Boards in Family Firms
Board Member Choices and Recruitment

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Jönköping, May 2014

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Summary

The focus of this paper is to explore the recruitment process for board members, and board member choices in family firms in Sweden. It was found that the board member recruitment process is a field with low amount of research. This is the main argument upon the construction of this study. Previous research also argue that most family businesses are small, which increase the likelihood of finding firms without an active board, or with low professionalism in the board.

Through a case study, four Swedish family firms were interviewed in order to identify the board composition, board governance and board recruitment process at these firms. The firms represent different sizes, sectors, and stages of growth, being a small company with two employees and SEK 1.7m annual revenue, to a large company with 1200 employees and SEK 8bn annual revenue. These companies were then analysed through both the agency theory, and the stewardship theory, using previous research as foundation and support.

The findings show that the most desired board member characteristic are knowledge within the sector the firm is operating in, as well as trustworthiness. All of the interviewed companies saw their board as more of a function to advise the family, rather than to monitor the managers, and having extensive knowledge from the sector is of relevance when giving advice. The members of these boards were recruited using the networks of the CEO, or using consultancy firms to help finding potential members. Lack of trust was identified as a potential issue in board member recruitment, as the member will gain access to valuable information. This led to the obstacle of letting external members in on the board. This obstacle, however, is recommended to be overseen as all CEO’s that were interviewed emphasized the benefits of recruiting external members to the board, arguing that the benefits of having external members in the board outweighs the potential costs.
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I Introduction

As part of the strategic development and understanding of how business works, and with the goal of increasing the degree of the influence in boards, interest in the study of boards has increased in recent years. Without, or with limited prior experience, it may be difficult to establish a role in the board. At the same time, companies might have no knowledge of how the board work should be structured and what components are needed to get a positive exchange through the use of a board. Obstacles can be seen as hard to overcome, and the effort required to overcome these obstacles may seem too extensive to initiate a creation of a board of directors. With greater insight, entrepreneurs and owners of family firms might achieve greater success through their use of board members and board recruitment.

1.1 Family Firms

Family firms account for the majority of firms in a wide range of countries worldwide (IFERA, 2003). Further on, within these countries they account for a very important part of the economy, as they contribute to create both wealth and employment. There are many definitions of a family business. One of the most cited are the definition of Chua, Chrisman and Sharma (1999, p.25), that define family business as: “A business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families”. However, Van den Heuvel, Van Gils and Voordeckers (2006, p.476) developed and simplified this definition with three conditions. They argue that a firm is classified a family firm if “(1) at least 50 per cent of the shares are owned by the family, and the family is responsible for the management of the company, or (2) at least 50 per cent of the shares are owned by the family, the company is not family-managed, but the CEO perceives the firm as family firm, or (3) family ownership is less than 50 per cent, the company is family managed, the CEO perceives the firm as a family firm and a venture capital or investment company owns at least 50 per cent of the shares”.

As in all firms, family firms have three levels of command; Owner, Board of directors and the Top management. In family firms these layers are often comprised of the same individuals or at least individuals that are from the same family (Larsson & Melin, 1999). This
might explain the findings that boards in family firms place less focus on monitoring and supervising the management than boards in non-family firms (Larsson & Melin, 1999). Previous research have emphasised the importance of forming and implementing a board of directors to gain success in the family firm (Ward, 1988).

1.2 Board of Directors

The board of directors in family firms consist mostly of members of the family, their relatives and/or close friends to the family (Brunninge & Nordqvist, 2004). This most often occur when the firm perceives itself as a family firm and thereby create a strong emotional bond to the firm. Brunninge and Nordqvist (2004) explain that this can later on lead to a decrease in the opportunity for external board members to enter the board. Another obstacle concerning the creation of a board of directors is that, in particular, family entrepreneurs may be reluctant towards releasing the definitive control, as could be done when forming an active board (Johannisson & Huse, 2000). A board can, however, bring several advantages to the firm, such as problems that can be noticed at an earlier stage and thereby ensuring that the firm takes accountability, assuming that they have the necessary competencies to contribute with their judgement (Lane, Astrachan, Keyt & McMillan, 2006). In recent mainstream board research, the effects of board attributes, such as size, structure, and composition, have gained increasing importance (Brunninge & Nordqvist, 2004).

1.2.1 Incentives for Recruiting an External Board Member

There are several positive aspects to recruiting an external board member. As mentioned before, Anderson and Reeb (2004) argue that large shareholders can have a tendency to abuse their position over the minority shareholders and their part of the firm’s capital. This can be minimized or prevented by having a board of directors monitoring or advising the firm. External board members can also help to provide resources that the firm is in need of. For example, if an external director is a partner at a law firm they can provide legal advice, that otherwise can be very costly for the company to acquire (Daily, Dalton & Cannellla Jr, 2003). External board members are, according to Gabrielsson & Huse (2005), often defined as non-family directors. They can, however, have close connections to the business, either professionally or through ties to the CEO or family members.

External board members can bring further knowledge and experiences to the firm as well as monitoring and advising both the CEO and the company as a whole (Fiegner, Brown,
Dreux & Dennis, 2000). Fiegner et al. (2000) explain that many young companies have the tendency to hire a powerful CEO, and then have “paper boards”, or boards that have few or no governance functions and are established in order to fulfil specific legal requirements. In a Swedish context, this might be influenced by the fact that a “private limited liability company” is forced by Swedish law to have a registered board of directors (Aktiebolagslag, 8:1).

1.2.2 Difficulties of Including External Board Members

In their study, Brundin, Florin Samuelsson and Melin (2014) found that not all owners of family firms had the belief that a formal board of directors would bring any advantages. The respondents, however, realized that a board with an unclear role could cause several difficulties. Even if external board members can bring knowledge and expertise, family firms have a tendency to look for candidates internally. One reason for the limited trust of outsiders is the owners desire to protect the share of family wealth in the firm (Westhead, Cowling & Howorth, 2001). A further reason to the fact that family firms, or rather the owners, are hesitant to recruit external board members is that when people invest so much emotions, time and energy into something such as starting a company they tend to develop a certain feeling of possession. In the long run, this becomes an important part of how individuals identify themselves, or self-identity (Avey, Avolio, Crossley & Luthans, 2009). Based on these facts the decision to bring in an external party into the board of directors can be a very daunting decision for the owner, who might be concerned that they will somehow lose part of the firm or the control they have over strategic decisions (Gomez-Mejia, Cruz, Berrone & De Castro, 2011).

1.3 Composition and Function of Boards

Johannisson and Huse (2000) argue that there is generally a low amount of knowledge on the subject of how members are recruited to the board. This could most likely account for the previous notion by Brunninge and Nordqvist (2004) that the board of directors in family firms are predominantly composed of members or close acquaintances of the family. In order for a board to function well, the board needs to be an active board, and it also has to be functioning as a team. Another important factor is openness, which in turn allows information to better help the board work.
The fact that a board needs to be active is different from the concept of an active vs. passive board. In this context it refers to the work that the board does during and between the board meetings (Larsson & Melin, 1999). The board meeting is meant to be a forum in which the board members can communicate more easily and purposeful, resolve conflicts as well as ensuring the firms accountability (Lane et al., 2006). Another important factor for the board to function well is board composition (Larsson & Melin, 1999). The composition of the board is also important in order to fully access all of the resources that are incorporated within the board. By managing the composition of the board so that the members have experiences, skills, reputations and networks the firm can maximize the gain of having a board of directors (Blumentritt, 2006).

1.4 Problem

Depending on different regulations in different countries and how companies are set up, they might be required to create and maintain a board of directors (Faccio, Lang & Young, 2001). The board is the monitoring or advisory function of a company. It can work with long-term strategic implementations as well as crisis management. When considering the monitoring of a company, Faccio et al. (2001) discovered that without supervision, large shareholders, for example founding families, can and are actually likely to take advantage of minority shareholders’ part of the firm’s capital.

Some companies have a passive board, registered only due to legislations, while other companies use an active board for governance (Johannisson & Huse, 2000). Whichever type of board the company use, a recruitment of board of directors is needed. During this recruitment, the owner face two options, (1) recruit a family member or member of his extended family or (2) choose a person from his professional network that he does not have any family ties with (Johannisson & Huse, 2000). This can be a difficult decision, since there are both positive and negative aspects linked to both sides, also to the manner in which they are used (Johannisson & Huse, 2000).

The importance of finding the board members that will help the company progress have, as presented, been highlighted in recent years. But even though there are lot of research conducted both within family firms and board governance, there seem to be a lack of research on preferred board member characteristics and the recruitment processes in family firms.
1.5 Purpose

The purpose of the paper is to study the process of board member recruitment and board member choices in Swedish family firms.

1.6 Research Questions

The use of research questions will help to clarify the purpose. They will also help to address the central issues of this report as well as guide the reader through the empirical findings and analysis.

1. What board member characteristics are desired in family firms?
2. How is the recruitment process of board members carried out in family firms?
3. What common obstacles can be related to the recruitment of board members?

1.7 Contributions

This thesis will shed further light on the subject of board member recruitment and the processes accompanied with them, especially since there are limited previous knowledge and research regarding the recruitment process. The individuals responsible for recruiting members to the board of directors all seem to have their own ideas and methods concerning how this process should be conducted. The authors are confident that external board members, regardless of the firm size, can be of great value for family firms.

The belief that a firm has to spend large amounts of money to the board of directors in order to receive the necessary knowledge or competence is not necessarily correct. By offering other types of compensations than solely monetary, such as financing educational programs, both the firms and the members of the boards can benefit. By thoroughly weighing what some owners consider a risk, when recruiting and letting external members into the board, with the opportunity to receive knowledge and competence that otherwise can be difficult to acquire for a small family firm, the owners of these family firms may benefit significantly.
2 Theoretical Framework

2.1 Family Firms

Family firms come in many different sizes and types. According to research by Johannisson and Huse (2000), most of the smaller and independent companies are family firms, and most family firms are as well small. The management in these small family firms often coincide with ownership (Johannisson & Huse, 2000). Corbetta and Salvato (2004) describe three levels of command in the family firm; top management, board, and owners, in which the positions are filled with either the same individuals or different individuals, but from within the same family. This leads to less monitoring of management from the board than in non-family firms (Larsson & Melin, 1999). But not all family firms are small. Looking at international rankings, these show that large prestigious family firms hold important positions in the international markets. In 2003, 177 of the 500 biggest companies were family owned (IFERA, 2003).

Family firms have advantages that non-family firms sometimes lack. Carney (2005) argue that within Standard & Poor’s 500, family-controlled firms outperform professionally controlled firms. One aspect or reason for this might be that Bartholomeusz and Tanewski (2006) found that the risk profiles are different between family and non-family firms. Family firms tend to focus more on the overall value of the company, as a result of ownership, reputation and long-term interests, while professionally or non-family controlled firms tend to focus more on the value of equity.

