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Board Diversity in Selected Large Maltese Family-Controlled Businesses and its Implications on Corporate Governance

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Abstract:

Purpose: *The objectives of this study are twofold.: (i) to establish the extent of Board diversity in both its major surface-level (i.e. age, gender, nationality and tenure diversity) and deep-level aspects (i.e. industry-specific, financial, legal and IT expertise) in selected Maltese Large Family Businesses (LFBs), and to establish whether any inherent characteristics of such entities are perceived as influencing the extent of such diversity and (ii) to assess the influences of such diversity aspects on the major Corporate Governance (CG) factors. This also involves ascertaining the extent to which such influences, if existent, are perceived as advantageous or disadvantageous.*
Design/Methodology/Approach: *Semi-structured interviews were carried out with twenty-six interviewees, consisting of eleven directors, three company secretaries, a CEO, four CFOs, an Institute of Directors representative, four advisory partners, an audit manager and an audit director.*
Findings: *LFB Boards are mostly composed of family members, mostly long-tenured and having a lack of diversity of expertise. Moreover, LFB inherent characteristics, particularly strong emotional ties, may reduce the likelihood of a LFB Board being diverse. Furthermore, tenure and age diversity are the diversity aspects most influential on CG, particularly on attaining effective succession planning. In addition, although the eight major diversity aspects do not influence the CG factors pari passu, they generally influence various CG factors advantageously.*
Practical Implications: *LFBs should consider Board participation rather than Board membership for most family members in order to allow enough space for the involvement of*

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externals as Board members. Moreover, LFBs should set up a plan to manage the negative influences of their inherent characteristics on Board diversity. LFBs should also opt for various aspects of Board diversity, yet prioritise tenure and age diversity. In this regard, the introduction of fiscal incentives by public authorities may be an appropriate step in this direction.
Originality/Value: *This study attempts to raise more awareness on the relevance and implications of Board diversity in LFBs. The proposed recommendations may therefore guide such businesses to improve their CG, and possibly also encourage the competent authorities to provide more guidance in this regard.*

Keywords: *Board Diversity, Corporate Governance, Board of Directors, Family-Controlled Companies.*

JEL Classification: *G34, M14.*

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1. Introduction

Board of Directors (Board) diversity is a crucial measure which determines whether, and to what extent the Board functions effectively (Booth-Bell 2018). However, although Baldacchino et al. (2021) note that each diversity aspect taken into account has a positive impact on many corporate governance (CG) factors, with any negative influences being minimal, family businesses (FBs) may perceive Board diversity as a danger to their existence (Mubarka, Kammerlander 2022). This may lead them to rather appoint directors from a less diverse pool of family members (Jorissen *et al.*, 2017).

In effect, the inherent characteristics of FBs may drive them to deal with diversity differently than non-family businesses (NFBs) would (Singal and Gerde, 2015). In this regard, little is as yet known whether such Maltese FBs, which are considered as the backbone of the Maltese economy, are undertaking appropriate diversity initiatives.

With this in mind, the objectives of this study are firstly (i) to establish the extent of Board diversity in both its major surface-level (i.e., age, gender, nationality and tenure) and deep-level aspects (i.e., industry-specific, financial, legal and information technology (IT) expertise) in selected Maltese large FBs (LFBs), and also to establish whether any inherent characteristics of such entities are perceived as influencing the extent of such diversity. Secondly, (ii) to assess, in the same entities, the influences of the aforementioned diversity aspects on the major CG factors. The latter objective will include ascertaining the extent to which such influences, if existent, are perceived as advantageous or disadvantageous.

Given the paucity of CG research coming from small state nations, it is critical that such national studies are undertaken (Baldacchino, 2017). Moreover, a study examining several aspects of Board diversity in LFBs may prove worthwhile since it may guide such entities to increase their potential to thrive from one generation to another. This may also shed light on the need to set official regulations, guidelines or even incentive measures to stimulate diversity practices in LFBs.

2. Literature Review

2.1 The Influences of Inherent Characteristics of LFBs on Board Diversity

2.1.1 Strong Emotional Ties

FBs typically exhibit strong emotional ties due to the common history and perceptions held between the family members in the business (Tagiuri and Davis 1996). This blood-relation and emotional adhesion induces shared goal-directed behaviour, which creates unity, solidarity, lowers agency costs, and safeguards the survival and continuity of FBs (Melin *et al.*, 2013).

However, these emotional ties may impair trust relations with non-family employees (Pearson and Marler, 2010). Moreover, the reluctance of entrusting diverse persons external or from outside the FB (Externals) may lead in trusting family-managerial personnel blindly, whereby trust obviates control (Kidwell *et al.*, 2012).

2.1.2 Permanent Posts

Family member involvement in FBs is rarely changed, and this enables FBs to accumulate tacit knowledge and to preserve the qualities inherent in the family (Amit and Villalonga 2014; Melin *et al.*, 2013). Indeed, family members who have been involved in the business operations for years tend to become highly equipped with organisation-specific knowledge (Wallevik, 2009).

Nonetheless, having top posts held permanently may easily result in a culture of resistance to change (Baldacchino *et al.*, 2019). Furthermore, Le Breton-Miller and Miller (2009) argue that family and non-family executives having a long-term association with the family are more likely to lean towards the family goals, and this may occasionally conflict with the organisation's mission. In this regard, the imposition of Board term limits may increase Board turnover, this being accompanied by a higher extent of Board diversity (Rosenblum and Nili, 2019).

2.1.3 Socioemotional Wealth

FBs generally pursue non-economic goals which are based on the family's socioemotional wealth, including the protection of the family's legacy (Amit and Villalonga, 2014) and the protection of their good reputation (Le Breton-Miller and

Miller, 2009). Moreover, FBs often secure job prospects for family members to safeguard their socioemotional wealth (Baldacchino *et al.,* 2019). This may ultimately encourage FBs to avoid employing an external diverse workforce (Snellman, 2016).

In this regard, the creation of a family council may help the family communicate on common priorities and objectives (Gersick and Feliu, 2013). Additionally, this allows for coordination between the Board and the family council, ensuring that Board decisions are in line with the family's values and non-economic objectives (Lansberg, 1988).

Moreover, Eckrich and McClure (2012) remark that an external professional facilitator should be appointed in order to lead the family council, foster orderly communication amongst the family members, and maintain an impartial attitude toward each family member's views. Furthermore, establishing an external advisory board allows a FB to gain insight of professional expertise without having to sacrifice its socioemotional wealth, mainly owing to the advisory board members having close relationships to the family (Gómez-Mejia *et al.,* 2011). In addition, establishing a family charter may clarify the family's non-economic goals and ensure that family representatives in the council satisfy certain criteria in order to participate, such as having sufficient business acumen (Eckrich and McClure 2012).

2.1.4 Illiquidity of Shares

Mustakallio (2002) denotes that shares in private FBs are generally illiquid, where share transfers are limited solely between the family members. Indeed, economic efficiency is typically exhibited in FBs through their preference on relying on their own capital to mitigate the possibility of losing family control (Jain and Shao, 2015).

However, aside from serving the family's interests, listed FBs that liquidated their shares are typically faced with other public pressures (Cabrera-Suárez and Martín-Santana 2015). Indeed, listed FBs generally have non-family shareholders who are keen to actively participate in the governance of such FBs, and who are even likely to impose further criteria, including the appointment of externals (ibid.). Moreover, Jaafar (2016) remarks that family member executives have less influence and authority when diverse directors, including externals, are appointed to satisfy the Board requirements of listed companies.

2.1.5 Family Member Involvement in Management

Greater family involvement in management encourages family members to align their own interests with those of the business (Jensen and Meckling, 1976). However, families tend to act more like agents than stewards when there are more family members participating in management (Tosi *et al.,* 2003). This may prompt family members to prioritise control-oriented gains and self-interest over company growth (Schulze *et al.,* 2003), which leads to the FB's investment vision being short-sighted (Su and Lee, 2013).

