Board of directors in small firms

An exploratory study on small business owners in Västerbotten’s perception of the role of the board, board composition and its impact on firm performance.

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Abstract

This study examines small business owners at small firms in Västerbotten’s perception on board composition, board diversity and the role of the board together with its impact on firm performance. We were interested in knowing what kind of characteristics these firms are looking for in their board composition and explore their attitudes towards their choice of inside or outside directors, and also the impact of homogeneity and heterogeneity in the board. Further, we wanted to examine the general role of the board in small firms and get insight on whether the small business owners believe this had any impact on firm performance or not.

The subject of board of directors can be found within the field of corporate governance, in which it has a central role. Existing literature on the subject left a gap of knowledge on board of directors in small firms, from which the opportunity of research was found. Since a vast amount of firms on the Swedish market are small firms, this subject is of significant meaning for understanding and gaining insight into how small business owners in these firms view the board of directors. To get a deeper view into the subject we explored if any differences were detectable between three different industries, and the selected industries were; IT, transportation and construction.

This qualitative study was conducted by using a semi-structured interview technique. The objectives of having a qualitative study was to obtain in-depth understandings and perceptions from the participants in order to answer our research questions; What kind of characteristics are small business owners looking for when selecting new board members, what type of different resources can different types of directors bring, and what impact do small business owners believe this has on firms’ performance?

The findings from this study revealed that small business owners at small firms in Västerbotten did not value and use the board in the same extent as larger firms had been found to do in other empirical studies. However, indications were found among our sample that small firms in the IT industry uses their boards in another way than other firms do. Moreover, it was of common occurrence that small firms only have one singe director on their boards both due to that they have a board solely due to legal reasons and also due to that the owners, which is also the directors in these firms, does not want to reduce their level of control over the firm. Overall, the impression from the participants’ perceptions and views were that the board was not used in the way it could be and that for many small firms the cost of recruiting more directors is too high.

Keywords: corporate governance, board of directors, resource dependency theory, boards in small firms, board diversity, inside and outside directors, director characteristics and board members.
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Appendix 1: Interview guide
1. Introduction

In this introductory chapter one can read about the topic of board of directors in small firms and its origin in the problem background. The subject of corporate governance and board of directors are presented together with the main theoretical lens resource dependency theory. From the problem background the derived research questions are stated and the objectives of the study are also explained and motivated. Moreover, in the end of this introduction one can find the limitations of the study.

1.1 Problem background

The corporate scandals that have been seen around the world, in both developed and developing countries have given corporate governance increased attention. Modern corporations and their governance systems are increasingly under constant scrutiny (Filatotchev & Nakajima, 2010, p. 591). This field has gained greater attention throughout the years, both by businesses and in terms of being an interesting topic for research. Moreover, this is a subject that we as business students have come across on several occasions, and this due to the fact that it is highly related to most business studies, especially those connected to management and operation of corporations.

Different factors can explain the growing interest of corporate governance in the business world. One reason, if looking at the subject in a general perspective, can be seen in the regulation work being executed within the EU, with the objective to create a common European capital market (Thorsell, 2008, p. 1). Additionally, Fields and Keys (2003, p. 2) explain that there is a spread of discussion of corporate governance; one can see the movement from boardrooms, and at Wall Street, to now reaching a wider audience.

Looking specifically at the growing interest for the subject of small firms, it has been shown that due to technological advancement they have been starting to compete on a more global level, thus the competitive environment has changed (Neville, 2011, p. 530). We find this development and change of competitive environment for small firms interesting, and see the need for further exploration of the subject.

A firm’s board of directors is considered to be an important corporate governance mechanism, and it through influence affecting a firm’s performance and governance (Neville, 2011, p. 528). This is a field that is addressed in both managerial and financial research. A board of director has two main responsibilities that they aim to fulfil: monitoring firm performance and management, and providing advice and access to resources (Pugliese et al., 2014, p. 1189). A board of directors can have different functions and compositions depending on factors such as; firm size, industry and knowledge in board work. The directors are working to ensure that owners and management’s interests are aligned in both structure and strategies (Kang et al., 2007, p. 194).

When reviewing the literature on the subject it was possible to find differences in the functions of a board of directors in small firms and larger firms. A common assumption is that small firm boards consist of internal management and executives and is a result of legal requirements. Both Huse and Zattoni (2008, p. 75) and Neville (2011, p. 535) are authors that highlight this and further define these types of boards as passive boards. Except for legal reasons, remaining control could be assumed to be an explanation for this action. A further difference is that smaller firms and smaller boards allow for a more
simplified process to share information and knowledge between a firm’s management and its board of directors, compared to larger firms (Gabrielsson, 2007, p. 689). This could allow for a more effective use of a board.

On account of all this, the board of directors has been, and still is, seen as an important field within corporate governance by scholars (Neville, 2011, p. 528). Simmons (2012, p. 56) explain that while doing research, scholars have usually chosen to approach their research with the theoretical foundations of either agency theory or resource dependency theory, where the different theories aim at exploring different perspectives of the subject. It was further emphasised that agency theory explains why a company needs a board of directors and how they control the work of executives, and additionally the complications that can arise in this relationship. However, resource dependency theory put focus on what kind of external resources a board can contribute with. Different scholars see the need for different approaches, thus the use of different theories, in their research, and Neville (2012, p. 536) conclude that there is a need for a multi-theory approach, because single relevant theories are too limited to create a proper analysis.

Within the field of board of directors one can see that board composition and board diversity are common subjects. Board composition is addressing the aspect of board size and resources that members can contribute with (Fields & Keys, 2003, p. 4). Lehn et al. (2009, p. 775) explains that different variables affect how boards of directors are composed. That firm size, characteristics and their opportunities to grow will influence both how a board work and how it is composed. When discussing board composition it is important to review the directors that serve on the board, their personal skills, resources and connections, since this can have a significant impact on the success or failure of a firm. Nearly 50 years ago it was stated that boards of directors are passive mechanisms in firms’ governance structure, and this is a concept that stayed within the field, thus even today one can see it among firms (Van den Berghe & Levrau, 2004, p. 461; Neville, 2011, p. 535). At that time boards were described as non-performing assets, meaning that there is room for more and better use of the resources boards can contribute with.

When analysing an optimal composition of a board of directors one touches upon the field of board diversity. Basically, it would be logical to assume that a board would benefit from being diversified in terms of having board members with different qualities and from different backgrounds as a base of making the decisions in favour of the organization as a whole. However, the board in a firm is commonly viewed as a single entity and most prior studies describe a board’s heterogeneity as the diversification of inside or outside board members (Barker et al., 2010, pp. 225-229). The research field of board diversity is primarily founded on Jeffery Pfeffer’s (1972a, pp. 218-228) research on board composition. Looking at if there is an optimal structure of a board of directors, is hard say specifically and it can be seen as highly individual to companies.

Continuing, Thomsen and Conyon (2012, p. 298) state that one can see that firms’ board of directors are composed in similar ways all across the world. Regardless of where one look there may be lack of board diversity when the majority of boards are composed by demographically similar individuals. It is common to see individuals between 50-60 years old, having equivalent education, the same ethical origin, similar background and entrepreneurial experience. Adams and Ferreira (2009, p. 292) emphasise that it is beneficial to have a board with diversity due to the access to a greater pool of qualified experience and knowledge.
1.1.2 Research gap

Currently, small firms are dominating the Swedish market by representing 99 percent of all Swedish firms (Enterprenörskapsforum, 2011). To specify, in order to be categorized as a small firm it need to have less than 50 employees and have a turnover or assets below 10 million euro (European Commission, 2015). However, despite this vast amount of small firms in Sweden, we found limited research on the subject of corporate governance and board of directors in small firms, especially in terms of the role of boards and its composition. We saw this gap as an opportunity to make a research that could add knowledge to the subject that could be of use for understanding small firms and their corporate governance better.

Thus, due to the fact that small firms represent the 99 percent of the Swedish market, and we find a gap in academic research for the role of the board and its composition in these firms, we have chosen to target small firms in the county of Västerbotten, in the northern part of Sweden. Further, we believe that these small firms in Västerbotten were able to represent general characteristics to be found in the most national firms that are considered to be small, which can be seen as the reason for why the findings are not only representative for firms in the area of Västerbotten but for Sweden as whole.

Like mentioned above, the two most common theoretical lenses used for research related to corporate governance and board of directors are; agency theory and resource dependency theory. In this study we have focused on board composition, board diversity and how this could be related to firm performance, and this with a focus on what resources different types of directors could provide to the firm. The theory of resource dependency, which was developed by Pfeffer, is focusing on the external influences that firms are affected by, and it views board of directors as a resource of human capital (Hillman et al., 2009, p. 1404; Neville, 2012, p. 528). Additionally, Simmons (2012, p. 57) stress that directors are appointed on the basis of what resources they are able to contribute with. These resources can be both financial and non-financial, where industry-specific knowledge or networking opportunities are relevant contributions.

Since what we aim to study is related to what kind of external resources board members can contribute with, we believe that the resource dependency theory will suit this study best and this is the reason for why it was used as the main theoretical lens. Continuing, another reason for why we chose to use the resource dependency theory was that we assume that smaller firm have a shorter chain between managers and the owner or CEO, due to the belief that the owner or CEO is usually involved in the board of directors. Thus, we argue that this implies that these firms do not experience agency problems to the same extent as larger firms.

Our choice of directing our study towards Sweden also affected the choice of our theoretical foundation. Thomsen and Conyon (2012, p. 300) argue that Scandinavian countries are special in the relation between owner, managers and board members. They explain that Scandinavia is a “sweet spot”, where problems related to corporate governance are very few and the reason can be found in unions and owners that are considered to be strong in these countries. Contrary to the U.S. and UK, managers in Scandinavia are considered as weak in relation to a company’s owners. We believe that this further is a reason for our use of resource dependency theory, where one can analyse how boards and their work can develop and improve with the provision of right resources.
1.2 Research questions

The research questions to be examined in this study are: What kind of characteristics are small business owners looking for when selecting new board members, what type of different resources can different types of directors bring, and what impact do small business owners believe this has on firms’ performance?