Reports from IFERA (2003) show that family firms are the majority in many European countries. Portugal, the Netherlands, Belgium, United Kingdom, Italy, Cyprus, Finland, Greece, France, Sweden, Spain and Germany all consist of a share of 60% of family firms, or more. Within Scandinavia, the legislative frameworks are structured in a similar ways. In addition to this, research within Sweden show of similarities with the rest of Scandinavia when it comes to board of directors in small firms (Johannisson & Huse, 2000).

2.2 Theories

There are different theories trying to explain how the governance of family firms function. The agency theory by Jensen and Meckling (1976) is focusing on the relationship between the “principal”, which is the owner of the company, and the “agent”, corresponding to the
CEO or manager in this study. Stewardship theory on the other hand, is focusing more on the collaboration between the owner and the manager of a company. This also relates to empowering the managers when it comes to decision-making (Lane et al., 2006). Anderson and Reeb (2004) argue that while agency theory suggest that internally appointed board members are less effective in monitoring than external board members, stewardship theory suggest that the internally appointed members provide useful alternative perspectives.

2.2.1 Agency Theory

The board has the need to control the managers, because the managers’ and the shareholders’ interests can differ. It could also be to keep the managers’ interests under control (Bammens, Voordeckers & Van Gils, 2008). It is, according to agency theory, individual goals that keep managers motivated (Corbetta & Salvato, 2004). Agency theory is as well considered the dominant theoretical framework by management researchers, when it comes to understanding and explaining the relationship between managers and owners (Chua et al., 2003). They also argue that there is a difference in responsibility between appointed managers not owning the firm, and those owners who are managing the firm by themselves, where the latter will put more effort in watching over the firms’ affairs. Chua et al. (2003) also found that the separation of management and ownership causes concerns about the loyalty and commitment of non-family managers. Further concerns relates to the self-interest of the appointed managers, which with personal goals such as high commission, publicity and big settlements, might pursue goals not in line with the owners best interest. The solution to this is to construct “optimal contracts”, designed to realign the interests of the owners and the managers. This, however, presumes that the owners have control over the managers, which is possible only to a certain extent (Kosnik & Shapiro, 1997).

Jensen and Meckling (1976) posed a definition of the agency theory that has been widely cited since then. They define an agency relationship as “a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities, of the agent” (Jensen & Meckling, 1976, p.308).
Due to the focus on management in agency theory, a monitoring approach becomes important. The board’s role is to consider, among other things, compensation plans for the managers in order to keep both motivation and monitoring functioning (Lane et al., 2006). Monitoring is a central element in agency theory, which requires a separation of ownership and control (Daily et al., 2003). The effect agency theory can have on the board recruitment process is that owners might be concerned about recruiting external board members. This concern relates to members that may act in self-interest and thereby have lower loyalty and commitment (Chua et al., 2003).

### 2.2.2 Stewardship Theory

Stewardship theory holds a more collaborative approach, compared to the agency theory. The collaboration as well as the decision-making between the managers and the owners empowers the managers (Lane et al., 2006). In stewardship theory, managers and employees are not motivated by goals set on an individual level, but rather on the collective level, looking for what is best for the organization (Corbetta & Salvato, 2004). Separating the roles of management and owners might complicate how the strategy of the organization is shaped and executed, leading to inefficiencies (Braun & Sharma, 2007).

Due to the more collaborative approach within the organizations, boards tend to be more service-oriented functioning as an advisory board, rather than monitoring as in agency theory (Corbetta & Salvato, 2004). Daily et al. (2003) suggest that research within the assistance that the board of directors provide for managers, through advice and counsel, may yield more productive results than the focus on when the board of directors monitor over and control the managers. Blumentritt (2006) found strong relationships between advisory boards and the planning activities within a company. This might be since advisory boards do not always have legal standing, compared to a monitoring board of directors, which does. As opposed to agency theory, stewardship theory advocates a more collaborative approach between either managers and employees, or owners and board members (Lane et al., 2006). This would most likely allow firms to recruit based on their preferred board member characteristics in order to fully capitalize on the boards advisory function described by Corbetta and Salvato (2004).


2.3 The Composition of Boards

The board of directors can be constructed and used in several ways, both related to board size and the characteristics of the board members. Non-family firms have external members in the board, but for family firms there are incentives, such as emotional bonds, to limit the amount of external board members. Family members, close friends to the family, and relatives dominate family firm board compositions (Brunninge & Nordqvist, 2004). However, there has been much research on this subject, and studies are pointing to external members being value-adding for boards, even in family firms. Schwartz and Barnes (1991) asked CEOs for advice regarding the boards in family firms, and the most common advice was to make more use of outsiders. Lane et al. (2006) argue that some commentators believe that a board in the family firm context should consist of at least 50 per cent external board members, while other believe that the board only should consist of external members, apart from the CEO and chairman. Corbetta and Salvato (2004) support this argument and add that effective board characteristics are suggested to be relatively large, active, and external boards in family firms. However, the mix of the board can have importance as well. Upholding former contacts, building on long-term relationships and keeping a reputation may require a well-thought board composition (Blumentritt, 2006).

Lane et al. (2006) suggest four characteristics of board members. They should (1) be able to conduct open communication, (2) understand the risks and success factors in business, (3) be able to collaborate with the management team, and (4) be accountable for their actions. Corbetta and Salvato (2004) further suggest that the board members should provide advice, legitimacy, and information and support through their external networks. Different qualifications can be provided to the board as well in order to find diversity. Academic qualifications point to professors in universities or colleges, corporate qualifications refers to executives in other corporations, and financial qualifications correspond to financial or investment-related employments (Duchin, Matsusaka & Ozbas, 2010).

Schwartz and Barnes (1991) researched the subject of external board members in family firms and the level of satisfaction from CEOs. Their findings showed that (1) CEOs with external board members are more satisfied than those without external board members, (2) the more external board members the better, since external board members provide an unbiased view, accountability, and important networks of contacts, and (3) the more family members that existed on the board, the less overall value of the board. They also report
from a CEO that the worst thing an owner can do, in regards to the board, is to appoint friends and personal advisers. The second worst thing is to not have a board at all.

2.3.1 Board Roles

Different boards have different characteristics, and different characteristics are represented in a board. Larsson and Melin (1999) propose through a model that boards in general have four different roles. These are (1) to monitor, (2) to give advice, (3) to decide on strategies, and (4) to legitimate the company. Gabrielsson and Huse (2005) present other theories regarding board roles such as the institutional role, the strategy role, disciplinary role, figurehead role, ethical role, and auditing role. Duchin et al. (2010) also present four roles of the board; to (1) evaluate the CEO, (2) monitor and advice the CEO, (3) choose the successor of the CEO, and (4) evaluate projects proposed by management. But these different roles only deal with active boards. Some boards have a passive role, acting only to fulfil the legal requirements, being the result of owners and managers trying to avoid interference from board members (Brunninge & Nordqvist, 2004). Due to perceived lack of need, or no effort made, many small family firms do not have a formal board of directors, but instead use an advisory board. This, however, is not necessarily a bad thing. Research shows an association between advisory boards and better strategic decisions (Blumentritt, 2006).

Characteristics represented in the board are competencies such as law, operations, technology, finance and marketing, and preferably with active or retired CEOs. As long as the board consists of individuals with different competencies, the accountability of the overall board increases (Lane et al., 2006). More board members imply increased capabilities to detect problems. However, there can be too many members in the board. The most effective board consist of 7-12 board members. Too large board, and the firm value decrease, while too small board may lead to the lack of necessary competences (Lane et al., 2006). A too large board may also be less effective due to ‘free-riding’, and time spent on communication, negotiations and compromises during decision-making (Cheung, Chung, Tan & Wang, 2013).

2.3.2 Board Members

As previously mentioned, external board members can play a crucial role in the success of the company and of the board. Brunninge, Nordqvist and Wiklund (2007) found that having external board members is a more important factor than the size of the board when it comes to strategic change. Duchin et al. (2010), suggest that since external board members
are independent from management, it is more likely that they stand up to the CEO when needed. Gabrielsson and Huse (2005) describe the external board member as a person with close connections to the business. This could be the family attorney, a banker, or a friend of the CEO. They also highlight that experience and trust are features of great importance for the company, features that can be vouched for with a previous relation.

Gabrielsson and Huse (2005) suggest that firms are expected to recruit external board members for different reasons. One of the reasons can be due to its current setting. Boards with more representation of external board members are more likely than boards with more representation of internal members to recruit external members to the board (Duchin et al., 2010). They also suggest that what is important is not the number of members, but rather their qualifications. Carney (2005) further discusses the importance of social capital as an aspect of outsider recruitment. Even though a member may have years of experience, having the benefit of support from social networks providing the member with a high social capital increases the value of the member. Social capital is a value generator for companies as it reduces the transaction costs and the costs of information. Larsson and Melin (1999) argue that within family firms, external board members are more about strategic work and world around scanning activities than their internal colleagues. Westhead et al. (2001) also points out the objectivity that external board members can provide. Woods et al. (2012) argue that external board members offer a more independent view of what challenges the firm is facing, and as well the causes for these challenges.

Schwartz and Barnes (1991) build on this argument with their findings that the more external members on the board, the better, and the more internal members on the board, the worse. They also argue that the external members are of best help with “Unbiased, objective views, Accountability of management, Networks of contacts, Asking challenging questions, Long-term perspective and Setting executive salaries” and of least help with “Day-to-day operations, Issues of family conflict, Technical expertise and Very specific matters” (p.279). Brunninge and Nordqvist (2004) found that non-family firms are more likely to have external board members than family firms. External members often tend to get the role as the arbitrator in family firms as well, due to their objectivity and expertise (Bammens et al., 2008). Recruiting an external member can be essential for a family firm to reduce the risk of inbreeding. However, the recruitment of an external member may change the routines and requirements of how boards work (Johannisson & Huse, 2000). In Schwartz and Barnes’ (1991) study, the members of the board of directors were divided in-
to two categories; internal and external board members. External members have been previously explained, while the internal members, contained family members, close friends to the family, professional advisers, or past or present employees of the company.

### 2.4 Board Governance

Brunnenge et al. (2007) highlights the emergence of the field of study within governance, and that the field has become one of the most common within business and finance. They continue highlighting the interaction between the ownership, the board, and the top management of the firm. Westhead et al. (2001) highlights governance issues in family firms, and how much more complex it is in family firms, than in non-family firms. This complexity is due to the factors of family, ownership, and management, which non-family firms lack. This nature of board governance in family firms will therefore most likely be an influencing factor on the characteristics that family firms seek for in members for its board of directors as well as how the members are recruited.