Yet, given that non-family executives' interactions with the FB tend to be on a more intimate level than would be the case in a NFB, the FB is more likely to consider appointing such affiliate directors (Jones et al. 2008). This suggests the increased likelihood of the FB Board being more diverse (ibid.).

2.2 The Influences of Surface-Level Diversity Aspects on CG

2.2.1 The Influences of Age Diversity

Baldacchino *et al.* (2021) remark that age-diverse Boards in Maltese Listed Companies (MLCs) provide a variation of skills which enhance problem-solving. This generational shift also reduces the likelihood of experiencing complacency in the boardroom (Mahadeo *et al.*, 2012). Furthermore, age-diverse Boards improve Board meeting attendance (Masulis *et al.*, 2020).

Moreover, an age-diverse Board indirectly addresses issues with top management succession planning because older members provide invaluable experience and access to their network, the middle-aged members hold responsibility for the main executive roles, and the younger members develop their knowledge and understanding of the business on the job (Houle, 1990).

However, an age-heterogenous Board may engender intra-group disagreements (Talavera *et al.*, 2018). In this context, the Chairman's skills and capacity are pivotal since he/she may promote a collaborative Board environment that facilitates efficient discussion (Northcott and Smith, 2015).

2.2.2 The Influences of Gender Diversity

The recently approved Directive 2022/2381 requires the Boards of listed companies within the European Union (EU) to have at least 40% of the underrepresented sex among non-executive directors, or else 33% of the underrepresented sex among all directors by 30 June 2026 (EU 2022).

Baldacchino *et al.* (2021) denote that gender diversity in MLCs improves the problem-solving skills in the boardroom. Kim and Starks (2016) further remark that female directors improve the efficacy of the Board's advisory role. In addition, female directors' meeting absenteeism rate is even lower than that of male directors (Adams, Ferreira 2009). Moreover, female members prove beneficial in strategy development (Francoeur *et al.*, 2008).

However, Baldacchino *et al.* (2021) remark that a person's competences, not their gender, ultimately determines whether or not they are suitable for the Board. Moreover, gender quotas may lead companies to bypass them (Campbell and Bohdanowicz, 2018). Hence, rather than establishing hard quotas, it may be more effective to increase awareness by considering teleworking and other sorts of technology (Baldacchino *et al.*, 2021) or else soft law development (Kang *et al.*, 2023).

2.2.3 The Influences of Nationality Diversity

Lau *et al.* (2016) and Singh (2007) remark that foreign directors may expand a firm's network internationally. Additionally, the distinctive backgrounds stemming from different nationalities contribute to enhanced problem-solving skills and effective decision-making (Baldacchino *et al.,* 2021).

Despite this, Masulis *et al.* (2012) denote that foreign directors not residing in the company's country of operation, may indeed contribute to poor Board meeting attendance. Moreover, nationality diversity impairs social cohesiveness within the Board, ultimately slowing down the problem-solving process (García-Meca *et al.,* 2015). Additionally, foreign directors have limited influence on the Board's advisory role, particularly in the case of cross-border acquisitions (Masulis *et al.,* 2012).

2.2.4 The Influences of Tenure Diversity

Long-tenured directors, particularly the founders of FBs, may ensure proper monitoring on management owing to their substantial knowledge of the company's operations (Cheng, 2014). Ben-Amar *et al.* (2013) further remark that directors with long tenure may better contribute to the business strategy.

However, placing too much value on extended tenure may result in the continuous application of existing practices without the consideration of strategic changes (Golden and Zajac, 2001). Moreover, long-tenured Boards may experience weaker monitoring on management because increased tenure leads to familiarity between the Board and executives (Ji *et al.,* 2021).

In this regard, Baldacchino *et al.* (2021) suggests that a tenure-diverse Board should be adopted in order to lessen complacency, but still prevent the loss of invaluable expertise. This also proves favourable for the succession planning of the Board, mainly owing to the fresh perspectives introduced to the boardroom table (ibid.). Moreover, tenure diversity also enhances problem-solving skills in the boardroom (ibid.). Furthermore, tenure-diverse Boards may more diligently monitor management on account of their increased independence (Li and Wahid, 2018).

Nonetheless, tenure-diverse Boards may experience internal conflict since directors with varied tenures have diverse knowledge and perspectives (Simons and Peterson, 2000).

2.3 The Influences of Deep-Level Diversity Aspects on CG

2.3.1 The Influences of Industry-Specific Expertise

Directors with industry-specific expertise enhance the quality of decision-making in the boardroom (Bugeja *et al.,* 2017). Moreover, Faleye *et al.* (2018) contend that industry experts extend the possible information channels for the business. This ensures that knowledgeable and effective decisions are taken (ibid.). This is even more relevant for FBs, whereby external directors with proper industry expertise may increase the value of the FB (Huse, 2005). Furthermore, Faleye *et al.* (2018) suggest that Boards with industry expertise can increase the CEO’s willingness to pursue Board insights, thereby catering for more effective strategies to be implemented. Moreover, the appointment of Board members with industry expertise reduces management risk aversion in investments (Guldiken and Darendeli, 2016). In addition, Baldacchino *et al.* (2021) remark that industry-expert directors are better able to manage risks.

However, extensive industry expertise on the Board may restrict the recognition and evaluation of new opportunities, owing to such directors being complacent and firmly rooted in the specific sector’s conventions (Faleye *et al.,* 2018). This may ultimately lead to groupthink (Baldacchino *et al.*, 2021).

2.3.2 The Influences of Financial Expertise

Directors with financial expertise are better equipped to comprehend and control the risks associated with financial transactions (Huang *et al.,* 2014). Financial directors also serve as important advisors to management (De Andres and Vallelado, 2008). Additionally, banker-directors offer connections to the bank debt market (Booth and Deli, 1999). Baldacchino *et al.* (2021) further contend that financial expertise is crucial because it enhances the overall quality of expertise in the boardroom.

Yet, family members in FBs are generally not well versed with the very basics of financial knowledge (Bugeja, 2020). Similarly, Lakew and Rao (2009) denote that FB Boards frequently lack expertise on how to utilise financial management effectively, thereby leading them to make inefficient financial decisions.

2.3.3 The Influences of Legal Expertise

Directors with legal expertise are invaluable today given the increased regulation on businesses (Litov *et al.,* 2014). Moreover, De Villiers *et al. (*2011) claim that lawyer-directors’ professional standing also guarantees that they provide access to more prestigious social networks and greater intellectual circles. In addition, Osborne (1991) states that directors with legal expertise are crucial to succession planning given their legal know-how, especially in the case of FBs going onto their second generation.

Nonetheless, in the case of lawyer-directors generally adopting a risk-averse perspective, the result would be the deterioration of the company’s performance due to the increased likelihood of missing out on the possibility of maximising shareholders’ wealth (Liu and Sun, 2021).

2.3.4 The Influences of IT Expertise

Appointing directors with IT expertise on the Board mitigates the possibility of having managerial employees misappropriating the firm’s resources for their own advantage (Valentine 2013). Moreover, having IT expertise on the Board is crucial to understanding management’s actions and decisions, and to challenging them

(Sartawi, 2020). Therefore, Boards with no IT exposure generally compromise management oversight (Cohn and Robson, 2011).

Furthermore, appointing IT experts as directors enables the Board to make better decisions, specifically when faced with cyber-threats or security challenges (Sartawi, 2020). Moreover, Somjai and Rungsawanpho (2019) remark that directors with IT expertise may guarantee that effective controlling measures are in place in order to reduce the risk associated with IT investments. In addition, Boards with IT expertise are able to manage risk and take advantage of opportunities through new technologies (Noor *et al.,* 2016). Additionally, independent directors with IT expertise are crucial for businesses since they generally have strong relationships with external stakeholders who may provide them with specialised technological information (Liu *et al.*, 2021).