1.3 Purpose of the study

This exploratory study was conducted in the time period of March-June 2015. The interviews took place during mid April to until mid May. The purpose of the study was to investigate how small business owners at small firms in Västerbotten view board composition, board diversity and the role of the board in terms of firm performance. One primary reason for this study was the existing lack of studies within this field, like described in the previous section research gap. Accordingly, one objective is to contribute with knowledge to the field of corporate governance and board of directors in small firms, together with detecting areas for further studies. Like mentioned, both due to fact that Sweden has a vast amount of small firms and the subject has had little exploration, together with that most recent studies within the field has been directed towards larger corporation we see a need for exploring small firms.

We were interested in knowing what kind of characteristics these firms are looking for in their board composition, and we wanted to investigate their attitude towards their choice of inside or outside board of directors. Therefore, we wanted to investigate the connection between the selection of new board members and effect on firm performance. We aimed to get insight and knowledge on this subject of board of directors from the perceptions and meanings of small business owners in small firms in Västerbotten. Additionally, to get a deeper view into the subject we wanted to see if any differences were detectable between three different industries, and discuss eventual reasons for these differences.

This study can be seen as a qualitative study including semi-structured interviews with nine small business owners working in small firms and operating on the local market. We selected three small business owners from each of the following three industries; IT, construction and transportations. The objectives of having a qualitative study with interviews was mainly due to that we aimed to obtain in-depth perceptions and understandings from the participants in order to answer our research questions. The semi-structured interviews allowed us to be flexible and explore the subject in the best possible way.

It is further important to mention that our ambition with this study was to get insight into how small business owners in small firms view this subject and to increase the understanding of what their essential perceptions about it are. Even though the sample of this study consisted of nine small business owners in Västerbotten, we are of the belief that the findings from this study give an indication of how small firm small business owners throughout Sweden feel about this subject, since the climate for small firms in this area of the country can be seen as roughly the same as in most of the other parts.
1.4 Limitations

In a study like this it was important to consider the limitations that might restrict one from obtaining the highest possible quality of the research. Starting with limitations resulting from a lack of resources, one could understand that a research conducted during the time frame of a university course, like in this case during a period of approximately three months, will face several limitations due to time restriction. This was especially present when gathering the sample of participants and holding the interviews in a time that left room for a thorough analysis. Another limitation could also be found in the ability to access the intended sample, with emphasis on the lack of enough potential participants in several industries in Västerbotten, forcing us to select the industries containing the most firms. However, this could also be seen as us selecting the industries that gave the fairest representation of the market place.

Continuing, with access to larger financial resources the scope of the study could have been more widespread and thus increased the ability to have a larger sample. However, viewing it from a brighter side, a sample of nine participants allowed us to make the research in-depth in the time frame that was presented, and a larger sample could have hampered this. Even though the sample of nine participants, with three in each industry, allowed us to make a thorough and in-depth analysis, it limited the ability to see clear patterns between the industries, but rather only tendencies of differences. Whether these tendencies would have been clearer if the sample had been larger is hard to say.
2. Theoretical framework

This chapter contains the theoretical foundation to the research conducted in this thesis. In the beginning one can read about broader definitions on corporate governance and this is followed by a presentation of the main theory: resource dependency theory, and how it is used in previous studies together with agency theory. Further down one can read about the empirical findings that have been made by other authors within this field of study, related to board of directors, board composition, characteristics of board members and the resources provided by inside and outside board member.

2.1 Corporate governance

Starting from a broad perspective in this field of research one can find the subject of corporate governance. Tahini, et al. (2014, p. 2) explains that corporate governance is a fairly researched topic amongst business journalists and academics. Focus is frequently directed towards the relationship between a firm’s executives and the board of directors, compensation of executive work, and the effects of ownership concentration.

The notion of corporate governance is a broad concept that includes a great number of aspects and actions. Lou (2005, p. 2) explains corporate governance as the relationship between a firm and its stakeholders, whom controls and determines the firm’s strategic decisions and performance. It is further described as providing the structure that allows a firm to set objectives, attaining them, and implementing guidelines for monitoring performance. Beltratti (2005, p. 374) relates corporate governance to profit maximization and the action of providing protection for those who are economically invested in the firm. Moreover, Tihany, et al. (2014, p. 2) acknowledge the intention of using corporate governance in motivational purposes in order to get managers to use the resources provided by the shareholders effectively and efficiently.

Continuing, there are several actors who are concerned with how corporate governance is constructed within a firm. Related to this subject, Hung (1998, p. 106) describes a firm’s stakeholders as actors who affect or are affected by a firm’s action. Examples of these are; customers, employees, stockholders and suppliers. It is further stated that a firm’s objectives only can be achieved if the interest of these different stakeholders are handled and balanced. According to Beltratti (2005, p. 375) corporate governance can be interpreted as a reaction of the existing conflict of interest between the executives and the owners. In addition it is stated that this can be seen in the relationship amongst different stakeholders. From our literature search on corporate governance we noticed that it contains a lot of complex aspects, and that a difficult challenge is to coordinate the different actions and wills of various stakeholders. However, Stuebs and Sun (2015, p. 40) emphasise that proper corporate governance could work to reduce this problem. To clarify, these authors mean that well-functioning corporate governance includes systems with great control of the actions taken by managers.

In most business studies corporate social responsibility is a relevant topic. Different scholars argue for various connections between CSR and corporate governance. Thomsen and Conyon (2012, p. 118) connect CSR to improved firm reputation and that they more easily attract talented and resourceful employees. However, the relation between CSR and financial performance is explained as being less strong. Yet, Stuebs and Sun (2015, p. 40) state that previous empirical research propose that there is a connection between
corporate governance and a firm’s performance, both financial and operational. Though, these authors argue for the absence of linkage to corporate social responsibility. We believe that since the incitement of implementing CSR can come from different individuals at firms, it could mean that both board members and executives could promote this.

2.2 Resource dependency theory

One of the first and most outstanding authors on the subject of resource dependency is the previously mentioned Jeffrey Pfeffer, who has published several articles on the subject. In 1978 Pfeffer’s book *The External Control of Organizations. A Resource Dependence Perspective* was published. Pfeffer (1972a, pp. 218-228; 1972b, pp. 382-394) noted early the need for research on how organisations manage the relationships with the environment, and that this could be seen as a factor in order to achieve success. He concluded that board size and composition are rational organisational responses to the conditions of the external environment, rather than being independent factors (Pfeffer, 1972a, p. 226). Furthermore, Pfeffer and Salancik (1979, p. 258) described that organisations require resources to survive, and in order to acquire these resources they have to interact with people who control them. This subsequently means that by obtaining resources from people who control them provides other with power over the organisation (Pfeffer & Salancik, 1979, p. 258).

Within research on board of directors, the resource dependency theory focus on the linking role between directors and the external environment, and addresses the resources that can contribute with this (Hillman et al., 2000, pp. 237-238; Neville, 2011, p. 528). Dharmadasa et al. (2014, p. 9) defined how resource dependency theory is applicable to research on board of directors as:

“*This theory provides a theoretical foundation for directors' resource role including access to resources and advice needed by the firm to enhance organizational functioning, firm performance, and survival.*”

Within the field of research on resource dependency one easily notice that many authors have used the work of Pfeffer as a foundation to their research (Hillman et al., 2000, p. 236; Dharmadasa et al., 2014, p. 118; Peng, 2004, p. 455; Neville, 2011, p. 528). Hillman et al. (2009, p. 1404) explains that resource dependency theory recognize how external factors influence the behaviour of an organisation. It is also stated that power and access to vital resources are central, and how organisational actions result in increasing control over its environment. Furthermore, one central assumption of resource dependency is that a firm is not self-sufficient, and is highly affected by its environment (Voss and Brettel, 2013, p. 412). Resource dependency theory suggest that a firm should detect the resources that they are in need of, and that this will help them improve firm performance (Hillman et al., 2000, p. 252). Resource dependency theory further suggests that a board of directors can be seen as an important link between a firm and the external environment; an example is through networking (Neville, 2011, p. 528).

In a study conducted by Pfeffer (1972a, p. 226) it was shown that the size of a board is related to the companies environmental needs, and that this relates with the fact that greater interdependence will require a higher rate of outside directors (Hillman et al.,
Additionally, Peng (2004, p. 466) writes about that board composition is related to firms’ performance in terms of boards being able to meet new environmental demands. This can be managed by having resource-rich outside board members, which would result in a positive impact on the performance (Hillman et al., 2000, p. 238). Furthermore, this could be related to uncertainty, one thing that all organizations have to cope with, and it is claimed that having board directors who are linking a firm with its external environment, one could minimize the level of uncertainty (Hillman et al., 2000, p. 238). Thus, by selecting the appropriate directors the firm can also gain other resources such as; knowledge, information and essential external players (e.g. buyers, suppliers, et cetera) (Hillman et al., 2000, p. 238). We agree that new directors can provide these resources to a firm; however, one could argue that some resources are valued differently for different firms. Thus, this could be something that is being valued differently between both various industries and in companies with different size, which makes it important to consider in our research.

The most effective way of finding new board members who will fulfil the resource dependence role is by detecting the most essential types of resources and links to the firm, and choosing someone who could provide these resources (Hillman et al., 2000, p. 252). However, we acknowledge that this might be easier said than done, and the resources that will be the most profitable for the firm might not be the most obvious. In addition board interlocks are a way of obtaining important resources for a firm. This occurs when a board appoint a member who, at the same time, serve as a director or executive at another firm. This is considered to be of common occurrence, and seen from a legal perspective it is allowed if it does not involve individuals from competing firms. By taking in board members with high experience of corporate governance, a firm can make use of its board in an effective way (Simmons, 2012, pp. 56-57). Board interlocks can also be a good way to incorporate greater resources in a board and facilitate the action of networking. The benefits of using interlocks are the exchange and movement of knowledge and experiences between different companies (Chiu et al., 2013, pp. 918-919). Further, it has been found that having directors who are active in several boards can create valuable networks for the firm (Bohren & Strom, 2010, p. 1305). It was also found that some firms use interlocks as a way of controlling the marketplace, particularly during times that are considered to be uncertain (Simmons, 2012, pp. 56-57). Though, it is hard to say how the competitive climate among smaller firm works, and how willing they are to cooperate with each other, so the level of board interlocks among smaller firm could vary.

