New Insights into Non-Listed Family SMEs in Spain: Board Social Capital, Board Effectiveness, and Sustainable Performance

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Abstract: This study proposes an original structural model that analyzes the relationship between sustainable firm performance, and a board of directors’ external and internal social capital. Data collected in 232 non-listed and family-run small and medium-sized enterprises in Spain suggest that the effects of boards’ internal and external social capital on sustainable firm performance were partially transmitted through board effectiveness. However, external social capital influences board effectiveness and sustainable firm performance more than internal social capital. Moreover, interlocks only reinforce the relationship between a board’s external social capital and its effectiveness. Our research offers the following main contributions: (1) A proposed structural theoretical model, (2) a focus on both internal and external social capital, unlike previous literature that emphasized only one perspective, and (3) empirical evidence that supports literature on the interlocking interaction between a board's internal and external social capital.

Keywords: board internal social capital; board external social capital; board effectiveness; interlock; sustainable firm performance; family firm; corporate governance

1. Introduction

A board of directors (BoDs), as an entity, has gained increasing attention from academics in family business literature [1,2]. Most studies have examined big enterprises, especially publicly-held family companies [3], yet they have produced inconclusive results on BoDs effectiveness in terms of sustainable performance [4,5]. Research has yet to explore this relationship in family-run small and medium-sized enterprises (SMEs) [6]. The BoDs of non-listed family SMEs are less regulated and more informal than those of publicly-held family firms. Some scholars highlight that many family SMEs only have a BoDs ‘on paper’ and do not use it to its full extent [7]. Hence, we know little about the antecedents of BoDs effectiveness and its influence on the sustainable performance of family SMEs. On these bases, the aim of this study is to assess the impact of BoDs internal and external social capital on family SMEs sustainable performance, while considering the mediation effects of board effectiveness and the moderating role of boards’ interlocks (directors sitting on two or more company boards create links known as board interlocks), crucial for family SMEs survival and growth in competitive markets [8].

Although social capital and a BoDs effectiveness are closely linked, they are theoretically distinct, since a firm’s board disposition toward social capital relations does not necessarily translate into better financial sustainable performance [3]. Stewardship theory highlights family board members’ socio-emotional wealth (SEW) attachment to their business. Their high identification with the firm motivates them to make relevant contributions to the board [9,10] that help to develop and
support effective family relationships, and processes that influence sustainable firm performance [11–13]. These insights lead us to combine internal and external social capital, and test the possibility of merging heterophile relationships and their implications for sustainable firm performance. Resource dependence theory (RDT) complements these insights, viewing resource provision as a main function of BoDs, particularly in non-listed SMEs [14], and suggesting that BoDs can play an important role in overcoming family SMEs resource constraints by giving access to networks, expertise and skills [6,15]. Accordingly, we analyze how the BoDs internal and external social capital—precisely the BoDs effectiveness as a mediating role [16], and its interlocking as a moderating role [17,18]—influence sustainable firm performance perception in family SMEs [19].

Taking into account both stewardship theory and RDT, we created structural theoretical models that show the interactions among family BoDs internal and external social capital. Through the availability and use of new knowledge, connections, and skills, we suggest that the BoDs social capital plays an important role in family SMEs sustainable performance perception, dependent on BoDs effectiveness and its ability to interact with other BoDs (interlocking). Through this process, we developed nuanced hypotheses on these effects. The empirical evidence obtained from a sample of 232 family-run SMEs (the CEO and one BoDs member as respondents in each firm) in Spain supported our structural theoretical model. Hence, this study produces a more complete understanding of how the BoDs influence goes beyond social capital aspects, emphasizing the importance of BoDs effectiveness in creating value in non-listed family SMEs. This has important implications for research regarding entrepreneurship, sustainable performance and corporate governance in family companies.

A board’s internal social capital represents the degree to which board members are integrated into the team of a family firm. A board’s external social capital constitutes the people known by incumbent directors (each director’s connections to important company clients or other powerful outside constituents). Thus, BoDs social capital influences sustainable financial performance [3,20], but research has only examined the factors that affect their links [21–23]. We focused on nonlimited companies, because they have a legal obligation to establish BoDs and have more freedom regarding who they appoint to the board. However, only a few studies have addressed the effect of interlocking on firm performance, and the constitution of BoDs in non-listed family SMEs. Thus, uncovering the internal and external effects of BoDs social capital can highly contribute to our understanding of family SMEs sustainable performance.

