

## **The Evolution of Board Functions in Gazelles**

A multiple case study on the functions of The Board of Directors in Gazelles and how these evolve in a high-growth context

### **ABSTRACT**

This paper describes a multiple case study of 14 Gazelles in Sweden and aims to identify what functions the Board of Directors have in these companies and how these functions evolve. Small companies and Gazelles in particular create the majority of all new jobs and therefore play an important role in society. Previous research on the function of the Board of Directors has been mainly focused on larger companies and provides little support in explaining what function the board has. By studying the 14 Gazelles, we have identified 10 functions that the board has and for each function we have also identified 35 specific tasks that the Board of Directors conduct to perform these functions. By using a lifecycle approach, we have also connected our findings to specific stages of company development. We have mapped the challenges and the increased complexity that Gazelles face as a result of high-growth. We hope that the identified problem areas within the Gazelles in our sample and their respective solutions can constitute as examples of how companies can overcome the increasing complexity that is a result of growth.

**Key words:** Board of Directors, Corporate Governance, Gazelles, Lifecycle, Entrepreneurship

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# 1. Introduction

*In this chapter we firstly explain why the Board of Directors is interesting, relevant and why it should be studied in the context of Gazelles. Secondly, we declare the limitations with the existing research on the topic Board of Directors. Lastly we disclose our research question and explain the purpose behind this study.*

## 1.1 Background

### 1.1.1 Empirical background

In 2001, insider trading and corruption led to one of the biggest bankruptcies in the history of the United States (BBC News, 2002). It also turned the spotlight towards issues related to corporate governance, e.g. the role and responsibility of the Board of Directors (Monks and Minow, 2001).

Every limited company is by law constrained to have a Board of Directors (SFS: 2005:551). However in many small and medium sized enterprises (SMEs) the Board of Directors has historically been seen as just a formality, barely being involved in strategy but rather rubber-stamped decisions already taken by the management (Mace, 1971).

### 1.1.2 Theoretical background

The majority of the research concerning the Board of Directors has been focused on larger companies (Gabrielsson & Huse, 2004; Johnson, Daily, & Ellstrand, 1996). The bias in research towards larger companies is not optimal since large companies constitute a minority (0.2 percent) of all companies. Small and Medium sized companies constitute 3.9 percent and essentially constitute the large companies in the future (Svenskt Näringsliv, 2010). This has led to that the attention towards board work in SMEs has increased during the last two decades, e.g. Huse (2000).

Small firms and their successful development, and especially the so called Gazelle companies, play an important role, creating the majority of all new jobs and driving economic growth in society (Henrekson & Johansson, 2010). Therefore, it is important to understand how successful companies evolve and how they use the Board of Directors during their development. But literature offers surprisingly little insight into the detailed process – the dynamics of constituent elements and the sequences of events – through which new ventures evolve (Ambos & Birkinshaw, 2010, p. 1125). Furthermore, little is known about the functions of the Board of Directors in Gazelles.

The growth path of a company could be seen as a lifecycle with different stages (Bonn & Pettigrew, 2009; Greiner, 1972; Churchill & Lewis, 1983). Each stage or threshold comprises different challenges and obstacles that the company must overcome to continue its growth and reach the next threshold. The Lifecycle approach have previously been used by scholars to study the function of the Board of Directors, showing that successful transitions between one lifecycle stage to another is often

interlinked with a change in roles or functions in the corporate governance system (Bonn & Pettigrew, 2009; Filatotchev, 2006).

## **1.2 Research Problem**

The right composition and functions of the Board of Directors is important for the company to develop and grow successfully. It is necessary to adapt the board structure to the stage of the company's development (Van den Berghe & Levrau, 2004). Conversely, the wrong composition or functions of the Board of Directors can create serious barriers to the company's transition from one threshold to another (Filatotchev, 2006).

Previous board research has been focused on large companies and only limited attention has been directed towards small and medium sized companies. While all limited companies follow the same regulations concerning board work, it is fair to assume that the functions of the Board of Directors differ between large and small companies.

There has been an excessive bias in earlier entrepreneurship research towards studying only compositional aspects of boards (Gabrielsson & Huse, 2010), i.e. the number of directors and their backgrounds. Actual board behavior, i.e. what goes on inside the board room, has subsequently been treated largely as a 'black box' (Huse, 1998). The behavior of boards has been assumed from their demographic characteristics and not studied qualitatively. As a result, little consideration has been given to how the Board of Directors actually work and how board functions evolve alongside the evolution of the company.

Researchers have just recently shifted their focus towards board work within small and medium sized companies despite the importance of such knowledge for further theory-building as well as the development of best-practice recommendations for entrepreneurial firms.

In addition, the entrepreneur's perspective of the Board of Directors is often forgotten. The entrepreneurs behind Gazelles play an important role for the economic growth of the society since their risk taking create jobs and drives growth. Having to prioritize between innumerable challenges, the development of the Board of Directors often falls behind, despite empirical support for theories suggesting that the use of outside directors have been proven to increase the effectiveness of small firms (Robinson, 1982).

In summary, the research problem we have identified is the limited attention directed towards small and medium sized companies and the excessive bias in earlier entrepreneurship research towards

compositional aspects of the Board of Directors as well as the forgotten perspective of the entrepreneur.

### 1.3 Purpose and Research Question

Our study aims to increase the knowledge regarding the functions of the Board of Directors in SMEs in general and Gazelles in particular. We also hope that this thesis will contribute to the understanding on how these board functions evolve, taking the perspective of the entrepreneur and by identifying the challenges that occur in connection to the increased complexity associated with company growth. Subsequently, this paper aims to answer the following research question:

Research Question:

***“What are the functions of the Board of Directors in Gazelles and how do these evolve?”***

This study will contrast existing research on the topic Board of Directors which is mainly focused on larger companies. Our desire is to generate a comprehensive picture over the complexity that is associated with company growth and what functions the Board of Directors can fulfill during company growth and how these functions develop.

To answer our research question, we will take the perspective of the entrepreneur in the research process. By studying the evolution of board functions in Gazelle companies we aim to bring light over the use an entrepreneur can have of a Board of Directors while facing challenges during growth. By looking at Gazelles, we hope to make interesting findings related to the increased complexity associated with high-growth. The results of our study will hopefully also be valuable for practitioners involved in board work not only in Gazelles, but in all SMEs.

More specifically, this thesis will contribute to the theory on the role of the Board of Directors in SMEs, in the context of gazelles as compared to Gabrielsson and Huse (2005) who studied the role of the Board of Directors in SMEs with different ownership, i.e. family-owned and Venture Capital-owned firms. We also hope to contribute to the understanding of the evolution of new ventures, and make an empirical contribution to what challenges companies face during different stages of development. Furthermore, we will contrast and add to the already existing theories (Gabrielsson & Huse, 2005) used in board research, i.e. agency theory, resource dependency theory and resource based view. Moreover, we hope that our work will contribute to the knowledge of practitioners, e.g. entrepreneurs, outside board directors, chairmen of boards and investors.

## 2. Theoretical Framework

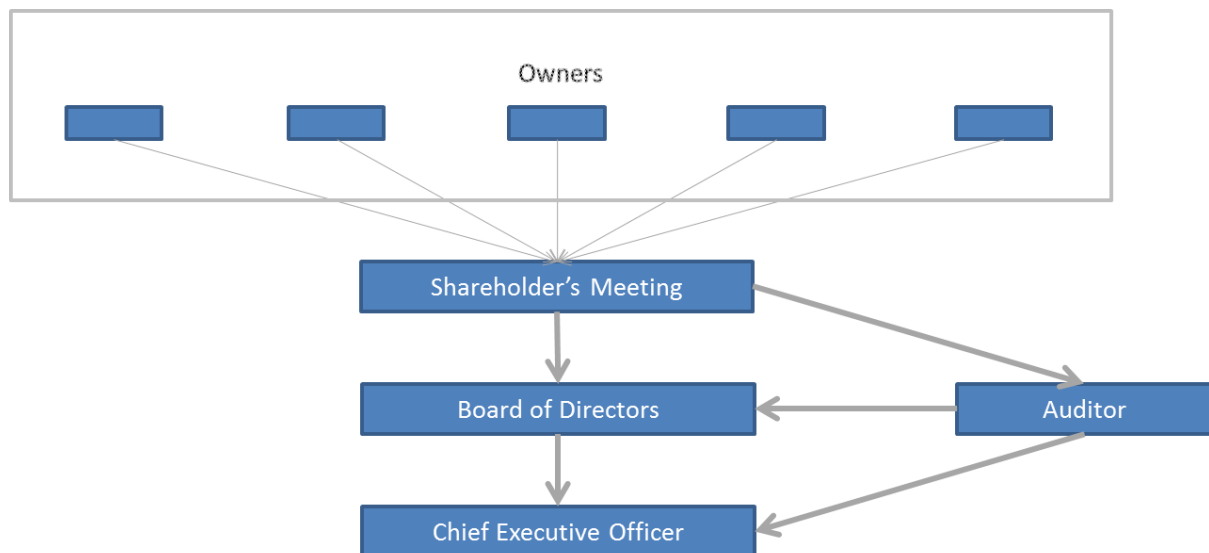
*This chapter exposes several theoretical gaps regarding research on the topic Board of Directors in the context of Gazelles. Furthermore, it explains important concepts and models needed to understand the results of the study.*

### 2.1 Important Concepts and Models

#### 2.1.1 Corporate Governance

All firms, small as well as large, new as well as old, can be described as having two complementary systems: one production system and one governance system. The production system consists of the business activities conducted by the firm to facilitate the transformation of input resources into the output that is later offered on the market. The governance system in a firm includes both external and internal mechanisms that direct, administer and control the firm and its operations (O'Sullivan and Diacon, 1999; Collin, 2003).

According to the Swedish Corporate Governance Code (SOU 2004:130), under which all stock exchange listed companies must comply or explain, the governance system should include three decision-making bodies in a hierarchical relationship to one another: the shareholders' meeting, the board of directors and the chief executive officer. According to the Swedish Law (SFS 2005:551) there must also be a controlling body, the auditor, which is appointed by the shareholders' meeting.



##### 2.1.2.1 The Board of Directors

The Board of Directors plays an important role in the governance system and is thereby also important for the company's performance (Kor & Misangyi, 2008). According to Swedish Law (SFS 2005:551) the Board of Directors shall be responsible for the company's organization and its business and shall continuously evaluate the company's economic situation and make sure that the firm's

economic conditions are monitored in a satisfactory way. The Swedish Corporate Governance Code (SOU 2004:130) also regulates meetings, the role of the chairman and how the board work shall be protocolled among other things. However, neither the law nor the corporate governance act makes any difference between a large firm and a small firm, meaning that every company answers under the same law and is obliged to follow the same regulations.

#### 2.1.2.1.1 Task, Role and Function of the Board of Directors

In current board research, there is a disagreement about the precise definition of roles and tasks (Machold & Farquar, 2013). To find the precise definition of roles and tasks is outside the scope of this study; however there is a need for a presentation of how we will use these concepts. In our study we will use the following denotations:

**Task** – a specific assignment which is conducted regularly or just once by the board of directors.

**Role** – Several tasks could be grouped into a role, e.g. the expert role. A role could be carried out by a single person or by several people as a collective. The role could be either formal or informal, depending on if there has been a formal appointment of the person who performs the role.

**Function** – We will use the term function and functions, only to describe roles conducted individually or collectively by formal board members. Given our focus on the board of directors, this distinction between formal board members and other people is important, why we have chosen to denote the roles of formal board members, including their collective roles, with the word ‘function’. Our research question “*What are the functions of the Board of Directors in Gazelles and how do these evolve?*” is therefore focused both on the content and evolution of the roles of the Board of Directors and the changing composition of the board of directors, i.e. the formal appointments of new members of the board.

#### 2.1.3 Gazelle Companies

It is important to understand how successful companies are created and the cause of their success. The term Gazelles was created by the American researcher David Birch who already in the 1980s showed that the small fast growing companies outperform the economies elephants when it comes to job creation (Birch, 1979)

However, there is still no general academic definition of Gazelles (Henrekson & Johansson, 2010). One way of denoting Gazelles is by looking at companies achieving a certain amount of growth. Delmar (2003) Birch et al (1995) established 20 percent as the minimum growth rate for a Gazelle. Growth can, however, be measured in a number of ways where turnover, number of employees and market share is the most common measurements. Another way of denoting Gazelles is to look at the



fastest growing companies in a specific population, e.g. the top x percent in Sweden in terms of growth (Henrekson & Johansson, 2010). There have also been suggestions on age limits for Gazelles, e.g. that a company should be less than five years old to be defined as a Gazelle (Ahmad, 2006). However, based on the apparent confusion among researchers we found no usable definition among these academic suggestions. We also identified some definitions used in practice, e.g. the definition used by the leading financial newspaper in Sweden; Dagens Industri. To become a gazelle according to the definition used by Dagens Industri, a company needs to fulfill the requirements below, which are measured over the latest four year period prior to the nomination, i.e. the Gazelles appointed in 2010 have fulfilled these criteria during 2006-2009 (Dagens Industri, 2013).