3. Research Methodology

3.1 The Research Tool

The most suitable research tool for achieving the objectives of this study was considered to be semi-structured interviews. A semi-structured interview provides an in-depth analysis of the different perspectives gathered from respondents in response to open-ended and closed-ended inquiries (Creswell, Plano, and Clark, 2017). In this way, the research questions are adequately addressed, and the participants are given the opportunity to provide their own views in greater depth (Galletta, 2013).

The interview schedule (refer to Appendix 1) developed for the intent of this study addressed representatives of LFBs and Corporate Governance Experts (CGEs) knowledgeable about the mechanisms of LFBs and their CG. The interview schedule comprised four main sections, with the second section dealing with the influences of the eight aspects of Board diversity considered in this study on the predominant CG factors highlighted in literature. The thirteen CG factors considered in this study are denoted in Table 1.

Table 1. *CG factors applicable to Section 2 of the Interview Schedule*

CG Factors	
i.	Quality of decision-making
ii.	Board communications
iii.	Problem-solving skills
iv.	Conduct of the monitoring function
v.	Conduct of the advisory function
vi.	Access to network ties
vii.	Board entrenchment
viii.	Approach towards risk
ix.	Quality of Board expertise

x.	Quality of strategies implemented
xi.	Conflicts of interest
xii.	Board meeting attendance
xiii.	Effective succession planning

Source: *Authors' Own.*

The interview schedule comprised a series of both open-ended and closed-ended questions. A five-point Likert scale, with '0' being not influential at all/highly disadvantageous and '4' being highly influential/highly advantageous, was employed for the corresponding closed-ended questions.

Moreover, for the second section of the interview schedule, only those CG factors that received ratings of three or four (i.e., influential or highly influential) in the first part of the question required participants to answer the second part of the same question.

3.2 The Sample Population

Each potentially relevant FB was initially scrutinised through the Malta Business Registry (MBR) website to verify whether it meets the thresholds of a family-controlled company, which is the case where the founder or family members own more than 25% of the business' share capital (European Commission 2009).

Consequently, in order to eliminate small and medium-sized FBs, the last available Annual Reports were accessed through the database of the MBR so as to verify whether they employed 250 or more employees, which is in accordance with the thresholds stated in the Companies Act (1995). In this manner, the researcher was able to determine the LFBs to be included in the research.

In total, twenty-six interviews were conducted. From these, nineteen interviews were conducted with LFB representatives, representing nineteen LFBs. Directors, company secretaries and regular participants in Board meetings, mainly chief officers, were selected as research participants due to their practical experience in the CG of LFBs.

These LFB representatives involved nine family representatives (Freps) and ten non-family representatives (NFreps). Furthermore, seven interviews were conducted with CGEs, since their experience was deemed to provide a further in-depth analysis of the research topic. CGEs encompassed an Institute of Directors representative, four advisory partners, an audit manager and an audit director.

3.3 Data Analysis

The sources of qualitative data included the open-ended questions part of the interview schedule and any further remarks that respondents made after providing their Likert scale ratings. In order to evaluate such qualitative data, the transcripts were summarised to facilitate the identification of similarities and disparities in the participants' responses. Additionally, the supplementary comments following the participants' Likert scale ratings were analysed, mainly concentrating on the most influenced CG factors and the most influential diversity aspects.

The sources of quantitative data included the close-ended questions part of the interview schedule. The Friedman Test was employed to compare the mean rating scores assigned to the CG factors or diversity aspects by participants, and to ascertain whether such scores differ significantly or not. The Frequency Statistics Table was used to compare the mean rating scores given to the CG factors.

The Spearman Test was used to assess the degree of correlation between the average mean rating scores for the influence of each diversity aspect on the thirteen CG factors and the mean rating scores for the overall influence of each diversity aspect on CG. The Kruskal Wallis Test was applied to compare the mean rating scores provided among three groups of respondents, comprising of CGEs, Nfreps and Freps, and thereby assess whether there are any significant differences between the groups' mean rating scores.

4. Findings

4.1 The Extent of Diversity on the Boards of LFBs

The first question of the interview schedule requested LFB representatives to classify their Board members in terms of the surface and deep-level diversity aspects, and also to highlight the family representatives on the Board. It was noted that 74% of the directors of the LFBs interviewed were family members.

Moreover, a LFB Board is generally composed of an average of five directors, with one director being less than forty years old$_{(\bar{x}=1.05)}$, one director being between forty to forty-nine years old$_{(\bar{x}=0.68)}$, one director being between fifty to fifty-nine years old$_{(\bar{x}=1.42)}$, one director being between sixty to sixty-nine years old$_{(\bar{x}=1.26)}$, and one director being seventy years old or older$_{(\bar{x}=1.11)}$.

Moreover, four directors are males$_{(\bar{x}=4.05)}$ and one director is female$_{(\bar{x}=1.47)}$; all five directors are Maltese$_{(\bar{x}=5.21)}$, whereas the tenure of two directors is less than twelve years$_{(\bar{x}=2.21)}$ and the tenure of three directors is more than twelve years$_{(\bar{x}=3.32)}$.

In addition, a LFB Board has an average of four industry-specific directors$_{(\bar{x}=3.68)}$ and one financial director$_{(\bar{x}=1.42)}$. However, it is to be noted that in addition to these directors, in four of the LFBs, a total of 16 family members, averaging four in each of the four companies, participated in Board proceedings without being Board members.

4.2 The Influences of Inherent Characteristics of LFBs on Board Diversity

In the next question, participants were asked whether any of the five inherent characteristics associated with LFBs would affect the extent of Board diversity, and if so, how.

4.2.1 Strong Emotional Ties

Twenty-two interviewees claimed that strong emotional ties prevalent in a LFB may decrease the LFB's willingness to adopt Board diversity. They remarked that, given that family members are involved in the business from a young age, certain attitudes are embedded in the LFB from its very foundation. This includes the attitude towards decision-making, which generally emanates from the immediate family.

In consequence, the business may be forced to adopt a negative mindset regarding the appointment of external directors. This is in accordance with Pearson and Marler (2010). In line with this, some respondents highlighted that the founder of a business would be wary of being Board diverse and of appointing new external directors; often this being due to the possibility of any new directors suggesting the disinvestment in a specific industry to which the founder may be emotionally attached.

4.2.2 Illiquidity of Shares

Twenty participants felt that the illiquidity of shares may decrease the likelihood of a LFB being Board diverse. A few of these participants contended that by liquidating a LFB's shares and by going public, the LFB would lessen the bearing of the family on the LFB. This is in accordance with Jaafar (2016). In this connection, some added that an *"open mindset"* would thus be introduced, and the separation between *"the family dynamic and the business dynamic"* starts to surface, encouraging directors to *"stay goal-oriented"* by also appointing external directors with the necessary expertise.

Furthermore, in line with Cabrera-Suárez and Martín-Santana (2015), once shares have been transferred to the public, pressures will start building up towards appointing at least one or more external directors.

4.2.3 Permanent Posts

Nineteen respondents agreed that Board diversity in LFBs is limited in view of the tendency of individuals to hold their positions in these entities indefinitely. Some respondents contended that senior family members who would have been appointed for years would be wary of giving up their chair to their successors and would feel *"envious even of their own children"* for stealing their limelight, let alone being open to giving up their place to external non-family personnel.

One of these respondents further explained that this implicitly leads to shareholders continuously choosing from *"the same pool of family members"*, thereby reducing the likelihood of the Board being diverse. Another one of these respondents added that, in line with Baldacchino *et al.* (2019), directors in a NFB who have been coalescing for years with one another would already have *"gelled together"*, exacerbating the risks of groupthink, let alone a group of family members, who generally share similar viewpoints.