Corbetta and Salvato (2004) suggest a number of main characteristics of board processes, as opposite to the board size and board composition that are considered as board activism. These are frequency of board meetings, the type and quality of information available to board members, the selection of topics on the agenda, and the time dedicated to board meetings. Having an active board is often the result within family firms, as external board members are included in the board (Brunnenge, & Nordqvist, 2004). Brunninge and Nordqvist (2004) also argue that many family firms remain passive due to the fact that many firms do not have a board with external board members. They continue to argue that an active board have more frequent meetings compared to the passive counterpart. Larsson and Melin (1999) add that non-family firms have a more frequent use of an active board than family firms.

Lane et al. (2010) question the standards that apply for the governance of firms. Family firms and non-family firms are different in their governance structures. Comparing companies in the Fortune 500 with smaller companies also show of a difference in structure. They continue arguing that many of the new rules that apply may be harmful for family firms since the rules may not be written for them. They also suggest more focus on the accountability both for the boards and within the boards, especially for family firms. Bartholomeusz and Tanewski (2006) found that the governance structures within family firms are different than those of non-family firms. Cheung et al. (2013) explain that the responsibili-
ties within the board, the management, to the shareholders, and the stakeholders of a firm, are what the system of governance address.

\section*{2.5 \hspace{1em} Board Recruitment Process}

Johannisson and Huse (2000) stated that there is little knowledge in the recruitment process of board members. Traditionally, they explain, the board was more of a training area for family members meant to be managers, and the recruitment was done among the owners. Johannisson and Huse (2000) suggest that even firms with a low share capital are advised to have a professional board, with or without external board members. This relates to what is previously stated by Schwartz and Barnes (1991), that the worst thing an owner can do is to appoint friends and personal advisers to the board, while the second worst thing is to not have a board at all. Duchin et al. (2010) suggest through their study that boards are constituted to maximize value. Information cost considerations also seems to be an important factor, and this puts pressure on the importance of board member recruitment.
3 Method

3.1 Methodological Choices

3.1.1 Research Strategy

The two main methods when conducting a research paper, is to either use a quantitative study or a qualitative study. The most commonly used way to differentiate between the two is that the focus of them typically is numerically or non-numerically. The numerical is the quantitative study and is more focused on numbers (Saunders, Lewis & Thornhill, 2009). This method sometimes tends to make the researcher more distant from the subjects of the study, since a common data collection method is postal questionnaires or hired interviewers. This fact can be seen as both beneficial and negative for the quantitative method, as the lack of connection with the research subjects occasionally is seen as beneficial since it decreases the possibility of bias. Quantitative researchers typically aim to generalize their results to the population that is relevant for the study, whereas qualitative researchers seek the understanding for behaviour and so forth in the setting of which the study is undertaken (Bryman & Bell, 2011). A qualitative study can instead be done in order to receive a more comprehensive understanding of the CEOs opinions, mindset and thought-process when they implemented the board and subsequently recruited the board members. This research will have a qualitative research method constructed by semi-structured interviews. The reason for this is that the study is exploratory since previous research is limited in this field of study. The qualitative approach will therefore allow the authors to seek better understanding for the behaviour involved in this type of decision, both in phase of data collection and further on the data analysis.

3.1.2 Research Approach

In western research there are two main and general approaches; the deductive approach and the inductive approach (Saunders et al., 2009). In addition to this is also the abductive approach that has gained importance (Kovács & Spens, 2005). The deductive approach build on researchers that formulates a hypothesis based on an existing theory, which they then scrutinize (Bryman & Bell, 2011). Deduction contains a number of significant characteristics, such as the search for the explanation of causal relationships amongst variables, the gathering of quantitative data (which does, however, not exclude the use of qualitative data) and the factor of generalization (Saunders et al., 2009).
The inductive approach is mainly a process where new theory is built and thereby is the outcome of research (Saunders et al., 2009; Hyde, 2000). This process begins with a set of observations in specific instances and thereafter seeks to establish a generalization concerning the phenomenon that is under study (Hyde, 2000). The development of the inductive approach came from social science researchers who became critical towards the approach that a cause-effect was created in between variables without gaining the understanding of how people interpreted the social surrounding. Research implementing the inductive approach is more likely to place a larger emphasis on the context in which specific events are taking place. Due to this, it may be more appropriate to study a smaller, qualitative sample, than a large number of subjects (Saunders et al., 2009).

The inductive approach is the predominant approach that Eisenhardt (1989) proposed in her article concerning the creation of theory from case studies. In her study, Eisenhardt (1989) proposes that theory is built from case studies, by starting as close to the real-life observations as possible and without initially considering theory associated with the field of study. In this approach there are also no hypotheses to test. When moving on to the phase of data collection, Eisenhardt (1989) states that researchers who are building theory typically combines multiple methods for data collection. A feature that is present within theory-building research is the frequent occurrence of overlap between data analysis and data collection. Yin (2009) takes a more deductive approach to case study research. Yin (2009) reasons that it is beneficial to use literature in the start of the study to narrow the key topic and then move on to closely examine previous studies that are related to the interest in question. After relevant literature has been found and the key topic has been narrowed down, there is generally a need to develop propositions for the research. This is the typical approach when the research is deductive, this does, however, not have to be the case if the case study is exploratory (Yin, 2009).

Based on this, both approaches proposed by both Yin (2009) and Eisenhardt (1989) will be present within this thesis. The deductive approach regarding that the findings will be examined and analysed based on existing theory rather than developing new theories from the findings of the study. The inductive approach will be represented in the quest for understanding why the situation is as it is.
3.2 Research Design

The case study is a research strategy that focuses on the understanding of the dynamics that exists within single settings (Eisenhardt, 1989). According to Yin (2009) case studies can be defined as being preferable over other research strategies when ‘how’ and ‘why’ questions are being investigated. It is also beneficial when the focus lies on contemporary events that the investigator has low or no control over, as well as having a real-life context (Yin, 2009). Since this thesis is based on a phenomenon from a real-life context and main focus lying on finding out ‘how’ the recruitment process of board members is addressed and ‘why’ the firms make these choices, the authors are convinced that the research fulfils the necessities for the case study approach implemented in this thesis.

This thesis uses an exploratory approach of case studies, and the reason for this is that there is currently little knowledge regarding the process of board member recruitment (Eisenhardt, 1989; Yin, 2009). The case study used is designed after a multiple case study, in which multiple cases are used to investigate the same phenomenon (Yin, 2009; Yin, 2012). In order to analyse the findings from the multiple case study, the cross-case synthesis will be used as the preferred technique. This specific analysis technique treats each case study as a separate study, the findings are then aggregated over a series of individual studies (Yin, 2009). When conducting the interviews for the case studies the authors divided the roles so that one author handled the interview questions whilst the other author recorded the interview and made observations. This results in the interviewer gaining the perspective of personal interaction with the respondent, while the other author maintains a different and more distant position (Eisenhardt, 1989). This can according to Eisenhardt (1989) increase the chance that the researchers view the case findings in different ways. With the help from Yin’s (2009; 2012) descriptions on how to design, preparing, collecting data and analysing case studies. The authors have gained valuable knowledge from this on how to design a well-designed case study.

3.3 Selection of Cases and Data Collection

3.3.1 Data Acquisition

When collecting data for a study there are two different types of data: primary and secondary. The latter can include both raw data and published summaries. Secondary data is, however, collected in the past and by another party. Most organisations, governments and con-
sumer research organisations store data concerning information of a numerous amount of areas, e.g. sales, size and official statistics (Saunders et al., 2009). The primary data used in the thesis was collected by performing semi-structured interviews on the CEOs at four Swedish family firms. The authors have not included any secondary data in the empirical findings of the thesis, this because the relevant data was collected during the interviews.

### 3.3.2 Case Selection

The authors interviewed four companies in order to collect the data for the case study used in the thesis. This final number of firms, four, was decided when the authors concluded that the interviews did not provide any new information, i.e. when the theoretical saturation was reached (Eisenhardt, 1989). According to Eisenhardt (1989) a good amount of cases is between four and ten. With this said there is no ideal or perfect amount of cases. However, if the amount is lower than four, it can become difficult to generate any theory with much complexity and might be unconvincing when regarding the empirical grounding (Eisenhardt, 1989). With an amount higher than ten the complexity quickly rises and it becomes difficult to handle the vast amount of data (Eisenhardt, 1989).

The first criteria when selecting the firms were that they fulfilled the definition of a family firm according to Van den Heuvel et al. (2006). The second criteria used for the selections were that the firm needed to have a board of directors. The selection of the companies to interview was made partly in collaboration with Almi Jönköping, which resulted in one firm. The remaining three were selected based on the previously mentioned criteria. The people that were chosen for the interviews from these companies were all in the position of current CEO for the specific company. This was done since this was the individual that was believed to have the most extensive and relevant knowledge concerning the board as well as the firms operations. None of the firms explicitly stated the need of being anonymous, this was rather done to prevent the occurrence of subject or participant bias. This was done in order for the participants to be able to answer as truthfully as possible, without having to consider any possible actions from their board of directors if the answer was formulated in a negative or criticizing way (Saunders et al., 2009).
3.3.3 Semi-structured Interviews

In order to gather the data the authors chose to conduct semi-structured interviews with the selected firms by using the interview guide (see appendix). A semi-structured interview consists of questions and themes from an interview guide that are to be covered in order to cover the purpose. When using a semi-structured interview some of the questions may, however, be excluded or rearranged depending on how the interview fits in line with the conversation, making the interview process more flexible (Saunders et al., 2009; Bryman & Bell, 2011). To fully explore the research questions, additional questions might be required depending on the specific organisation and interview context. This is helpful in scenarios where it is of importance to uncover the reasons or attitudes behind a decision taken by the participants, and as well their opinions; hence a qualitative interview is most likely more appropriate. When using this type of interview, the researchers will have the opportunity to further investigate the respondent’s answers and thereby receive additional explanations on the responses (Saunders et al., 2009).

The questions in the interview guide (appendix) were constructed based on the previously mentioned research questions. The types of questions that were used in order to develop the interview guide were; behavior questions, opinions and values questions, as well as knowledge questions (Patton, 2002). The first questions were regarding knowledge of the firm, i.e. the basic information of the firm, such as size (in terms of both revenue and employees), the year the firm was founded, and what roles the owner and owner family currently have.