According to Dagens Industri's definition, a Gazelle must:

- Have a yearly turnover that surpasses 10 million SEK
- A minimum of 10 employees
- At least doubled its turnover when comparing the first and the latest financial year
- Show an increased turnover every year over the last three years
- Show a aggregated operating result for the last four financial years that is positive
- Mainly been growing organically and not through mergers or acquisitions
- Have sound finances

It is important to note that small firms differ from large companies in many ways other than size. Among researchers focusing on small businesses, small firms are not considered simply to be "smaller copies of big ones" and there is a recognized need for concepts of strategic management that address the special characteristics and situations of small firms (Borch and Huse, 1993). Even though the regulations concerning the Board of Directors are the same in both small and large firms, it is easy to understand that the board work in a multinational corporation differs from the board work in a small/medium sized Gazelle. Despite this, the majority of the research has been focused on larger companies where the board work takes place in a totally different context compared to the context of an SME. The attention to board work in Gazelle companies or SMEs in general has been limited (Gabrielsson & Huse, 2004). This implies that there is a gap in the board research on SMEs, which is dangerous since it might lead to lacking knowledge among practitioners, whom are playing an important role in the economic growth of the society.

#### **2.1.4 The Entrepreneurial Context**

Previous studies on smaller firms have found that SMEs typically operate in one or few product markets with small managerial hierarchies and close relationships between owners and managers

and that the management of the firm is done in a largely personalized way (Nooteboom, 1994). These characteristics provide a strong contrast to larger and more diversified corporations which have structurally complex organizations, distant and invisible shareholders, and multiple layers of management. The small entrepreneurial firm thus provides a fundamentally different context when it comes to issues and problems of governance (Gabrielsson & Huse, 2010).

A widely held assumption in research on boards and governance is that the characteristics of entrepreneurial firms generally speak against active boards, as the CEOs often have the authority to overrule boardroom decisions and to directly remove board members. However, empirical studies suggest that boards of directors in entrepreneurial firms can – and sometimes do – play an active role in shaping strategies and influencing organizational performance in this setting (e.g. George et al., 2001; Daisly et al., 2002).

## **2.2 Previous Research**

### **2.2.1 The members of the Board of Directors**

The members of the Board of Directors can be sorted by their additional involvement in the firm, e.g. if they are also owners or managers in the underlying company. The term ‘outside director’ is often used in theory to indicate that a person lacks other ties other than his or her position in the Board of Directors, or only have indirect connections to the company. Small firms have quantitatively been proven to benefit in terms of increased effectiveness from including outside directors in the Board of Directors (Robinson, 1982). However, it is important to take into account that the term outside director not is generic. The role and contribution of “outside” directors can be different in different settings depending on how an outside director is defined (Gabrielsson & Huse, 2005). We will use ownership and involvement to define if a director is an ‘outsider’ or not, i.e. if he or she lacks ownership in the firm and at the same time lacks formal involvement in the management of the firm other than as a member of the Board of Directors.

### **2.2.2 The function of the Board of Directors**

In current board research, there is a disagreement about the number of board tasks, the content of these tasks and the precise definition of roles and tasks (Machold & Farquar, 2013). We consider the disagreement on the precise definition of roles and tasks to be outside our scope, but have presented how we will use the terms in our study above. Attempts have been made in uniting board researchers regarding the number of board tasks and the content of these tasks (Hung, 1998; Gabrielsson & Huse, 2004). However, we consider none of these attempts to be totally comprehensive. When reviewing the research addressing the issue of boards and governance in

entrepreneurship research three theories have been used more widely than others, namely 'agency theory' and 'resource dependence theory' and 'resource based view' (Huse, 2000; Gabrielsson and Huse, 2005). Depending on the theory used, the function of the board of directors can be seen from different perspectives. We will now go through the three theories and present what the main function of the board of directors is according to the respective theories. We will also make some initial predictions of how the main function provided by each theory is likely to take form in the context of Gazelles.

#### *2.2.2.1 Agency Theory*

According to the agency theory the control function of the board is the most central. As elected representatives of the owners (principals) the board should defend the interests of the owners in relation to the CEO and management team (agents) of the company (Jensen & Meckling, 1976).

While the logic of the principal-agent relationship also applies on Gazelles, the relationship between the principal and agent might be very different compared to in a large company. For instance, looking at the ownership in a Gazelle, it is likely that the founder also represents a significant share of the ownership and is also part of the management team, e.g. acting as the CEO. The need for monitoring and control of top management could therefore be expected to be low, since the incentives are aligned throughout the three decision-making bodies, i.e. the owners, board of directors and CEO, by having the same person represented in all three bodies. However, if the ownership is shared with others, i.e. non-managers, we contend that these owners will feel the need to monitor the CEO to protect their own interests since the power of the CEO increases if he also has ownership.

#### *2.2.2.2 Resource Dependency Theory*

Resource Dependency Theory is based on the assumption that corporations depend on each other and others for access to valuable resources (Hung, 1998). According to this theory the Board of Directors plays an important part of the organization as a link to the company's environment. The resources and networks of the Board of Directors can be used for several reasons, e.g. to attain new employees, clients or suppliers. By using these resources the governing board can co-opt threats from the environment and co-ordinate the business activities with other corporations. The Board of Directors can assist in achieving goals and enhance the company's legitimacy (Pfeffer, 1972, p.218-228). Kroll, Walters, and Le (2007) showed that the advice and counsel of outside directors with industry experience is beneficial to the performance of young entrepreneurial firms.

This is in line with the theory of the liability of newness. As other newly founded SMEs, Gazelles are likely to suffer from the liability of newness, i.e. a greater risk of failure than older organizations, because they depend on the cooperation of strangers, have low levels of legitimacy, and are unable to compete effectively against established organization (Stinchcombe, 1965). However, the greater

risk of failure is probably mostly connected to lower financial resources. While the Gazelles may depend to a greater extent on cooperation with strangers, the low level of legitimacy and the “unableness” to compete effectively against established organizations can be heavily questioned. The reason is that larger and more established companies are likely to suffer from other liabilities such as “immobileness” and “fat-cat”- syndromes (Kor & Misangyi, 2008).

However, the resource and networking function of the board could be seen as countering the potential effects of the liability of newness. Therefore we predict that Gazelles benefit from the network and resources of others, especially during the initial years of development since the liability of newness has a declining effect over time (Freeman et al., 1983).

### **2.2.2.3 Resource Based View**

The resource-based view of the firm argues that a firm's internal environment, in terms of its resources and capabilities, is critical for creating sustainable competitive advantage (Prahalad and Hamel, 1990; Teece, Pisano and Shuen, 1997).

The resource based view neglects the risk of opportunistic behavior from the management as opposed to agency theory (Donaldsson, 1990). Therefore the Board of Directors will not have to control the management but instead assist in setting strategies. This view can be seen as a bit naive when the ownership is separated from the management. In Gazelle firms however, it is likely that the owners, which might still be the founders, are represented in the management team, which rules out the risk of opportunistic behavior.

From the resource based view follows that the Board of Directors will have a strategic function, which could be defined as the provision of counseling and advice that executives may use as a valuable input into their decision-making process (Filatotchev, 2006). We predict that some entrepreneurs of Gazelles might be lacking own experience and strategic expertise due to the Gazelle being their first own business venture. This would increase the likelihood of the entrepreneur looking outside the organization for advice. According to the resource based view the function of the board of directors would be to provide knowledge that is complementary compared to the knowledge of the entrepreneur (Gabrielsson & Huse, 2005), which for us sounds reasonable.

### **2.2.3 Board Functions in Relation to Various Contexts**

Gabrielsson and Huse (2005) have studied how the contingencies and the context can affect the function of the board of directors. In particular they looked at how firms recruit outside directors in order to develop their board for various reasons. In line with their requests for future research exploring how other contingencies in and around SMEs and other context could influence the

composition of board of directors and its function (Gabrielsson & Huse, 2005), we aim to study the functions of the board of directors in the context of Gazelles.

Several theories have been employed in earlier research to explain the conditions under which a Board of Directors may take action and assert power over the direction and performance of a firm (Zahra & Pearce, 1989; Hung 1998). Previous researchers have attempted to define the specific function of the Board of Directors in SMEs but there is still no general view of what functions the board have (Hung, 1998). Therefore, we intend to contribute to this general view by studying top performing SMEs, i.e Gazelles.

We find the context of Gazelles relevant and interesting, mainly because of the extreme growth rates of Gazelles but also because of the strong influence and presence of the entrepreneurs.

#### **2.2.4 Lifecycle Approach – The Evolution of New Ventures**

According to Lynall et al (2003) the question is not if existing theories, i.e. agency theory, resource dependency theory and resource based view, are helpful to our understanding of boards and firm performance but, rather, a question of when each theory is helpful. How board compositions change and evolve over time during the organizational life cycle should consequently be better studied (Lynall et al., 2003). Research in this direction appears highly relevant for a deeper understanding of boards and governance in small companies.

All organizations, like any living organisms, have a lifecycle and undergo very predictable and repetitive patterns of behavior as they grow and develop. At each new stage of development an organization is faced with a unique set of challenges (Adizes, 1999). Each stage comprises different challenges and obstacles that the company must overcome to continue its growth and reach the next threshold. How well or poorly management addresses these challenges, and leads a healthy transition from one stage to the next, has a significant impact on the success or failure of their organization (Adizes, 1999). We contend that the Board of Directors should have an influence on how well the management addresses the challenges and increased complexity that follows from growth.

Leading an organization through lifecycle transitions is not easy, or obvious (Adizes, 1999). The same methods that produce success in one stage can create failure in the next, and the perfect solution for one company could be found unfitting in another. Fundamental changes in leadership and management are all required, with an approach that delicately balances the amount of control and flexibility needed for each stage. Leaders who fail to understand what is needed (and not needed) can inhibit the development of their companies or plunge them into premature aging (Adizes, 1999). Since the Board of Directors and management are tightly connected in the corporate governance

system of a Gazelle, it should also be important that the composition of the Board of Directors is adjusted and changed during a company's life cycle.

A normal parameter when looking at firms' development is to look at size. But rather than looking at size to assess the stages of development, researchers suggest that it is possible to look at the level of complexity associated with firm growth (cf. Dewar & Hage, 1978). The transitions to different managerial and organizational systems can be associated with the inability of the existing systems to cope with the complexities the firm face because of its development. What this implies is that the structure used today, might not fit the challenges of tomorrow. In this context, it would be interesting to explore the functions of the Board of Directors in Gazelles and see how the entrepreneurs use the Board of Directors in meeting those challenges.

In the same way that an organization's challenges and opportunities vary across life cycle stages, boards of directors also are generally believed to fulfill different needs for organizations as they move through the life cycle. However, not much is known about the extent to which small companies change the composition of their boards of directors to meet changing conditions in the environment (Gabrielsson, 2007). Little is also known about what conditions may actually promote or constrain organizational attempts to change board composition in small organizations (Boeker & Goodstein, 1991).

Therefore, by using the lifecycle approach, we will study the evolution of Gazelles hoping to identify, map and describe the challenges that Gazelles face along their development path and which board functions are connected to these challenges. In addition to that, we hope to identify and present the connected actions and solutions to these challenges, including changes in the composition of the Board of Directors, and hopefully initiate the embryo of a set of best practices which can be used by practitioners and other SME's facing similar situations in the future.

The lifecycle approach has previously been used to study top level management priorities in different stages of the organizational life cycle (Smith, 1983). More recently, Huse and Zattoni (2008) showed that actual board behavior changes along the life-cycle phases: in the start-up phase, board involvement is in legitimacy tasks; in the growth phase, board's involvement is in advisory tasks; and in the firm crisis stage, the board's involvement is in control tasks. This study gives us an indication that the Board of Directors in Gazelles, i.e. high-growth firms, will function primarily as an advisor. However, Huse and Zattoni's (2008) study, although longitudinal, only included three cases. While the generalizability of our results still can be questioned, we hope that our study will contribute with valuable empirical data on the evolving function of the Board of Directors.

### 2.3 Theoretical Summary and Identification of Gaps

In the table below, we have summarized the theoretical gaps that we aim to address with our study. Our study will map the evolution of a set of Gazelles, trying to identify the challenges and obstacles that these companies have faced and how they have faced these challenges and worked around the obstacles. By doing this, we aim to bring more clarity to the number and content of the tasks of the Board of Directors (Machold & Farquar, 2013). By studying Gazelles, we will contribute to the growing, but yet limited (Gabrielsson & Huse, 2005; Johnson, Daily & Ellstrand, 1996) amount of board research within SMEs. By incorporating high-growth, the most prominent attribute of Gazelles, in our study, we also add to how contingencies in and around SMEs could influence the development of board of directors and its function (Gabrielsson & Huse, 2005).