4.2.4 Family Member Involvement in Management

Eighteen participants acknowledged that family member involvement in management prevails in LFBs, and that this negatively influences the willingness of LFBs to be Board diverse. Indeed, some participants pointed out that most family members feel that it is *"God-given"* both to manage and direct the business, often because they consider themselves to know it all. This is in line with Tosi *et al.* (2003), Schulze *et al.* (2003) and Su and Lee (2013).

Furthermore, four respondents added that this characteristic may influence Board diversity in different ways depending on the number of generations that the LFB was handed down to. They explained that, upon reaching the third generation, family members realise that there are too many of them wanting to have their share of say, thereby rendering it impracticable to come to a consensus. As a result, LFBs have a tendency to be more keen on bringing in externals at management level. This is accompanied by an increased propensity for LFBs to adopt Board diversity, given that at that point they will have realised that they would be of contribution. This is in line with Jones *et al.* (2008).

4.2.5 Socioemotional Wealth

In line with Snellman (2016), fifteen interviewees felt that a LFB's focus on preserving its socioemotional wealth may also influence the extent of Board diversity, often owing to their reluctance towards appointing externals. Five interviewees added that, despite that profit maximisation and company growth remain the ultimate goals of the LFB, there are other family-centred goals parallel to them.

Two of these respondents explained that LFBs are reluctant to appoint externals as they want to ensure that they safeguard their reputation and the family's legacy. This is in accordance with Le Breton-Miller and Miller (2009) and Amit and Villalonga (2014).

4.3 The Influences of Surface-Level Diversity Aspects on CG

In the following question, respondents were first asked to rate the influences of each surface-level diversity aspect on thirteen CG factors, and in the case of such influences (i.e., influential or highly influential), to state whether such influences are advantageous or not. The analysis of this section will delve into the two CG factors found to be the most and least advantageously influenced by each diversity aspect.

4.3.1 The Influences of Age Diversity

Fourteen participants considered age diversity to be most influential in an advantageous manner on succession planning$_{(\bar{x}=3.77)}$, remarking that age diversity enables the younger generation to be given early exposure, thus preparing them gradually for succession. Such participants' views are in line with Houle (1990).

Fifteen respondents also contended that age diversity decreases the likelihood of the Board experiencing Board entrenchment$_{(\bar{x}=3.32)}$ because the younger directors are generally less likely to resist change and are *"more receptive to ideas"*. These views are in line with Mahadeo *et al.* (2012).

In addition, eight respondents commented that, in line with Baldacchino *et al.* (2021), age-diverse Boards benefit from enhanced problem-solving skills$_{(\bar{x}=2.96)}$ owing to the combination of the elder generation's invaluable past experiences and the younger generation's creative approaches.

Moreover, eleven participants remarked that age diversity enhances Board communications$_{(\bar{x}=2.11)}$ and fosters a healthy discussion in the boardroom because directors of different ages generally hold different perspectives. However, in line with Talavera *et al.* (2017), others emphasised that this may rather increase the likelihood of the boardroom experiencing more disagreements.

4.3.2 The Influences of Gender Diversity

Eight participants considered gender diversity to be most influential in an advantageous manner on the quality of decision-making$_{(\bar{x}=3.40)}$, explaining that this is principally due to females and males holding diverse character cues, whereby females are often more empathic than males and yet are more likely than men to challenge ideas, conduct in-depth research and be more goal-oriented. This is in line with Fama and Jensen (1983).

Seven interviewees also contended that gender diversity influences advantageously the problem-solving skills$_{(\bar{x}=3.27)}$, the conduct of the advisory function$_{(\bar{x}=3.20)}$, and the quality of strategies implemented$_{(\bar{x}=3.13)}$ because females and males tend to view issues from different perspectives, leading the Board to reach a more holistic solution. This is in line with Baldacchino *et al.* (2021), Francoeur *et al.* (2008) and Kim and Starks (2016).

In addition, in line with Baldacchino *et al.* (2021), five participants expressed their dissent towards gender quotas, which serve as a *"superficial mechanism"*.

4.3.3 The Influences of Nationality Diversity

In line with Lau *et al.* (2016) and Singh (2007), ten respondents noted that nationality diversity influences advantageously access to network ties$_{(\bar{x}=3.16)}$, due to foreign directors most often having a higher likelihood of having international connections. Yet, two respondents argued that if the LFB engages solely in local business, access to network ties may be impeded by foreign directors owing to their lack of local connections.

Moreover, nine respondents explained that nationality-diverse Boards benefit from greater advisory$_{(\bar{x}=2.88)}$ owing to their experiences abroad. Yet, three participants added that this enhanced expertise is irrelevant if most of the LFB's issues are driven by local concerns.

Twelve respondents also remarked that nationality diversity influences advantageously the quality of decision-making$_{(\bar{x}=2.75)}$. Indeed, in line with Baldacchino *et al.* (2021), such Boards benefit from diverse ideas and ways of thinking, principally owing to foreign director exposure abroad.

In addition, in line with Baldacchino *et al.* (2021), eight respondents explained that, given the varied perspectives and exposure of foreign directors, nationality-diverse Boards may benefit from greater problem-solving skills$_{(\bar{x}=2.72)}$. However, another two respondents claimed that nationality-diverse Boards may hamper the problem-solving process as a result of disputes arising, given the varying solutions put forth by local and international directors. This is in line with García-Meca *et al.* (2015).

4.3.4 The Influences of Tenure Diversity

In accordance with Baldacchino *et al.* (2021), twelve participants explained that tenure diversity is crucial for a LFB to execute proper succession planning$_{(\bar{x}=3.57)}$ because this may encourage long-term tenured family members who would have been *"set in their own roots"* to seek the best interest of the LFB and start a proper succession plan in order to avoid having to replace the entire Board in one go.

Moreover, seven participants contended that tenure-diverse Boards enhance the quality of strategies implemented$_{(\bar{x}=3.33)}$, owing to the combination of long-tenured directors, which in line with Ben-Amar *et al.* (2013), would have *"built the wheel of the LFB"* on strategies they instituted, as well as the short-tenured directors, which in line with Golden and Zajac (2001), may counteract the long-tenured directors' resistance to strategic change by proposing new strategies.

In line with Cheng (2014), twelve participants clarified that tenure-diverse Boards benefit from improved monitoring$_{(\bar{x}=2.67)}$ on management because long-tenured directors generally have a greater ability to probe further in such matters, being more aware of past improper managerial conduct in the company. This contrasts with Ji *et al.* (2021). Contestingly, in line with Li and Wahid (2018), short-tenured directors tend to introduce new and yet untried monitoring mechanisms to assist such monitoring.

Seven participants explained that the Board communication$_{(\bar{x}=2.13)}$ flow is influenced advantageously by tenure-diverse directors because they are more likely to instigate debates and reduce groupthink. Yet, in line with Simons and Peterson (2000), a few participants claimed that tenure diversity is *"extremely disruptive"*, and may *"create a place of conflict"*.

Furthermore, some respondents noted that the influences of tenure diversity also vary with one's *"character and commitment"* and the *"mutual respect"* on the Board.

4.4 The Influences of Deep-Level Diversity Aspects on CG

In the following question, respondents were first asked to rate the influences of each deep-level diversity aspect on thirteen CG factors, and in the case of such influences (i.e.. influential or highly influential), to state whether such influences are advantageous or not. The analysis of this section will delve into the two CG factors found to be the most and least advantageously influenced by each diversity aspect.

4.4.1 The Influences of Industry-Specific Expertise

Seventeen respondents agreed that industry-specific directors influence advantageously decision-making$_{(\bar{x}=3.77)}$ and allow this to be well-informed. Some also added that this expertise serves as the *"pillar"* which enables the LFB to grow further. This is overall in line with Bugeja *et al.* (2017) and Faleye *et al.* (2018).