2. Theories and Hypotheses

2.1. BoDs in Family SMEs

A BoDs role in family companies has gained great attention in last decades [6,24,25]. Although family businesses’ researchers agree that a BoD can help address the lack of resources and managerial expertise in family SMEs [14,26,27], literature on BoDs has focused on large, publicly-held family firms, more so than non-listed family SMEs [6]. Nonetheless, prior research suggests that BoDs in family SMEs have distinctive structures and behaviors compared to larger companies [28]; hence, their assumptions and predictions may not directly apply to family SMEs.

Some scholars suggest that stewardship theory can provide a basis for a better understanding of BoDs in family SMEs, since this perspective underlines family members’ significant attachments to their business [29]. Furthermore, a BoDs in family SMEs can be central to overcoming the inherent limitations of these kinds of firms and contribute to sustainable firm performance. For example, SMEs can learn from the way large, publicly-held companies address resource constraints and the absence of formal administrative systems [6,30]. Thus, a combined view of stewardship theory [31] and RDT [14,32] could enhance our understanding of the different potential combinations of access and resource use in the top levels of family SMEs, such as essential expertise [33] and networking [34] through the BoDs social capital [35]. In other words, the BoDs contribution to family SMEs sustainable performance depends on the “board of directors’ social capital” [36].
2.2. Social Capital and Sustainable Performance

Social capital provides information, access to complementary resources, markets, skills, and technological knowledge [37,38]. Social capital theory focuses on how social relationships (the content, the structure, and the quality) affect other resource flows and facilitate sustainability [39,40]. A board’s social capital also includes the individual director’s personal ties that could reveal his/her social similarities to others or homophily [21]. Homophily “refers to a tendency of various types of individuals to associate with others who are similar to themselves” [41].

Based on Kim and Cannella [21], we consider social capital in two categories: Internally and externally. Each level draws upon different types of network linkages and provides a different combination of resources and skills to the board. Internal social capital focuses on relationships with other people in the firm, mainly the other directors (or family members). In contrast, external social capital centers on ties with various outside contacts, including investors, customers, suppliers, legal authorities, politicians, and board members from other firms. In this sense, on one hand, a board with strong connections within the firm and to other strategically related firms enjoys better access to more and higher quality information, resulting in more significant advice and better outcomes [42]. On the other hand, a board’s external relations can serve as a conduit to link firms to the wider world, facilitate access to various resources, and aid in strategy formulation [43]. Thus, both types of social capital are not mutually exclusive. In fact, they are both very important for companies, as internal and external social capital may facilitate the acquisition of internal and external resources that are critical to firms’ success [44]. Furthermore, some researchers have mentioned that family involvement in the BoDs may lead to a board’s social capital wielding a variety and high quality of contacts, thereby controlling access to knowledge from diverse sources [45–47]. All these arguments inspired out following hypotheses:

**Hypothesis 1 (H1).** BoDs internal social capital is likely to have a positive influence on a family firm’s sustainable performance.

**Hypothesis 2 (H2).** BoDs external social capital is likely to have a positive influence on a family firm’s sustainable performance.

2.3. Board Effectiveness

Kim and Cannella [21] imply that BoDs provide two main tasks: Advice and counsel to management (service tasks), and resources from the external environment (resource dependence tasks). Directors’ service tasks involve offering advice and counsel to the top management team that include CEOs. This is in line with stewardship theory [48] that promotes boards as mentors actively sharing their social capital to help family SMEs achieve better sustainable performance [49]. RDT also demonstrates a complementary view, whereby the BoDs specific resources and skills are used to perform externally-oriented functions (i.e., lobbying) that may influence sustainable firm performance [21,22,50].

Researchers have linked a number of board attributes to board effectiveness [15]: (1) Ability to effectively perform its service tasks; (2) members’ ability to work effectively as a group; and (3) ability to provide the firm with valuable resources or information from the external environment [21,26,32,51–53]. RDT associates board effectiveness to sustainable firm performance [54], and previous studies similarly demonstrated that a board’s ties, knowledge, and expertise in team work foster improvements in firm sustainability performance [55,56]. Thus, we argue that the effectiveness of a board can play a mediation role in the relationship between its social capital and a firm’s sustainable performance. More precisely, we assert that both internal and external social capital promote family SMEs performance, but the influence of such capital may be mediated by the board’s effectiveness.

**Hypothesis 3 (H3).** BoDs effectiveness mediates the relationship between its internal social capital and a family firm’s sustainable performance.
Hypothesis 4 (H4). BoDs effectiveness mediates the relationship between its external social capital and a family firm’s sustainable performance.