By using the lifecycle approach, we also aim to contribute answer the question of to which extent small companies change the composition of their boards of directors to meet changing conditions in the environment (Gabrielsson, 2007) and which conditions may actually promote or constrain organizational attempts to change board composition in small organizations (Boeker & Goodstein, 1991).

Source	GAP (citat)
<b>Gabrielsson &amp; Huse, 2004</b> <b>Johnson, Daily &amp; Ellstrand, 1996</b>	The majority of the research has been focused on larger companies and the attention to board work in SMEs has been limited.
<b>Machold &amp; Farquar, 2013</b>	There is disagreement about the number of board tasks, the content of these tasks and the precise definition of roles and tasks
<b>Lynall et al, 2003</b>	It is not a question of if existing theories are helpful to our understanding of boards and firm performance but, rather, a question of when each theory is helpful.
<b>Gabrielsson &amp; Huse, 2005</b>	Requests for future research exploring how contingencies in and around SMEs could influence the development of board of directors and its function
<b>Gabrielsson, 2007</b>	Not much is known about the extent to which small companies change the composition of their boards of directors to meet changing conditions in the environment
<b>Boeker &amp; Goodstein, 1991</b>	Far less is known about what conditions may actually promote or constrain organizational attempts to change board composition in small organizations

**Table 1** – Summarization of theoretical gap



### 3. Method

*This chapter gives an account for our choice of conducting a qualitative multi-case study, our research design, our data collection, interview structure, analytical method and discusses the validity of the study.*

#### 3.1 Research Design

Our starting point was an in-depth review of the existing theory on corporate governance in small companies focusing on the function of the Board of Directors. From this review, we identified several gaps which are presented in our theoretical framework. Facing the width of these gaps, we were led to formulate an open-ended and explorative research question

When deciding on a research design we started in the state of previous knowledge and research to find the appropriate research methodology, but we also looked at our research question to secure that our methodology would enable us to answer it. What we aim to address with our study is the problem of the limited focus on smaller firms in board research, despite their importance to the society when it comes to job generation and provision of economic growth to society. Given the nascent state of the theory developed on this area and the many gaps presented in our theoretical framework (Gabrielsson & Huse, 2004; Johnson, Daily & Ellstrand, 1996; Machold & Farquar, 2013; Lynall et al, 2003; Gabrielsson & Huse, 2005; Gabrielsson, 2007; Boeker & Goodstein, 1991), we decided on trying to collect cases and build new theory rather than testing existing theory. The reason for this was that existing theory couldn't help us address our question since small firms are very different from large firms (Gabrielsson & Huse, 2010) and existing theory was mainly created in the context of larger firms (Gabrielsson & Huse, 2004).

We decided to focus on conducting an explorative study and to gather qualitative data by conducting in-depth interviews hoping to add on to the already existing concepts and suggestive theories by theorizing from our findings.

Since the gaps in the research inquire for further theorizing, we found it suitable to conduct our study in a way that allows narration, description, interpretation, and explanation, i.e. to conduct a qualitative study. A quantitative study had been more suitable if our aim instead had been to calibrate already existing theory and to produce generalizable results (Pettigrew, 2012).

In our theoretical review, we concluded that existing theories were not complete enough to answer our research question; therefore a qualitative method seemed like a better fit. In addition, our aim was to understand the process (Langley, 1999) in which the board function evolves in small companies which also implies that a qualitative study would be a better fit (Eisenhardt & Graebner, 2007).

### 3.1.1 Multiple Case Study

We decided to conduct a multiple case study. The reason for doing this was that we wanted to sharpen the existing theory from the context of larger firms but also begin to fill the theoretical gaps presented in the theoretical framework (Siggelkow, 2007). Since earlier studies on the Board of Directors had taken a large-firm perspective, we wanted to broaden that view and add to nascent theory on board functions in smaller companies.

Our aim was to collect and map out the evolution of a number of gazelles to collect qualitative data which we thereafter could build theory from. As we wanted to explore the functions of the Board of Directors in Gazelles and how these functions evolve we had to collect cases by letting the entrepreneurs tell their stories about their company's development; what happened, who did what and when, and what each function of the Board of Directors was and how it evolved. To do this, it was important to allow the interview subjects to elaborate on topics outside our focus.

But in order to build theory from multiple cases, an important feature was that we needed to structure the interviews so that according the replication logic (Eisenhardt, 1989b i E & G 2007), the multiple cases served as replications to contrast and extend the emerging theory (Yin, 1994).

By using a multiple case method, we intended to develop an understanding of the nature and complexity of the functions of the Board of Directors in Gazelles and how these functions evolve. While existing theory have provided us with some variables, such as the function of the board of directors in larger companies, we questioned whether these fit the context of smaller companies. There are potentially many unknown variables specific to the context of smaller companies that we wished to discover by studying cases. Since theory did not provide enough support to answer our research question, we concluded that an exploratory study would be suitable.

Aiming to build theory and to identify linkages between different variables, e.g. explanatory factors of why the Board of Directors have different functions over time and in different companies, we found it valuable to include multiple and 'best-in-class' cases into our study, which we aim to do by focusing at Gazelles. Common for the Gazelles is that they have shown a high growth level. While the academic definition of a Gazelle is diffuse and not incorporating the aspect of profitability, as explained in more detail in the theoretical framework, the definition used by Dagens Industri incorporates profitability as a requirement for being denoted as a Gazelle. Therefore, we look upon the gazelles in our sample as best-in-class SMEs in terms of growth.

#### **3.1.1.1 Time Frame**

Our multiple case study was based on companies that were appointed “Gazelles” by the Swedish business newspaper Dagens Industri in 2010.

Looking at the Gazelles of 2010 allowed us to study the multiple cases in retrospect, i.e. research the past. An alternative method would have been to conduct a longitudinal study, i.e. participating in the cases as they happened. On the one hand, this would have led to less dilution of the data and also decreased the risk of bias and post-rationalization among the interview subjects since we would collect the data first-hand. This would also increase the likelihood of determining the right cause and effect (ref). On the other hand, the cons of this approach were predominant. Since this study must fit the frame of a master thesis, the time needed to conduct a longitudinal study would be greater than the time we had available. Previously, access has been a limiting factor in board research (refs). The secrecy and importance of decisions discussed and taken in the board room makes companies less willing to invite scholars to study the topic as it happens. By studying the cases in retrospect, we assumed that more companies would be willing to participate in our study since the problems of secrecy should be lower after some time have passed from the actual events took place.

In addition, by studying the Gazelles appointed in 2010, i.e. companies fulfilling the gazelle criteria for the years 2006-2009, instead of the latest list from 2012, we were able to include an additional ‘what happened next?’ dimension, since it made it possible to follow up on the company performance during 2010-2013. Our aim with this was to enable ourselves to validate events and trends that occurred during 2006-2009 and to hopefully sort out companies that in one way or another were included in our list of Gazelles on the wrong terms, e.g. construction companies billing several years of work during one year which technically make them a gazelle but only due to arrangements in their annual reports.

### **3.2 Sampling**

Since the purpose of our research is to develop theory, not to test it, we will use theoretical sampling, i.e. not random or stratified sampling (Eisenhardt & Graebner, 2007).

We started with the population of Swedish Gazelles, which had been appointed by the financial newspaper Dagens Industri in 2010. To become a Gazelle, the company needed to double its turnover during the last four years. In addition, the company needed to have been profitable measured over the whole 4-year period. 696 companies were appointed Gazelles by Dagens Industri in 2010.

Due to our limited resources, we have not been able to control if any companies are missing in the list provided by Dagens Industri, i.e. if there are any other Swedish Gazelles than the ones presented in the list. However, we have conducted several attempts to validate the data presented in the list, such as turnover during 2006-2009, that the companies have been profitable in total over the period 2006-2009 and that the right legal entity has been included in the list, i.e. the same legal entity that constitutes and incorporates the operative business and not a holding company or parent company.

As explained earlier, we found it valuable to study Gazelles for several reasons. Firstly, SMEs create jobs and economic growth which makes them extremely important to society. Given the definition used in our sample, Gazelles can be seen as 'best-in-class' cases of SMEs. Secondly, by replicating cases in companies with high-growth, we aim to better capture the complexity of the evolution of a new venture, compared to slower growing companies. Looking at the pace of the growth instead of the absolute size of a company is in line with the notion that the development of a company is connected to increased complexity rather than its size (Dewar & Hage, 1978). Therefore, we decided to focus on the Gazelles that had experienced the highest growth to potentially maximize the complexity parameter. However, it is important to note is that no comparison between high-growth and slower growing companies will be made in this study. Therefore, we will not be able to assess if our prediction on the relationship between high-growth and high complexity is accurate.

Thirdly, the fast growth pace implies that all these challenges have surfaced quite recently, compared to a company with the same growth over a longer period of time since high-growth firms have gone from small to larger in a shorter time period, meaning that the people involved might still be in the board and remember events in more detail. We identified this as means of compensating for the risk of participants not being able to recall important events.

While previous research had mainly focused on large companies and we wanted to take the perspective of the entrepreneur and focus on board functions in the entrepreneurial context. We also believed that it was necessary to limit the study to companies of a certain size since the board function would be likely to vary between very small and very large companies. Consequently, we excluded all companies that did not fulfill the SME Definition of having between 10 and 249 employees and a turnover below 500 MSEK or a balance sheet total below 430 MSEK (European Commission, 2013). We considered this to be in line with suggestions from other researchers to delimit the Gazelle definition to only include small and new companies (Ahmad, 2006). We also decided to look at companies that, in 2013, still fulfilled the requirements of being a SME and that still was in business.

The bankrupt, merged or acquired companies were excluded due to the limited scope of this study. Trying to reach the involved people and recreate what happened in a bankrupted company would be too consuming due to the limited amount of time that we had. People connected to a bankrupt company may be reluctant to speak about the delicate subject of the Board of Directors and the governance system. Since the Board of Directors and management team is overall responsible for the company, a bankruptcy this may be sensitive and thereby hard to gain access to. Secondly, several years may have passed since the persons were involved in the bankrupt company which may limit their contribution to the study due to potential inability to recall important events. Extracting information for a merged or acquired company from its existing entity was considered to be too time consuming and difficult or even impossible, potentially leaving us with damaged data that more accurately refers back to the merged firm than the previously existing one. While the fate and fortune of the bankrupt and merged or acquired companies would be interesting and potentially valuable to study, these companies were excluded from our study.

Next, we focused our study on companies that had three or more board members in 2013. According to the Swedish companies act, every limited company must have a board. The board should consist of at least one member, and if the board has less than three members, the board must also have at least one deputy. Given our focus on the functions of the board and how these evolve, our primary condition was that the companies in our study should have developed a functioning board of directors. Given the regulations requiring at least two board members, all boards with two directors or less, including the companies with one director and one deputy, might still have a board only taking 'rubber-stamping' decisions. Like any other company, companies with a board of directors consisting of at least three members have previously had no board or a board with fewer members. Since our study will incorporate the whole lifecycle of every case company, the 'stages' before having a functioning board will also be represented in the chosen cases. Since we wanted to capture the evolution, we chose to only look at companies which had actually evolved in to something.

We sorted the companies that remained after this data clearing by growth in turnover (%) and contacted the companies with the highest growth first. By replicating ... we wanted to...

### **3.3 Data Collection**

We predominantly used primary data, which means data collected by the authors of this study. The primary data were collected through in-depth face-to-face interviews and telephone interviews as well as from company homepages. The reason for using primary data were several, the most obvious being the lack of existing and relevant data available.

However, we also included some elements of secondary data mainly collected prior to our interviews to study our interview subjects before the actual interview which enable us to focus on more important topics other than the basic information. The secondary data was collected from, business databases, e.g. Affärsdata, and newspaper articles.

### *3.3.1 Interview structure*

We conducted semi-structured interviews where we had prepared a pro-forma with questions (Appendix I). The questions were designed to be open and explorative rather than closed and definite. For example we asked questions such as: “how do you look upon the functions of the Board of Directors in a company?”, where the interviewee could describe freely and form an answer from own experiences rather than simply answering yes or no (Kvale, 1997). A theoretically informed interview pro-forma is an important mechanism to build structure into the data collection process. The pro-forms helped us gather small units of data and put them into a system of categorization. The pro forma, that made sure that the same questions were collected at each interview, became a constant reference point in our research process where we could find interesting leads and make comparisons between answers to draw conclusions (Pettigrew, 1997). By replicating the same questions in multiple cases we were able to build more robust, generalizable and testable theory than in a single-case research (Eisenhardt & Graebner, 2007).