Additionally, ten interviewees noted that, unlike other forms of expertise, industry-specific knowledge cannot be easily replaced by other types of expertise because it influences advantageously the quality of expertise$_{(\bar{x}=3.72)}$ in the boardroom.

In line with Faleye *et al.* (2018), ten interviewees contended that a LFB has automatic access to a vast network$_{(\bar{x}=3.38)}$ of channels upon the appointment of industry-specific experts, allowing the entity to seize any new opportunities within its industry.

Seven interviewees also explained that the presence of industry-specific experts on the Board is crucial for the risk approach adopted$_{(\bar{x}=3.06)}$, because given their knowledge, they are more likely to manage risks in alignment to the real risks faced by the industry of the LFB. This is in accordance with Guldiken and Darendeli (2016) and Baldacchino *et al.* (2021).

4.4.2 The Influences of Financial Expertise

In line with Baldacchino et al. (2021), nine interviewees commented that financial expertise is highly contributory in terms of the quality of expertise in the boardroom$_{(\bar{x}=3.67)}$ in order for the LFB to grow and move forward.

Eight respondents remarked that proper financial advisory$_{(\bar{x}=3.62)}$ on the Board is critical for one to ensure an understanding of the financial ramifications of a particular decision. This is in accordance with De Andres and Vallelado (2008).

In accordance with Booth and Deli (1998), ten participants commented that financial directors may provide access to their network ties$_{(\bar{x}=3.35)}$ when the LFB has specific targets it wants to reach.

Furthermore, six respondents contended that financial expertise influences the approach towards risk$_{(\bar{x}=2.85)}$ on the Board advantageously because such directors have the knowledge to control risk, thereby encouraging the LFB to adopt a *"risk-balanced approach"*. This is in line with Huang *et al.* (2014). Nonetheless, another five respondents argued that such directors tend to be *"too cautious and prudent"*, a mindset *"typical in their profession"*.

4.4.3 The Influences of Legal Expertise

In line with Osborne (1991), eleven respondents contended that this expertise influences highly advantageously succession planning$_{(\bar{x}=3.60)}$. This is because given there is significant legal aspects to succession planning, legal directors are crucial to highlight the legal considerations pertaining to succession.

In terms of the quality of Board expertise$_{(\bar{x}=3.45)}$, six participants remarked that currently, legal expertise in the boardroom is critical owing to the increasing regulatory requirements imposed on large businesses. This is in line with Litov et al. (2014). Nonetheless, three respondents argued that legal expertise is not essential at Board level, and may be given consideration at a lower level.

In accordance with De Villiers *et al.* (2011), nine interviewees denoted that legal expertise may influence advantageously the access to network ties$_{(\bar{x}=3.24)}$. This is because lawyer-directors may grant access to specific channels when the LFB has particular goals it wants to pursue.

As to the approach towards risk$_{(\bar{x}=2.81)}$, five respondents remarked that given their familiarity with compliance matters, legal directors generally raise concerns in questionable circumstances in order to manage such risk. However, another four respondents denoted that generally lawyer-directors are *"too cautious"* and frequently take *"a black and white stance"* as opposed to maintaining a risk-balanced approach, and added that this may negatively affect the LFB's performance. This is in line with Liu and Sun (2021).

4.4.4 The Influences of IT Expertise

Seven interviewees explained that IT directors may influence the conduct of the monitoring function$_{(\bar{x}=3.43)}$ highly advantageously since they can ensure that the appropriate data protocols and automated structures are in place. This is in accordance with Valentine (2013), Sartawi (2020) and Cohn and Robson (2011).

Moreover, seven interviewees explained that IT directors may offer access to network ties$_{(\bar{x}=3.33)}$ and to channels that house data or technological devices that a

LFB may require to further digitise its business. This is in accordance with Liu *et al.* (2021).

In line with Sartawi (2020), ten respondents contended that IT expertise is essential to ensure comprehensive decision-making, given that matters tend to revolve around IT. Nevertheless, three respondents claimed that the type of the LFB's industry – whether or not tech-based – determines the relevance of such expertise in terms of decision-making.

Five interviewees also remarked that IT directors also influence advantageously the approach adopted towards risk$_{(\bar{x}=3.00)}$. This is because given IT expert proficiency in statistical data analysis, the LFB would be able to manage risk and seize advantageous opportunities by projecting the results of an investment on the basis of historical outcomes. This is consistent with Somjai and Rungsawanpho (2019) and Noor *et al.* (2016).

Contrastingly, some respondents highlighted that IT expertise may either be outsourced or else employed at a lower level, rather than at Board level.

4.5 The Overall Influence of Board Diversity on CG in LFBs

In the next question, participants were requested to rate how influential each diversity aspect is on CG. From the surface-level diversity aspects, participants identified tenure diversity$_{(\bar{x}=3.27)}$ as having the greatest influence on CG, followed by age diversity$_{(\bar{x}=3.04)}$. However, they were indifferent about the influences of both nationality diversity$_{(\bar{x}=2.46)}$ and gender diversity$_{(\bar{x}=2.42)}$ on CG.

Then, from the deep-level diversity aspects, participants identified industry-specific expertise$_{(\bar{x}=3.42)}$ as having the greatest influence on CG, followed by financial expertise$_{(\bar{x}=3.38)}$ and legal expertise$_{(\bar{x}=3.35)}$. However, they were indifferent about the influence of IT expertise$_{(\bar{x}=2.35)}$ on CG.

4.6 The Development of Regulation on Board Diversity

Nine interviewees added at the end of the interview that regulation should be developed, because its mandatory imposition will oblige LFBs to comply. Despite this, another eight interviewees perceived that recommended guidance, rather than regulation, may be the way forward, or otherwise it will simply result in a *"ticking box approach"* and may also rather encourage LFBs to *"beat around the bush"* in order to bypass the regulations.

In this context, two recommended establishing a family charter as the best course of action as it may provide a distinction between the family and its business.

5. Discussion of Findings

5.1 The LFB Board Participants and the Extent of Diversity

5.1.1 Board membership or mere participation for family members?

The findings indicate that LFB Boards are mostly composed of family members. In addition, LFB Boards seem to involve more family members participating in Board meetings without being Board members. In line with Wallevik (2009), this may be possibly due to the family members' organisation-specific knowledge gained through their involvement with the LFB operations over the years.

Although the appointment of a limited number of family representatives as Board members is an understandable *sine qua non*, it is also necessary for the company to allow enough space for the involvement of externals as Board members. Indeed, in accordance to Tosi (2003), Schulze (2003) and Su and Lee (2013), this may counterbalance any bias and individual self-interested motives emanating from the influence of the family. At the same time, any further family members interested enough in Board proceedings may be permitted to attend the Board meetings as participants, and therefore without undue voting power.

5.1.2 Is the extent of existing diversity sufficient in Maltese LFBs?

Upon comparing the general extent of diversity in MLC Boards as noted by Baldacchino *et al.* (2021) (refer to Appendix 2) to that noted in LFB Boards in the findings of this study, one may observe that in both scenarios, most directors are Maltese, male and over forty years of age. However, in contrast to MLC Boards, most directors in LFB Boards generally have a longer tenure. Moreover, one may observe that in both MLC and LFB Boards, most directors hold industry-specific expertise, followed by financial expertise. Nonetheless, in comparison to MLC Boards, most directors in LFB Boards often lack diverse forms of expertise.

As noted by Jorissen *et al.* (2017), such narrower extent of diversity in LFB Boards is most likely due to family shareholders restrictively appointing Board members from the limited pool of family members, thereby not considering the appointment of externals enough.

Moreover, a few interviewees regarded legal and IT expertise as forms of expertise which may be either outsourced or else employed in-house at a lower level, and thus not necessarily required at Board level. This indicates that LFBs do not highly value the contribution of diverse expertise on their Boards.