2.4. Board Interlocking

Prior research has suggested that board interlocks are a critical type of social capital [23,57,58]. When directors sit on two or more company boards, they create links known as board interlocks [59–61]. Through interlocks and experiences with other boards, directors provide a conduit for social influences that create an informational context for board decisions [57,62]. Based on RDT, we maintain that a board’s interlocks provide access to tacit and hard-to-imitate resources [63], expertise, advice, and counsel to firms [42,64]. SMEs access to these resources contributes to internal and external social capital [18,65–67].

Thus, the ability of a family SMEs BoDs to process different resources (internally and/or externally acquired information) depends on their degree of connectedness. In the context of family SMEs, board members can employ their internal social capital in two ways: (1) Inside the firm (with other directors in the SME), or (2) within the family through their participation in other boards from the same extended family. This favors collaboration and trust between board members, enhancing teamwork and cohesiveness [21], can lead to homophilic relationships in the decision-making process, and may explain why some scholars view family SMEs as stable and capable of making gradual changes [68]. The second type, external social capital, fosters collaboration and exchanges with board members from external family SMEs (both family and firm). Therefore, board members’ connections can develop heterophily by creating valuable links to resources and relationships, needed to support activities, through useful contacts in business, financial, and political circles [69–70]. Both are essential to sustainable firm performance [17,62,67,71,72].

Several studies noticed that board interlocks have a substantial effect on governance issues [57,62], since they also permit access to a wider world [73]. Board members’ decisions to sit on other corporate boards increase the value of directors’ home firms [74], leading to an impact on sustainable performance [55,75]. Accordingly, we suggest that board interlocks play an important role in influencing board effectiveness [76]. In this sense, these interlocks affect focal organization, providing channels for exchanging strategic resources and capabilities [32,77]. However, the literature is inconclusive regarding the BoDs impact on family SMEs sustainable performance [4,5,22,78,79]. Additionally, the empirical evaluation of resource effects that emerge from interlocking boards is inconclusive [18], and we know little about interlocking in Spain [77]. According to Johnson et al. [4], more research needs to study the way interlocks influence not only sustainable firm performance, but also board effectiveness [80,81]. Based on the previous discussion, we hypothesized that:

Hypothesis 5 (H5). The BoDs interlocks moderate by strengthening the relationship between its internal social capital, and a family firm’s sustainable performance.

Hypothesis 6 (H6). The BoDs interlocks moderate by strengthening the relationship between its external social capital, and a family firm’s sustainable performance.

In the Figure 1 all the hypotheses appear together for a better clarity.
3. Methods

3.1. Data and Sample

Using a cross-sectional research design, data were collected via 232 surveys in 2015 from CEOs and board members of Spanish family firms included in the SABI (the Iberian Balance Sheet Analysis System) database. One reason to conduct our research in Spain is that Spanish family firms generate about 70% of the gross domestic product (GDP). A second reason to conduct our research in Spain is that Spanish economy is known for its high concentration of family owned firms (around 2.9 million) employing 80% of total private employment in Spain [82].

Non-listed private family firms are companies with a concentrated shareholder base and family member insiders active in management and on the board [83]. We also excluded firms affected by special situations (e.g., insolvency, winding up, zero activity). Next, we conducted a detailed examination of the shareholding structure analyzing board members’ surnames.

A survey company collected the data sending a cover letter to companies’ CEOs. In the cover letter, we guaranteed respondents’ confidentiality to protect their anonymity.

We used G*Power (GPower 3.1) to calculate the statistical power based on the sample size. For a statistical power of 0.95 we needed a sample of 107 companies [84]. Furthermore, in social and behavioral science research is enough with a statistical power of 0.8 [85]. Thus, we can conclude that with 232 surveys our sample size is acceptable, and similar to other research on non-listed family firms in Spain [86].

Table 1 shows a brief description of our sample. On the one hand, the majority of the family firms have passed their early years and have had the opportunity to establish relationships among their board members. On the other hand, regarding generational involvement, 4% of the responding family firms were managed by three or more generations, 40% by two generations, and 56% by only one generation.
Table 1. Sample characteristics.