Alternative interview techniques were also considered. More structured interviews and surveys were neglected due to risk of framing the interview subject too narrowly. Unstructured interviews were also neglected due to the risk of losing the benefits of a multiple case study such as the possibility to replicate questions in several cases.

The majority of the in-depth interviews were conducted face-to-face. This was possible due to the high percentage of Stockholm-based firms in our population and sample. The interviews conducted face-to-face were conducted at the office of the Gazelle, i.e. in the entrepreneurs “home” environment. The reason for this was to make it easier for the entrepreneurs to relax and feel safer during the interviews. A more neutral environment could have been tested but due to generally tight schedules of the entrepreneurs, valuable interview time was saved by meeting them at their offices instead of making them spend time on going to a neutral location.

During face-to-face interviews it is also possible to read the body language of the interviewee which usually tells a lot about the interviewee’s state of mind. Furthermore, in comparison with a survey, the interviewee is forced to answer the questions spontaneous and without extended reflection which may generate more honest replies. However, it is also more challenging to conduct face-to-face interviews compared to sending out surveys since the interviewer also have to be more

spontaneous (Wengraf, 2001, p. 194). This challenge was mitigated by always being two people present when conducting the interviews. While one person asked a question and focused on getting a satisfying answer, the other researcher could prepare for the next question and make sure that the interview stayed on track. Other advantages of having two people conducting the interviews were the enhanced creative potential and the increased confidence in findings (Yin, 1994). In addition, all interviews were recorded to enhance the accuracy (Yin, 1994) which made it possible for us to focus on the responses and the respondent rather than on our notes. The alternative of not recording was also considered and tested but the advantage of having multiple investigators was considered more important than the potential disadvantages of recording, i.e. that it might inhibit the respondents. Each interviewee was however asked if he or she was comfortable with the interview being recorded to give the interview subject the opportunity to express any inconveniences.

Some of the interviews were conducted via telephone. The difference compared to the face-to-face interviews was obviously the loss of visual contact and the partly limited ability to have a natural conversation. However, these interviews were also recorded and conducted by two investigators.

### **3.2.3 Data Analysis and Coding**

When conducting case studies and describing sequences of events and actions it is important to not end up with a case history where the study just describes a series of events on the surface (Pettigrew, 1997). Therefore, we made sure to make an empirical analysis where we tried to describe the underlying reasons behind the series of events described in the interviews.

All interviews were transcribed directly after being made followed by an analysis of the transcription. The purpose of the analysis was to see if we could confirm/oppose findings from earlier interviews or even find a new interesting lead connected to our research question. Each interview was subsequently analyzed in comparison to all accumulated interviews at the time. Later, the findings were sorted into groups which were coded into labels. The purpose of this labeling was to sort out the massive amount of data collected from the interviews and to create an overview of what has been said about different topics connected to the research question. Trying to create meaning, we looked for patterns within and between cases, tried to cluster similar findings from different cases, counted the amounts of specific and types of findings. By thoroughly analyzing the data after each interview, we were able to test and replicate early findings in the subsequent cases. The findings are presented in more detail in the empirical findings chapter.

By using these steps, the information was processed at least five times. The first step of processing the data was during the interview, since both authors were present at all interviews. The second step of processing was conducted by one of the authors who transcribed the interview by listening to the

recording and structuring the interviews into a framework of questions sorted by topic. The interviews were transcribed word by word and each transcription took between 1-2 hours. The third step of processing was conducted by analyzing each transcript to find interesting leads or to confirm/oppose earlier findings and to sort and code the findings in a separate document. The fourth step was an analysis of all interviews as a whole, i.e. an analysis of the coded document. Finally, we went back to the individual case transcripts again and assessed each company in relation to the patterns and findings from the sample as a whole, produced in the fourth step. By conducting these steps and continuously analyzing and discussing with each other, both authors became intimately familiar with each case.

## **3.4 Limitations**

### **3.4.1 Research Quality**

We had enough support for drawing conclusions on our leads and didn't find interesting new leads after 12 interviews, why we then felt that our data was saturated. However, to be sure that this was the case we conducted two additional interviews. All interviewees have been anonymized but their backgrounds are presented in the empirics together with a brief overview of the company or organization to which they are connected.

We prepared ourselves before the interviews and had already some knowledge about the interviewee as well as the company. This enabled us to create trust in an early phase of the interview and also saved valuable time in the interview time slots since we already knew about basic information, such as the present board composition, a brief version of the company history, the attention the company have had in media, the background and previous experience of the founder.

### **3.4.2 Validity**

During the data collection process, we used multiple sources of evidence increase the construct validity, both primary data in the form of interviews and secondary data to complement and confirm our findings from primary data .

By going through the data several times in our data analysis, we were able to identify and match patterns and connect our case specific findings to the general view of the evolution of new firms, making the findings more comparable which increased the internal validity.



Our study was based on a multiple case method which increased the external validity compared to a single case study. By studying several cases and the use of replication, we could build theory that was more robust, generalizable and testable than in a single case method.

In the empirical findings chapter, we present our findings in more detail. We have tried to present the data and the processing of data as transparent as possible to increase the reliability of this study. Although sometimes seen as “subjective,” well-done theory building from cases is surprisingly “objective,” because its close adherence to the data keeps researchers “honest.” (Eisenhardt & Graebner, 2007).

## 4. Empirical Results

*In this chapter, the empirical findings from the conducted interviews will be presented. The findings show that it is possible to identify a number of operative board functions in Gazelles and related tasks. Furthermore the study show emerging pressures for change during a Gazelles growth that pushes for different board functions.*

### 4.1 Empirical Background

#### 4.1.1 Population

Our population consists of high growth companies defined as Gazelles in Sweden by the financial newspaper Dagens Industri 2010. Sweden has a bit over one million companies and approximately 3.5 percent of these companies are classed as SMEs. Around 75 percent of the total amount of companies is one-man enterprises while just 0.09 percent is large companies. To be classified as a SME the company must have between 10-249 employees, have a yearly turnover that not surpasses 500 MSEK and a balance sheet total that fall below 430 MSEK (Svenskt Näringsliv, 2010).

Among the SMEs there are also a few companies that can be denoted 'Gazelles'. The leading financial newspaper Dagens Industri appoints the Gazelles in Sweden each year, by publishing a list of these companies.

Roughly 700 companies (696) were given the title "Gazelle firm" by Dagens Industri (DI) in 2010 (Nilses, 2010). As discussed in the theoretical framework, there exists no precise definition of 'Gazelles' in academia; however the definition used by Dagens Industri is in line with the norms used.

#### 4.1.2 Sample

As presented in the methodology chapter, we have conducted interviews with 14 Gazelles, appointed by Dagens Industri in 2010. All of the companies in our sample have experienced an extreme growth during the years 2006-2009. A majority of the companies in our sample is based in Stockholm (9/14). All Gazelles in the sample are fully or partly owned by one or more founders. Furthermore the founder, or one of the founders, holds the position of CEO in 12 of 14 companies and all founders are represented in the board. The companies in our sample employ between 10-85 people (average 37) and have a yearly turnover of 10-500 MKR (average 70 MKR). We have presented the number of employees and the turnover as intervals in order to anonymize the companies. The industries represented in our sample are IT (6/14), Consultancy (4/14), Wholesale trade, Airline, Real Estate, Energy and Industrial Design.

All but one of the entrepreneurs behind the companies in the sample is male and the average age is 45 years. The majority (10/14) of the entrepreneurs have an academic background, including economists, engineers, archeologists and psychologists.

Gazelles	No. Founders	Year Founded	No. Employees	Turnover MSEK	Industry	Academic Background (founder)
Company A	3	2002	20-35	70-100	Wholesale Trade	Yes
Company B	3	2001	20-35	30-60	Airline	Yes
Company C	1	1993	30-45	30-60	Real Estate	No
Company D	2	2005	40-55	10-30	IT	Yes
Company E	1	2000	40-55	50-80	Consultancy	No
Company F	1	2004	40-55	200-500	Energy	Yes
Company G	1	1984	70-85	100-200	IT	Yes
Company H	1	1999	50-65	30-60	Consultancy	Yes
Company I	1	1999	10-25	10-30	Consultancy	No
Company J	1	1983	10-25	30-60	Industrial Design	No
Company K	2	2000	40-55	30-60	IT	Yes
Company L	3	2003	50-65	30-60	IT	Yes
Company M	3	2000	10-25	10-30	IT	Yes
Company N	5	2000	10-25	30-60	IT	Yes

**Table 2 – Sample Overview**

## 4.2 Empirical Results

### 4.2.1 Development

As explained in the methodology chapter, our data analysis started by looking through the transcripts of each case. From these detailed and extensive transcripts it was possible to build schematic timelines illustrating the evolution for each Gazelle. Our starting point was the full transcripts from each interview, i.e. all answers to the pre-defined questions together with the answers and questions that emerged spontaneously during the interviews.

From the transcripts, we analyzed the interviews and grouped our findings and graphic quotes under different labels. A label in this context could be a board function, underlying reasons potentially explaining specific events or series of events, surprising or contrary findings etc.

It soon became evident to us that there was a pattern in how the evolution of the Gazelles could be divided into a pre-growth period, i.e. before the growth started, a high-growth period, i.e. the period when the average growth was high, and a post-growth period, i.e. the period when some companies experienced a decline or loss of growth. However, the high-growth period could include occasional periods or years of slow or absence of growth, but the period as a whole was always characterized by the high amount of growth.

Looking more specifically on the functions of the board, defined as roles conducted individually or collectively by formal board members, and the evolution of new functions, we identified that new board functions were often initiated by an internal or external pressure. The pressure could come internally from the employees or from the entrepreneur who noticed that something was missing. The pressure could also come from an external stakeholder, like a new investor. In general the pressures came as a consequence of growth and the increased complexity that followed for the Gazelle.

We have labeled the pressures as ‘pressures for change’ and presented them in Table XX for each Gazelle company and connected them to the specific evolution periods presented above. With pressures for change we refer to pressures on the Gazelles that made the entrepreneurs call for board functions to develop.

Since we looked at the companies retrospectively, and interviewed the founder, it was also possible to map the existence of specific board functions in different periods. We identified a certain pattern of how these function evolved, which consisted of three stages of development. We denoted these stages ‘non-existent’, ‘emerging’ and ‘operative’.

If a Board function was found to be ‘non-existent’, it didn’t exist, just as the name disclose. When no board function existed in a Gazelle, it indicated that the Board of Directors basically only was a formality due to laws and regulations, and that the board didn’t have any influence to the underlying company. When this was the case, the “board work” consisted of signing a paper once a year together with an auditor and taking rubber-stamping decisions already decided upon by the management; however this was seldom the case in our sample of Gazelles.

When a board function is ‘emerging’, it is under development to become an ‘operative’ function. However, we also found other ways of how a board function evolved from non-existent to ‘emerging’, e.g. by substituting an ‘operative’ board function with another solution.

To denote the difference between a substituted function and when a formal board member fulfilled one or more board functions, we have chosen to denote the latter as an ‘operative’ function. Hence, an emerging board function could mean both that a board function is substituted for another solution, and that a board function is about to become operative, i.e. a function fulfilled by one or more formal board members. In other words, before a board function is operative it goes from non-existing to emerging, meaning that there is an embryo to the function but it is either not yet fully satisfied, or satisfied in informal ways and not through the Board of Directors.

In Table 3, we have presented the evolution of all identified board functions for each of the Gazelle companies included in our study. The Gazelles have been presented under the respective periods; pre-growth, high-growth and post-growth. In the table, a board function has been denoted with regards to its level of evolution in the end of each period, i.e. if the function went from non-existent to emerging during the high-growth period; it is presented as emerging in the column for high-growth. Had it evolved into an operative function, it would have also been presented as such.