The following questions were a mixture of behavior question and opinions and values questions. The questions regarding behavior examines what an individual does or has done in the past in order to elicit the behaviors, activities and actions that the observer would have been able to observe if present at the firm. Questions regarding the opinions and values have the goal to understand the way the interviewee think concerning a specific experience or issue. They also help the investigators to uncover information regarding people’s intentions, goals and expectations (Patton, 2002). Examples of the questions regarding opinions and values are the cost of maintaining the board, whether the board is seen as beneficial for the firm and the reasons behind the recruitment of the present board members, both internal and external. The questions were designed so that the authors could extract information concerning board structure, the decision-making process and recruitment process of the board members.
3.4 Research Reliability and Validity

When assessing the quality of research in a qualitative study, two important criteria are reliability and validity (Bryman & Bell, 2011). Reliability of a study refers to which extent that the technique of data collection or analysis of a study will yield consistent research findings if the techniques and steps are replicated (Saunders et al., 2009; Bryman & Bell, 2011). All of the interviews were recorded with permission from the respondent and later on transcribed. This procedure was implemented in order to minimize errors and potential bias.

Validity can be divided into three concepts: construct, internal and external (Yin, 2009). Construct validity is the process of developing the appropriate operational procedures for the concepts that the authors are studying (Yin, 2009). The authors have attempted to increase the construct validity by triangulation of evidence (Yin, 2009). Internal validity concern the means to which the findings and observations have a good match with the theoretical findings the researchers develop and present, also called a causal relationship (Saunders et al., 2009; Bryman & Bell, 2011) Due to this research being exploratory, the concern of internal validity is eliminated (Yin, 2009). The main type of triangulation that has been used is theory triangulation and to some extent investigator triangulation, which are two of the four types of triangulation. The remaining are data triangulation and methodological triangulation (Yin, 2009). Theory triangulation is when the findings from the interviews were evaluated by both agency and stewardship theory in order to receive two different perspectives (Patton, 2002). It is as well to understand if and how the different theories affect the authors’ findings and interpretation of these findings. Investigator triangulation is when several interviewers or observers are used in order to reduce any potential bias that can be associated with only using one interviewer (Patton, 2002), this was also previously discussed by Eisenhardt (1989).

External validity refers to which extent and how accurately the findings and results of a study can be generalized and thereby reflecting the phenomenon that is studied. The inability, or difficulty, to generalize these findings has been one of the major criticisms with qualitative studies and within studies that are conducted on a smaller amount of organizations (Bryman & Bell, 2011). The authors are aware of this issue and are therefore not developing a theory or guide for how board recruitment should be conducted; instead the process of board recruitment will be examined.
4 Empirical Findings

4.1 Company Yellow

4.1.1 Information About Company Yellow

Company Yellow was founded in the 1970s as a sole proprietorship. In present day the company employs 10 workers. Last years revenues accumulate to approximately SEK 8m. The founder is the father of the current CEO. The current CEO entered the firm in 2006, and she became a partner in the firm when it was restructured to become a private limited liability company in 2009. The CEO’s brother is also involved in the company and is responsible for the production process. He entered the firm in 2009 and became a partner in 2012. The CEO owns 34% of the firm while her father, as well as the brother, owns 33% each. Considering an eventuality that the father leaves the firm altogether, the CEO and her brother will split his share.

Growth has been an important factor for the company and a goal of doubling the turnover the following years have been set. The growth rate has been between 30-40% during the previous years. The founder of the firm is still involved in the business. He is, however, only involved with the baking processes when extra manpower is needed and not with the administration of the firm.

4.1.2 Board Composition

The active board was implemented in 2011, and one reason was that the CEO had started to attend educational meetings on board of directors and thereby created an interest for questions regarding boards and their function. Together with the founder, and what was to be the production manager, discussions regarding a possible implementation of a board began, since she realized that it would be a beneficial development for the firm. Prior to the formal creation of the board in 2011, the board meetings had consisted of the CEO and the founder meeting with the firm’s accountant. During what could be labelled an informal board meeting, even though they did not label it as a board meeting, these meetings were implemented to receive the competences that the accountant possessed. The CEO then started to build up an interest on questions regarding board of directors and how it could benefit the firm.
The current board structure consists of the founder, the CEO, the production manager and an external member while an advisor from Almi and the accountant have been co-opted to assist the board. The external member is also the chairman of the board. He was recruited to the position after being a mentor to the CEO during a previous year. Both the CEO and her mentor believed that this cooperation worked well, which lead to the mentor deciding to accept the position as chairman when offered by the CEO. When reflecting on the strengths of each of the board members, the CEO conclude that her brother who is the production manager is very good in questions regarding production, packaging and product quality. One of the strengths of the chairman is his knowledge within growth and production (this knowledge is from the industry sector). The accountant is naturally very good with questions regarding the economy and the advisor from Almi has extensive knowledge about the banking sector from prior experiences. The founder has mostly been included in the board so that he can be included in the decision-making process. These strengths are also the typical roles that the board members might have during the meetings. The CEO presents her role as presenting the current situation for the firm as well as providing preliminary strategies and doing preparatory work before the board meetings.

The cost of maintaining the board, excluding the founder, CEO and production manager, was estimated to be around SEK 100,000-120,000 the previous year. The CEO does not believe that many firms with a comparable size spends that amount on maintaining a board, but justifies it by the fact that they receive significantly better competences by doing this and sees it as an investment. According to the CEO there are many benefits of having a board. One is that more people are involved with the company and knows how it is run, which creates a sense of security for the CEO. Further on that she can contact the chairman, who is a chairman in five other firms as well, in case she would need advice on how to handle a certain situation, or just have a discussion of the potential issue that he might have come across before. The same might happen with the accountant if it is an issue or discussion that is more suitable to have with him. The only drawback that she can think of is that it can sometimes be more administrative work to prepare material and presentations before each board meeting. But she does not really consider this to be a very significant drawback. The next might be the cost, but this is seen as an investment for the future and thereby this is neither considered very significant. So the CEO concludes that there is no purely negative aspect of having a board of directors.
4.1.3 Board Governance

The board of Company Yellow has four scheduled board meetings per year. As the meeting structure has developed over time the board has decided to occasionally discuss certain pre-specified subjects during some of the meetings. These subjects can be strategy, five-year plan, and budget, among others. As an example, the meeting that is more focused on the budget tends to be scheduled in September. This structure and way of thinking is something that has evolved as the board and board meetings have been developed. When discussing each board members role during the meetings, these are mostly based on the competences that they were recruited on. That is, when closing the books on the previous financial year, the accountant has a greater role during that meeting, and he is also very skilled in comparing the financial situation of Company Yellow to other firms. This general structure of roles has been successful according to the CEO.

During the meetings, the first thing they go through is what has happened since the last board meeting. The following area is the daily reports from the weeks prior to the meeting and to examine how current orders and results are looking. After this, the budget is reviewed to see if they are in line with it or if changes have to be made. They then end the meeting with forecasts and strategies for the following periods. So in short, they start with a debriefing of the situation and then move to current issues that are facing them. The CEO also sends out reports on a monthly basis to its board. In excess of these four meetings, they have informal meetings. It should be stressed that not all members attend these at the same time. One reason is that it can be difficult to schedule a time where every member is available. An example of an informal meeting could be that the CEO and production manager meets to discuss situations that occur during production or the administrative work, things that can be solved before the next board meeting. But the formal board meetings are where they discuss the most important business issues.

When reaching the area of developing the skills and competences of the board members, the CEO remarked that the only type of competence development that they have worked with is to get the production manager more educated on how a board works, as he entered as a board member. This has been done in-house. Otherwise, no development has been done nor is planned, on the basis that they are pleased with the level of professionalism and current knowledge in the board. Neither do they have any form of quality checks implemented regarding the board members.
The CEO considers the board having authority to make decisions and not only function as an advisory board. If the company were not to use the competence of the board, she argues, the compensatory money would be a waste. Some decisions can be revised, depending on the prevailing situation. The decisions relevant for the board are for example the budget, the need of hiring new staff, change of bank or the need of raising the firm’s credit. If the CEO would oppose a decision taken by the board, she could in principle take whichever decision she deems fit anyway. However, since the CEO is a member of the board this situation is unlikely to occur. The decisions that the CEO can take without consulting the board are the matters regarding the day-to-day operations. If the matters are slightly larger, the CEO might consult with the production manager or contact one of the board members individually to solve the situation and then just inform the remaining board members.

There is no specific form of voting implemented in the board; if one member would disagree there would be a discussion until every member is satisfied.

The only large threshold occurred when the brother, i.e. the production manager, was entering the firm. The situation that arose was that both the founder and CEO had worked very hard with the firm since it was converted into a private limited company, with limited monetary resources. The CEO had put in very long hours and received a relatively low compensation. This created a dilemma when valuing the share of the firm that the brother would receive. This also made it difficult to reach a level where they felt that the situation was fair to all parties, as it is both a business as well as a part of the family. Overcoming this barrier led to an increased confidence in both the advisor and accountant, as they helped to solve the situation. The main issue was not that they had a disagreement, but rather that they wanted the outcome to be fair in every way.

4.1.4 Board Recruitment Process

The CEO’s opinion on why the members had been recruited was that it has come naturally with each of the relationships. The accountant was an obvious choice due to his economical knowledge. The advisor had previously had a very good and well functioning relation with the firm and they wanted to complement their own knowledge and competences and felt comfortable doing this due to the prior relationship. The chairman was also recruited based on a mix of competences and a good working relation. Both the chairman and the advisor from Almi originally created a relation with the CEO, which then led them to the phase of building a relation with the production manager and the founder. The CEO be-
lieves that it is important to know what the role of the board is and that you as an owner of
the firm have the authority to appoint and remove members of the board. The board still
has some way left to go and strive for one, two or three more external board members.
However, at the moment, the board is composed of a good mixture of members. With this
said, they did receive a boost when they brought in an external chairman. As previously
mentioned, one of the main reasons to the recruitment of these particular members was the
relationship they had built with the family in control of the firm.

The most recent recruitment to the board was the chairman, which mentored the CEO for
a year prior to being offered the position. This has, according to the CEO been an almost
perfect fit to both the board and the firm itself. This is due to the wide range of knowledge
and competences that he can bring to the firm. The success of the recruitment is also ac-
credited to the fact that he fits very well into the firm and enjoys this position, which adds
further commitment. The CEO believes that the optimal board size for the firm would be
6-7 members, which they currently are if accounting for the Almi advisor and the account-
ant.

In order for a recruitment to be attractive at the moment, there would have to be a lack of
competences in a certain area that is being discussed or investigated. After this lack of
competences has been found, the available networks would be used in order to find a sui-
table candidate. This candidate would have to possess both the sought competences as well
as a good fit with the firm and its business. There is to date no current ambition to expand
the board within the next year or two. This is according to the CEO since the chairman has
only been in this position for a year and could need further time to adjust and settle in to
the way the firm does business. The only reason to recruit within these two years would
most likely be if one of the members decides to leave.