<table>
<thead>
<tr>
<th>Sample Characteristics</th>
<th>Number of Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (years)</td>
<td></td>
</tr>
<tr>
<td>Younger than 10</td>
<td>14 (6%)</td>
</tr>
<tr>
<td>10–25</td>
<td>97 (42%)</td>
</tr>
<tr>
<td>26–50</td>
<td>102 (44%)</td>
</tr>
<tr>
<td>More than 50</td>
<td>19 (8%)</td>
</tr>
<tr>
<td>Firm Size (number of employees)</td>
<td></td>
</tr>
<tr>
<td>10–50</td>
<td>53 (23%)</td>
</tr>
<tr>
<td>51–250</td>
<td>167 (72%)</td>
</tr>
<tr>
<td>More than 250</td>
<td>12 (5%)</td>
</tr>
<tr>
<td>Generations Managing the Firm Together</td>
<td></td>
</tr>
<tr>
<td>Only one generation</td>
<td>130 (56%)</td>
</tr>
<tr>
<td>Two generations</td>
<td>93 (40%)</td>
</tr>
<tr>
<td>Three or more generations</td>
<td>9 (4%)</td>
</tr>
<tr>
<td>Sector (Manufacturing Firms or Service Firms)</td>
<td></td>
</tr>
<tr>
<td>Manufacturing Firms</td>
<td>111 (48%)</td>
</tr>
<tr>
<td>Service Firms</td>
<td>121 (52%)</td>
</tr>
</tbody>
</table>

3.2. Measures

As Kim and Cannella advised [21], to avoid common method biases, we assessed a board’s effectiveness, internal social capital, and external social capital using different respondents. CEOs responded to questions on the board’s effectiveness and sustainable firm performance [26], while members of the BoDs (other than the CEO) answered questions regarding its internal and external social capital. We measured all the items using 5-point Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree). All the measures are reflective constructs.

1. A board’s internal social capital represents the degree to which board members are integrated into the team. Following the work of Kim and Cannella [21], we adopted a set of four items to measure this item’s Cronbach’s alpha, composite reliability (CR), and average variance extracted (AVE) ($\alpha = 0.863; \text{CR} = 0.906; \text{AVE} = 0.708$).

2. A board’s external social capital involves the people known by incumbent directors (e.g., each director’s connections with important company clients or other powerful outside constituents). We used a set of five items to measure external social capital ($\alpha = 0.815; \text{CR} = 0.871; \text{AVE} = 0.576$) [21].

3. A board’s effectiveness designates what directors do (e.g., the extent to which they are actively involved in selecting new directors, and capturing communication and cohesiveness levels among directors). We adopted a set of five items to measure service task performance ($\alpha = 0.910; \text{CR} = 0.933; \text{AVE} = 0.735$), two items to gauge teamwork performance ($\alpha = 0.847; \text{CR} = 0.929; \text{AVE} = 0.867$), and four items to determine resource dependence task performance ($\alpha = 0.809; \text{CR} = 0.872; \text{AVE} = 0.631$) [21]. The board effectiveness scale represents a second-order construct ($\alpha = 0.937; \text{CR} = 0.948; \text{AVE} = 0.629$).

4. Sustainable firm performance perception represents the owners’ overall satisfaction and nonfinancial goals [8]. In particular, we used a three-scale measure ($\alpha = 0.766; \text{CR} = 0.865; \text{AVE} = 0.680$) developed and validated by Sorenson et al. [19]. It is important to recognize that there are two types of performance measures [87]: (1) Financial or objective performance, involving return on assets (ROA) and return on investment (ROI); and (2) nonfinancial or subjective measures, such as owners’ overall satisfaction and nonfinancial goals [8]. Subjective measures are often recommended for studies on human behavior and relationships [88]. In addition, subjective assessments of sustainable family firm performance correlate highly with objective performance data [89,87]. Furthermore, we verified that, with respect to sustainable performance, the CEOs’ responses corresponded to financial measures (ROA and ROI) by randomly selecting a number of family firms, and looking for differences between the subjective responses and the objective measures. We did not find any differences between the perceptions
of CEOs and the objective measures, which is in line with previous results by Venkatraman and Ramanujam’s [89] and Sanchez-Famoso et al. [87].

5. A board’s interlock represents the percentage of people affiliated with the family firm’s BoDs that also sit on the board of another organization [60]. We asked company CEOs to tell us the number of board members involved, and how many sit on other company boards.

6. Control variables are important for alternative explanations of variations in sustainable firm performance. Thus, we included two control variables based on previous research findings [90]. First, we controlled for firm size, measured by the number of employees, since larger firms may have more members in the boardroom, which can affect the relationship between them [91]. We then controlled for firm age, determined by the number of years since the company was founded. This was important as younger firms may have closer relationships, since all our firms are family firms, and in a firm’s first generation, the majority of BoDs members are relatives [92].