Gazelles	PRE-GROWTH	HIGH-GROWTH (>20%)	Cont. HIGH-GROWTH or POST-GROWTH
<b>Company A</b>  <b>20-35 employees</b>  <b>70-100 MSEK</b>  <b>Whole sale trade</b>	<b>2002-2004:</b> Revolutionized their industry and became profitable after only a couple of years in business. The first years were characterized by impulsive decision making without any formalized processes or business tools.  <b>Board functions:</b> Non-existent (Auditor)  <b>Pressures for change:</b> Lack of expert knowledge	<b>2005-2011:</b> Continued to grow in a high pace by entering new markets. Started with an advisory board that acted as a BoD.  <b>Board functions:</b> Emerging: Expertise (Substituted by advisory board)  <b>Pressures for change:</b> Clashes between founders, unconsidered decisions, personnel issues, lack of structure  <b>2004-2009:</b> Product launch becomes an instant success and rapid growth follows. Considers entering new markets. Reframe BoD working procedures.  <b>Board functions:</b> Emerging: Organize  <b>Pressures for change:</b> Lack of expert knowledge, clashes between founders  <b>2008-2010:</b> Manage to sign contracts with big customers which make the company grow fast. As the company grows bigger, new needs are emerging. First external board member enters.  <b>Board functions:</b> Emerging: Support, Organize  <b>Pressures for change:</b> HR-issues, Lack of high-profile names	<b>2012- :</b> Slower growth due to formalization processes. New corporate governance system put in place with more defined roles between the founders. Three new external board members entered. The BoD is formed.  <b>Board functions:</b> Operative: Expertise, Mediate, Strategy, Organize  <b>2010-:</b> Become market leaders. Adds two board professionals, one act as chairman.  <b>Board functions:</b> Operative: Organize, Expertise, Mediate  <b>2011-:</b> Contracts expire and growth slows.  <b>Board functions:</b> Operative: Support, Organize, Legitimise
<b>Company B</b>  <b>20-35 employees</b>  <b>30-60 MSEK</b>  <b>Airline</b>	<b>2001-2003:</b> Bold vision, worked with product development for a couple of years before launch. All work conducted by the founders.  <b>Board functions:</b> Non-existent  <b>Pressures for change:</b> Lack of structure	<b>2004-2009:</b> Product launch becomes an instant success and rapid growth follows. Considers entering new markets. Reframe BoD working procedures.  <b>Board functions:</b> Emerging: Organize  <b>Pressures for change:</b> Lack of expert knowledge, clashes between founders  <b>2008-2010:</b> Manage to sign contracts with big customers which make the company grow fast. As the company grows bigger, new needs are emerging. First external board member enters.  <b>Board functions:</b> Emerging: Support, Organize  <b>Pressures for change:</b> HR-issues, Lack of high-profile names	<b>2010-:</b> Become market leaders. Adds two board professionals, one act as chairman.  <b>Board functions:</b> Operative: Organize, Expertise, Mediate  <b>2011-:</b> Contracts expire and growth slows.  <b>Board functions:</b> Operative: Support, Organize, Legitimise
<b>Company C</b>  <b>30-45 employees</b>  <b>30-60 MSEK</b>  <b>Real Estate</b>	<b>1993-2007:</b> Cautious start. Grows slowly for the first ten years. No real need for formalized processes since business is still very limited.  <b>Board functions:</b> Non-Existent (Auditor)  <b>Pressures for change:</b> Lack of support, lack of structure	<b>2008-2010:</b> Manage to sign contracts with big customers which make the company grow fast. As the company grows bigger, new needs are emerging. First external board member enters.  <b>Board functions:</b> Emerging: Support, Organize  <b>Pressures for change:</b> HR-issues, Lack of high-profile names	<b>2011-:</b> Contracts expire and growth slows.  <b>Board functions:</b> Operative: Support, Organize, Legitimise

<b>Company D</b>  <b>40-55 employees</b>  <b>10-30 MSEK</b>  <b>IT</b>	<b>2005-2006:</b> One year of product trials and sales activity chasing customers. Entrepreneurial spirit at office. Tight cooperation between founders.	<b>2007-2010:</b> Experience high growth only after one year in business. The number of employees increases quickly.	<b>2011-:</b> Growth declining. Add first external board member.
	<b>Board functions:</b> Non-Existent (Auditor)	<b>Board functions:</b> Emerging: Strategy and Guide (substituted with an advisory board)	<b>Board functions:</b> Operative: Strategy, Guide, Organize, Expertise
	<b>Pressures for change:</b> Lack of “new blood”, lack of experience	<b>Pressures for change:</b> HR-issues, lack of expert knowledge	
<b>Company E</b>  <b>40-55 employees</b>  <b>50-80 MSEK</b>  <b>Consultancy</b>	<b>2000-2005:</b> The founder act as consultant the first couple of years. Then the founder adds two more partners with relevant backgrounds for the company’s profile.	<b>2006-:</b> Experience rapid growth and hires first external board member.	<b>Cont. HIGH-GROWTH</b> Continue to grow with high pace and receives new Gazelle awards. Hire professional chairman to the board, recognized within the company’s industry.
	<b>Board functions:</b> Non-Existent (Auditor)	<b>Board functions:</b> Emerging: Organize	<b>Board functions:</b> Operative: Organize, Network, Legitimize
	<b>Pressures for change:</b> Lack of structure	<b>Pressures for change:</b> Lack of networks within the industry, lacks a high-profile name	
<b>Company F</b>  <b>40-55 employees</b>  <b>200-500 MSEK</b>  <b>Energy</b>	<b>2004-2005:</b> Bold vision and strong financial backing. Start with sales. No formalized processes.	<b>2006-2010:</b> Grows with sales, starts to work more with the BoD. Hire controller. Board work handled informally on a daily basis between CEO and Chairman and not in formalized board meetings.	<b>2011-:</b> The growth levels out. More formalized procedures are put in place. Adds two additional board members from outside of the organization.
	<b>Board functions:</b> Non-Existent (Auditor)	<b>Board functions:</b> Emerging: Support, Guide (informal) Control function substituted by controller.	<b>Board functions:</b> Operative: Support, Guide, Control, Organize, Network
	<b>Pressures for change:</b> Lack of support to the CEO, lack of experience	<b>Pressures for change:</b> HR functions getting more complex, lack of networks to get in contact with potential key customers, increasing turnover (more monetary risk)	

<p><b>Company G</b></p> <p><b>70-85 employees</b></p> <p><b>100-200 MSEK</b></p> <p><b>IT</b></p>	<p><b>1984-2005:</b> Slow initial growth first ten years. Becomes public and launches a product and experience high growth up to the burst of the IT-bubble in late 2000. First external board members enter when the company becomes public. Restarts the company and finds niche market. Founder steps down from CEO role to become chairman.</p> <p><b>Board functions:</b> Emerging: Organize, Control</p> <p><b>Pressures for change:</b> Legislation regarding board work in listed companies, lack of strategic overview, external capital (new owners)</p>	<p><b>2006-2010:</b> Seals contracts with big clients and a new growth era takes place. Board work most affected by regulations for board work in listed companies.</p> <p><b>Board functions:</b> Operative: Organize, Control, Expertise, Strategy</p>	<p><b>2011:</b> Growth levels out as contracts with clients expires.</p>
<p><b>Company H</b></p> <p><b>50-65 employees</b></p> <p><b>30-60 MSEK</b></p> <p><b>Consultancy</b></p>	<p><b>1999-2005:</b> Cautious start. The founder holds both roles as CEO and chairman. Finds niche product and the growth takes off.</p> <p><b>Board functions:</b> Non-existent (Auditor)</p> <p><b>Pressures for change:</b> Lack of previous experience, lack of expert knowledge, lack of structure</p>	<p><b>2006-:</b> The growth continues at a high pace. Seek advice from people outside of the BoD.</p> <p><b>Board functions:</b> Emerging: Guide, Expertise, Organize (substitute BoD with advisory board)</p> <p><b>Pressures for change:</b> Lack of support (feels lonely), increasing turnover (increasing monetary risk)</p>	<p><b>Cont. HIGH-GROWTH</b> Continued growth and international expansion. Add former boss as chairman who has previous experience from growing businesses.</p> <p><b>Board functions:</b> Operative: Guide, Expertise, Organize, Support, Control</p>



Company I	1999-2005:	2006-2011:	2012-:
	One-man company the initial years. Finds profitable niche and the growth rate increases. The founder adds more owners to the company.	High growth phase where several important clients are secured. Hire first external board member.	Growth slows and the company becomes more mature. Adds additional external board members.
10-25 employees			
10-30 MSEK			
Consultancy	Board functions: Non-Existent (Auditor) Pressures for change: Lack of support, lack of expert knowledge	Board functions: Emerging: Support, Expertise (Informal)  Pressures for change: HR-issues, lack of structure	Board functions: Operative: Support, Expertise, Organize
Company J	1983-2005:	2006-2009:	2010-:
10-25 employees	Grows slowly initially but makes acquisition after two years in business increasing (non-organic) growth. First external board member, i.e. the chairman. The founder also brings in additional partners.	As the growth continues through acquisitions the founder brings in more external board members while acting as CEO.	The growth slows and the founder steps down from the post of CEO and becomes new chairman.
30-60 MSEK			
Industrial Design	Board functions: Emerging: Organize, Support (Informal)  Pressures for change: Lack of support, lack of experience, lack of expert knowledge	Board functions: Operative: Organize, Support, Guide, Expertise	
Company K	2000-2005:	2006-:	Cont. HIGH-GROWTH
40-55 employees	Grows slowly the first five years. Develop their product together with clients. The number of employees starts to increase and a key customer is acquired close to 2006.	The business flourish and the turnover is more than tripled during this period. Uses an informal advisory board that consists of old friends from university and contacts acquired in Stockholm.	Growth continues as the product portfolio is expanded and as the company enters new international markets. The first external board member is hired and followed by two others.
30-60 MSEK			
IT	Board functions: Non-existent (Auditor)  Pressures for change: Lack of experience	Board functions: Emerging: Guide (substitute BoD with advisory board)  Pressures for change: Lack of expert knowledge, lack of legitimacy before a future potential exit	Board functions: Operative: Guide, Expertise, Increase Value

<b>Company L</b>  <b>50-65 employees</b>  <b>30-60 MSEK</b>  <b>IT</b>	<b>2003-2005:</b> The three founders started from basically nothing and grew the business organically. Gained an important client towards the end of this period.  <b>Board functions:</b> Non-existent (Auditor)  <b>Pressures for change:</b> Lack of experience	<b>2006-:</b> Growth increases and the founders take in external capital. At the same occasion the first external board member joins the company.  <b>Board functions:</b> Emerging: Guide (Informal)  <b>Pressures for change:</b> External capital (new owners), lack of legitimacy at future potential exit	<b>Cont. HIGH-GROWTH</b> Expand the business to new markets and goes global. Adds products to the product portfolio. Another owner enters and joins the board as a new external board member.  <b>Board functions:</b> Operative: Guide, Control, Increase Value
	<b>2000-2002:</b> Grows quickly by partnering up with leading firms in the consultancy industry. Takes in external capital from private investors but decides to buy back the company after a couple of years. Still informal board work.  <b>Board functions:</b> Emerging: Organize  <b>Pressures for change:</b> Lack of strategic overview, lack of legitimacy before potential future exit	<b>2003-2010:</b> Growth continues and the company adds an external CEO as well as an external chairman. The company secures a number of big clients as well as expands globally to several new countries.  <b>Board functions:</b> Operative: Organize, Strategy, Increase Value	<b>2011-:</b> Growth levels out.
<b>Company M</b>  <b>10-25 employees</b>  <b>10-30 MSEK</b>  <b>IT</b>	<b>2000-2005:</b> Acquire first major client quite shortly after the company is founded. Still only acts as an inter-medium without own products.  <b>Board functions:</b> Non-existent (Auditor)  <b>Pressures for change:</b> Lack of experience, lack of expert knowledge	<b>2006-:</b> Launches own products and takes in external competence (advisory board). One of the founders leaves the company.  <b>Board functions:</b> Emerging: Expertise (substitute the BoD with an advisory board), Guide  <b>Pressures for change:</b> Lack of structure, lack of "new blood", lack of high-profile names	<b>Cont. HIGH-GROWTH</b> Expands the business and enter new markets abroad. The first external board members join the company.  <b>Board functions:</b> Operative: Guide, Expertise, Organize, Strategy, Legitimize
	<b>2000-2005:</b> Acquire first major client quite shortly after the company is founded. Still only acts as an inter-medium without own products.  <b>Board functions:</b> Non-existent (Auditor)  <b>Pressures for change:</b> Lack of experience, lack of expert knowledge	<b>2006-:</b> Launches own products and takes in external competence (advisory board). One of the founders leaves the company.  <b>Board functions:</b> Emerging: Expertise (substitute the BoD with an advisory board), Guide  <b>Pressures for change:</b> Lack of structure, lack of "new blood", lack of high-profile names	<b>Cont. HIGH-GROWTH</b> Expands the business and enter new markets abroad. The first external board members join the company.  <b>Board functions:</b> Operative: Guide, Expertise, Organize, Strategy, Legitimize

**Table 3 – The evolution of board functions**

#### 4.2.2 The function(s) of the Board of Directors in Gazelles

In total we found 10 operative functions of the Board of Directors in Gazelles. The most common functions of the Board of Directors were: Organize (12), Expertise (9) and Guide (7). The other functions we found were Strategy (5), Support (5), Control (4), Increase Value (3), Network (2), Legitimize (2) and Mediate (2). Interesting to note is that all functions were found in at least two companies.

<u>Occurrence of Board Functions</u>	<u>#</u>
Organize	12
Expertise	9
Guide	7
Strategy	5
Support	5
Control	4
Increase value	3
Network	2
Legitimize	2
Mediate	2

**Table 4** – Number of occurrences for each board function

##### 4.2.2.1 Organize

The organize function of the Board of Directors in Gazelles was found in 12/14 unique Gazelles initiated by companies experiencing lack of structure (7/14) and problems related to HR-issues (5/14).