Looking more specifically at what type of resources different firms need, a study by Mizruchi and Stearns (1993, pp. 614-615) showed that there is a positive relationship between having board members working in the financial sector and that specific firm’s financial situation. An example of this, from that study, is firms in need of short-term loans favourably select money market bankers as directors, while firms that need long-term debt tend to hire directors who are money market bankers, insurance executives and investment bankers. In another study conducted by the same authors, findings showed that a positive relationship exists between favourable economic conditions and having interlocks with directors working in financial institutions. Meaning that when the economy is in a good stream firms tend to need access to financial capital and it is thus useful to select board members from financial institutions (Mizruchi & Stearns, 1988, p. 207).
In a recent study it was found that both internal and external factors affect board members' behaviours, such as; firm performance and industry regulations (Pugliese et al., 2014, p. 1198). It was also shown that boards do not always engage in advice tasks and monitoring, and that boards in highly performing companies are quite uninvolved in both monitoring and advising. This in turn is related to that boards in profitable firms are somewhat reluctant to question the decisions made by CEO’s and managers (Pugliese et al., 2014, p. 1198).

Additionally, in the same study it was found that the functions of monitoring and advice by board of directors within a firm are increased with higher level of industry regulation, but that firm performance is negatively associated with both monitoring and advice and a high level of regulation (Pugliese et al., 2014, p. 1198). Thus, due to that this is about the monitoring function of the board it is related to the agency theoretical point of view. However, since we are interested in how directors’ qualities, board composition and diversity affect the firm and contributing it performance, we are highly interested in the advising function of the board, this can be seen as the reason for why this feels relevant to the study.

Resource dependency theory is among other things addressing the resources that a firm can attract from its environment, internally and externally. Thomsen and Conyon’s (2012, p. 118) research is showing that a firm's involvement in CSR will increase the knowledge and talent one can find in the company. This should also imply that a firm that works successfully with CSR would be able to attract the resources they need in order to successfully work with their board of directors, and achieve the established objectives.

2.3 Board of directors

Within a corporation and the field of corporate governance the board of directors is of high importance. It is a field that has been addressed by academic researchers within several disciplines, both the role it serves and the effectiveness of the board members work (Simmons, 2012, p. 56). In one of Pfeffer’s (1972a, p. 218) early articles he defines board of directors as:

“[…] an instrument for dealing with the organization’s environment”

Thus, since Pfeffer had built his work on resource dependency theory on organisations’ management of its environment, one can by this definition understand how important board of directors and their work are within this subject (Pfeffer, 1972a, pp. 218-228).

Like mentioned in the introductory chapter, the two most eminent theories used when researching on corporate governance and board of directors are agency theory and resource dependency theory (Simmons, 2012, p. 56). However, there is empirical evidence that indicates it is more favourable using resource dependency theory as a lens of research when it comes to understanding board of directors, rather than using agency theory (Hillman et al., 2009, p. 1408). Though, it might be harsh to state that it is favourable to use resource dependency theory over agency theory, but one can assume that it will give a different light to research by using the two different theories as lenses. Continuing, the main difference to be found between how the two theories relates to understanding boards is that resource dependency theory focus on the linking role
between directors and the external environment, while agency theory is more related to the internal environment between managers and board of directors (Hillman et al., 2000, pp. 237-238; Neville, 2011, p. 528). It could however be argued that these two theories should be used in combination in order to obtain the best possible understanding (Hillman et al., 2000, p. 253; Hillman & Dalziel, 2003, p. 383).

The aim of this study was to gain insight and increase knowledge regarding how small business owners in small firms view the role of a board of directors. Different aspects that are raised are how board characteristics and diversity together with ratio of inside and outside directors affect board work, and also what affect this might have on company performance. In the light of all of this we chose to use the resource dependency theory as a theoretical research base. We focused on board diversity and the hiring of inside versus outside directors, and if these two types of directors could entail different resources to the firm, both in terms of external resources and also internal resources. Thomsen and Conyon (2012, p. 17) state that agency problems come to existence in the separation between management and ownership. Since small firms are more likely to have similar characteristics as a family firm one can see that owners are presumably involved in the firm's management, and thereby agency costs and problems are minimised (Margaritis & Psillaki, 2010, p. 625). However, the subject of internal environment and the link between executives and board directors, which can be seen clearly using the agency theory, will be briefly touched upon from a more resource linkage point of view.

Continuing, the function of a board of directors includes a number of different responsibilities. Adams and Ferreira (2007, p. 218) disclose a board of directors’ duties as; review and approve fundamental operating and financial decisions, plans, and strategies. Additionally, Hung (1998, p. 101) states that a firm should continuously and effectively strive towards an above-average performance. Making sure that the corporate management is doing so, while simultaneously accounting for related risks, constitutes one of the main responsibilities for directors. Further, the board is explained as being an internal instrument to ensure effective control, advising and monitoring, and dealing with the environment in which a firm operate (Dharmadasa et al., 2014, p. 12; Pfeffer, 1972, p. 218).

Related to this, managing the environment in which the firm is operating and its fluctuations are vital in order to achieve success. Simmons (2012, p. 58) mention that customising the board after the environmental situation can do this. The author states that one has seen positive associations between changes in structure and firm performance, and that this can be used to cope with environmental change.

**2.3.1 Board of directors in small firms**

A board of directors is a function firms have partly to fulfil legal requirements, however an interesting question is how different small and large firms use the resources provided by a board of directors. Since most studies have been directed towards larger corporations we saw a need for exploring and gaining in-depth understanding of how board of directors work in small firms. An example of this is the study provided by Robeson and O’Connor (2013, pp. 608-625) where one can see that previous research is mainly based on the agency relationship, and then primarily in larger corporations. Salloum et al. (2013, pp. 265-288), Pugliese et al. (2014, pp. 1189-1200) and Jackling and Johl (2009, pp. 492-509), provides other studies that have been conducted on larger firms. Our choice of researching small rather than large firms resulted among other things, in the use of
resource dependency theory as a main theoretical framework instead of agency theory. This choice of using the resource dependency theory was also due to that we aimed to see the linkage between board members and the external environment, and not as much the internal environment between directors and the management, in which the agency theory would have been better suiting.

Neville (2011, p. 530) argues that a common characteristic for a small firm is their lack of internal resources, and that they usually are in need for complementing the human capital that already exists. It is further stated that one can see a growing need to address this problem. Smaller firms operate in an increasingly global and complex environment and should therefore review missing resources that a board of directors could contribute with. Gabrielsson (2007, p. 689) address general features that one can see in small firms. Their structures and information flows simplifies the process of them responding to opportunities in a greater extent than larger corporations. However, one disadvantage that the author relates to this is that small firm board characteristics are not considered to be empowered and active. We connect this to a firm’s need of resources, implying that decision processes are shorter in small firms but they do not have access to the same internal resources as larger firms, thus are in more need of external resources.

Huse and Zattoni (2008, p. 74) address another differences between boards in large and small firms when they state that shareholders are usually external in larger firms while they are internal in smaller ones. We believe that this is one reason behind the low number of board members. If looking at a board of directors as a protector of the interest of external investors, a small firms that do not have these investors can disregard this responsibility, thus keep a lower number of board members.

In this study we wanted to explore how small firms’ use and cooperate with its board of directors. Huse and Zattoni (2008, p. 75) states that boards in small firms in some extreme situations only contains internal executives or employees within the corporation, and that a reason for this could be that the firm only appoint the board for legal reasons, due to that they are obligated to have a board. Neville (2011, p. 535) define this kind of board as a “passive board”, and a reason for this can be seen in their unwillingness to share control with independent directors. Gabrielsson (2007, p. 688) mention that the research one can find regarding board of directors and small firms usually address the issue of inside and outside directors. All this while leaving the aspects of size of board, separating CEO and board chair positions relatively unexplored. However, Gabrielsson (2007, p. 687) also emphasise that an important condition for success in the work of a board of directors is board composition and leadership, and how directors are allowed to assert power and take action. Yet, the author states that this goes against the general characteristics of a small firm board. Neville (2011, p. 535) acknowledges that as the size of the firm increase the number of outside director does as well. While conducting this framework it seems as owners in small firms are facing a trade off. They need to decide between bringing in outside directors and thereby loosing their full control, or maintaining full control and thereby miss out on the resources an outside director can contribute with.

2.4 Board composition and diversity

When trying to understand the function of board of directors it is hard to forego the topic of board composition. Conducting a literature search on corporate governance and board
composition we see that scholars are moving away from researching size as a main reason for successful board work. Research on board composition are more directed towards what resources they can contribute with, which is also a reason for why this is suiting when using resource dependency theory as a base for the study. Two authors who are addressing this growing area of research are Fields and Keys (2003, p. 4). They are discussing the question whether a board of directors should consist of employees of the firm (inside) or external members (outside). Furthermore, they emphasise the importance of this inquiry by stating that previous empirical research has shown that a board composition does have implications on shareholder value. Moreover, Lehn et al. (2009, p. 775) have found that variables such as firm size, characteristics, and growth opportunities can explain variations in the size and composition of board of directors.

One can still see that research from a decade ago is mostly directed towards the relation between size of the board and the success they have in their areas of responsibilities. Beiner et al. (2006, p. 256) is supports our previous assumption that larger boards in large firms are experiencing greater problems regarding communications and coordination compared to boards within smaller firms. In addition, two studies conducted on small firms in both Sweden and Finland has shown that board size has a direct negative correlation with firm performance (Eklund et al., 2009, p. 21; Eisenberg et al., 1998, p. 53). It has also been found that an increased board size could increase the level of communication and coordination within the board (Eisenberg et al., 1998, p. 53). Although these studies are not as new as many other relevant studies, we argue that the size of a board affect the fundamental work of a board, and therefore has a value in the discussion of board composition. Connecting this to resource dependency, one can argue that the size of the board is related to the resources that are or can be provided by the members in the board. However, considering the financial costs that could arise when increasing the number of board members, one can easily understand that smaller firms, with a lower level of financial flexibility, would not increase the board unless it is necessary.