When asked what the current dream member would look like, the CEO replied that she
would like a person with a higher degree of customer focus and with knowledge of retail
selling since this is something that they are currently working with. Another important
quality the dream member should possess is the ability to handle the group dynamics asso-
ciated with a family firm.
Company Green was founded in 1982, through an acquisition of an existing company. In present day the company employs approximately 1200 workers, which include all fifteen subsidiaries within the company. Last year's revenues accumulate to approximately SEK 8bn. Company Green is an international actor, working on several markets and within several segments. The current CEO, as well as founder of the company, currently owns 60% of the company. His daughter owns 20%, and is the CEO of one of the subsidiaries as well as a board member in the company. His son owns the other 20%, and has the role of a board member in the company. The family’s role and presence within the company is strong, and since no external owners exist, it is the family’s willpower that pushes the company in the direction of their choice. Since the holding company holds so many subsidiaries, the main focus of the board is to set the directives and choose the big investments for further development of the company.

Board Composition

Since the start in 1982, Company Green has had an active board. The choice to start the firm with an active board comes from previous experience of management from the founder. The CEO describes the board as more of an advisory board since the founder and CEO is the same person, and hence their interests overlap. In comparison to a public company, where there are several owners that might interfere or not match with the CEO, a monitoring board would make more sense. Apart from the family members, the founder/CEO, the daughter and the son, three external members are part of the board. As the company’s structure is segment based, the two segments, markets and industries need to be represented in the board. The external members provide this knowledge. Each subsidiary has its own board to function closer to its customers and market needs, also consisting of external members.

The CEO also emphasizes the importance of professional relationship to the external members of the board. To use the external board members as independent advisers it is important to separate them from the personal sphere. None of the external board members hold another position within the company, which further distances the external board members from the day-to-day operations of the company. In general, each of the subsidiary-
ies’ boards consists of four to five members. However, the focus of this case is set to the holding company referred to as Company Green, which currently consist of the six board members, where one of the external board members is the chairman. Company Green currently consists of only one woman, the daughter of the CEO, and of no international members, which is expressed as something that definitely could be improved to help with the diversity of the board. The annual cost of the board accumulates to about SEK 0.5m, a fair cost considering the benefit, according to the CEO. Further on, having a board of directors is of great importance, and that applies for all companies independent of size. It takes time, but when done right, the reward outweighs the costs. The benefits of having a board are according to the CEO primarily as feedback. He adds and points out the importance of having a well-informed board. A drawback of having a board is not as easy to identify.

4.2.3 Board Governance

During the progress of a year, four meetings are planned. The first meeting, in February/March, focus specifically on the annual report, with the accountant present. In May/June, the focus is more set on working with the business plan, and looking at the market situation. The September meeting address the production situation, and decides the business plan, while the November/December meeting concludes with setting the budget for the coming year. During the September meeting, the two board members with competences within the industry have a more prominent role, as the board member with market knowledge is more prominent during the May/June meeting. More meetings may be planned throughout the year, depending on the needs of the company. The strategic plan normally stretches three years ahead, and is revised once a year.

Internal control and governance programs are set up to help all the boards within the company. There is also a guidance system to help the CEO’s address those issues of most relevance for both the subsidiaries and for Company Green. The board of Company Green consists of highly professional board members, who have commitments to other companies as well. This put pressure on the involvement in Company Green, keeping up to date with changes and information, something that they handle smoothly. Despite this, the board evaluates themselves once a year, and thereafter tries to assess the work they do as a team, how they can take the next step as a board and a team, and whether the CEO’s in the
subsidiaries are competent enough. This also helps support the CEO’s in their work and in internal dialogues within the company, and gives a more professional touch to the work.

The board in Company Green holds an advisory role. However, the decision-making in the board is, for larger decisions, something that is done in unity within the board. The CEO has, as the role of the majority owner, the last word in each decision. The board members are recruited based on their competence, and their opinions are of the highest value for the CEO, who adds that the board has yet not failed to reach consensus, implying that voting has not yet been necessary for decision-making.

4.2.4 Board Recruitment Process

The current external board members have all been recruited using a consultancy service. Together with his children, the CEO of Company Green constructs the requirement specifications for the needs of the company. The consultancy service then finds candidates that fit the specified needs, and present the candidates to the family. From this point, evaluations and interviews are done similar to any recruitment process. The consultancy firm have provided strong candidates, and so the same firm has been used for many recruits, even for CEOs to subsidiaries. What the consultancy firm struggles with providing, however, is the personal fit with the family, which is one of the reasons for its involvement. The CEO emphasize the importance of constantly renewing the board to keep the company changing and moving forward, resulting in the five to six years that the external board members stay active in the company.

The CEO of Company Green stated that the company currently hold six board members, which could be one too much. The board currently have two members who both have a specific focus on the industrial segment of the company, which at the moment may seem as one too much. One of the reasons for this is that the operational work is done within the subsidiaries, and not in the holding company. The company is currently recruiting a board member for one of the subsidiaries, and the CEO describes Sweden as small enough to consist of networks, which makes external references useful. For their most recent recruitment, a CEO in one of the subsidiaries needed replacement, and again, the company made use of the consultancy firm. After the candidates were selected, a working group consisting of the company CEO, the son, and the CEO to be replaced selected the new CEO, a recruitment of great success so far. The CEO has also realized that the size of the company is making a centralized structure difficult, since the different segments require great
knowledge from the holding company. Instead, the company has decentralizing the management, making the subsidiaries stronger and their management teams provide the opportunities for managers to grow through accomplishments.

The dream member, according to the CEO, is someone who holds knowledge and experience from an investment group. Such recruitment was close to a deal, but had to be cancelled since the potential member could be placed in a position with a conflict of interest.

4.3 Company Blue

4.3.1 Information About Company Blue

Company Blue was founded in 2009, as a result of changes in the founder’s life. In present day the company employs two people, with only the founder, who is also the CEO, and with one other employee. Despite this, last years revenues accumulate to approximately SEK 1.7m. As the company is considered a consultancy firm, the company is dependent on the brand, both of the company, as well as the personal reputation of the CEO. As the company grows, the contacts and reputation grow, which help the business progress. Apart from the CEO, two sons are part of the company with their roles in the board. He stated that they have known him all his life, and knows his strengths and weaknesses, which is a beneficial situation for him. Family can also be more open in their criticism, which together with the other board members help balance the development of him and the company. The CEO is the sole owner of Company Blue.

4.3.2 Board Composition

The active board was founded around 2012, and currently has three board members and one replacement. The board was created as the CEO found it a convenient and relevant way to help pushing the company in the right direction, being supportive in setbacks and driving in success. The CEO of Company Blue is also the owner and has made the decision to not be a part of the board. The board currently has two internal board members, the owner’s sons, who are otherwise not involved in the company, and two external board members that had a prior relation with the CEO. The strengths of the first external board member are related to prior experience in managing consulting firms and her being a good sales woman. She is the chairman of the board and has together with the CEO created SWOT-analyses and is helping to strategically move the firm forward. The other external board member has good knowledge within the healthcare sector and has the ability to dis-
cuss both fundamental values and more care-related issues together with the CEO. The first son has a good analytical skill as well as knowledge in questions regarding accounting, while the second son is more visionary and more focused towards product development and innovations. Company Blue has had a recent withdrawal from its board, due to that the person entered several larger boards and was concerned that he would have a conflict of interest. This person was originally placed in the board since he was the CEO’s mentor and an advisor from Almi, in order to gain valuable knowledge concerning boards and competence development.

The annual cost of the board for Company Blue is around SEK 22,000-23,000. This amount, however, only covers the surrounding expenses. Company Blue does not compensate the board members, and the board members have not yet made any claims regarding compensation. So according to the CEO this is an investment that is worth the expenses, since it provides a significant increase of competences and knowledge to the firm as well as support for the CEO when making decisions.

4.3.3 Board Governance

The board has quarterly board meetings, but will schedule extra meetings if this is deemed necessary. The board at Company Blue also have set topics that are discussed at certain meetings. Currently, there is no decision regarding when these topics will be addressed, but an annual wheel is constructed to plan ahead on this issue. The company is young and in constant change, so the topics are based on the current need for the company. During these meetings there is an agenda which is discussed at each meeting and that is sent to the members prior to the actual meeting. The ambience during the board meetings have been, what the CEO expresses as “laid-back”, since they meet for lunch and dinner in combination with having the board meeting. Informal meeting do occur as well, and those are primarily with the chairman. These meetings consist of delegating responsibilities and work. In order to fully take advantage of the competences the board members possess, the CEO tends to distribute certain questions to specific members that have a greater competence in that area.

Currently, no evaluations or quality controls of the board members are conducted. However, in the role of the owner this would be interesting to examine. There is on the other hand a plan to develop the board members skills with the help of education from StyrelseAkademien, which is a Swedish member-based organization that works with education of
boards. Company Blue will cover the cost for this education. To further develop the board work, a quality policy has been developed and an environmental policy is in the process of being developed.

The board of Company Blue has the role of an advisory board, since the power balance is not perfectly equal as the CEO and owner is the same individual. The board has power over the CEO and the owner has power over the board, which makes an interesting scenario since the CEO can remove the board if he is not satisfied with the outcome of their work, in the role as the owner. The decisions that are taken in the board concern larger financial decisions, as well as the strategic development. So far, all decisions taken in the board have been taken in consensus, and voting has not been necessary. It is also informed about new customers, new assignments and the possible employment of new employees. The decisions that the CEO takes without consensus from the board are day-to-day decisions, as well as sales and agreements with customers. The board is briefed on some of these decisions afterwards but not involved in them.

4.3.4 Board Recruitment Process

The external board members were primarily recruited based on a trusting relationship with the CEO, as well as having the requested competences. The sons were offered their positions since the CEO believed that this would be a valuable experience and that they possessed good competences. In excess of the two sons, the other board members have no direct relation to the family, but knew the CEO prior to being offered the positions.

The CEO’s plan is to fill the fifth position and later on, if Company Blue grows, increase the board size to seven members. The current situation does, however, not require the recruitment of a new member to the board. This is due to the fact that the individuals that were initially approached with the offer of becoming a board member are still present within the board with the exception of one. There has to date been no explicit need to recruit another board member to fill this place. This is, however, something that the CEO has been contemplating over and he has people in mind that possess the attractive competences. This is on the other hand not the only reason for recruitment. The CEO also wants to see a sustainable and trusting relation with the potential board member before offering a position on the board.