The experienced lack of structure was related to lacking formalized processes regarding board meetings, lack of structure regarding management positions, lack of structure regarding work tasks and lack of formalities and routines in general. The HR-issues were a consequence of the high-growth and the related rapid increase in personnel. The HR-issues consisted of quite specific and sometimes simple questions such as “who should have a leasing car”, but also of more complex issues spanning over the whole organization such as how to build wage structures and how to keep everyone happy and motivated.

In this function the Board of Directors provide structure and formalized processes to the Gazelle. Since the Gazelles grow with high speed it is common that the company outgrows its organizational structure. The organize function of the Board of Directors makes sure that the formalized processes are put in place and up to date and that they fit the organizations size and its environment.

#### *4.2.2.2 Expertise*

The expertise function of the Board of Directors in Gazelles was based on the expert knowledge demanded by the Gazelles (9/14) within the areas of HR, law, and finance.

Within the area of HR the Gazelles needed to have an HR-specialist that could build remuneration systems and motivate people; the expert knowledge needed within the area of law was connected to increasing complexity regarding rules as the firms grew bigger as well as increased complexity for a Gazelle when going public. The increasing size was in some cases connected to higher importance on working with finance related issues, such as working capital and forecasting.

In this function the Board of Directors provided expert knowledge within fields relevant for the Gazelles. This function was often substituted initially with an informal advisory board. The advisory board could consist of old friends and former university or work colleagues. Gazelles recruited external board members with specific knowledge to complement themselves or solve urgent needs.

#### *4.2.2.3 Guide*

The guide function was based on the lack of experience some entrepreneurs felt when running a Gazelle (7/14) and the feeling of safety felt when having an experienced board member onboard from the start (1/14).

The perceived lack of experience among the entrepreneurs was connected to that the Gazelle was the entrepreneurs first own venture (4/14) and the desire to have a person with experience on board to avoid making stupid simple mistakes that easily could be avoided (3/14). This function was often substituted by having a more informal advisory board. Entrepreneurs recruited board members with relevant experience when needed. The relevant experience needed was: having grown a business to a certain size, having expanded abroad before, and previous experience in M&As.

In this function the Board of Directors acts as a sounding board to the entrepreneur when needed and board members share their experience with the entrepreneur.

#### *4.2.2.4 Strategy*

The strategic function of the Board of Directors found in 5/14 Gazelles was based on the lack of strategic overview (2/14), lack of “new blood” (2/14) and fear of making unconsidered decisions (1/14).

The Gazelles who felt a lack of strategic overview experienced being too close to the operations and felt a need of having someone who could see the “bigger picture”. Two entrepreneurs expressed the need for a strategic function by referring to a lack of “new blood”. These entrepreneurs felt that the Gazelle lacked new ideas and was stuck in old behavioral patterns. In one Gazelle we also noted a

fear of making unconsidered decisions. This fear was based on the founders being too focused on growth and not considering long term effects of decisions.

With this function the Board of Directors provided a strategic overview and a “helicopter”-perspective and kept track of long term effects of decisions. However, working with strategy and long-term goals was generally not a priority in the Gazelle firms, especially not in the younger firms. Being flexible and able to act quickly on new opportunities and threats was in general seen as more important among the entrepreneurs.

#### **4.2.2.5 Support**

The support function of the Board of Directors in Gazelles was based on the lack of support entrepreneurs felt when running the Gazelle without a Board of Directors (5/14) as well as the positive experience from the entrepreneurs that had a supportive relation with their Board of Directors (2/14).

Four of the entrepreneurs that felt a lack of support ran the Gazelle they had founded as CEO. The fifth that felt a lack of support acted as CEO but the founder was chairman. The entrepreneurs felt lonely and lacked people to talk business with. The entrepreneurs’ families were often not interested in talking business and were often angry on the entrepreneurs for the extensive working hours. The entrepreneurs could not turn to their employees since that would complicate their relationship and potentially put the entrepreneur in a difficult seat. Business related concerns could for example distress the employees. The entrepreneurs lacked people that praised them for their work and acknowledged their achievements. Two entrepreneurs already had established supportive relationships with their Board of Directors and they expressed that having a safe and supportive environment was important to not feel mentally distressed.

With this function the Board of Directors provided support for the entrepreneur, who often held the position of CEO. The support could be as simple as showing appreciation for the work that the entrepreneur had done and be available for discussing topics, sometimes without giving any advice. We also found other ways that entrepreneurs used to decrease the feeling of loneliness and fulfill their need for support. Instead of turning to the Board of Directors, some entrepreneurs (5/16) created less formal advisory boards and used mentors which substituted rather than complemented the support function of the Board of Directors.

#### **4.2.2.6 Control**

The control function of the Board of directors was found in 4/14 Gazelles and was based on the increased monetary risk some entrepreneurs felt connected to their rapid growth (2/14) and as a result of new owners entering the Gazelles (2/14).

The increased monetary risk made entrepreneurs concerned about not having a control function and therefore asked for a Board of Directors that could control their finances and their behavior so the risk of the Gazelle never came at stake. When new owners entered Gazelles (2/14) the entrepreneurs noticed an increased surveillance from the new owners. However, instead of being anxious and angry on the increased surveillance the entrepreneurs in the both cases welcomed it. The increased surveillance implicated a push for new more formalized processes and more order in the Gazelles.

In this function the Board of Directors provided safety by following and questioning the financial side of growing a business and the entrepreneurs' decisions in general. The entrepreneur could focus on growth and development but while knowing that someone was controlling his or her moves.

#### *4.2.2.7 Increase Value*

The increase value function of the Board of Directors in Gazelles was based on the lack of legitimacy some entrepreneurs felt before a potential future exit (3/14).

The perceived lack of legitimacy before a future potential exit derived from the entrepreneurs' belief that a Board of Directors would make investors more interested. Detailed protocols from meetings would, according to the entrepreneurs, make it easier for external investors to judge the work the Gazelle had done and to evaluate the business. The entrepreneurs wanted to build the Board of Directors in a formal way to increase the Gazelles value.

With this function the Board of Directors signaled that the company is in good shape and was managed in a proper manner. The formalized protocols that the Board of Directors brought made it easy for outside investors to follow the development and work done by the company and increase their willingness to pay a higher price for it.

#### *4.2.2.8 Network*

The network function of the Board of Directors in Gazelles (2/14) was based on the entrepreneurs' lack of networks to reach key personnel, suppliers and/or clients.

The lack of networks made it hard for these Gazelles to attract skilled personnel and acquire important contracts with suppliers and/or clients. To solve this, the entrepreneurs hired board members with relevant contacts and networks to fill the network gap via the Board of Directors.

With this function the Board of Directors contributed with networks needed for reaching key personnel, clients or suppliers. For example, in two Gazelles we found that the board provided concrete customer leads or door-openers that led to new customers being acquired. We also found that the network of the Board of Directors was valuable to Gazelles when expanding to new

countries or markets. Furthermore, entrepreneurs (3/14 ) mentioned that the network of the Board of Directors could be valuable in a future exit situation when searching for potential buyers.

#### *4.2.2.9 Legitimize*

The legitimize function of the Board of Directors was found in 2/14 Gazelles and was based on the lack of high-profile names in the board.

The lack of high-profile names in the boards of Gazelles affected their relationships with the external environment. Since the entrepreneurs themselves were not well-known and neither the brand of the Gazelle, the entrepreneurs felt that it was hard to be perceived as legitimate in certain situations. Since the legitimacy was low, the entrepreneurs felt a need for adding high-profile names to the Board of Directors. The high-profile names were often recognized from the same industry as that of the Gazelle or from accomplishments within other industries.

To have high-profile names in the Board of Directors was seen as helpful by the entrepreneurs to create a buzz around the company and to attract both investors and employees as well as legitimize the company towards other external stakeholders.

#### *4.2.2.10 Mediate*

The mediate function of the Board of Directors in Gazelles was based on reported clashes between the founders in 2/14 Gazelles.

The reported clashes between founders had its roots in different personal agendas that got exposed as the Gazelle grew bigger. The divergence in the personal agendas was in one case that the founders had different personal goals and plans with the Gazelle in the future. One of the three founders had foreseen a profitable exit within a year, another wanted to keep the company but do other things on the side, while a third founder pushed for full speed ahead and continued rapid growth for many years. The matter became even more complex due to the fact that the founders owned fairly equal shares of the company. The Gazelle was subsequently driven in three different directions, simultaneously. The clashes between the founders led to severe managerial issues since the founders equaled the management team of the Gazelle. Growth and profitability came to a halt and employees started to get demotivated when the earlier enthusiasm from the owners shined with its absence. The conflicts escalated to the degree that the founders tried to get rid of each other. In another Gazelle the conflicts between the founders emerge as a consequence of the division of roles. All three founders wanted to act as CEO and while the founders argued the Gazelle lost pace and valuable time affecting its financial performance.

With this function the Board of Directors acted as a conflict solver and a mediator between the founders. External board members acted as independent parties to solve conflicts between the owners.

#### 4.2.3 The Number and Content of Board Tasks in Gazelles

From our study it was also possible to derive the actual tasks performed by the Board of Directors in Gazelles. According to our definition, a task is a specific assignment which is conducted regularly or just once by the board of directors. Each board function we identified was used to fulfill several different tasks ranging from 2-5.

According to our study, the number of tasks performed as part of each board function spanned between 2 and 5 in the Gazelles. The average number of board tasks was 3.5.

Looking at the underlying factors that collectively caused the pressures for change; we identified specific tasks of the operative board functions which mitigated each pressure for change.

The five tasks related to the organize function were: *introduce HR-systems, decide on benefits and incentive programs, introduce formalized processes, change the organizational structure and make roles and responsibilities more clear.*

<b>Organize</b>	<b>5</b>
<i>Introduce HR-systems</i>	
<i>Decide on benefits and incentive programs</i>	
<i>Introduce formalized processes</i>	
<i>Change the organizational structure</i>	
<i>Make roles and responsibilities more clear</i>	

The four tasks related to the expertise function were: *advice in HR-questions, advice when the company goes public, advice in law related questions and advice with finance related issues.*

<b>Expertise</b>	<b>4</b>
<i>Advise in HR-questions</i>	
<i>Advise when the company goes public</i>	
<i>Advise in law related questions</i>	
<i>Advice with finance related issues</i>	

The five tasks related to the guide function were: *advice in how to run a business, help the company avoid simple mistakes, help the company go abroad, advice in M&As and be a sounding board.*



<b>Guide</b>	<b>5</b>
<i>Advise in how to run a business</i>	
<i>Help the company avoid simple mistakes</i>	
<i>Help the company go abroad</i>	
<i>Advise in M&amp;As</i>	
<i>Be a sounding board</i>	

The four tasks related to the strategy function were: *install strategy tools, analyze long-term effects on decisions, keep track of the "bigger picture" and bring new ideas.*

<b>Strategy</b>	<b>4</b>
<i>Install strategy tools</i>	
<i>Analyze long-term effects on decisions</i>	
<i>Keep track of the "bigger picture"</i>	
<i>Bring new ideas</i>	

The two tasks related to the support function were: *be available and acknowledge progress and achievements.*

<b>Support</b>	<b>2</b>
<i>Be available</i>	
<i>Acknowledge progress and achievements</i>	

The two tasks related to the control function were: *keep track of the company's finances and keep track of the entrepreneur.*

<b>Control</b>	<b>2</b>
<i>Keep track of the company's finances</i>	
<i>Keep track of the entrepreneur</i>	

The two tasks related to the increase value function were: *make detailed protocols from board meetings and make the board work formal.*

<b>Increase value</b>	<b>2</b>
<i>Make detailed protocols from board meetings</i>	
<i>Make the board work formal</i>	

The five tasks related to the network function were: *attract employees, provide customer leads, establish relations with suppliers, use contacts abroad if needed and attract external investors if needed.*

<b>Network</b>	<b>5</b>
<i>Attract employees</i>	
<i>Provide customer leads</i>	
<i>Establish relations with suppliers</i>	
<i>Use contacts abroad if needed</i>	
<i>Attract external investors if needed</i>	

The three tasks related to the legitimize function were: *make the company recognized, establish relations with external actors and handle the external environment.*

<b>Legitimize</b>	<b>3</b>
<i>Make the company recognized</i>	
<i>Establish relations with external actors</i>	
<i>Handle the external environment</i>	

The three tasks related to the mediate function were: *mediate between founders, make owners sign agreements on paper and separate brawlers.*

<b>Mediate</b>	<b>3</b>
<i>Mediate between founders</i>	
<i>Make owners sign agreements on paper</i>	
<i>Separate brawlers</i>	

## 4.2.4 The Evolution of Board Functions in Gazelles

### 4.2.4.1 Multiple Board Functions

Our study shows that it is possible to have several operative board functions running simultaneously.