As noted by some interviewees, this may also be due to the family members being wary of appointing professional externals that may potentially give rise to the disinvestment in a specific industry which is close at heart to the family.

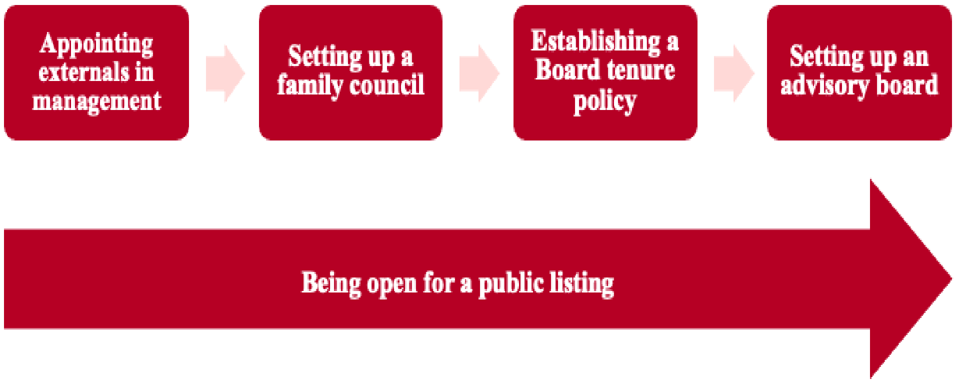
5.2 The LFB inherent characteristics influencing Board diversity

5.2.1 How are the inherent characteristics of LFBs to be managed?

According to the findings, the inherent characteristics of LFBs generally foster a culture of trust among the family members, encouraging them to remain against the involvement of externals both at management and Board levels.

This suggests the need for LFBs to set up a plan into action that manages the inherent characteristics that are ingrained in the nature of their specific entities. Figure 1 outlines a possible four-step plan of action to manage such characteristics, and consequently also becoming increasingly open for a public listing.

Figure 1. *Managing the inherent characteristics of LFBs*



Source: *Authors' Own.*

Appointing externals in management:

As indicated in the findings, which is in line with Jones *et al.* (2008), the appointment of externals at management level may foster a culture of acceptance towards Board diversity in such an entity. Yet, this should be considered in the early years of the LFB if one is to ensure that the culture of acceptance is instilled as the LFB is handed down from one generation to the next.

Setting up a family council:

As outlined by Gersick and Feliu (2013) and Lansberg (1988), setting up a family council may facilitate the alignment of the family objectives with those of the business. However, in agreement with Eckrich and McClure (2012), an external professional facilitator with good communication skills should be appointed as the family council representative so as to facilitate communication amongst the family members, to ensure no bias in favour of any particular family member/s, and to reduce the likelihood that family members will resist externals on the Board for the sake of preserving the family's control.

Establishing a Board tenure policy:
As observed by Rosenblum and Nili (2019), putting Board term limits in place implicitly increases Board turnover. Nonetheless, given some participants' concerns on imposing a mandatory policy in relation to Board diversity, it may be best to set up a Board tenure policy by striving towards a consensus between the Board or its nomination committee and the family council.

Setting up an advisory board:
As denoted by Gómez-Mejia *et al.* (2011), the establishment of an advisory board with external professionals may enable a LFB to gain appropriate insights and expertise without the family having to give up much of its socioemotional wealth. Moreover, it becomes less likely for the family to resist the business insights of externals, as it becomes more difficult to oppose such views, originally emanating from a professional advisory board.

Being open for a public listing:
Given that findings indicate that there is a higher likelihood of the LFB Board being diverse once its shares are liquidated, the family should be consistent in adopting an *"open mindset"* for a possible future public listing. Indeed, in accordance with Cabrera-Suárez and Martín-Santana (2015) and Jaafar (2016), interviewees claimed that by going public and thus liquidating its shares, the LFB faces increased public pressures to weaken the family's influence on the LFB.

5.3 The Board Diversity Aspects Influencing CG

5.3.1 How influential is diversity on CG?
Table 2 presents the correlation between the detailed average mean rating scores for the influence of each aspect of diversity on the thirteen CG factors *(S2Qns.3a and 4a)* and the mean rating scores for the overall influence of each diversity aspect on CG *(S3Qn.5)*.

As suggested, a positive correlation was found between the two measures for all diversity aspects, implying that participants were mostly consistent in their responses. Moreover, as indicated by the *p*-values, most correlations were significant, except for tenure diversity$_{(p=0.132)}$, industry-specific expertise$_{(p=0.149)}$ and financial expertise$_{(p=0.315)}$. This further signifies a general consistency in the participants' replies.

Table 2. *Correlation between the average mean rating scores for individual questions and S3Qn.5*

CG is potentially influenced by the Board diversity aspects	N = 26

as shown below:	**Measure 1: Average Mean Rating Scores of S2Qns.3a and 4a***		**Measure 2: Mean Rating Scores of S3Qn.5***		**Spearman Correlation**	***P*-value**
	Score	**Rank**	**Score**	**Rank**		
Surface-level aspects:						
d. Tenure diversity	2.83	**1**	3.27	**4**	0.303	**0.132**
a. Age diversity	2.82	2	3.04	5	0.480	0.013
c. Nationality diversity	2.27	7	2.46	6	0.518	0.007
b. Gender diversity	2.21	8	2.42	7	0.656	0.000
Overall mean for the surface-level aspects	2.53		2.80			
Deep-level aspects:						
e. Industry-specific expertise	2.81	**3**	3.42	**1**	0.291	**0.149**
f. Financial expertise	2.80	**4**	3.38	**2**	0.205	**0.315**
g. Legal expertise	2.62	5	3.35	3	0.429	0.029
h. IT expertise	2.31	6	2.35	8	0.453	0.020
Overall mean for the deep-level aspects	2.64		3.13			

***Note:** *0 = Not Influential at All, 4 = Highly Influential*
Source: *Authors' Own*

As may be seen, the two respective measures indicated similar yet non-identical rankings in terms of the influences of the diversity aspects on CG. Importantly, tenure diversity, industry-specific expertise and financial expertise rank at the top four in terms of both measures. The probability is that with the respondents going into much more detail about the CG factors influenced by the diversity aspects, they rendered themselves more accurate. In this context, the more detailed measure one will be considered further in the following section.

5.3.2 Which diversity aspects most influence CG in LFBs vis-à-vis NFBs?

Upon comparing the findings of this study with those of Baldacchino *et al.* (2021) (refer to Appendix 2), one must remark that both in LFB and MLC Boards, tenure diversity, industry-specific expertise and financial expertise rank within the top four most influential diversity aspects, whereas in both Boards, gender diversity ranks lowest. This suggests that the influences of the surface-level and deep-level diversity aspects on CG are similarly perceived in the case of LFBs and NFBs. Nonetheless, age diversity is perceived as more influential on CG in LFB Boards than is observed in MLC Boards.

Tenure Diversity:

Tenure diversity is particularly relevant in LFBs given the nature of such entities. Moreover, as indicated in the findings, tenure diversity is most advantageously influential on succession planning in LFBs. Indeed, by implementing a succession plan, the Board members would be replaced gradually rather than all at once, thereby minimising the detrimental effects that the latter scenario may have on the LFB owing to the insufficient experience of a Board solely composed of short-tenured directors.

Age Diversity:

In line with Houle (1990), the findings indicate that, similar to tenure diversity, age diversity is most advantageously influential on succession planning. This again suggests that age diversity is particularly relevant for the CG of LFBs. Indeed, succession planning is a fundamental challenge encountered by several FBs locally. This is indicative of the indirect contribution of age diversity in order to successfully prepare the path for a smooth transition from one generation to the next.