The current dream member for Company Blue is an individual with a larger and more extensive network within the same sector as the company is currently in. When examining
potential recruits, the CEO is looking for someone that is different from the current board members and thereby can bring different competences. Another important aspect to take into consideration when hiring is the availability to new networks. When contemplating over a potential recruitment and the process, the CEO would create a requirement specification of the position. The CEO stated that he realizes that he has high demands on the possible candidates, since he wants to know how they can contribute. So preferably, the person has previous experience from other board work, and the most attractive experience would come from a national level.

4.4 Company Red

4.4.1 Information About Company Red

Company Red was originally founded in 1968. The firm has since then been through a number of phases. Initially company Red started in 1968 as a production company. The company was later sold to a Danish group, which filed for bankruptcy in 1990. This lead to the decision to buy back the company, and in 1992 Company Red started its journey as the company it is today. However, in 2005/2006, all production was closed down, and the company choose to work solely as a trading company, outsourcing all production mainly to China and Thailand, but also to some extent to Lithuania and Poland. In present day the company employs ten people. The CEO, his father, and as well the CEO’s wife, are all active within the firm while their two children occasionally work at the company. The children are mainly helping out during the summer vacation from school. Last years revenues accumulate to approximately SEK 50m. The father of the current CEO is the founder of company Red, and today the founder holds a part as a board member and works with customer relations. There is however only one owner today, and that is the CEO.

4.4.2 Board Composition

The decision to implement an active board in the company is the result of a series of events that occurred during the time of restructure in 2005/2006, when the company stopped producing and focused on trading instead. The company had a deal with one of the customers that required an investment from the company, involving building another warehouse. Unfortunately, at this time, the company was low on cash and the bank was not willing to grant a loan to the company in order to build a warehouse since that means tying up the capital. After insisting and pushing for a change, an agreement was made between
the company and the bank to put an external member, a person the bank trusted, on the board for Company Red. This was a positive change both for the bank that became more comfortable in the relation with the company, as well as for the company who received the knowledge and experience that they sought in order to become more professional and to think more strategic about the business.

The board consists of four members. The external board member holds the role as the chairman of the board, while the CEO and his father, the founder, are board members. Other than these three, the CEO’s wife hold a position in the board, even though it is a passive role, not participating in board meetings. Even though they are only three active members of the board, they balance their competences effectively. The father is an entrepreneur that enjoys the customer relations, while the CEO holds the day-to-day operations, make calculations and follows up on budgets. The chairman is trying to balance the strategic goals with the operations from the CEO and the capabilities of the firm. The CEO add that he feel motivated by the external chairman, as the chairman keep pushing the CEO towards new goals and further development. The chairman has had a significant impact on Company Red. Previous internal conflicts between the CEO and his father, the founder, are more easily attended with the perspective and expertise provided from the chairman. The father felt comfortable as the chairman was his age, which meant a great deal to him, and the CEO became more comfortable as the chairman had the experience of the strategic decisions. The current annual cost of the board is approximately SEK 50,000, which according to the CEO is a price that is outweighed by the benefits of having a board.

### 4.4.3 Board Governance

During the first years, Company Red had monthly board meetings. This has now changed to quarterly meetings, as the company has stabilized after the reconstruction. During the recent years, after the reconstruction in 2005/2006, and after adding the external member to the board, the company strengthened its focus on strategic issues, constructing goals, budgeting and following up results. The atmosphere got more professional, and the CEO got more confident in the decisions since they were better established in figures. Come July and the company estimates the prognoses, and during the November/December meeting, the company conducts its preliminary financial statements. This process helps the company balance its cash flows and avoid the surprise-effect that may occur in March, when the last year’s numbers are presented.
The meetings consist of discussions regarding monitoring of results, forecasts, budgets, cash-flows, markets and market shares, and following up on previous decisions. Once a year, a SWOT-analysis is conducted to assess the changes in the market and for the company. The board have also constructed a Code of Conduct for their suppliers, a way to ensure that the business stay ethical and live up to certain standards. The product development is not a segment within the knowledge of the chairman, which makes the discussions regarding the product development become more informal, with only the CEO, his father, and their sales representative involved. Even though having a board of directors is demanding and puts pressure on the CEO, the time spent working with the board is time well spent. Both the support and the perspective in running the business are enhanced through the board. Despite the influence of the external board member, the board is more an advisory board rather than a monitoring, as decisions taken are made by the CEO. In the board, discussions regarding future strategies are discussed. The CEO then decides these strategies, which means that the CEO has authority in decision-making. The day-to-day decisions regarding customers and deals are taken without the board’s knowledge.

### 4.4.4 Board Recruitment Process

As previously mentioned, the external board member who is also the chairman of the board, was recruited through a deal with the bank. This is also the only external member in the board. The CEO believes that an expansion of the board could be beneficial, and emphasises the importance of knowledge from their customers; the stores selling their goods. Increased understanding about this could help in pricing, finding demand, creating demand as well as simplify the communication. The problem is that it is difficult to find this resource, as most stores in the local market are customers of Company Red, and due to that they do not want an existing customer as a member of the board. At the same time, this knowledge needs to be up to date in order to be relevant. It is therefore difficult to recruit someone who has been away too long from the business. The CEO adds that it might be helpful if this potential board member also were a woman since, he argues, women see their products with different eyes, and this could add a valuable perspective to the board. Adding this competence to the board of directors would most likely also bring the topic of product development from the previously mentioned informal meetings to planned strategic board meetings. A limitation for the CEO is the knowledge of how and where to recruit.
5 Analysis

As presented in table 1, all the companies that were interviewed claim to be family firms. The CEO of Company Red acquired his place in the company through a family succession. Through this succession, the CEO is now the only owner of Company Red. Company Yellow follows on the same path, as she is the CEO in the company her father started. In this company, there are three owners, all within the family, but with the CEO as the majority owner. In Company Green, the founder is still the CEO, but has brought in his children to the board and to management positions, as part of the succession planning. He shares his ownership with the children, but stay the majority owner of the company. Company Blue is still a relatively new company, but can still be considered a family firm, with the CEO as the founder and sole owner of the firm, and with two sons in the company board. All of the companies have their majority owner as the CEO of the company, being responsible for the day-to-day business. There are also big differences in the sizes of the companies, both seen in sales, and in number of employees.

Corbetta and Salvato (2004) described the three levels of command through the top management, the board, and the owners, and that these positions tends to be filled from the same individuals, or different individuals from the same family, which is the case with these companies. In the definition by Van den Heuvel et al. (2006) of a family firm, all of the companies fall under category one, as they all are 100 % family owned, and family managed.

<table>
<thead>
<tr>
<th>Company information</th>
<th>Company Yellow</th>
<th>Company Green</th>
<th>Company Blue</th>
<th>Company Red</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of employees</td>
<td>10 workers</td>
<td>1200 workers</td>
<td>2 workers</td>
<td>10 workers</td>
</tr>
<tr>
<td>Sales</td>
<td>SEK 8m</td>
<td>SEK 8bn</td>
<td>SEK 1.7m</td>
<td>SEK 5Gm</td>
</tr>
<tr>
<td>Majority owner = CEO</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Number of owners</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Founder still active</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Family firm</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Table 1, company information.*

5.1 Board Composition

Brunninge and Nordqvist (2004) argue that family firms tend to have active boards, which is also the case for the companies interviewed. A passive board would on the other hand imply that the owners would have signed a board as a legislative function, rather than as in an active board, use the function of the board and the competences it can provide. They also add that this is related to whether the company have external members in the board or
not, something that all the companies in our findings have. What can also be seen is that all companies have an external chairman of the board. This could further strengthen the arguments of Brunninge and Nordqvist (2004). In all cases but one, for Company Blue, the CEO and founder are also board members.

As presented in table 2, the board in Company Red consist of four members, where one is external. Company Green has six members, with three external members. For Company Yellow, the board is constructed with four original members, where one is external, and with two extra external advisors that are not formally on the board. Company Blue has four board members, with two internal and two external members. As Lane et al. (2006) argued, a board should consist of at least 50 per cent external members, where only Company Red fail to fulfil this qualification.

What is also of relevance is the cost and benefits of having a board. The companies report annual costs of approximately SEK 23,000, SEK 50,000, SEK 120,000, and SEK 0.5m respectively for their boards as can be seen in table 2. They also express that the benefits of having a board outweighs the costs for it. Cost can be measured in both financial terms, as above, or in time. The benefits can be extremely valuable for the firms, depending on what each member can contribute with. Carney (2005) discuss the social capital that members can contribute with, and the importance of social networks. This is something that the CEO’s interviewed has also found, and is one of the main reasons for them to recruit the external member(s).

All boards identified no significant drawback of having a board, implying they are satisfied with the decision to compose a board. This is something that they also explicitly express, and use different arguments for their benefits of the board. Company Yellow find the board contributes with increased involvement in the governance of the firm, as well as managerial and strategic support to the CEO. Company Green argue that the board need to be informed, and that the contribution when being informed primarily relates to feedback in decision-making. Company Blue feel that the board add a significant increase in competence and knowledge at a low cost, which is clearly expressed as the board members are not being paid for their service, but instead compensated through education. Company Red argue for an increased experience in strategic decisions. A minor drawback argued by the companies might be the cost of having a board, but all of the companies feel that the benefit of having a board outweighs the costs.
Brunninge et al. (2007) highlights the interaction between ownership, the board, and the
top management of the firms. Having to consider the family in the work with the board
makes both communication and decision-making complicated. The CEO of Company Red
describe situations where arguments and discussions occur between him and his father that
the external member sometimes need to resolve. The CEO of Company Yellow explain
similar situations, in discussions with her father regarding the implementation of an exter-
nal member. The CEO of Company Blue on the other hand use the honesty and
knowledge from his sons as a tool to achieve straightforward and relevant feedback. All of
the companies use informal meetings as a way of governance. However, the topics dis-
cussed in these informal meetings differ from those of the formal meetings. Informal mee-
tings deal primarily with day-to-day decisions. Formal meetings, on the other hand, are
scheduled and deal with more long-term issues.

Corbetta and Salvato (2004) suggest characteristics of board processes, such as the fre-
quency of board meetings and topics on the agenda. As presented in table 3, all companies
meet up quarterly in the boards to discuss topics regarding strategy and the finances of the
company. Company Red adds that before the company stabilized, the board had monthly
meetings, pointing to an increased meeting frequency during turbulent times. The CEO of
Company Blue also state that the frequency of the meetings will increase if deemed neces-
sary. Further topics that may be discussed during the formal meetings are budgets, business
plan, market situation, product situation, forecasts, and SWOT-analyses. The type and
quality of information available to board members is another of the board processes sug-
gested by Corbetta and Salvato (2004). This puts pressure on the professionalism of the
CEO’s, which is something that the CEO of Company Red express as positive.

Table 2, board composition.