When we conducted the interviews in autumn 2013, every Gazelle had 3-5 operative board functions, depending on their experienced pressures during their development.

Gazelle	No. Functions
Company F	5
Company N	5
Company H	5
Company A	4
Company D	4
Company G	4
Company J	4
Company B	3
Company C	3
Company E	3
Company I	3
Company K	3
Company L	3
Company M	3

**Table 5** – Board Functions per company

As the table show, it was not a big divergence between the numbers of operative board functions in the Gazelles.

#### 4.2.4.2 Board Function Development Stages

The development path of a board function can be defined by three main stages: *non-existent*, *emerging* and *operative*.

A pressure for change drives the development of a board function in a Gazelle.



**Figure 1** – Board function development stages

##### 1. Non-Existent

According to our data, it usually takes a while before the entrepreneur realizes that things have to change. As long as the Gazelle grew the entrepreneur tended to just dig in harder than ask for help. 4/14 entrepreneurs mentioned that the CEO was the most important function when building a successful venture.

##### 2. Emerging

When the level of urgency reaches a critical point, the entrepreneur starts substituting or form the needed board function. We identified the critical point as the point in time where the Gazelles growth is in danger due to the pressure for change.

However, 5/14 entrepreneurs chose to turn to an informal advisory board at this stage to substitute the pressures. 2/14 Gazelles chose to reframe the working procedures of the Board of Directors to address a pressure for change, while 7/14 entrepreneurs chose to add the first external board member to the company. In the cases where external board members entered, they needed some time to address the pressures why the board function could be seen as emergent.

##### 3. Operative

The formalization process of the board function in the Gazelle is complete. The need or pressure is not substituted or under development but dealt with by a formal board member through the Board

of Directors. The entrepreneur knows where to turn for help with this problem and that the Board of Directors can assist in the matter.

#### **4.2.5 Change Atmosphere in Gazelles**

Studying the cases from start-up to date retrospectively gave us a chance to see the development of each board function. The development was driven by certain events and evolving needs due to the changing environment surrounding the firm. The needs were often minor initially but became more severe over time, because of the increased complexity connected to the growth of the company.

The reaction of the entrepreneur followed a different pattern. Due to the level of complexity and number of tasks the entrepreneur was faced with, the entrepreneur was forced to prioritize between problems. This had the effect that smaller problems often were down-prioritized to give room for the ability to address the bigger problems, e.g. in company G where a lawsuit required all available time of the management team, inhibiting all work with setting up a Board of Directors for several months.

Hence, it was only if the severity of a problem, i.e. its implications to the firm, reached a certain level that the entrepreneur actually addressed a problem. However, when acting, the entrepreneur could make quite drastic changes. An adjustment of the composition of the Board of Directors could be one form of such a change.

The actual process of prioritization between different problems was outside our scope but we noticed that if the problem had an influence on the turnover or growth of the company, it received more attention than otherwise. More specifically, decreases in growth or turnover caught the attention of the entrepreneur and initiated attempts to solve the problem.

#### **4.2.6 General development**

We collected data from the Gazelles from the following three periods <2006, 2006-2009 and >2009. The main time period is 2006-2009 where the Gazelles earned their Gazelle title for 2010.

The growth has in general meant a significant increase in personnel, turnover and profit in a short timeframe as well as relocation to a bigger office/warehouse, more customers to manage and a more complex supply chain. In a few companies it has also led to an intake of venture capital, separation from a founder, and more formalized working procedures. The early years of growth have been fast-paced with the founder(s) as a focal point, controlling every aspect of the company in person. The founder is usually involved in all major decisions.

Pressures for change	No. Gazelles	Required board functions
<b>PRE-GROWTH</b>		
Lack of experience	7	Guide
Lack of expert knowledge	4	Expertise
Lack of support	4	Support
Lack of structure	4	Organize
Lack of strategic overview	2	Strategy
Legislation (listed companies)	1	Expertise
Lack of legitimacy before potential future exit	1	Increase Value
Lack of "new blood"	1	Strategy
External capital (new owners)	1	Control
<b>HIGH-GROWTH</b>		
HR-issues	5	Organize
Lack of structure	3	Organize
Lack of expert knowledge	3	Expertise
Lack of networks	2	Network
Lack of high-profile names	2	Legitimize
Increased monetary risk	2	Control
Clashes between founders	2	Mediate
Lack of legitimacy before potential future exit	2	Increase Value
Unconsidered decisions	1	Strategy
Lack of support	1	Support
Lack of "new blood"	1	Strategy
External capital (new owners)	1	Control
<b>POST-GROWTH</b>		

**Table 6 – Pressures for change and required board functions**

#### **4.2.6.1 Pre-Growth**

When the companies in our sample started their journey the board functions were of low priority. The entrepreneurs were focused on growth and on running the daily operations. Four of the entrepreneurs clearly downplayed the role of the board when describing the early years of their company's life. In their eyes the most important function in the company, at least in the early years, was the CEO; the one driving growth. 11/14 Gazelles had a non-existent board functions in this period, only three companies had emergent board functions and two of them were founded in the 80s.

The pressures for change in this period were: lack of experience, lack of expert knowledge, lack of support, lack of structure, lack of strategic overview, legislation, lack of legitimacy before a potential future exit, lack of "new blood" and external capital.

Seven of the entrepreneurs felt a lack of previous experience of growing a business in this period and four felt that they lacked expert knowledge. The lacked expert knowledge was within law, finance and HR. Furthermore, four entrepreneurs lacked support and felt lonely in this period while four complained over a lack of structure. Two entrepreneurs complained of a lack of strategic overview, one entrepreneur mentioned legislation, one a lack of legitimacy for a potential future exit from the company, one a lack of “new blood” and one external capital as pressures for board functions.

#### **4.2.6.2 High-Growth**

During this high-growth phase the problems emerged quickly for the companies that had non-existent board functions when entering this period (11/14). One reason was the increasing complexity due to the growth of the company. In some cases, the founder/CEO found other ways to ease pressures than forming a board function. Some entrepreneurs (5/14) formed an advisory board, i.e. a substitute and more informal version of the Board of Directors. In the end of this period 6/14 Gazelles had emerging board functions while 8/14 Gazelles had operative board functions.

The pressures for change in this period were: HR-issues, lack of structure, lack of expert knowledge, lack of networks, lack of high-profile names, increased monetary risk, clashes between founders, lack of legitimacy before potential future exit, unconsidered decisions, lack of support, lack of “new blood” and external capital.

In this period 5/14 Gazelles had HR-issues, 3/14 felt a lack of structure, 3/14 felt a lack of expert knowledge, 2/14 Gazelles felt a lack of networks, lack of high-profile names, increased monetary risk, clashes between founders and a lack of legitimacy before potential future exit. 1/16 Gazelles had pressures from unconsidered decisions, lack of support, lack of “new blood” and external capital.

#### **4.2.6.3 Post-Growth**

The companies that entered the post-growth period (9/14) were found to have left the high-growth period and experienced a period of lower or declining growth. In some cases (3/14) the lower growth was a result of formalization processes. In two cases the organize function of the board dealt with the apparent lack of structure and lack of defined roles in the company which resulted in that the growth in the company came to a halt. In 2/14 Gazelles the growth leveled out due to that contract with clients ran out. In one Gazelle the declining growth figures was a result of the market being saturated and the company market leaders. In the remaining three cases it was impossible to define a certain reason for the decline in growth other than the company becoming more mature.

In the post-growth period, we didn’t find any pressures for change. The entrepreneurs seemed to be happy with the current status of their boards and more often talked about problems in the past. Problems we later identified as pressures for change in the pre- and high-growth phases. We

identified some indications that this was a result of the entrepreneurs overstating the performance of themselves and their companies when talking about the present situation. However, since the pre-growth and especially the high-growth period had so many pressures for change, it is likely that the pressures were still present in the post-growth period or were far less, since all companies had 3-5 operative board functions in this stage, at the same time as the growth declined and thereby also eased the pressures for change in this period.



## 5. Analysis

*This chapter discusses the results of the studies in comparison to the theoretical gaps found in literature.*

SMEs and Gazelles in particular have been identified as important in job creation and provision to the economic growth of society. Despite this, the research on the governance system in small companies has been studied to a very limited extent. Therefore, the purpose of this thesis was to increase the knowledge on the functions of the Board of Directors in small and medium sized companies and how these board functions evolve in a growing company. In the theoretical framework, we reviewed the existing literature related to this topic and stated that there is theoretical gap when it comes to theories on the function of the Board of Directors in small companies. By conducting a multiple case study on 14 Gazelles, we have constructed suggestions for new theory, which will be discussed below.

### 5.1 The functions of the Board of Directors in Gazelles

In our study, we have identified 10 board functions and 35 tasks related to these functions. Some of these functions could be related to existing theory on board functions in large companies.

#### 5.1.1 Identified functions in comparison to previous Board research

In the theoretical framework, we argued for that Gazelles and large companies are very different, not just in terms of size, but in terms of their corporate governance system, their traits, their conditions as well as the context they act within.

Given these differences, we assumed that the functions of the board of directors would look different in Gazelles compared to larger companies. Since the bulk of previous research on the board of directors has focused on larger companies, using the three dominating theories we identified in our theoretical framework, namely; *agency theory, resource dependency theory and resource based view*, we will compare the board functions we have identified with those already presented by previous researchers.

We were able to identify clear similarities between six out of the ten functions presented in the empirical findings and the three dominating theory streams within board research.

Board Functions in Gazelles	No. Occurrences	Existing Theory
Organize	12	-
Expertise	9	(Resource Based View)
Guide	7	(Resource Based View)
Strategy	5	(Resource Based View)
Support	5	-
Control	4	(Agency Theory)
Increase value	3	-
Network	2	(Resource Dependency Theory)
Legitimize	2	(Resource Dependency Theory)
Mediate	2	-

**Table 7** – Board functions in relation to existing theory

#### *5.1.1.1 Expertise, Guide, Strategy in connection to Resource Based View*

The board functions Expertise, Guide and Strategy can all be traced to the Resource Based View. The resource based view put focus on the firm's internal environment, in terms of its resources and capabilities. According to the resource based view the main functions of the Board of Directors is to set the strategies and complement the entrepreneur with regards to experience and knowledge in key functional areas (Gabrielsson & Huse, 2005). With our multiple case study on 14 Gazelles, we have found that entrepreneurs often lacked experience, expert knowledge and/or a strategic overview. It was therefore important for the Gazelles to compensate for these deficits by establishing governance mechanisms such as the Expertise, Guide and Strategy functions, which are all in line with the resource based view.

However, it can be argued about whether or not these board functions should be seen as the main functions of the Board of Directors in a Gazelle. By looking at the numbers showing the amount of appearances for each function, it is easy to find an argument in favor for the Resource Based View being the most important existing theory stream regarding board work. The functions connected to the theory were found in 9 (Expertise), 7 (Guide) and 5 (Strategy) unique Gazelles and was only topped by Organize (12). Certainly, the resource based view is relevant with regards to the functions of the Board of Directors in Gazelles.

The resource based view thereby also seems to be relevant both for larger firms and gazelles. One of the reasons behind this is probably that the resource based view neglects the risk of opportunistic behavior from the management, and therefore focus on other functions than surveillance of the Board of Directors. Since the owners of the Gazelles was represented both in the Board of Directors

and in the management team in 12/14 Gazelles, functions other than surveillance was more important for the Board of Directors.

#### *5.1.1.2 Network, Legitimize in connection to Resource Dependency Theory*

The Network and Legitimacy functions of the Board of Directors that we found in Gazelles can be connected to the Resource Dependency Theory on board of directors and governance. The resource dependency theory points out that the Board of Directors can be used to attain new employees, clients or suppliers, i.e. provide networks. The theory also mentions that such networks can legitimize the company with regards to external actors and the external environment.

As we predicted in our theoretical framework, our study shows that the Resource Dependency Theory is relevant also in the context of Gazelles. When the Gazelles lack networks and high-profile-names it can be problematic when trying to establish relations with clients, employees and/or suppliers. However, the Resource Dependency Theory was not as applicable as the Resource Based View. Only two Gazelles experienced problems with regards to networks and only two Gazelles experienced problems with regards to legitimacy. The limited occurrence is probably connected to the high amount of academic founders in the Gazelles in our sample (10/14). The university is a good place to build a network in and 5/14 cases, the entrepreneurs used an advisory board, which often consisted of old university colleagues. Another potential reason to the low occurrence in terms of the network function is the high number of Stockholm-based firms (9/14). Two entrepreneurs clearly stated that it is an advantage to live and work in Stockholm, since it functions as the business “Mecka” of Sweden. Since all the companies in our sample were Gazelles, the low occurrence of the legitimize function might be related to the increasing prestige connected to the Gazelle-award in Sweden which increases the legitimacy of all appointed Gazelles.