Industry-Specific Expertise:

Industry-specific expertise ranks lower in LFB Boards in the findings of this study in comparison to the results obtained by Baldacchino *et al.* (2021). This suggests that even though the findings have indicated that industry-specific expertise is generally regarded as irreplaceable, LFBs already have access to the wealth of prolific industry knowledge accumulated over the years.

Nonetheless, to a certain extent, in accordance with Huse (2005), industry-specific expertise may be relevant in LFBs if the existing family members appointed on the Board lack such industry knowledge. Nonetheless, most literature (Faleye *et al.*, 2018; Baldacchino *et al.*, 2021) contends that appointing too many industry-specific experts on the Board may prompt complacency and the emergence of groupthink. In this context, the extent of industry-specific experts that should be appointed on LFB Boards is debatable.

Financial Expertise:

Although participants perceived this type of expertise to be less influential on the CG in LFB Boards than that in MLC Boards, it was observed that financial expertise is the only diversity aspect, apart from legal expertise, whose influence on CG is considered as being significantly different by the three respondent categories. Indeed, this was considered as highly influential by Freps.

In line with literature (Bugeja, 2020; Lakew and Rao, 2009), this suggests that family members generally value such form of expertise in the boardroom highly because the family tends to relatively lack basic financial literacy as against industry-specific expertise. Nonetheless, as indicated by some participants, too many individuals on the Board with a financial background may prompt the LFB Board to be too risk-averse, owing to the mindset *"typical in their profession"*.

Gender Diversity:

Gender diversity ranks last in both LFB and MLC Boards. Moreover, in line with Baldacchino *et al.* (2021), some interviewees expressed their concern towards gender quotas. Nonetheless, some respondents still remarked that gender-diverse Boards benefit from enhanced decision-making due to the more sensitive and skeptic character cues of females, who may instigate more discussion in the boardroom.

5.4 The CG Factors Influenced by the Diversity Aspects

5.4.1 Which CG factors are most influenced by Board diversity?

Figure 2 presents a matrix, indicating, in descending order of scoring (refer to Appendix 3), the CG factors most influenced by the diversity aspects under consideration in this study. As may be noted, the quality of decision-making and the conduct of the advisory function are the CG factors most influenced by Board diversity, particularly by industry-specific and financial expertise. Alternatively, neither conflicts of interest nor Board meeting attendance are influenced in any way.

Figure 2. *The CG factors infuenced by Board diversity aspects in descending order of scoring*

BOARD DIVERSITY ASPECTS / CG FACTORS	Age	Gender	Nationality	Tenure	Industry-specific	Financial	Legal	IT	SCORE*
i. Quality of decision-making									**18**
v. Conduct of the advisory function									**18**
x. Quality of strategies implemented									**16**
iii. Problem-solving skills									**16**
ix. Quality of Board expertise									**16**
vi. Access to network ties									**15**
iv. Conduct of the monitoring function									**14**
viii. Approach towards risk									**14**
xiii. Effective succession planning									**12**
ii. Board communications									**10**
vii. Board entrenchment									**10**
xi. Conflicts of interest									**5**
xii. Board meeting attendance									**0**

COLOUR					
INTERPRETATION	Not Influential at All	Not Influential	Neutral	Influential	Highly Influential
***ASSIGNED SCORE**	0	0	1	2	3

Source: *Authors' Own.*

5.5 A Way Forward

5.5.1 What role should the Chairman adopt relating to Board diversity?

The findings indicate that fostering *"mutual respect"* among the Board members is essential in order to ensure that Board diversity benefits CG in LFBs. In this regard, in accordance with Northcott and Smith (2015), it is crucial for the Chairman to have strong communication and leadership abilities in order to foster collaboration and discussion amongst directors with diverse viewpoints, while still being able to pave the way for a consensus after taking everything into account.

5.5.2 Should regulation imposing Board diversity be developed?

As claimed by some participants, the imposition of diversity regulation may simply give rise to a *"ticking box approach"* and even encouraging LFBs to *"beat around the bush"* in order to bypass such impositions. In this connection, as generally denoted in the literature (Baldacchino *et al.*, 2021; Campbell and Bohdanowicz, 2018, Kang *et al.*, 2023) pertaining to gender diversity, more diversity awareness or soft law development may be a more acceptable way forward than the enforcement of hard quotas. Perhaps, the introduction of fiscal incentive measures by public authorities may be an appropriate step in this direction.

5.5.3 Does setting up a family charter assist in maintaining Board diversity?

A few participants remarked that the establishment of a family charter may help to clarify the distinction between the family and the business. According to Eckrich and McClure (2012), such distinction may be improved particularly by a definition included in the charter of the family's values and the non-economic goals. Moreover, in line with Eckrich and McClure (2012), such a document may stipulate that participating family representatives hold sufficient knowledge and expertise. This suggests that, by setting up such a charter, the LFB may ensure the attainment of deep-level expertise both in the family council and in the Board, and the satisfaction of both the family and the company.

6. Conclusion

This study concludes that, since LFB Boards are mostly composed of family members, are mostly long-tenured and have a lack of diversity of expertise in comparison to NFBs, it would be more beneficial for LFBs to consider Board participation rather than Board membership for most family members. In this manner, LFBs would allow enough space for the involvement of externals as Board members, whilst still permitting family members who are interested enough in Board proceedings to attend exclusively as Board participants.

Moreover, given that the inherent characteristics ingrained in LFBs reduce the likelihood of adopting Board diversity, this study concludes that it would be better for LFBs to consider putting a plan into action to manage such characteristics and subsequently become increasingly open for a public listing. In this context, LFBs may consider, *inter alia*, appointing externals in management, setting up a family council, establishing a Board tenure policy and setting up an advisory board.

Furthermore, although each of the eight diversity aspects do not influence the CG factors *pari passu*, they generally influence various CG factors advantageously. In specific, this study concludes that tenure and age diversity may be crucially relevant to CG in LFBs given their influences on attaining effective succession planning, which guarantees the longevity of LFBs.

Additionally, although industry-specific directors are most advantageously influential on the quality of decision-making, the extent of such directors on the Board is debatable given the consequential elevated risk of groupthink and complacency. Moreover, directors with financial expertise are most advantageously influential on the quality of expertise in the boardroom. Given that family members typically have more industry-specific than financial expertise, such directors could have a significant impact in the LFB boardroom.

Additionally, despite the fact that gender diversity is most advantageously influential on the quality of decision-making in the boardroom, it is probably preferable that rather than enforcing quotas, the public authorities work towards the introduction of incentive measures, such as taxation reliefs.

In addition, this study concludes that Board diversity, particularly industry-specific and financial expertise, mostly influence the CG factors of the quality of decision-making and the conduct of the advisory function. Yet, Board diversity does not influence either the presence of conflicts of interest or Board meeting attendance.

Yet, the promotion of a reasonable level of diversity in the LFB boardroom is no mean feat, especially given the propensity of family members to justify past behaviors and to foster a culture of resistance to change.

However, because diversity generally adds value to CG in LFBs, every LFB should focus on promoting and maintaining diversity on the Board as the LFB is passed from one generation to the next. Indeed, introducing diversity to the Board is an ongoing process, rather than a one-time decision. At the end of the day, as stated by one respondent, *"it is not the strength of any building that matters, but its long-term sustainability"*.

The results of this study are subject to the following limitations. The study addresses those eight aspects of Board diversity which are particularly prevalent in the literature, yet such list cannot be considered as complete. Furthermore, subjectivity may have inevitably permeated some interviewee comments. Finally, some inconsistencies were noted in the interview analysis between the Likert scale question ratings and the corresponding comments provided.