<table>
<thead>
<tr>
<th>Board composition</th>
<th>Company Yellow</th>
<th>Company Green</th>
<th>Company Blue</th>
<th>Company Red</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active board from</td>
<td>2011</td>
<td>Due to personal interest in board governance.</td>
<td>1992</td>
<td>Due to previous positive experience of boards.</td>
</tr>
<tr>
<td>Why create active board</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>External members</td>
<td>External member</td>
<td>External member</td>
<td>External member</td>
<td>External member</td>
</tr>
<tr>
<td>Internal members</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Chairman</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>CEO as board member</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Founder as board member</td>
<td>SEC 100,000-120,000</td>
<td>SEC 0.5m</td>
<td>SEC 22,000-23,000</td>
<td>SEC 50,000</td>
</tr>
<tr>
<td>Annual cost of board</td>
<td>Increased involvement in governance. Managerial and strategic support.</td>
<td>With an informed board, it function well when feedback is required.</td>
<td>Significant increase in competence and knowledge at a low cost.</td>
<td>Increased experience in strategic decisions.</td>
</tr>
<tr>
<td>Benefits of board</td>
<td>No significant</td>
<td>No significant</td>
<td>No significant</td>
<td>No significant</td>
</tr>
<tr>
<td>Drawbacks of board</td>
<td>No significant</td>
<td>No significant</td>
<td>No significant</td>
<td>No significant</td>
</tr>
</tbody>
</table>

5.2 Board Governance

Corbetta and Salvato (2004) suggest characteristics of board processes, such as the fre-
quency of board meetings and topics on the agenda. As presented in table 3, all companies
meet up quarterly in the boards to discuss topics regarding strategy and the finances of the
company. Company Red adds that before the company stabilized, the board had monthly
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sary. Further topics that may be discussed during the formal meetings are budgets, business
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quality of information available to board members is another of the board processes sug-
gested by Corbetta and Salvato (2004). This puts pressure on the professionalism of the
CEO’s, which is something that the CEO of Company Red express as positive.
Keeping the board educated enough to be qualified for the board work is something that only Company Blue works with. They recently registered for StyrelseAkademien, in order to educate the board to progress as a company. Company Green consider the board to be professional enough to see to its own competence. However, once a year the board of Company Green evaluate their own performance and how to improve as a team. Company Yellow also express a satisfying level of the board, hence they do not provide further education as a board.

To further develop the companies, Company Blue is currently working with a quality policy and an environmental policy. Company Red is working with a Code of Conduct to address ethical issues that might occur within the company and with its suppliers. Company Green, which is a bigger company, has set up guidelines for how they want their subsidiaries to work. None of the companies have used voting as a tool to get to decisions. Consensus is always reached through discussions. If the companies would need to take a decision, without the board being in consensus, the CEO of all the companies would have the final word, most likely since they are the majority owners of their companies. This makes a monitoring approach from the board hard to implement, and so all boards act more like advisory boards.

Lane et al. (2006) discuss characteristics represented within the board. In all of the companies, the board members are assigned roles depending on their competencies and their main contributions to the board. Depending on what topic is addressed during the board meeting, different members have more prominent roles. As an example, in Company Green, during the industry related meeting, the two board members specialized in that segment are highlighted. However, as in the example of Company Blue that does not yet work with themed annual meetings, a structure for this is not achieved. This leads to a situation where the board members’ roles are not explicitly highlighted during the meetings. Company Red has a similar situation, but is not as obvious since they at least have themed meetings.
5.3 Board Recruitment Process

Johannisson and Huse (2000) argue that the board traditionally was a training area for family members, which can be seen in Company Blue as the CEO recruited his sons to the board of the company. The CEO of Company Green has also recruited his children to be part of the board and of the company. There are, however, little knowledge regarding the recruitment process of board members (Johannisson & Huse, 2000). Duchin et al. (2010) argue that there is pressure on the importance of board member recruitment.

Company Green recruited, and keep recruiting their members and managers using a consultancy firm. Using specifications, the consultancy selects candidates for the company, which an appointed recruitment group from the company then use to further select and interview their candidates. Company Blue used the CEOs private network to identify potential candidates that he trusted and that could provide competence through diversity. Company Yellow used the professional network and the support function of Almi to recruit the board. Company Red made an agreement with the bank, which resulted in the recruitment of an external member to the board.

Even though all the companies expressed satisfaction with their current board member composition, when asked about the potential dream member, they all could identify competencies that would be beneficial to add to the board. Company Green would, adding to its current board member composition, request the experiences from an investment group. Company Blue feel the need of expanding the networks of the company through a new recruit, and would prefer someone with knowledge from the same sector as the current sector of the company, but with experience on the national level. Company Red is thinking more like Company Blue when describing their dream member. Their dream member is someone from the same sector as well, preferably from their customers’ segment. The
dream member of Company Yellow would be someone with selling experience, customer focus, and as for Company Red, someone from their customers’ segment.

There are some differences and similarities between the companies regarding the member recruitment. First, all companies can specify their needs, and also address this need to competencies and characteristics that their companies currently lack. However, even though they can specify the requirements of their potential members, they are restrictive to act on their preferences. As can be seen in table 4, Company Green express the potential desire of reducing the size of the board, while both Company Yellow and Company Blue are satisfied. Only Company Red expresses the wish to expand the board as a part of their current need. Schwartz and Barnes (1991) found that the more external members in the board, the more satisfied the CEO is, which seem to correspond with the case of these four companies. However, Lane et al. (2006) argued, that the most effective board consist of 7-12 members. None of these boards accumulate to seven members, even if Company Blue expressed that striving for seven members as the company grows might be relevant.

Networks are of great importance for all the companies. Company Blue recruited its board through the private network of the CEO. Company Yellow built a network through the personal interest of board activities of the CEO, when attending board education programs and seminars. Company Green use its network to verify the competences of potential members. Company Red on the other hand feel a lack of network and channels is an obstacle to new recruitments. The CEO, however, express that he has extensive networks through his customers, but clarifies that he is not interested in having representatives from his customers in his board. Independent of networks and specifications, all companies express the desire for external board members as potential members to their boards.

<table>
<thead>
<tr>
<th>Board recruitment</th>
<th>Company Yellow</th>
<th>Company Green</th>
<th>Company Blue</th>
<th>Company Red</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why recruited</td>
<td>Accountant due to economical competence</td>
<td>At first due to professional experience and a fit with the company’s needs. In the second stage due to a fit with the owner family of the firm.</td>
<td>External members recruited due to trust relationship. Internal members recruited as a good experience and good competences.</td>
<td>Chairman recruited as a deal with the bank to show commitment and build a trusting relationship.</td>
</tr>
<tr>
<td>Optimal board size</td>
<td>6-7 members</td>
<td>5 members</td>
<td>7 members</td>
<td>5 members</td>
</tr>
<tr>
<td>Relevance of recruitment</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Areas for recruitment</td>
<td>Professional networks</td>
<td>Consultancy firm</td>
<td>Professional networks</td>
<td>Professional networks</td>
</tr>
<tr>
<td>Dream member</td>
<td>Customer focus, knowledge in retail selling</td>
<td>Knowledge and experience from an investment group</td>
<td>Large network. Currently in same sector. National board experience.</td>
<td>Recent and fresh experience and knowledge from the customer segment</td>
</tr>
</tbody>
</table>

*Table 4, board recruitment.*
5.4 Stewardship Theory and Agency Theory

Using the agency theory and the stewardship theory as lenses when looking at the board composition gives a hint of an explanation of why the owners act the way they do. Agency theory promotes a distance between the principal (owner), and the agent (manager) in order to create a monitoring atmosphere, and to make sure that the managers’ act in the interests of the owners (Jensen & Meckling, 1976). However, when looking at the situation of these companies, the owners and the CEOs are the same persons, which complicates understanding the agency theory.

Chua et al. (2003) argue that according to agency theory, appointed managers that are not owners of the firm, differ in responsibility from owners that are managing their own firms. Further on they argue that when non-family managers, or in this case, external board members increase in importance for the family firm the concern regarding them will increase. It is also argued that the separation of the ownership from management increases the concerns about loyalty and commitment (Chua et al., 2003). These concerns are partially relevant to the owners of the family firms studied, since they manage their own firms as they have the position of both CEO and majority owner. All four firms do, however, have an external board member as the chairman of the board and this situation could possibly lead to a situation of a decrease in loyalty and commitment due to the separation of ownership from management. The individuals that are in the top management together with their family members have the power to remove members of the board of directors. This scenario is most visible in Company Red and Company Blue. The CEO of Company Blue expressed that as he also is the sole owner of the company, and in the case of a disagreement with the board to an extent that further cooperation is not possible, he can step in as an owner to re-elect the board. In this scenario, the CEO to some extent monitors the board.

Agency theory holds a monitoring approach as a central part of the theory (Daily et al., 2003). This can be transferred into either the relationship between the owner and the manager, the owner and the board, or the board and the manager. Independent of each of the relationships, the monitoring approach is mostly visible in Company Red, where the CEO expresses the relationship with the external chairman as a pushing and motivating relationship, thereby creating a hierarchical scenario where the chairman delegates tasks to the CEO. Another important aspect regarding the monitoring approach in Company Red, was that the external board member was appointed by the bank as part of a deal to secure an
important business loan. By doing this, the bank gained some monitoring regarding the internal work of the firm and can thereby make better decisions regarding the risk of the loan and the status on possible future loans. However, with the CEO being the sole owner of the company, and as well being in charge of all decisions of the company, the chairman fills a more advisory role as he cannot really affect the CEO more than through recommendations and suggestions.

The stewardship theory, on the other hand, keeps its focus on the collaboration between owners and managers (Lane et al., 2006). Even in Company Green and Company Yellow that have several owners, the relationship with and trust to the managers are important. Stewardship theory also empowers managers in decision-making, further emphasizing that trust is important. Corbetta and Salvato (2004) argue that goals are not set on an individual level in stewardship theory, but rather on the collective level. For all the family firms in the study, the goals are long-term in strategy, with on-going or recent succession implementations looking for the greatest good for the (collective) family. Even in Company Green, which is a large company with 15 subsidiaries, the organizational structure has moved towards more decentralization, where the respective managers are empowered in the decision-making process, and Company Green itself acts more supportive and advisory towards its subsidiaries. This advisory approach is closely related to the concept of stewardship theory (Corbetta & Salvato, 2004). The board in Company Yellow primarily has an advisory role as the chairman, prior to becoming the chairman of the board was the mentor of the CEO, thereby building a relation with the CEO where he has been advising the CEO for a long period of time. Through this relation with the CEO, the mentor built the necessary levels of trust with the CEO in order to be offered the position of chairman.
6 Conclusion

During the work with this thesis, we have read and learned more about the field of boards, governance and member recruitment. In fact, when first approaching the topic, we had limited knowledge, which has build up over time. We believed that the subject would be an interesting and valuable research topic, since there was a limited amount of research conducted on this specific area. We were prepared for the possibility that at least one of the firms might have had a ‘paper board’, and were therefore pleasantly surprised that all of the firms had active boards that actively worked with improving the company. Both authors believe that an active board can bring extensive knowledge and experience to a company in order to handle both present and future difficulties. We believe that this can be very beneficial in the early stages of a firm when the firm has limited knowledge or experience. As can be seen by Company Blue, the board does not need to be very expensive if the right members are found either through networks or through another form of recruitment.