3.3. Data Analysis

To assess the research model, we used SmartPLS, Version 3.2.7 [93] to perform a partial least squares structural equation modeling (PLS-SEM) analysis. PLS-SEM is a comprehensive and multivariate approach to statistical analysis that can simultaneously examine each relationship between the variables in a conceptual model, including measurement and structural components. To evaluate the proposed model, we appraised the measurement model by determining the structural model’s and the constructs’ reliability and validity, by assessing the R², path coefficients, and the values of the standardized root mean square residual (SRMR) as approximate model fits for PLS-SEM [94]. We tested whether common method variance (CMV) might inflate the data employing empowerment scale [95] as a marker construct [96]. In this sense, the marker construct is theoretically unrelated to at least one of the other latent variables, so we can confirm that it met the required criteria [96,97]. Moreover, this marker construct is composed of three items showing high reliability (α = 0.878; CR = 0.923; AVE = 0.801). At the same time, the empowerment construct shows no CMV in this study [98] (Table 2).

### Table 2. Correlations among latent variables and marker variable.

<table>
<thead>
<tr>
<th>Board Effectiveness</th>
<th>Board External Social Capital</th>
<th>Board Internal Social Capital</th>
<th>Sustainable Firm Performance</th>
<th>Marker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Effectiveness</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board External Social Capital</td>
<td>0.37</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Internal Social Capital</td>
<td>0.35</td>
<td>0.62</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Sustainable Firm Performance</td>
<td>0.31</td>
<td>0.52</td>
<td>0.33</td>
<td>1.00</td>
</tr>
<tr>
<td>Marker</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.01</td>
<td>-0.11</td>
</tr>
</tbody>
</table>

In order to judge the model using PLS-SEM and to compare the estimated path coefficients’ results, we employed a two-stage analysis approach: (1) Assessing the measurement models, and (2) evaluating the structural models and testing the hypotheses.

3.4. Assessing the Measurement Model

In the first stage of analysis, we needed to confirm the measurement model’s acceptability [99]. This entails an evaluation of the validity and reliability of the model’s latent variables. Validity can comprise two types: (1) Convergent or (2) discriminant. Determining the reliability and validity of the model involves assessing the relationships between the latent variables and their associated items, achieved through two key coefficients: (1) CR and (2) AVE [100,101].
The measurement models used in this study included six constructs. One of them—board effectiveness—is a second-order construct, formed by three first-order constructs: (1) Service task performance, (2) teamwork performance, and (3) resource dependence task performance [21]. Another one (out of the six) is sustainable family firm performance perception, which is a first-order construct. The last ones are a board’s internal and external social capital, both of which are first-order constructs. When evaluating a model’s reliability, we must calculate each indicator’s loading on its associated latent variable and compare them to a threshold. Generally, the loading should be higher than 0.7 for the indicator reliability to be considered acceptable [101]. The CR coefficient determines construct reliability and should be higher than 0.7 [100, 101]. For all latent variables in the measurement model, the CR coefficients are higher than 0.7. Therefore, we can say that the measurement model has acceptable reliability. To appraise the convergent validity of the measurement model, the latent variables’ AVE have to be higher than 0.5 for their convergent validity to be considered acceptable [100, 101]. In our case, all the constructs passed this limit. Furthermore, all of our indicators (see Table 3) are good since none of the loadings were lower than 0.7 [99].