Like in many other situations, board members are selected based on what resource they can contribute with to the firm (Simmons, 2012, p. 57). For example, Boyd (1990, p. 428) writes that the focus on board composition should be on “resource-rich” directors, and that it is not just a matter of size of the board but rather what type of directors that is inside the board. In the same fashion, another study showed that outside directors who are rich of resources tend to influence the company’s performance in a positive way, whilst outside directors who are not resource-rich does not affect in this positive way (Peng, 2004, p. 454). This further led to the conclusion that the performance of the firm is connected to having a board composition meeting new environmental demands. This discussion about that board members should be selected using their ability to provide resources as a motive seems logical, but the problem of understanding what resources that are favourable could be difficult. Since the definition of resource-rich could vary between whom you are speaking to, this could be something industry-specific or firm size-specific.

Findings from another study showed that smaller firms with high growth opportunities and high stock return volatility tend to have smaller and less independent boards, whereas larger firms are leaning towards having a greater board size and more independent boards (Linck et al., 2008, p. 326). This is also confirmed in one additional study by Coles (2008, p. 351), in which it was found that firms in need of a great amount of firm-specific
knowledge from insiders are favoured from having a larger amount of insiders on the board. In contrast, larger, more complex firms that are in more need of advising would benefit from having a larger size of the board and would favour from having a higher representation of outside board members (Coles et al., 2008, p. 351). The subject of inside respectively outside board members will be further discussed in the next section.

In addition, Gabrielsson (2007, p. 688) state that by increasing the number of directors, including the number of outside directors, one will increase a firm’s critical guidance, counsel and challenge managerial decisions. However, we assume that in smaller firms the size of the board might not only depend on preferences of the owner, but rather be a matter of expenses as well. Thus it might not be as easy for a small firm to increase the number of directors as it is for a larger firm with greater resources.

Additionally, in a study by Unger et al. (2011, p. 342) it was found that a clear relationship exists between human capital in a firm and its success. It was further shown in that study that the relationship was higher between human capital coming from knowledge and skills. Even though this study was not aimed directly towards the human capital in the board, but more in a general sense, we believe that this is highly related to our study. Looking at the results from this study, one could make the assumption that the human capital provided by the directors of the board will have impact on the success of the firm. In another study conducted in Tunisia, the results showed that having an independent board, an independent audit committee and frequent council meeting have a positive effect on the financial performance for the company (Zied & Mohamed, 2013, p. 194).

Reconnecting the subject of board composition and diversity to the section about CSR under the heading Corporate governance, one could assume that a firm not working with CSR but feel the need to improve this ethical way of operating, could choose to recruit board directors with this specific experience. The found positive relationship between corporate governance and CSR could work to enhance the firm performance by doing this (Beltratti, 2005, pp. 381, 385).

Linked to the subject of board composition one can also find board diversity. Empirical evidence has shown that for a board to function optimally it has to fulfil the requirements of all the knowledge and skills needed, and this cannot be done by one single director (Pugliese & Wenstøp, 2007, p. 398). It was shown that by diversifying the board of directors, in terms of background and knowledge it is possible to enhance board strategic performance (Pugliese & Wenstøp, 2007, p. 398). Similar to this, another study has shown that board size and composition should depend on the type of firm, and that it is hard to find an optimal structure of the board applicable to all firms (Raheja, 2005, p. 300). We argue that this is also relevant in the discussion regarding differences in composition for small versus large firms. One cannot say that there is a typical composition suited for small firms, one has to analyse the resources that is needed for them to operate effectively and efficiently and compose the board subsequently. A board composition including members with different experiences from different industries, will most likely lead to a more resource-rich board and a better foundation for networking.

Continuing, it has also been found that in newly incorporated companies choosing directors that provide the company with human and social capital and diversity will have impact on the likelihood of survival for the firm (Wilson et al., 2014, p. 752). It was
shown that selecting directors with more experience, greater network relationships, more local and more female directors will decrease the risk of insolvency for the firm (Wilson et al., 2014, p. 752).

In a study by Bøhren and Strøm (2010, p. 1305) it was found that owners of firms tend to select a proper mix of hands-off monitors and hands-on advisers when they design their boards. Further it was shown that having a heterogeneous board is less effective when it comes to decision-making (Bøhren & Strøm, 2010, p. 1305). This, however, is contradicting to what Wilson et al. (2014, p. 734) is writing about heterogeneous boards. They have found that having a board with heterogeneous characters can provide the access to broader range of experiences and backgrounds, which in decision-making can have positive effect on firm performance (Wilson et al., 2014, p. 734). One could thus assume that the decision-making process is longer when having a more diversified board, but the quality of the decisions might be higher.

Searching for articles about diversity in boards one notice quite soon that many studies have a focus on gender diversity (Mateos de Cabo et al., 2011, p. 145; Martin-Ugedo & Minguez-Vera, 2014, p. 136; Galia et al., 2015, p. 117; Martin et al., 2008, p. 194). This focus on gender studies feels contemporary and many countries have implemented minimum quotas for the number of women required on the board (Mateos de Cabo et al., 2011, pp. 145-146). Mateos de Cabo et al (2011, p. 145) states that larger boards tend to have a higher proportion of women compared to smaller boards, and they believe that the reason for this could be that smaller boards have a preference for homogeneity. They further stated that firms with high growth ambitions are more likely to appoint women to the board since they might be able to provide connections to external resources more valued by firms operating under critical circumstances. However, the study they conducted were on banks within the European Union and this preference for homogeneity, or preference of more women directors connected to growth, could be concentrated to this sector.

Continuing, in a study by Mori (2014, p. 110) it was shown that a positive relationship exists between the level of education of the director and its impact on board performance. Also the age of the director was proven to be of importance, in terms of providing resources to the board and their directors’ ability to monitor (Mori, 2014, p. 110). This could be seen as directly linked to the firm’s resource dependency and its ability to attract resources.

2.4.1 Inside versus outside board members

When selecting new board members, we consider that there are several choices you have to make in order to obtain the best possible composition of the board. One of these choices is whether to hire someone internally (insider) or choosing someone external (outsider). Like mentioned under the section board composition this question is of growing importance, mainly due to the fact that empirical evidence indicates that board composition can affect shareholder value (Fields & Keys, 2003, p. 4). Thus, we believe that it does matter how you compose the board in terms of inside and outside directors.

In order to understand a clear difference between these two types of directors, inspired by the work of Hillman et al. (2000, pp. 238-240) we have stated the definitions on inside and outside board members below.
Inside director: these directors are primarily characterized by being current employees of the firm, owners, or they have worked as managers at the firm in the past. The benefits of having inside board members could be that they can provide the board with resources such as actual information about the firm and its competitive environment (Hillman et al., 2000, p. 240). They have internal information on management and the processes within the firm, as well as regarding the work environment as a whole (Hillman et al., 2000, p. 240).

Outside director: these directors, in contrast to the insiders, have no prior insight to the firms’ operations. They are currently retired or working at another firm, within the same or another industry, or just being related to someone of importance for the company through kinship or other relationships. The outside directors can amongst other things bring resources such as knowledge in other managerial- and strategic processes, or provide network links useful to the firm (Hillman et al., 2000, p. 238) as described under resource dependency theory. It is also shown that having outsiders in the board can prevent opportunism of executives (Fiegener et al., 2000, p. 291). One can see outside board members as the linkage to the firm’s external environment and they provide resources based on their prior experience and network (Hillman et al., 2000, p. 238). We believe that as unlinked to the firm outsiders can also provide a more critical approach to decisions.

It would be possible to divide the inside and outside board members into several subgroups and make them more specific, however, due to the limitations of time and resources in this study we chose to keep the definitions broad. This allowed for a discussion on what resources these two different directors types can bring, and at the same time get a deeper knowledge on how this affect the smaller firms.

Going in deeper into the subject, both advantages and disadvantages exist with having inside and outside directors. Starting with the disadvantages of having inside directors, one can assume that the largest downside is connected to them being narrower in their views, since they probably are clouded by their current way of doing things. It has also been suggested by previous empirical research that inside directors can raise manager-shareholder agency costs (Masulis & Mobbs, 2011, p. 824).

Related to the advantages linked to having inside directors, Pfeffer (1972, p. 219) writes about two studies previously conducted on board composition, in which it was shown that large corporations tend to use inside board of directors over outside board of directors. This use of board members whom are involved with the management of the firm resulted to be superior over those who are not, in terms of performance of the firm (Pfeffer, 1972, p. 219). He also found that in boards where the economy is strongly regulated the representation of external board members is higher compared to boards less economically regulated (Pfeffer, 1972, p. 224). Additionally, this was confirmed by Louma and Goodstein (1999, p. 559) who describe that having stakeholder directors improves the level of corporate social performance. In addition to this, it has also been found that having outside board control could lead to a value reduction for the firm coming from the potential loss of important information brought by insiders (Harris & Raviv, 2007, p. 1830).

The advantages of having an inside board member can also be connected to the disadvantages of having an outside board member. Like mentioned in the previous
section, there are empirical evidence showing that having outside directors can have negative impact on board effectiveness and that they can increase board conflict (Goldstein et al, 1994, pp. 248-249). Other potential negative impacts that could come from having outside board directors are that they restrict the potential for informal communication by only spending limited time together, which in turn increases control and coordination costs (Eisenhardt, 1989a, pp. 68-69; Vafeas, 1999, pp. 140-141). These negative aspects of outside board members could be motivational for having an inside board member.

In contrast, looking at the advantages of having outside directors, another study on outside directors, board independence and the followed shareholders wealth, showed that outside board members are chosen in the interest of the shareholders (Rosenstein & Whyatt, 1990, p. 175). This is due to that recruitment of outsiders tends to have a positive effect on the stock price, in contrast to little caused reaction from hiring insiders. Likewise, it has been found empirical evidence that greater outside board representations will lead to different and better board decisions (Dahya & McConnell, 2005, p. 59).