Research question number one addressed what board member characteristics that are desired in family firms.

We found that knowledge relevant to the segment that the firm is operating in, or concerning a segment that the company want to expand in to, is highly appreciated. Trustworthiness was another important characteristic of board members.

Research question number two posed the question of how the recruitment process of board members is carried out in family firms.

Professional networks were the number one source of member recruitment in smaller companies. Larger companies seem to use consultancy firms to address the specifications of what is needed. There was also a tendency to extend the professional networks to gain entries to potential recruitment arenas.

Research question number three was directed at what common obstacles that can be related to the recruitment of board members.

One obstacle was more prevalent than other and was identified in all companies. Letting an external member take place in the board, getting insight into the operations, and affecting the direction of the company was a barrier. Overcoming this obstacle, and letting external members in, was found both beneficial and outweighing the potential costs.
7 Discussion

When interviewing the firms we gained some insight into the activities of each of the boards. Three of the companies (Red, Green and Yellow) have themed meetings where predetermined subjects are discussed. Company Blue, being a small and newly started firm, does currently not have themed meetings. It would therefore be interesting to further examine how the board activities differ in firms depending on their sizes, as well as investigating if there are any noticeable structural differences when discussing companies depending on their sizes. However, we did not find any explicit evidence regarding that the activities should differ, thus make the assumption that a firm with annual revenue of SEK 8bn and a firm with SEK 8m are reasonably considered to have different board activities.

When starting this thesis we believed that the larger the firm, the more favourable view they would have towards external board members. The second belief was that the smaller the firm, the greater the chance of the firm having implemented a ‘paper board’, not actively working with a board, and instead only implemented a chairman and a board member for purely legislative reasons. However, none of these beliefs were correct. The view on external board members was equally favourable within all firms, indicating that the CEO might be a bigger factor influencing this view than the size of the firm. In order to confirm this, further research into the subject of board of directors would need to be conducted.

Included in a number of articles was also the fact that succession is a natural part of family firm governance. Successions can, however, be an issue for family firms due to the complexity of choosing a successor. Sometimes, there might not only be one natural successor, and other times, the successor might not want to be a part of company. With the information and definitions available at that time, Birley (1986) found data in her study, pointing to that 98 per cent of the corporations in the U.S. were family owned. Moreover, she argue that estimations point to that only 30 per cent of these firms continue into the second generation, and no more than 15 per cent moves into the third generation. These dramatic numbers can be a result from another of Birley’s (1986) findings, that owners might wait with their succession planning until it is too late to educate and properly prepare the successor. We believe that this is very interesting since two of the firms interviewed in our study have successfully navigated the issue of successions, and the remaining two firms have children of the CEO on the board. This is indicating that the firms might be preparing for an eventual future succession even if this might not be a current process.


7.1 Contributions

This thesis will shed further light on the subject of board member recruitment and the processes accompanied with them. We discovered that all of the CEO’s interviewed saw benefits with implementing a board of directors and having external board members. However, there is little knowledge and research concerning their recruitment, and the individuals that are responsible for recruiting members to the board of directors seem to have their own thoughts and methods for how this should be conducted. We therefore believe that by presenting the notion that external board members can be of great value for family firms, regardless of their size, may be of great contribution for owners of family firms.

The belief that a firm has to allocate large amounts of capital to its board in order to receive the necessary knowledge or competence, was to some extent disproved by Company Blue. Company Blue did not compensate its board members as this had never been up for discussion and was not seen as an issue from neither the firm nor the board members. This could lead to other compensations being more attractive for both firms and the members on boards in family firms than solely monetary compensations. Other compensations can consist of the firm financing educational programs and competency improvement with organizations such as ‘StyrelseAkademien’, which would gain both the board members as well as the firms.

We also believe that owners of family firms will benefit from thoroughly weighing what some owners see as a risk, i.e. recruiting an external person and thereby handing over part of the control over the firm, with the benefit of receiving the knowledge and competence that can be difficult to acquire by the firm itself. This does, however, not need to be that great of a risk since there can be ways to prevent the occurrence of this issue. One way might to be if the owning family retains the majority of the votes. Another way could be to retain a member of the owning family as the chairman of the board and thereby receiving the knowledge and experience needed from the external board member without the fear of them having extensive control over the firm.

7.2 Limitations

Through the process of writing this thesis, we have come to realize the limitations of the study. First of all, we can see the benefit of conducting more interviews within each firm in order to more firmly establish our findings and analysis. The interviews conducted are thorough and well performed, and provides the findings at a satisfying level. For this re-
search we dealt with companies in different sizes, seen to both employers and to annual revenue. We had the benefit to see different companies in different industries, and in different maturities behave and act in similar ways and facing similar problems. This spread might decrease the comparability between the companies, a risk that we felt we had to ignore to get the value added from this spread.

When approaching companies, we asked to meet a representative from the company with the knowledge required to be able to cover the topics of the study. In all cases, we had the opportunity to meet with the CEO, which turned up to be the majority owner. If we, as well, had the opportunity to meet up with one of the board members from the same company as the CEO, it could further strengthen and establish the information gained from the CEO’s, and help to avoid bias. Bias is an important part of our study, and we are aware of that information about boards tends to be hard to be truthful about due to the sensitivity of the information. To avoid this bias, we explained the process of the study for the interviewees, and that the companies would be anonymous in the process. Bias could still exist, even though we probably decreased the risk of bias. Adding a supportive interview with another board member would validate our findings more and would serve to support the validity of this study.

We also need to highlight that the study was done in Sweden, with Swedish companies having Swedish headquarters, and only Swedish board members. This might limit the use of our findings in contexts too unlike the Swedish context. It will, however, still most likely be applicable in Scandinavia, due to the similarities in cultures. The Swedish culture affects the use of a board, and rules from the government imply certain restrictions in the setting of the board and how to use the board.

### 7.3 Further Research

Even though some of our recommendations have been touched upon through our presentation of the limitations, we would like to highlight how our findings could be used to conduct further research. To further establish our findings, a quantitative study could be made. This would hopefully further prove that our findings are applied in more boards, and that these boards are facing the same types of problems. A quantitative study could also highlight differences between different types of companies.
Using a bigger sample, and comparing the member recruitment processes of non-family firms with family firms will most likely provide findings showing a difference between the two types. This assumption is based on the amount of internal members in the board, in our study family members, and that this scenario is highly unlikely to occur in a non-family firm. However, both the non-family firms and the family firms are in need of both qualitative recruitment processes, as well as suggestions for new potential members. Identifying the strengths, the differences, and the similarities between these could help improving the overall recruitment process.

Another comparison interesting to conduct is again through the use of a bigger sample, to examine and address how these processes differ in between large, medium, and small companies. We recognize that larger firms most likely have larger networks to find potential members in, and that they probably have more established routines in their recruitment process than the smaller companies. These companies may have information to share and examples to provide to help the smaller companies achieve better results through improved recruitment to their boards. In our study, the companies interviewed were all satisfied with the level of the board members in their boards. It would, in relation to this, be interesting to conduct a separate study regarding the level of satisfaction from the boards in regards to their board members and team as an entity. Identifying boards that are less satisfied with their boards, and why they are less satisfied might help improve the overall recruitment process of potential board members.

We would also like to see the same study made, using the socio-emotional wealth (SEW) as a lens. This theory is fairly new in the field and can be used to further analyse how the presence of families in the firm affects progress of the firm. This approach could help explain the importance and relevance of internal members in the board, and the value they provide to the company and the board they function in. Socio-emotional wealth is an extension of behavioural agency theory, adapted to fit the family firm segment. It describes the value of the presence of family members within the management team and in the board, and how this affects the company in both the short-term and the long-term of the business (Berrone et al., 2012). Understanding the socio-emotional wealth of the family firm may better help understand how appointments of board positions and other key positions are made.
References


Appendix - Interview Guide

Information about the firm

- When was the company founded?
- How did the business start?
- How many employees do the company have?
- What was the revenue of last year?
- Do you have a national or international business?
- What is the role of the founder today?
- Whom other family members work in the firm and what are their roles?
- What is the role of the family in the business?
- Who are the owners of the company?
- What are the owners’ roles in the company?

Board composition

- When was the (active) board composed?
- How many members are there in the board?
- What are the competencies/qualities of each member?
- Why was each of the members recruited?
- What are the roles of each member?
- What is the relationship between the board members and the family?
- How were the board members were recruited? Did you use ads, networking, consultants or something else? (Find out for every member)
- Do you have equality in gender in the board?
- Do you have any international board members?
- Have you had any recent dropouts?
- Can you approximate the average time in the board for a board member?
- What is the role of the CEO in relation to the board?
- Is the CEO a family member?
- Do any members have active roles in the business?
- Do you have the legal requirement to have a board or why do you have it?
- Approximately, how much do the board cost?
- Would you consider it expensive to have a board?
• What would you say the real value of the board is?
• Would you consider having a board is not worth the costs?
• What are the costs and benefits of having a board?

**Board governance**

• How often do you meet in the board?
• What is the main structure of board meetings?
• Do you have informal meetings?
• If yes, how common are the informal meetings?
• How do you highlight the board roles and competencies during board meetings?
• Have you had any crisis and how did this affect the dynamics of the board?
• Do you conduct periodic assessment of the quality of board members?
• How do you work with competence development of the current members?
• Do the board support the members’ education? How? (Financially etc.)
• Do you have any Code of Conducts or other formal documents that help guide the board’s decisions?
• Would you consider the board having authority in decisions or function as advisory?
• What happens if the CEO goes against the board?
• What kind of decisions do the board have role in?
• What kind of decisions does the CEO take without the board?
• How do you vote in the board?

**Member recruitment**

• How do you work with recruitment of new members?
• Do you have intentions to expand or contract the board size?
• What would be the optimal member, and why?
• When recruiting, what are you looking for? (Competencies, network etc.)
• Do you use different criteria when recruiting external and internal members?
• Do the external members and the internal members have different roles?
• (If yes) In what way would you consider them different?
• Are there any recent recruitments to the board (i.e. <1 year)?
• Do you work with succession planning in board member recruitments?