Table 3. Standardized item and construct loadings.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Standardized Loading (Board Internal Social Capital)</th>
<th>Standardized Loading (Board External Social Capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Internal Social Capital</td>
<td>0.849</td>
<td>0.747</td>
</tr>
<tr>
<td>In general, outside directors have good relationships with the CEO.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, directors possess firm specific knowledge.</td>
<td>0.862</td>
<td></td>
</tr>
<tr>
<td>In general, directors share beliefs regarding the level of effort each individual is expected to put toward a task.</td>
<td>0.838</td>
<td></td>
</tr>
<tr>
<td>In general, each director is aware of other directors' areas of expertise.</td>
<td>0.815</td>
<td></td>
</tr>
<tr>
<td>Board External Social Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, the board appoints a lead outside director.</td>
<td>0.716</td>
<td></td>
</tr>
<tr>
<td>In general, the board has members who know important suppliers of the company.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, the board has members who know important customers of the company.</td>
<td>0.797</td>
<td></td>
</tr>
<tr>
<td>In general, the board has members who know important bank officials in the company's local business community.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, the board consists of members with diverse industry backgrounds.</td>
<td></td>
<td>0.778</td>
</tr>
<tr>
<td>Service Task Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, the board is actively involved in the selection of new directors?</td>
<td>0.900</td>
<td>0.900</td>
</tr>
<tr>
<td>In general, the board has criteria for strategic decisions.</td>
<td>0.847</td>
<td>0.847</td>
</tr>
<tr>
<td>In general, directors carefully scrutinize information provided by the firm prior to the meeting.</td>
<td>0.848</td>
<td>0.848</td>
</tr>
<tr>
<td>In general, directors research issues relevant to the company.</td>
<td>0.819</td>
<td>0.819</td>
</tr>
<tr>
<td>In general, directors have the time to serve.</td>
<td>0.870</td>
<td>0.847</td>
</tr>
<tr>
<td>Teamwork Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, the board meets regularly with the CEO.</td>
<td>0.936</td>
<td>0.936</td>
</tr>
<tr>
<td>In general, directors communicate well with each other and with the CEO.</td>
<td></td>
<td>0.926</td>
</tr>
<tr>
<td>Resource Dependence Task Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, the board uses outside contacts actively for the company.</td>
<td>0.737</td>
<td>0.737</td>
</tr>
<tr>
<td>In general, the board provides additive information secured from outside contacts.</td>
<td></td>
<td>0.725</td>
</tr>
<tr>
<td>In general, the board helps to provide outside financing.</td>
<td>0.862</td>
<td>0.862</td>
</tr>
<tr>
<td>In general, the board contributes to company reputation.</td>
<td>0.843</td>
<td>0.843</td>
</tr>
</tbody>
</table>
Family Firm Sustainable Performance

We have had a higher level of sustainable growth than that of our close competitors during the past 5 years. 0.848 0.857
We have had a higher level of sustainable profitability than that of our close competitors during the past 5 years. 0.836 0.886
Our sustainable financial position has been better than that of our close competitors in the past 5 years. 0.789 0.779

Board Effectiveness (2nd order reflective construct)

Service Task Performance
Teamwork Performance
Resource Dependence Task Performance

Control Variables

Business Size
Business Age

Moderation Variable

% of interlocks in the boardroom

Discriminant validity is the extent to which each latent variable is distinct from other constructs in the model [99]. To verify discriminant validity and meet the Fornell–Larcker criterion, AVE’s square root for each construct should be greater than all the correlations among the other constructs in the model [99,100]. In addition, research has recently established the heterotrait–monotrait (HTMT) ratio as a superior criterion compared to more traditional assessment methods (Fornell–Larcker criterion) [102]. Previous studies have suggested construct thresholds of 0.85 and 0.9 for HTMT to demonstrate discriminant validity [102]. We used the more conservative HTMT of 0.85 (Table 4) and our findings show that the model possesses acceptable discriminant validity.

Table 4. Measurement model for discriminant validity.

<table>
<thead>
<tr>
<th>Fornell-Larcker Criterion</th>
<th>Heterotrait-Mototrait Ratio (HTMT.85)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Effectiveness</td>
<td>Board External Social Capital</td>
</tr>
<tr>
<td></td>
<td>Board Internal Social Capital</td>
</tr>
<tr>
<td></td>
<td>Sustainable Firm Performance</td>
</tr>
<tr>
<td></td>
<td>Board Effectiveness</td>
</tr>
<tr>
<td></td>
<td>Board External Social Capital</td>
</tr>
<tr>
<td></td>
<td>Board Internal Social Capital</td>
</tr>
<tr>
<td>Sustainable Firm Performance</td>
<td>0.793</td>
</tr>
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<td></td>
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3.5. Structural Model Assessment

We assessed the structural model in the second stage of the analysis, by calculating the $R^2$ value of the endogenous constructs as being indicative of the model’s explanatory power [99]. The $R^2$ values were 0.159 (board internal social capital) and 0.299 (board external social capital) for sustainable family firm performance. An $R^2$ value of higher than 0.10 is acceptable by behavioral research standards [99]. In addition, we calculated the SRMR, as an approximate model fit for PLS-SEM [94]. An SRMR value of less than 0.08 is acceptable for PLS-SEM, and our outcomes revealed an SRMR model fit value of 0.05. Thus, we conclude that the model has a good fit.

4. Results and Discussion

Once we confirmed the model’s validity, in order to determine the effects, we tested our first and second hypotheses, by verifying the path coefficients’ values, along with its significance and confidence intervals (bootstrapping procedure of 5000 resamples). An effect is significant when it has a 95% probability, if the resulting confidence interval does not include a value of zero [99,103]. In the
case of a boards’ internal social capital, the effect is positive and significant ($\beta = 0.334$; $p < 0.001$; (0.248;0.435)) (Figure 2). The effect of a boards’ external social capital on sustainable family firm performance is also positive and significant ($\beta = 0.533$; $p < 0.001$; (0.451;0.624)) (Figure 2). Thus, these results support our first and second hypotheses.