In addition, it has been found that firm growth and performance can be enhanced by having outside board members, whom through multiple board membership can obtain great external connections to directors (Kor & Sundaramurthy, 2008, p. 997). By being a member in multiple boards you can diversify your knowledge base when it comes to strategy and governance issues (Kor & Sundaramurthy, 2008, p. 998). It was also concluded that the possessed knowledge and skills of these outside board members who are serving in several boards could be transferable. Which in turn is the reason for why they can produce value for firms operating in different firm settings (Kor & Sundaramurthy, 2008, p. 997). Another literature finding in this study was that having boards with outside board members who possess industry-specific knowledge can provide the firm with technological and specialised business knowledge as well as access to networks (Kor & Sundaramurthy, 2008, p. 998). Further, this can also lead to enhanced growth for the firm. This discussion on outside directors and board interlocks is in accordance with the resource dependency theory and is focused on what resources these directors can bring and what affect this has on the firm. This is one of the reasons for why we believe the subject of inside versus outside directors was important in this specific study.

Continuing, looking from the perspective of CSR, as discussed above, empirical evidence has shown mixed results for if inside or outside board members are more beneficial when it comes to obtaining corporate social responsibility (Ibrahim & Angelidis, 1995, p. 406). However, some results points towards outside board members are more likely to protect the interests of more than just stakeholders of the firm, which could be connected to them being more concerned with taking on a responsibility of the society as a whole (Ibrahim & Angelidis, 1995, p. 406).

In a study by Hillman et al. (2000, p. 238) it was found that the size of the board and mixture of inside and outside board members are different depending on the firm's level of environmental dependency and uncertainty. Moreover, the study showed that as time passes the environment changes, which in turn leads to a varying size of the board and a changing rate of inside and outside board members.
Additionally, in a study on small private firms in the U.S. the result showed that the level of ownership outside the firm affects how likely it is that the firm has a board of outside directors (Fiegener et al., 2000, p. 306). Meaning that higher amount of outsider owners’ results in higher likelihood of having outside board directors. It was also found that the reason for this higher level of outside board members is not primarily from the CEO’s wish to gain the resources they provide, but rather to fulfil the wants of the owners (Fiegener et al., 2000, p. 306). Another thing found in that study was that CEO’s of larger private firms, or CEO’s who are older prefers the benefit of having outside board directors more (Fiegener et al., 2000, p. 306).

In one relatively recent study by Brunninge et al. (2007, p. 304) they, among other things, looked at how outside directors affect strategic change in firms. It was found that outsider directors have a positive effect on strategic change in closely held SMEs. Moreover, the benefits these outside directors bring are related to cognitive diversity, links to external stakeholders and legitimacy (Brunninge et al., 2007, p. 304).

It would be almost impossible to know what is of highest importance between the ratio of inside and outside directors, and the diversity of boards, related to finding the most optimal board. Van den Berghe and Levrau (2004, p. 470) however are stating that more importance is attached to the board diversity, rather than board size or ratio of inside and outside directors.

2.5 Summary of the essential existing theories

The growing attention for corporate governance has led to a development on how one view problems that are connected to the subject, including a firm’s use of a board of directors. It seems like literature has advanced from quite strong assumptions regarding board of directors, a board of director’s size is not longer the main topic when discussing the value they can add to a business. Instead, reasons for achievements in board work can be connected to its composition and diversity.

Small firms are representing a large share of the business market. They are today facing new challenges, there amongst gaining and maintaining competitive advantage, this while taking into account the increasing globalisation. This increases the need to have access to the right resources. However these can be difficult to obtain internally, therefore researchers discus the necessity to make use of their board of directors. Our theoretical framework shows that these resources can come from board of directors that meets the need of competences that comes from both outside and inside the business.

Resourced dependency has been used as a lens when looking at the composition of a board of directors. Hillman et al. (2009, p. 1404) state that the theory addresses the requirements for a firm to extract resources externally, and that a firm is not self-sufficient. Furthermore, as small firms have limited amount of internal resources and therefore are in need for addressing the problem on how to complement this lack of human capital (Neville, 2011, p. 530). In order for a board to fully fulfill its purpose it has to be composed of knowledge and skills that are required in the firm, which might be accessed externally (Pugliese & Wenstøp, 2007, p. 398)

We have seen that diversified boards that include required human resources with social capital have impact on the likelihood of firm survival and enhanced firm performance
(Wilson et al., 2014, pp. 734, 752). By diversifying a board of directors, in terms of board members’ background and knowledge it is also possible to enhance board strategic performance (Pugliese & Wenstøp, 2007, p. 398).

Hillman et al. (2000, pp. 238-240) brings up the difference in inside and outside board of directors. They represent different stakeholders and contribute with different resource, in terms of competences, knowledge and experiences. However, instead of looking at a ratio between inside and outside board members a firm should analysis their resource need and appoint aboard on that foundation.

Board composition, diversity and the ratio between inside and outside directors are all topics that have been touched upon throughout the literature. All of these are linked to the question of how one can optimise the use of the board, and not just let it become a cost that is based on legal requirements. Topics and questions that are raised by scholars, and that we are taking with us to our analysis is if a board will gain from including outside directors, what should a board consist of in terms of human resources and what kind of knowledge and experience are looked-for.
3. Methodology

In this part of the thesis one can find the theoretical- as well as the practical methodology necessary for the conduct of the study. In the beginning you can read about the subjectivistic- and interpretivistic viewpoints that forms the foundation to the procedures used. This is followed by motivation of the deductive approach, continued with a description of the semi-structured interviews. One can further read about the selection of participants and their respective industries. Towards the end of the chapter one can find how the interviews will be used in the analytical procedure and also the limitations of the study. This section is intended to provide the reader with a transparent description and motivations of all procedures used.

3.1 Pre-understandings

The researchers in this study are two women currently studying international business administration on the master level at Umeå University, with specialisations towards finance, marketing and management. Both of us have lived in Sweden our entire lives and have most likely been formed by the social environment that has been surrounding us. Whether the fact that we were brought up in different parts of the country or by different families has affected our values as human beings is hard to say, but one could assume that each of us have a somewhat different view on life.

Regarding the subject of corporate governance and more specifically corporate governance in small firms, neither of us has any business specific knowledge. We have not been members in any boards, or have worked at management level in any firm that could have provided us with experience related to how boards are used. We hope that this lack of experience gave us an unclouded view on the subject, and allowed us to explore the subject from an outside perspective. This could also have helped us being objective in the study, and view the result from previous studies as well as for the result from this study with as little judgement as possible.

3.2 Research design

3.2.1 Research philosophies

It is important to understand the underlying philosophies in order to fully understand the conduct of the research, as well as for how the participants’ knowledge is viewed and used. The reason for why this is of importance in a research of this sort is because the underlying philosophies form the base for the whole execution of the study, and together with well defined practical methodology it increases the possibility for others to replicate the study, which in turn increases the credibility of the research (Ryan et al., 2002, p. 8). Thus, this is the reason for starting this chapter with a thorough description of the axiological-, ontological-, and epistemological considerations taken in this research.

3.2.1.1 Axiological considerations

Frankfurter and McGoun (1998, p. 161) state that methodology cannot be value-neutral, and thus when conducting a qualitative research like this it is important for the reader to get a clear view on who are making the study. The reason for this being important is that it will provide an understanding of our roles as researchers, and how we indirectly might use our backgrounds and views during our subjective analyse in the study (Byrne, 2001, p. 209).
Axiology is the philosophical standpoint that relates to how the researcher views the role of values and how this impacts the study in question (Saunders et al., 2012, pp. 137-140). One can further define this theory of values as the knowledge based on our goals, aims and opinions that direct our actions (Allen & Varga, 2007, p. 20). In this study this basically means that our built-in values as researchers and human beings that have been formed during our lifetime, will have impact on how this study was composed. Like mentioned in the previous paragraph, due to reasons such as the social environment that surrounds us, beginning from birth and forward, the values of different individuals are not completely the same. This results in that when two or more people conduct a study together, they have to make sure to be consistent in the procedures in order to make a cohesive and successful research.

Like mentioned in pre-understandings we aimed towards being as objective as possible throughout this study, and we tried to achieve this objectiveness through several practices. These practices could mainly be described as being two researchers, whom during the whole research process examined the material. This was important both when it came to developing questions, open enough not to lead the participants into any answers, and also when it came to analyse the findings from the interviews in an objective way. This minimized the risk of the findings being manipulated into what one individual researcher felt was the most important. Additionally, the choice to have semi-structured interviews helped us to remain objective by the asking open questions that the participants could value and interpret in their own way.

3.2.1.2 Ontological considerations
Ontology is the research philosophy that is related to the nature of reality, which basically can be described as how the researcher views the world (Ryan et al., 2002, p. 13). In this research the ontological consideration is subjectivism or idealism since the interest was in knowing the perceptions and essential meanings of the chosen participants, the small business owners at the small firms. This means that that perceptions and actions of these participants were the base of social phenomena and that this could be seen as this study’s view on reality. Moreover, this subjectivistic view on the world is derived from the belief that reality is socially constructed (Ryan et al., 2002, p. 14). This view differs from objectivism in the sense that we believe that entities are social constructions, while with an objectivistic view one believes that entities exists external from the social actors concerned with their existence (Bryman and Bell, 2011, pp. 20-21).

Clarifying, our view was that the entities the small business owners are operating in are constructed by the social actors that has built them and are operating them. This further means that the small business owners’ subjectivity and perceptions were of importance in order to understand the function of these entities and to obtain in-depth knowledge on them (Byrne, 2001, p. 209).

3.2.1.3 Epistemological considerations
Derived from the subjectivistic viewpoint described in the section above, the epistemological position taken in this study is interpretivism, which also can be called idealist interpretivism (Schnelker, 2006, p. 45). In contrast to the ontology, epistemology is a research philosophy that is related to a researcher’s view on what knowledge is considered to be acceptable knowledge in the research field of study (Ryan et al., 2002, p. 11). The reason for us having an interpretivistic view is that the perceptions and meaning
of our participating small business owners were seen as the base for understanding and exploring the subject.

Since the aim of this study was to increase the knowledge on board of directors in small firms we used the participants’ perceptions and essential meanings as acceptable knowledge. To clarify, we aimed to explore and understand the realities of our participants, and as researchers were responsible for transferring our interpretations of this to the reader (Schnelker, 2006, p. 45). It would not have been possible to conduct this qualitative study and not accepting the small business owners’ views and opinions as knowledge, since these are what we aim to collect during our interviews with them.