#### *5.1.1.3 Control Function in connection to Agency Theory*

The control function of the Board of Directors that we found among the Gazelles in our sample is rooted in the Agency Theory on board of directors and governance. Agency theory claims that the control function of the board is most central due to the principal/agent problem.

Our study shows that the control function of the Board of Directors was limited in Gazelles when the owner also was a part of the management team (12/14). Not surprisingly, the strong ties between the owner-board-CEO in these cases made the principal-agent problems minimal. Therefore, we hold that the importance of agency theory as a means of explaining the role of the board, which originates in the context of large companies, is low for ventures with ownership representation in the management of the company.

However, the agency theory became relevant in two of the Gazelles where external capital had been brought in. The new owners introduced control mechanisms into the Board of Directors and thereby into the governance system but did not have any part in the management of the company. Therefore they needed to establish control over the CEO. In two Gazelles the control function was requested from the entrepreneur despite the fact that no external capital had been brought in. This phenomenon was very different from the agency theory and the principal/agent problem since it in this case was the agent who requested the surveillance from an external part. It is however understandable since the agent in this case also was the principal and had nothing at stake when being controlled.

In sum, the dominant theories; agency theory, resource based view and resource dependency theory was found somewhat applicable to small firms. What stands out is that the need for the functions originated from agency theory was not required due to the lack of principal-agent problems and that the functions originated from resource based view; Expertise, Guide, Strategy, were the most frequently occurring in our sample apart from the Organize function.

#### ***5.1.1.4 Organize, Support, Increase Value, Mediate***

The remaining roles; Organize, Support, Increase Value and Mediate cannot be connected to the three dominant theories. Considering the fact that previous research on the board of directors mainly have focused on larger companies and that Gazelles have been given limited attention, this could indicate that the Organize, Support, Increase Value and Mediate functions are more common or unique to Gazelles compared to larger companies.

The organize function of the Board of Directors that we found in Gazelles had the highest occurrence in the Gazelles (12/14). The support function did also have a quite high occurrence (5/14), while the increase value (3/14) and Mediate (2/14) had lower occurrences.

Since our purpose was to construct theory that could be tested and adjust by quantitatively studies, this is an important contribution from our study.

## 5.2 The Evolution of Board Functions

Huse and Zattoni (2008) argued for a clear pattern regarding board involvement along the life-cycle phases: in the start-up phase, board involvement is in legitimacy tasks; in the growth phase, board's involvement is in advisory tasks; and in the firm crisis stage, the board's involvement is in control tasks. However, we actually found board's involvement in advisory tasks most common in the pre-growth phase, somewhat equivalent to the "start-up phase" discussed by Huse and Zattoni (2008) and we also found both legitimacy and control tasks in the high-growth phase.

### 5.2.1 Emerging pattern of needs rather than predictable development

In our study we have also identified important patterns in how board functions evolve connected to the growth of the company. We have suggested that an 'operative' board function evolves from being 'non-existent' by passing through an 'emerging' stage.

In addition, we have identified that changes in the composition of the board are initiated by pressures for change from inside or outside of the organization. While these pressures could be identified early by the entrepreneur and increase as a result of the increased complexity associated with growth, the entrepreneurs have to prioritize between problems due to lack of resources which often leads to down-prioritization of managing the government system of the company.

The change pressures emerged as the Gazelle grew and faced new sets of unique challenges. This finding therefore contrast, to a certain degree, earlier research that states that all organizations undergo very predictable and repetitive patterns of behavior as they grow and develop. Since the needs were emergent rather than predictable, the Gazelles could not foresee what waited around the corner. The emergent character of how the problems appeared also implied that it was difficult for the entrepreneurs to judge the severity of different problems that arise on the horizon and hence decide how important it was to address these problems, i.e. the need, to solve them by for example extending or changing the composition of the board or its functions.

The process of prioritization of problems among entrepreneurs was outside our scope, however we identified that if problems were looked upon as having negative effects on growth, they were usually prioritized.

### 5.2.2 Advisory Boards and other substitutes for board functions in Gazelles

In some cases the entrepreneurs substituted hiring a formal board member with the right qualifications for solving the need. One reason possible explaining this sort of action was that a group of entrepreneurs clearly downplayed the role of having a Board of Directors. Between the lines we could understand listening to the entrepreneurs that this group saw the Board of Directors as something used in large established companies and not in small and medium sized Gazelles. This

indicates that there was a resistance among some entrepreneurs towards bringing in others in the governance system. . Reluctant to bring others close to their own business, they rather consulted friends in a more informal setting.

### 5.2.3 The Definition of Roles and Tasks

As presented in the theoretical framework, contributing to exact the definition of roles and task goes outside of the scope for this study; instead we have presented our definition of these denotations.

## 5.3 Discussion in Connection to Theoretical Gap

Author	Theoretical GAP	Intended Contribution	Type of contribution
<b>Gabrielsson &amp; Huse, 2004</b> <b>Johnson, Daily &amp; Ellstrand, 1996</b>	The majority of the research has been focused on larger companies and the attention to board work in SMEs has been limited.	Generated testable theory on board functions (10 functions) valid in SMEs	Theoretical
<b>Machold &amp; Farquar, 2013</b>	There is disagreement about the number of board tasks, the content of these tasks and the precise definition of roles and tasks	10 roles builds on specific tasks, presenting suggestions for both number and content from 'best-in-class' SMEs	Theoretical
<b>Lynall et al, 2003</b>	It is not a question of if existing theories are helpful to our understanding of boards and firm performance but, rather, a question of when each theory is helpful.	Assessed the applicability of three dominant existing theories. RBV are helpful, Agency Theory less helpful.	Theoretical +empirical
<b>Gabrielsson &amp; Huse, 2005</b>	Requests for future research exploring how contingencies in and around SMEs could influence the development of board of directors and its function	Identified pressures for change, i.e. Causes behind specific board functions and how and why these functions evolve	Theoretical +empirical
<b>Gabrielsson, 2007</b>	Not much is known about the extent to which small companies change the composition of their boards of directors to meet changing conditions in the environment	Mapped changes in composition and connected these to changes in the external or internal environment. No benchmark to assess extent	Empirical
<b>Boeker &amp; Goodstein, 1991</b>	Far less is known about what conditions may actually promote or constrain organizational attempts to change board composition in small organizations	Lack of resources and problem overload constrain organizational attempts. Lack of belief in contribution of BoD. Showed process of change in composition; non-existent, emerging, operative	Theoretical

**Table 8** – Theoretical Gap and intended contribution

### 5.3.1 Theoretical and Empirical Contribution

As a response to the theoretical gap on board research in SMEs presented by Gabrielsson & Huse (2004) and Johnson, Daily & Ellstrand (1996), we have suggested ten functions that the Board of Directors has in Gazelles which could be quantitatively tested in future research in order to generate new theory on board functions in SMEs.

We have also identified 35 specific tasks and connected them to the 10 functions, which contributes and adds to sorting out the disagreement about the number and content of board tasks (Machold & Farquar, 2013).

Comparing the ten functions to the functions presented by the dominant theories used in board research in larger companies, we have identified the Resource Based View as helpful also in understanding boards in smaller companies. The agency theory was not helpful due to the lack of principal-agent problems. This adds to the research requested by Lynall et al (2003) on increased understanding of when each theory is helpful to our understanding of boards.

By identifying pressures for change, i.e. causes behind specific board functions and how and why these functions evolve, we have provided explanations to how contingencies in an around SMEs could influence the development of board of directors and its function, as requested by Gabrielsson & Huse (2005).

Likewise, by mapping changes in board composition in Gazelles and connecting these to changes in the external or internal environment, we have added to the theoretical gap presented by Gabrielsson (2007) on to which extent small companies change the composition of their boards to meet changing conditions in the environment. However, the word 'extent' also implies some kind of relative comparison, which we haven't done other than between the different gazelles. In connection to this, we have identified lack of resources and problem overload as constraining conditions of organizational attempts to change the board composition. Also, the lack of belief among entrepreneurs towards the actual contribution of the Board of Directors was identified as a constraint, which adds to the theoretical gap presented by Boeker & Goodstein (1991). We have also identified a process of how changes in composition evolve from non-existent to emerging, before becoming operative.

## **6. Concluding remarks**

*In this chapter we explain why our study is a valuable contribution to existing theories on the Board of Directors, Gazelles and the Evolution of New Ventures. Lastly we give suggestions for future research.*

### **6.1 Board Role Theories and The function of the Board of Directors**

Our study is a valuable contribution to existing board role theories. By studying the evolution of Gazelle companies, we have identified and presented various challenges that the companies in our sample faced and how the Board of Directors was used to solve these challenges. By doing this, we have also brought light over the use an entrepreneur can have of a Board of Directors.

In addition to the confirmation of existing board role theories, we have presented examples of additional functions of the board, e.g. conflict solving and organizing. This is a step towards solving the disagreement about the content of board tasks (Machold and Farquar, 2013).

By using a lifecycle approach, we have also connected our findings to specific stages of company development. This contributes to answering the question of when existing theories on board roles are helpful.

### **6.2 Studying the Context of Gazelles**

In contrast to the vast bulk of board research conducted within the context of large companies, this is yet another contribution to the increasing number of studies within the context of SMEs, and Gazelles in particular.

By using Agency Theory, Resource Based View and Resource Dependency Theory, we have contrasted and added to the already existing research (e.g. Gabrielsson & Huse, 2005).

We have also addressed the requests from researchers (Gabrielsson & Huse, 2005) to explore how contingencies in and around SMEs could influence the development of boards and the role of outside directors.

### **6.3 The Evolution of New Ventures**

We have presented the respective stories behind the evolution of 14 successful companies. By analyzing the sequence and meaning of events (Ambos & Birkinshaw, 2010), we have provided valuable empirical data for further research on the topic of evolution of new ventures.



We hope that the problem areas identified within the gazelles in our samples and their respective solutions can constitute as examples of how companies can overcome the increasing complexity that is a result of growth.

In the longer run, studies like this will hopefully lead to academic contributions that make the work of practitioners, such as entrepreneurs and directors, easier and more successful which will benefit the society in terms of wealth creation and economic growth.

## **6.4 Suggestions for future research**

Given that our sample only consisted of Gazelle companies, it would be interesting for future research to study if our results are found also in companies with less growth.

Furthermore, more qualitative research is needed on the topic of Board of Directors and especially in contexts different from larger firms.

The bankrupt, merged or acquired companies were excluded due to the limited scope of this study. However, it would be interesting, and potentially valuable, to study these companies with regards to the Board of Directors.

Moreover, to find the precise definition of roles and tasks in connection to the Board of Directors was outside the scope of this study. However, it is important for future of research on the topic to define and agree on how to separate between Roles and Tasks of the Board of Directors. We have contributed with a possible solution by adding the word function to try to make the distinctions even clearer.

The actual process of entrepreneurs' prioritization between different problems was outside our scope but would be interesting to study further.

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## Appendix I – Interview Pro-Forma

### Context

#### Personal Background

- Can you describe your carrier before starting at this firm?
- What form of education do you have?
- What was your role when you started at this firm and how has it developed?
- What is your present role at the firm?
- Do you have any experience from working in or outside the Board of Directors?
- How long have you been a member of the Board of Directors?
- How much time do you spend on average on board work?
- How has this varied historically?
- Do you see any outstanding differences from the present structure and function of the board compared to when you started working in/with it?

#### The Company

- How would you describe the culture in the company?
- How would you describe your industry?
- Why, do you think, has your company experienced high-growth?
- What is the owner structure?

### The Board of Directors

#### The Composition of the Board

- Which were the members of the Board of Directors when you started/it was formed?
- How has the composition evolved and why?
- What is the composition today and why?

#### The function of the Board of Directors

- What is the role/function of the Board of Directors in a company?
- What is the role/function of the Board of Directors in your company?
- How do you look upon this?
- Do you see any differences in the Board of Directors in a Gazelle compared to other companies?
- How do you work?
- Which major questions do you discuss?
- What is your personal role?
- What have you accomplished as a board member?
- Why were you included in the board?
- Which questions do you work with as a member of the board?
- How do you recruit members to the board?
- Which competence does the company demand from the board?

### **The evolution of the Board of Directors**

- Has your role changed during your time in the Board of Directors? How?
- Does your role in this board differ from your role in other boards?
- Which competence do the other members have?
- How has the composition changed over time?
- Why have members been included in the board?
- Why have members been excluded/left the board?
- How do you recruit new members to the board?
- Which competence is required from the board?
- Has this requirement changed over time?
- What are the reasons behind these requirements?
- Would you describe the phase of your company as start-up, growth or mature?