![Diagram of Board internal social capital and Firm sustainable performance](image)

**Figure 2.** Direct models. (a) Board internal social capital; (b) board external social capital.

Regarding the third and fourth hypotheses (mediating effects), as observed in Figure 3, the indirect effect between a board’s internal social capital and a board’s effectiveness is positive and significant ($\beta = 0.347$; $p < 0.001$; (0.243;0.451)), and the indirect effect between a board’s effectiveness and sustainable family firm performance is positive and significant ($\beta = 0.221$; $p < 0.01$; (0.105;0.336)). Since the direct effect between a board’s internal social capital and sustainable family firm performance is also positive and significant ($\beta = 0.252$; $p < 0.001$; (0.149;0.357)), we conclude that a board’s effectiveness partially mediates the relationship between a board’s internal social capital and sustainable family firm performance, with the total indirect effect being positive and significant ($\beta = 0.076$; $p < 0.01$; (0.031;0.132)) and the total effect being positive and significant ($\beta = 0.328$; $p < 0.001$; (0.230;0.429)). This supports our third hypothesis. With respect to the fourth hypothesis (Figure 3), the indirect effect between a board’s external social capital and its effectiveness is positive and significant ($\beta = 0.371$; $p < 0.001$; (0.262;0.475)), and the indirect effect between a board’s effectiveness and sustainable family firm performance is also positive and significant ($\beta = 0.130$; $p < 0.05$; (0.020;0.233)). Given that the direct effect between a board’s external social capital and sustainable family firm performance is also positive and significant ($\beta = 0.478$; $p < 0.001$; (0.380;0.582)), we conclude that a board’s effectiveness partially mediates the relationship between external social capital and sustainable family firm performance, with the total indirect effect being positive and significant ($\beta = 0.048$; $p < 0.05$; (0.007;0.095)), and the overall effect being positive and significant ($\beta = 0.526$; $p < 0.001$; (0.437;0.621)). This confirms our fourth hypothesis.
Concerning the moderating role of interlocks (fifth and sixth hypotheses), the empirical results (Figure 4) indicate that the percentage of interlocks in the boardroom does not have a significant effect on the link between a board’s internal social capital and its effectiveness ($\beta = 0.057; p > 0.10; (-0.071;0.212)$), thus failing to support hypothesis 5. However, the proportion of interlocks in the boardroom has a significant, positive effect on the link between a board’s external social capital and its effectiveness ($\beta = 0.168; p < 0.01; (0.055;0.265)$). In other words, the greater the number of interlocks in the boardroom, the stronger the relationship between a board’s external social capital and its effectiveness. This supports hypothesis 6. This moderating effect’s size is significant and strong ($R^2 = 0.76$), based on Cohen [104].

Regarding control variables, neither family firm size nor age have a significant impact on a company’s sustainable performance. Our findings show that a board’s external social capital influenced the development of sustainable family firm performance to a greater degree than internal social capital, due to its greater coefficient. To support this idea empirically, we have followed the steps explained in Sanchez-Famoso et al. [87], where the authors test that nonfamily social capital has a stronger effect than family social capital on firm performance. Thus, on the one hand, from the angle of asymptotically consistent criteria (Bayesian information criterion (BIC), Hannan and Quinn’s criterion (HQ), and McQuarrie and Tsai’s corrected HQ criterion (HQc)) [105], the model’s values for
a board’s internal social capital are BIC = −19.77, HQ = −23.88, HQc = −23.76. Regarding a board’s external social capital, the values are BIC = −69.76, HQ = −73.68, HQc = −73.56. The model that produces the minimum BIC, HQ, and HQc reflects the best-fitting model [105,106]. On the other hand, we used R² to compare the models’ changes in their values (board internal social capital model = 0.12; board external social capital model = 0.29). The model with higher R² is considered the best one. All the parameters and criteria confirm that a board’s external social capital has a stronger influence on sustainable firm performance.

5. Discussion and Conclusions

Our proposed structural theoretical model, tested in non-listed family SMEs, has three main contributions. First, scholars interested in corporate governance have requested the development of various governance models that integrate different theoretical perspectives [14,21,107]. Our manuscript contributes to the literature by offering an original structural theoretical model that integrates social capital theory [21], stewardship theory [31], and RDT [14,32]. Thus, we argue that integrating internal and external social capital with stewardship theory could produce fine-grained recommendations about board composition and structure [108].