This study was mainly related to the subjects of finance and management, and research within these fields are commonly accepted as being social scientific, for the reason that it frequently directed to social issues, rather than exploring or explaining natural phenomena (Ryan et al., 2002, p. 9). However, if this research would have been conducted with another design or of quantitative quality, other epistemological standpoints would seem more logical, such as; positivism or realism (Saunders et al., 2012, pp. 134-136; Bryman and Bell, 2011, pp. 15-16). When having these views it is more common to only accept observable data as reliable, or to see that the objects are independent of the human mind, which is not possible in this type of study.

3.2.2 Research approach
This research, in which we aimed to generate findings by using the perceptions and meanings of a number of selected participants, is classified as a generic qualitative study (Ryan et al., 2007, p. 741). The theoretical base used was resource dependence theory, which is being described in the chapter of theoretical framework. This theory was used as a lens of understanding how the small business owners view the subject of boards related to board diversity, board composition, director characteristics and the ratio of inside and outside director, and also how this affects the firm in general. Thus, in this study a deductive approach were used, and resource dependency theory were used as a foundation when searching and exploring the previous literature on the subject. Further, the known premises found was used to generate untested conclusions with the ambition of providing additional knowledge to the field of research.

When conducting a research on a subject in which extensive previous literature is to be found, as in this one, the choice of having a deductive approach makes the most sense. Thus, since the knowledge within the field is widespread, the intention was not to explore the subject as such, but rather to contribute with knowledge and insight about corporate governance and board of directors in small firms. This was according to the knowledge gap within the subject that was to be found. Since the deductive approach includes reviewing existing literature, find a gap of knowledge, and later contribute to the subject by filling this gap, we believe that this suited the type of study we have conducted.

3.2.3 Characteristics
3.2.3.1 General characteristics
Looking at the characteristics of this study, semi-structured interviews were held in order to collect the data. The interviews were held both face-to-face and in the form of telephone-interviews with the selected participants during the time period of mid-April to mid-May. The reason for using this non-standardized interview technique of semi-structure interviews is mainly due to the fact that it allowed us to having some structure
by using key questions and themes, but still remain flexible and adapt to each situation (appendix 1) (Myers, 2013, p. 122). Since we aimed to explore our participants’ views on board of directors in small firms, we could with this flexibility adapt the questions to each participant when it came to fact such as; number of board members, the use of the board and so on. Other situations in which it was good to be flexible, regarding the interview guide, is when some participant brought up subjects that is to be found later in the guide. Then it was possible to change the order of the question to suit the conversation in a natural way. There was also the possibility of discovering something not previously considered in this area since the respondents were not constricted in their answers.

When planning the type of interviews to be held, the ambition was to have face-to-face interviews, which is in total accordance with the semi-structured structure of the interviews. However, when reaching out to the participants we noticed that in order to meet their needs and to be as flexible as possible we also had to agree with having most of the interviews over the telephone. At first we believed that having only face-to-face interviews allowed us to decrease the level of uncertainty that could come from having them over the phone or in some electronic way over the Internet. Meeting the participants in person would give us as interviewers a chance to build trust, which could increase their willingness of answering with accuracy as well as reduce the risk of misunderstandings. Even though these assumptions probably are true, we realized that since we were mostly concerned with what they say and less about the way they were saying things, it would not make a large difference talking over the phone.

The motivation of our use of holding interviews and conducting a qualitative study is that we wanted to get a deeper understanding of board of directors in small firms, and how the small business owners perceive that the use of the board, together with the diversity, ratio of inside and outside directors and their characteristics, affects firm performance. This kind of deep knowledge and understanding of the participants perceptions would not be possible by conducting a quantitative study, since we in that case would not be able to extract the information in a fair way to represent their views on the subject, and at the same time explore potential subject branches not detected in previous literature (Byrne, 2001, p. 207).

3.2.3.2 Interview questions
In order to successfully conduct the interviews we had to create an interview guide that contains the main questions and themes we aimed to explore in our research. The whole interview were designed to make the participants talk, and this was done by using as many open questions as possible allowing them to reflect and speak their meanings (Myers, 2013, p. 133). Using mainly open questions gave us the opportunity to explore the participant perceptions and meanings, this by encouraging them to provide us with extensive and well developed answers to our questions. This helped us gain a deeper understanding of the participants’ opinions and perceptions that we were looking for in this explorative study. Mixing these open questions with probing and closed questions allowed us to have some structure and in the same way direct the conversation in the order that gave the subject the right focus in this study. The interview guide can be found in appendix 1.

One thing that is important to consider making an interview guide of any kind is to avoid making too probing questions that tangent towards being leading. Having leading questions restricts the level of exploration in the study which would take away much of
the purpose. This was avoided to the highest extent possible in this study by having questions as open as possible, and only using probing questions to make it easier to keep focus and in order to reach back to the actual subject if the participants were drifting away.

When constructing the interview guide we used the main themes examined in our theoretical framework as the foundation, and within each theme we decided what we wanted to explore among our participants. The main themes that were explored during our interviews were; board of directors in small firms, board composition, inside versus outside board members and firm performance. We believed that this would help us obtaining the information needed in order to answer the research questions in this study.

3.2.3.3 Location and language
In this study we were interviewing small business owners in small firms. When holding interviews with individuals, especially in higher positions in the firm, one has to be aware that you, as researchers, always have to compromise and adapt to the participants, and to understand that they are busy and have little time available (Gillham, 2005, p. 4). Since we throughout this study have decided to be as flexible as possible towards our participants we let them either to choose the location of the interview or if they preferred to participate via telephone interviews. In all face-to-face interviews that were conducted we did it at their offices, on their request. Like mentioned before, most participants’ preferred to take the interview via telephone, which eliminated the question of location of the interview. Moreover, another reason for us letting the participants’ select the location of the interview was that we wanted to show that we respected their time, and did not want to take up more than necessary.

Continuing, we believe that using a location of their choice will also most likely increase the level of comfort they feel. This can also increase the credibility in their responses and decrease the level of bias, which could come from discomfort from their side. Additionally, the interviews were held in Swedish, which we believe can help the participant to feel as secure as possible in order to obtain the best possible answers, and this due to the fact that Swedish was the native language for all participants. Further we think this could reduce the bias coming from eventual language barriers and misunderstandings of questions.

3.2.3.4 Recording of interviews
The interviews were audio-recorded, both when they were held face-to-face and over the telephone. This allowed us to focus on what the participants were saying in order to quickly come up with follow up questions when needed. Before each interview we asked for the participants permission of recording them, and all gave us their consent. As a complement to the audio-records we always took notes during the interviews, which helped us write down essential words and perceptions they emphasised and at the same time have as back up if the recordings would stop working.

3.2.3.5 Time horizon
In this study several limitations existed, one of the most crucial being time constraint. This forced the interviews being held in a short time horizon, which made the study cross-sectional (Saunders et al., 2012, p. 190). The subject of this study was therefore be studied during a short period of time, which resulted in that the exploration was restricted
to this particular time, thus cannot be generalized in the same extent as if it would have been conducted over a longer time horizon.

One can assume that the opinions of these participants was be representable for how the board of directors are used in small firms, even though a longer time horizon and larger sample would have provided an even more accurate representation. However, we still believe that the findings obtained from our sample of nine small business owners in Västerbotten gave us a good indication on the climate for the entire population of small business small business owners in Sweden. By conducting the study over a longer time horizon it would have been possible to see if any fluctuations exists over time when it comes to how small firm uses the board or if this is a subject that is under constant development, but our intention with the study was not to find these types of diversifications over time, but rather to gain knowledge on the small business owners perceptions of the subject at this point in time.

3.2.4 Research strategies
This study is regarded as having a multiple case study design; which basically means that each of the participants’ was seen as individual cases that we were studying. The main reason for this selected research strategy was because it was the most suitable design in terms of obtaining data to answer our research questions. Yin (2009, p. 2) describes case studies is favourable used when the research aims to answer “how” or “why” questions, the researcher have little control over events or when the focus is on a contemporary phenomena within a real-life context (Ghauri & Firth, 2009, p. 30; Yin, 2009, p. 2).

The individual cases that each participant gave us were then compared against each other and analysed with the existing literature. The emphasis in this study was on an examination of the subject of corporate governance and board member selection in small firms in the specific region of Västerbotten. The small business owners’ or owners’ who are being interviewed all work at different companies and were selected from several different industries, which gave us the opportunity to obtain a broad level of data from their different perceptions and views of the subject. This brought us a rich foundation to the analysis and knowledge contribution within the subject of corporate governance in smaller firms in the northern part of Sweden.

3.2.5 The nature of the research design
When it comes to the nature of the research design of different studies one can find three major purposes: exploratory studies, descriptive studies or explanatory studies (Saunders et al., 2012, pp. 170-172). In this particular study the purpose was to conduct an exploratory study in which we aimed to gain insight and knowledge by using techniques of open questions and flexibility in order to get a deeper understanding of the participants’ perception on the subject of selection of new board members and how this could impact the company’s performance. It can further be seen as exploratory since the subject of how boards are used in small firms are not fully understood and by having this design we were allowed to gain the information we wanted within the field.

Similarly to the research strategies, the different research designs are appropriately used to answering different types of research questions. When having research questions containing “what” and “how”, like we have in this study, one preferably uses the exploratory design in order to get the information needed (Koch et al., 2013, pp. 133-134; Ghauri & Firth, 2009, p. 31). If however, you wish to answer more close-end questions
like “do”, it would be more appropriate to have a design of descriptive studies or explanatory studies (Koch et al., 2013, pp. 133-134). This, however, is more common in quantitative research.

3.3 Selection of literature sources

The literature used in this study was primary secondary sources such as empirical studies and research articles and we used as little tertiary sources as possible. These include textbooks, fact books and dictionaries among other things. The main reason for us using mainly research articles instead of textbooks is because we understand that a subject like corporate governance is under constant development and change. The best way to follow this change and obtain the most recent knowledge is by viewing articles on the subject, which have been conducted in many places in the world. This increased the depth in our theoretical framework by not only giving the reader insight in the subject per se, but rather also providing them with a broad understanding of the development within corporate governance over the years. However, the textbooks that actually were used in this study was primarily for defining specific methodological choices, which was necessary in order to properly discuss these concepts.

