family members on FF boards may incite an ideological reconfiguration in the family business, with an invasion of managerialism and greater market focus, while reducing the dominance of paternalism, which is the main ideology underlying socio-emotional family objectives (also see Blumentritt 2006; Poza et al. 1997).

In addition, the latest work of the medium sized commission of the French Institute of Administrators (IFA) had highlighted the importance of the contribution that a Board of Directors can make to companies in terms of strategy. This is why the Board of Directors must be composed of members with the necessary skills to make this contribution, considering that the size of these medium sized companies limits their resources and makes them more dependent on outside expertise.

Hence, the importance of the process of recruiting directors, aims to ensure that the Board has the knowledge and personalities for the implementation of its missions, thanks to the experience but also to the diversity of its members' profiles. Therefore, advice from outside board members with functional skills (e.g. in finance, law, marketing) and experiences that are lacking inside the family may be essential for family firms to bridge the skills gap with non-family firms (Chen and Hsu 2009; Gabrielsson and Huse 2005; Jones et al. 2008; Nash 1988).

Dyer (1989, p. 232) states that the inclusion of "key professional managers on the board of directors can be a good way to gain their input as well as to teach them how the family feels about the business." For this reason, some scholars have proposed the appointment of professional directors. They suggest the adoption an internal mixed (inside) board as well as an outside board can solve the need for guidance and strategic advice (Fiegener et al.2000a; Dyer 1989; Whisler 1988).

When more family members are active in the firm, the likelihood of opposite opinions and objectives increases, thereby increasing the need for outside arbitration. Furthermore, when family's age and a new generation takes over the key management positions in the firm, the risk of intra-family conflict augments (Schulze, Lubatkin, and Dino 2003). Schulze, Lubatkin, and Dino (2003) argue that the degree of intrafamily conflict depends on the generation in charge.

Let us keep in mind the objectives related to family issues such as maintaining family control, financial independence of the family, family harmony, and family employment tend to be far more important than traditional business objectives such as value/profit maximization, growth, and innovation (Upton,Teal, and Felan 2001; Sharma, Chrisman, and Chua 1997; Westhead 1997; Donckels and Fröhlich 1991).

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