According to RDT, a firm’s success depends on its ability to control four critical resources [32]. The same authors suggest that the BoDs is an instrument that enables access to key resources. Hence, we maintain that the internal and external dimensions of social capital extend this theory by suggesting different resource combinations that board members can add to the organization. In sum, social capital theory contributes to the study of BoDs by incorporating the internal and external dimensions into the corporate governance literature.

Second, a BoDs internal and external social capital impact sustainable family firm performance differently. This finding expands upon previous research on social capital—that has exclusively focused on either internal [80,109] or external social capital [110]—by providing a richer explanation of its influence on sustainable firm performance. Our study shows that the effect of a board’s external social capital on both its effectiveness and sustainable firm performance is stronger than the effect of internal social capital. This finding highlights the simultaneous consideration of a board’s internal and external social capital, improving our understanding of how family firms and BoDs differ in using both dimensions of social capital to achieve better sustainable firm performance. This result extends family business literature focused on social capital [50,106,111]. Thus, as suggested by Kim and Canella [21], once researchers understand the social capital that the BoD members bring to the board, they can better grasp how the BoDs specific social capital impacts its effectiveness and sustainable firm performance. In sum, this integration helps to avoid the outright application of social capital to all types of family firms using general governance models, demonstrating the existing heterogeneity in family enterprises [112].

Third, for the first time, we tested the variables proposed by Kim and Canella [21], finding empirical evidence to support the current literature that maintains that a BoDs internal and external social capital are relevant to sustainable family firm performance [21,113,114]. Consequently, few studies have explored the role and contribution of a board’s internal and external social capital in the context of non-listed owned family SMEs. Our study begins to close this gap by focusing on non-listed family SMEs in Spain, a business model that corresponds more closely to most prototypical firms worldwide [87].

Practitioners can benefit from this research by identifying different boards’ configurations, compositions, and structures to increase sustainable firm performance. A BoDs members could benefit from the variables associated with a board’s effectiveness and interlocking to help add more value to their family companies. Similarly, family business consultants might recommend that owners create a balance between outside and inside directors on the board, due to their important, yet different roles, and establish the conditions for proper board functioning that will lead to better sustainable performance. Consultants should endeavor to increase their directors’ social capital [71], since board members’ connections impact both the board’s effectiveness and its sustainable performance [21,22,53,58,115]. This could be very helpful when family firms are involved in a
strategic change process during a development’s expansion stage, in a succession process, when considering going public, or facing high uncertainty [3]. Regulators could strengthen board effectiveness measurements by setting guidelines for a board’s strategic actions and monitoring those enhancing sustainable firm performance.

Nonetheless, this study has some limitations and thereby provides opportunities for further research. Our data collection only considered one country and a specific type of firm. This limits the generalizability of our findings to other countries and enterprises. Further research should replicate our study in countries other than Spain. Our focus on family firms might limit our results to this kind of business. Henderson et al. [116] observed that the effects of relationships on corporate governance vary by type of enterprise. Therefore, replicating this study using a sample of different firms is necessary to contrast and highlight the differences and similarities within other types of companies. Finally, this is a cross-sectional study that assessed CEOs and board members’ perceptions at one point in time. A board’s social capital, its effectiveness, and sustainable firm performance are dynamic constructs that should be analyzed over time [117]. Therefore, future studies should seek to capture those constructs longitudinally.

Despite these limitations, the present study provides interesting insights into the relationship between a board’s internal and external social capital, and sustainable family firm performance. It also offers insights into the mediating role of a board’s effectiveness in the relationship between its social capital and sustainable firm performance, while taking into account the moderating role of a board’s interlocks in the connection between its effectiveness, and its external and internal social capital. A board with more varied voices at the corporate governance level provides more diversity in the presented views and enhances decision-making quality in family firms. Thus, we are confident that our theoretical model will stimulate further scholarship in corporate governance literature to analyze the interactions between internal and external social capital, fostering output variables, such as sustainable firm performance, innovation, and environmental commitment.

Author Contributions: All of the authors contributed significantly to the completion of this manuscript. J.-H.M.- M. contributed to designing the theoretical verifications, prepared the manuscript, writing and editing the article. V.S.-F. contributed to collected and analyzed the data, generating the research ideas and is responsible for reviewing the data and writing the results of the article, while L.C is responsible for supervising the results and was involved in the discussion of the results. All authors have read and agreed to the published version of the manuscript.

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Conflicts of Interest: The authors declare no conflict of interest.

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