Searching for literature and academic articles regarding our topic, one noticed quite early that the name Pfeffer is often mentioned, referring to his early research. We feel safe to assume that he is one of the key authors within resource dependency. Other authors that have proven to be important by publishing several articles on the subject are; Hillman, Goodstein, and Mizruchi & Stearns.

The amount of literature existing within the field of corporate governance is extensive, and we had to restrict the search in some way in order to prevent overload, but at the same time find the most important research for the research in question. Continuing, in this research we made this restriction by using several keywords, which we used in the search process. These keywords were; corporate governance, board of directors, resource dependency theory, boards in small firms, board diversity, inside and outside directors, director characteristics and board members.

3.4 Ethical considerations and gaining access

In all type of research there are ethical dilemmas and concerns involved in the conduct of the research on an everyday basis (Guillemin & Gillam, 2004, p. 262). In this study when collecting primary knowledge through face-to-face interviews it is highly important to consider the aspects of how you will gain access to the data, and also how to address the ethical concerns that might arise during the conduct of the study. During the last decade the subject of ethics related to research has been highly emphasised, which indeed makes it an important issue to address when conducting a study like this in order to make it successful (Saunders et al., 2012, p. 208).

3.4.1 Gaining access

The interviews in this study were held both in person and over the telephone with our participants, which mostly relates to gaining traditional access (Saunders et al., 2012, p. 210). This basically means the access you have to gain in order to obtain the perceptions and understanding from the participants during the interviews. This can be seen as an ongoing access (Bryman and Bell, 2011, p. 435).
Since no prior contact existed, between us the researchers and the approached participants at each company, we were operating as external researchers. This resulted in three levels of access needed to be negotiated: physical, continuing and cognitive (Saunders et al., 2012, pp. 210-213). First we had to negotiate the physical access to talk to the wanted participant. This could be problematic in several ways since you have to find someone willing to give you some of their time and also are willing to provide you with information and insight into the operations of their company. In this particular study this was hard since the person who selects new board members was usually someone in a higher position in the company, such as the entrepreneur or the owner. This would increase the risk of them denying participation due to time limitations. We called approximately 70 people in order to reach nine participants willing to be interviewed. Even though it required many phone calls to collect the sample, we found that some of the small business owners willing to participate seemed generally interested in the subject, and the reason for this could be a mix of their general interest in their business and an interest in the need for increased knowledge of small firms.

Secondly one has to consider the continuing access to the participants, which is related to the access you might need to re-negotiate with the participants during the research process and also the risk that the participant you were going to interview had been altered due to organizational restructuring. However, we did not have to re-negotiate access to our participants during the conduct of this study and we did not have to deal with this access. Furthermore, the last access we needed to negotiate was the cognitive access, which is related to the access you need in order to obtain your data that will help you in answering your research questions. Basically this access was the access to the person's willingness to share his or hers perceptions and opinions about the subject and can thus be seen as one of the key access we had to gain. We experienced the willingness among our participants to share their perceptions and meanings as good and did not feel this type of access caused any problems in this study. It could, however, be extensively more difficult if the subject is sensitive to the participants personally.

There are several different strategies one can use in order to gain the access that has been considered during the conduct of this study. Saunders et al. (2012, pp. 217-226) have identified some of the most important strategies you can take on in order to successfully gain access; ensure you are familiar with the approached organisation before initial contact, providing clear purpose of the research and the type of access required, overcoming organisational concerns about granting access, facilitating replies when requesting access, developing access incrementally and establishing your credibility. Furthermore, you can also take on strategies of using a suitable language, using existing contacts, identifying the benefits of using the specific organisation and allowing yourself sufficient time (Saunders et al., 2012, pp. 217-226). In addition, Bryman and Bell (2011, pp. 435-436) highlights the four most important things you as a researcher can do in order to smooth the process of gaining on-going access as; assuring your credentials, being free of judgement, clearly explain purpose of the study and lastly to be prepared for changes in circumstances. These were also approached in this study to obtain the highest level of access to our participants as possible.

In this study, in the selection process of new board members and its relationship with company performance within small firms in Västerbotten, the emphasis was primarily on gaining the physical access to the participants and finding the suitable companies for obtaining the wanted data. Research was done on each company before contact, in order
to give the right explanation of their relevance for the study. The purpose was also stated at the earliest possible stage to the potential participants to increase their interest and understanding of why it is important to conduct the study. Moreover, we also placed focus on establishing our credibility to the participants in form of thoroughly explaining the background to the subject and how our own previous knowledge was useful.

3.4.2 Ethical issues related to the study
When conducting business research or research overall it is important to take the ethical aspects into consideration. One could define ethics as: “[…] the standards and behaviour that guide your conduct in relation to the rights of those who become the subject of your work, or are affected by it” (Saunders et al., 2012, p. 226). In this study the ethical aspects were considered and discussed at an early stage in order for us to establish the foundation to how we should act throughout the conduct of it. We believe that this was really important both for us as researchers, and also for our participants that we understand what type of ethical issues that can arise during a study like this.

There are several types of codes of ethics one can follow when conducting a research (Resnik, 2011). These are suppose to contain different rules and guidelines of how you as researcher should act in order to overcome the ethical dilemmas that could arise within your field of research. According to the European Science Foundation in the publication “The European Code of Conduct for Research Integrity” (2011) the principles that should be followed related to research integrity are; honesty in communication, reliability, objectivity, impartiality and independence, openness and accessibility, duty of care, fairness in providing references and giving credit and also responsibility for the scientists and researchers of the future. Other principles that should be followed are; respecting intellectual property, responsible publications, social responsibility, legality and human subject protection (Resnik, 2011).

In this research we focused on the ethical considerations concerning our study the most; confidentiality, objectivity and anonymity of the participants. We have actively worked towards obtaining good relationships with the participants, and assured them confidentiality both in terms of responses and their anonymity in the thesis. We have also focused on being non-judgemental, especially during the actual interviews and this to increase the level of comfort the participants feel in our presence, which in turn could increase the accuracy in their responses. Furthermore, we have tried to minimize the level of subjectivity from us as researchers in order to maintain objectivity in the research. This will in our opinion increase the level of generalizability for the study, since our personal views and perceptions will be decreased to the lowest level possible, even though it is impossible to reduce this totally.

The subject chosen in this study was not especially sensitive per se, but one has to be aware of that the participants can feel that some questions are sensitive to them personally or to the company they are working at. This made it highly important to make them understand how their responses will be used and that the intention of the interviews is not to point out neither them nor their company, but rather to obtain an insight to how the selected industry or firm type views the subject of corporate governance and board of directors.
3.5 Selection of participants

Selecting the sample for the study is one of the most essential aspects for succeeding with a research (Eisenhardt, 1989, pp. 536-537; Ghauri & Firth, 2009, p. 31). In this study it would seem impractical to collect data from the entire population of small business owners in small firms in Västerbotten, mostly due to time and budget constraints but also due to the complication of collecting data from a population of that size. These limitations make it reasonable to select only a sample from this population, and let that sample represent the population as a whole (Saunders et al., 2012, p. 260). Like described in earlier sections of this thesis, the data coming from the selected pool of respondents are not suppose to be generalised to the whole population of these small business owners in the world, but is solely a representation of the population restricted to the county of Västerbotten. This type of sample can be identified as a representative sample, meaning that it is a sample selected from the entire population that is representable of that population (Bryman and Bell, 2011, p. 176). Even though the purpose with this sample was to give a representation of the population of small business owners in Västerbotten, we believe that this will provide a good indication to how small business owners in small firms in Sweden view board of directors, due to that the climate for small firms is assumed to look fairly the same around the country.

There are several different sampling techniques, and the most fundamental division is between choosing a probability sample or non-probability sample (Saunders et al., 2012, p. 261; Bryman and Bell, 2011, p. 176). In this study we have used a non-probability sample, which sometimes is called a non-random sampling. The reason for using this sampling technique is that our research questions and objectives were requiring it since we were studying a smaller number of cases and obtaining the understandings and views of our participants from in-depth interviews.

The technique used to find this non-probability sample is in this case called purposive sampling, meaning that we as researchers have used our subjective judgements to find the sample that were the most suitable in terms of answering the research questions (Saunders et al., 2012, p. 287; Patton, 1987, pp. 51-52; Silverman, 2011, p. 388). The main reason for using this technique was because it allowed us choosing small business owners in small firms who had the knowledge and experience we were looking for in order to answer our research questions (Koch et al., 2013, p. 136; Lakshman et al., 2000, p. 373). In our opinion it would have been a misallocation of resources to select a probability sample when gathering the information in this study, and like mentioned before, it would not be possible within the time constraint of this study.

3.5.1 Procedure

When it came to finding the sample of participants in this research a database called Retriever Business was used. This site allowed us to restrict the search to the specific county of Västerbotten and also limit it to the level of turnover and number of employees that were in accordance with EU’s definition of small firms (European Commission, 2015). Thus, the firms we were searching for had the characteristics of having a turnover or assets less than 10 million Euros and in addition having between 10 and 49 employees.

Like mentioned earlier one of the aims in this study was to explore if any differences exist between three industries, when it comes to selecting new board members and what effect the board has on firm performance. Even though Västerbotten is a county with a vast amount of small businesses, the numbers of industries are many, and it was hard to
find industries containing enough firms with potential participants for this study. Since we wanted to interview three small business owners within each industry, we had to find industries that contained a larger pool of small firms to choose from, due to the reason that not all firms we contact are willing to participate in studies like this. Also, by using the largest ones we believe that we found industries that are representing the region of Västerbotten’s businesses in a fair way. Three industries we found that had a sufficient amount of firms to contact were; construction, IT and transportation. This extended our search on Retriever Business for small firms in Västerbotten within these branches, and the search left us with a list of firms that suited our requirements.