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Appendices:

Appendix 1: Interview Schedule

<u>Section 1: Respondent Companies / Groups, their Inherent Characteristics and Influences on Diversity</u>

1. Kindly indicate the number in your group / company of directors:

	Number of directors
a. Family members	
b. Non-family members	
c. Aged less than 40 years	
d. Aged between 40 to 49 years	
e. Aged between 50 to 59 years	
f. Aged between 60 to 69 years	
g. Aged 70 years or older	
h. Male	
i. Female	
j. Maltese nationality	
k. Other nationality	
l. Tenured for less than 12 years	
m. Tenured for 12 years or more	
n. With industry-specific expertise	
o. With financial expertise	
p. With legal expertise	
q. With information technology expertise	
r. With other fields of expertise	

2. Comment as to whether the following inherent characteristics of family-controlled companies might affect the extent of Board diversity in such entities:

   a. Strong emotional ties;
   b. Permanent appointments;
   c. Socioemotional wealth;
   d. Illiquidity of shares;
   e. Family member involvement in management;
   f. Other characteristics *(if any)*.

<u>Section 2: Major Apects of Board Diversity and their Influences on CG</u>

3.
   a. In your opinion, how influential are the surface-level diversity aspects of age, gender, nationality and tenure on the corporate governance factors listed below? *Kindly rate from 0 to 4 (with 0 being not influential at all and 4 being highly influential), adding comments, if any:*

The corporate governance factors:	**Surface-Level Diversity Aspects**

	Age	Gender	Nation ality	Tenure
i. Quality of decision-making				
ii. Board communications				
iii. Problem-solving skills				
iv. Conduct of the monitoring function				
v. Conduct of the advisory function				
vi. Access to network ties				
vii. Board entrenchment				
viii. Approach towards risk				
ix. Quality of Board expertise				
x. Quality of strategies implemented				
xi. Conflicts of interest				
xii. Board meeting attendance				
xiii. Effective succession planning				

b. In your opinion, do the surface-level diversity aspects of age, gender, nationality and tenure impact the following corporate governance factors advantageously or disadvantageously? *Kindly rate from 0 to 4 (with 0 being highly disadvantageous and 4 being highly advantageous), adding comments, if any:*

The corporate governance factors:	**Surface-Level Diversity Aspects**			
	Age	**Gender**	**National ity**	**Tenure**
i. Quality of decision-making				
ii. Board communications				
iii. Problem-solving skills				
iv. Conduct of the monitoring function				
v. Conduct of the advisory function				
vi. Access to network ties				
vii. Board entrenchment				
viii. Approach towards risk				
ix. Quality of Board expertise				
x. Quality of strategies implemented				
xi. Conflicts of interest				
xii. Board meeting attendance				
xiii. Effective succession planning				

4.

a. In your opinion, how influential are the deep-level diversity aspects of industry-specific, financial, legal and information technology expertise on the following corporate governance factors? *Kindly rate from 0 to 4 (with 0 being not influential at all and 4 being highly influential), adding comments, if any:*

The corporate governance factors:	**Deep-Level Diversity Aspects**

	Industry-specific	Financial	Legal	Information Technology
i. Quality of decision-making				
ii. Board communications				
iii. Problem-solving skills				
iv. Conduct of the monitoring function				
v. Conduct of the advisory function				
vi. Access to network ties				
vii. Board entrenchment				
viii. Approach towards risk				
ix. Quality of Board expertise				
x. Quality of strategies implemented				
xi. Conflicts of interest				
xii. Board meeting attendance				
xiii. Effective succession planning				

b. In your opinion, do the deep-level diversity aspects of industry-specific, financial, legal and information technology expertise impact the following corporate governance factors positively or negatively? *Kindly rate from 0 to 4 (with 0 being highly disadvantageous and 4 being highly advantageous), adding comments, if any:*

The corporate governance factors:	**Deep-Level Diversity Aspects**			
	Industry-specific	**Financial**	**Legal**	**Information Technology**
i. Quality of decision-making				
ii. Board communications				
iii. Problem-solving skills				
iv. Conduct of the monitoring function				
v. Conduct of the advisory function				
vi. Access to network ties				
vii. Board entrenchment				
viii. Approach towards risk				
ix. Quality of Board expertise				
x. Quality of strategies implemented				
xi. Conflicts of interest				
xii. Board meeting attendance				
xiii. Effective succession planning				

Section 3: Overall Remarks

5. Overall, how influential do you perceive each aspect of diversity to be for the corporate governance in family-controlled companies? *Kindly rate from 0 to 4 (with 0 being not influential at all and 4 being highly influential), adding comments, if any:*

The aspects of diversity include the following:	**Rate**

Surface-Level Aspects	
a. Age Diversity	
b. Gender Diversity	
c. Nationality Diversity	
d. Tenure Diversity	
Deep-Level Aspects	
e. Industry-Specific Expertise	
f. Financial Expertise	
g. Legal Expertise	
h. Information Technology Expertise	

Additional remarks if any.

Section A1: Scales corresponding to the Interview Questions

a.

0	**1**	**2**	**3**	**4**
Not Influential at all	**Not Influential**	**Neutral**	**Influential**	**Highly Influential**

b.

0	**1**	**2**	**3**	**4**
Highly Disadvantageous	**Disadvantageous**	**Neutral**	**Advantageous**	**Highly Advantageous**

4.
a.

0	**1**	**2**	**3**	**4**
Not Influential at all	**Not Influential**	**Neutral**	**Influential**	**Highly Influential**

b.

0	**1**	**2**	**3**	**4**
Highly Disadvantageous	**Disadvantageous**	**Neutral**	**Advantageous**	**Highly Advantageous**

5.

0	1	2	3	4
Not Influential at all	**Not Influential**	**Neutral**	**Influential**	**Highly Influential**

Appendix 2: Further Literature on Board Diversity in MLCs

This appendix presents further findings obtained by Baldacchino et al. (2021) in terms of Board diversity in MLCs. As denoted by Baldacchino et al. (2021), the MLC Board has an average size of twelve directors, and is generally composed of directors who are more than forty years old, Maltese, male and whose tenure is less than nine years. In addition, the MLC Board generally comprises of five industry-specific directors, three financial directors, one HR director, one lawyer-director and another two directors who are competent in other fields (ibid.).

Moreover, Table 3 shows the average mean rating scores for the influence of each diversity aspect considered in their study on CG in MLC Boards. As shown, the industry-specific competency/expertise is mostly influential on CG in MLC Boards, followed by the accounting and finance competency/expertise. These are closely followed by the legal competency/expertise and tenure diversity. In addition, gender diversity is least influential on CG in MLC Boards.

Table 3. *Average mean rating scores for the influence of each diversity aspect on CG in MLC Boards*

The diversity aspects influence CG in MLC Boards as shown below:	**Average Mean Rating Score***
Industry-specific competency/expertise	2.49
Accounting and finance competency/expertise	2.41
Legal competency/expertise	2.30
Tenure diversity	2.24
Age diversity	2.01
Nationality diversity	1.80
HR competency/expertise	1.68
Gender diversity	1.62

Note: **0 = Not Influential at All, 4 = Highly Influential*
Source: *Adapted from Baldacchino et al. 2021 Table 2 p.52*

Appendix 3: Method used for the Matrix Illustrated in Figure 2

The CG factors most influenced by the diversity aspects under consideration in this study were chosen by allocating a score of 0, 1, 2 or 3 to the influence of each diversity aspect on each CG factor in the matrix illustrated in Figure 2. Such scores were assigned on the basis of the range within which the mean rating scores for the influence of each diversity aspect on each CG factor *(S2Qns.3a and 4a)* lie.

Figure 3. *Method used for assigning scores to the CG factors for each diversity aspect in the matrix illustrated in Figure 2*

The range within which the mean rating scores for S2Qns.3a and 4a lie	0.00 – 0.49	0.50 – 1.49	1.50 – 2.49	2.50 – 3.49	3.50 – 4.00
Assigned score	0	0	1	2	3
Colour in Figure 2					
Interpretation	Not Influential at All	Not Influential	Neutral	Influential	Highly Influential

Source: *Own study.*