The following procedure contained us contacting the potential participants, primary via phone calls, but in some cases through e-mails. We randomly selected which companies to contact from the retrieved list. This further allowed us to minimize the risk of us selecting participants in a manner that could bias the results in this study. When making the calls, we noticed that in many cases the small business owners or owners in the small firms on our list also had a position in the board of directors and would thus be suited for our interviews, but we decided to call the general number to the firm to let them direct us to the person at the firm who was responsible of the board of directors.

3.5.2 Participants and industries
We were looking for individuals within the small firms that have insight and responsibility of finding new board members to answer our research questions. With hindsight the majority of our participants had the position of being the owner or CEO of the firm, which also seem logical in smaller firms since the owner or CEO tend to be active in most decisions regarding the firm and its organisation. Like mentioned in the previous chapter, the three selected industries were; construction, IT and transportation. We believe that these suited our research in the sense that they are different in terms of competition, business climate and clientele. The reason for us selecting three participants in each industry was due to that this provided us with the possibility of a rich analysis of existing differences in viewpoints of the participants between the industries. It would have been possible to select nine different industries and interviewing one participant from each, however this would not have allowed for the same type of comparison between the industries, as when having three small business owners from each. A study of corporate governance and board of directors in small firms with all participants from different industries could be a recommendation for further exploring this subject, and exploring if this could lead to similar results as in this one.

In order to be consistent with the research ethics of respecting the participants’ anonymity we have chosen to make all of them anonymous and thus give them a code representing each one of the participants. However, in Table 1 (next page) you can find information of their respective position and what industry they are operating in, together with interview type and length. This gives a clear overview on the individuals participating in this study. In table 1 below one can see what year the firms’ were founded, and the fact that there is a spread between the years of 1971 to 2009 can be seen as the sample giving a better representation of small firms in general, compared to if all firms were founded in the same year.
Table 1. Participants’ and firm characteristics

<table>
<thead>
<tr>
<th>Participant</th>
<th>Firm industry</th>
<th>Year firm was founded</th>
<th>Position of participant in firm</th>
<th>Connection to the board</th>
<th>Number of directors in the board</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-01</td>
<td>IT</td>
<td>2005</td>
<td>Part-owner</td>
<td>Chairman</td>
<td>2</td>
</tr>
<tr>
<td>E-02</td>
<td>IT</td>
<td>2009</td>
<td>Part-owner + CEO</td>
<td>Director</td>
<td>7</td>
</tr>
<tr>
<td>E-03</td>
<td>IT</td>
<td>2001</td>
<td>CEO</td>
<td>Director</td>
<td>4</td>
</tr>
<tr>
<td>E-04</td>
<td>Transportation</td>
<td>2006</td>
<td>Owner + CEO</td>
<td>Director</td>
<td>4</td>
</tr>
<tr>
<td>E-05</td>
<td>Transportation</td>
<td>2009</td>
<td>Owner + CEO</td>
<td>Director</td>
<td>1</td>
</tr>
<tr>
<td>E-06</td>
<td>Transportation</td>
<td>1971</td>
<td>Owner + CEO</td>
<td>Director</td>
<td>1</td>
</tr>
<tr>
<td>E-07</td>
<td>Construction</td>
<td>2006</td>
<td>Owner + CEO</td>
<td>Director</td>
<td>1</td>
</tr>
<tr>
<td>E-08</td>
<td>Construction</td>
<td>1997</td>
<td>External CEO</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>E-09</td>
<td>Construction</td>
<td>1987</td>
<td>Administrator</td>
<td>Deputy director</td>
<td>1</td>
</tr>
</tbody>
</table>

3.6 Analysis

When conducting a qualitative research like this, the analytical process is of high importance in order to come up with as credible and accurate results as possible. In this section we will describe how we aimed to capture the essential meaning and understanding of the participating small business owners on the subject of the role of board of directors in small firms.

3.6.1 Analytic approach

Since the general approach of this study was of deductive character, this was also the case for the analytical approach. This basically means that our research questions and objectives were formed based from existing previous literature, and this made it possible for us to identify the main themes and issues from the theoretical framework and use them as a template for the conduct of the study as a whole (Saunders et al., 2012, p. 580). Thus, the theoretical framework in this study were formed as a conceptual funnel, started with definitions and descriptions of general important concepts within the subject and funnelling it down to the more specific essential subject. With this as a base we formed the questions in the interview guide, and tried to cover the parts especially important in order to answer our research questions.

3.6.2 The analytic process

In order to analyse the information from the interviews with our participants we had to transform their spoken meanings and perceptions into something that we could use. This was done by transcribing the interviews into written words, which allowed us to find key perceptions and subjects that are comparable to what was found in existing literature (Saunders et al., 2012, p. 550). This, however, can be seen as a time consuming process, which is not optimal when having a time constraint as short as we do in this study. To reduce time, we used the method of only transcribing the sections that were persistent.
with our research, thus we left out unnecessary parts where the participants were talking about subjects of little or no relevance to this study (Saunders et al., 2012, p. 551). This also allowed us to not transcribe how they were saying things, the small middle words and their body language. One reason for us being able to use this method was that we solely are interested in their meanings and perceptions about the subject, i.e. the information they are providing by their words, and not about how they are saying things. Since the interviews were held in Swedish we made the transcripts in Swedish, and when it came to formulate the findings chapter we transformed it to English in that stage. This was done in order to reduce the risk of losing important perceptions and views in translation, as would have been the risk if translating the transcripts to English before viewing and analysing the content of them.

Further, this can be connected to the first analytical process known as data reduction, in which one transform the transcripts from the interviews to simplified summaries to be used when analysing (Miles & Huberman, 1994, pp. 10-11). The second component of activity flow, data display were in this study related to the phase where we with help from the summaries and notes built up tables that gave a good overview over the different participant perceptions, and also tables that showed the distinction between the meaning of participants in different industries (Miles & Huberman, 1994, pp. 10-11). This in turn helped us to structure all the information gained in a logical way. The last and final step of our analytical process was related to conclusion drawing and verification (Miles & Huberman, 1994, pp. 10-11). This step involved us using our summaries and tables from the first two steps, to conclude and verify what the findings from the interviews showed.

3.6.3 Codes and Coding
When it comes to the analytical process the coding procedure is highly important in order to obtain a rich analysis of the information gained. The codes used in this study were the most emphasised meanings and perceptions from our participants. For efficiency reasons, in a study like ours where there are two researchers, the coding is optimally conducted by both of us. By being two persons in the coding process one can also obtain some sort of intersubjectivity, increase comprehensibility and achieve a sound interpretation of the information (Burla et al., 2008, p. 113). However, when you are more than one person coding, one essential thing to consider is the consistency of the coding, both when it comes to coding of text segments, but also when the qualitative data are quantified (Burla et al., 2008, p.113). This basically means that when we aim to find the most emphasised perceptions and words used by our participants and transforming this into tables, we have carefully made sure to collaborate in a way to make it consistent. We believe that this can help to make it accurately representable for their perceptions and views and not be our subjective opinion of what is the most important.

Continuing, when having interviews as the source of data collection the amount of information gained in each one is extensive, and it is important to use ways to restrict the workload (Miles & Huberman, 1994, pp. 55-56). We placed much focus on channelling the information to prevent overload, and this was done by using the research questions and our objectives to restrict the search for the most essential meanings and perceptions. In addition, another way to restrict the information to the most important aspects of the subject of board of directors in small firms we placed most focus on meanings that were mentioned by more than one participant. These meanings were transformed into codes in the form of words and sentences.
4. Empirical data

In the section of empirical data the findings and results from the interviews are presented. The findings are categorized into different chapters showing the participants most emphasised perceptions of the subject. The chapter begins with our participants’ perceptions about ultimate composition of boards and continues with their perceptions of board size, inside and outside directors and lastly the board’s impact on firm performance. Furthermore, a comparison between the participants within the industries is presented in the end of this chapter.

4.1 Composition of board of directors in small firms

When conducting this study, one of the fundamental things we wanted to explore was the participating small business owners’ perception on what components constitutes a good board in small firms, and also to what type of resources that were existing or lacking in their own board of directors. Something commonly mentioned during the interviews was that the small business owners wanted people on the board who either had knowledge regarding the firm or the industry, or someone who had experiences from board work. Basically, they wanted someone who could provide something useful for the firm. However, all of the participants except for one felt that they were not missing any component or resources in their boards today. This participant felt a need for financial and organisation developmental knowledge in order to have a complete board of directors.

In this study we wanted to get insight on what kind of characteristics the small business owners were looking for in board members and also if there are any advantages or disadvantages in having a homogeneous respective heterogeneous board. The most common characteristics wanted in a director were their ability to question decisions, being humble and also to have the right personality. In terms of heterogeneous or homogeneous board, most of the participants prefer having a diversified board with different characters, which would lead to other inputs and viewpoints in decisions. All small business owners were united in the fact that having directors who are members of several boards are of value for the firm, both in terms of external input and also experience from board work that would be useful.

4.1.1 Knowledge-rich board members

It was commonly mentioned during the interviews that the small business owners wanted people in the board with knowledge of different areas. E-04 described that, due to his experience from being member on several boards, a good board primarily contains people who understand the business, but that it is also important to have someone external who sees things from another perspective.

In the same fashion, E-01 described that when he and the other owner of the firm were composing the board, they choose to both be on it, and this due to the reason that they each had different knowledge to contribute with; one within IT and the other within insurance. He added that they might be lucky to have a board with only two board members contain all knowledge they wanted, and that in some case the board has to be larger in size to obtain this. E-02, who is also operating in the IT industry, believed that the main components they are looking for is someone with good market knowledge and also someone with high technological knowledge. Continuing, E-03, the third
entrepreneur in the IT industry, wanted people with business knowledge and also people containing knowledge in organisational development in the board.

Six out of the nine participants mentioned business knowledge when talking about what components that are needed to create a good board of directors. Viewing table 2 down below you can see what type of resources that was most commonly mentioned, and that we have chosen to describe a definition on business knowledge, since the participants used different words for this. We defined it as business, industry, market, and company specific knowledge. An example of this is E-08 who mentioned that it is important that the directors’ possesses a broad competence regarding the business and the industry.

During the interviews, E-03, E-04, E-06 and E-08 mentioned that it is important to have someone with financial knowledge on the board in small firms. This could be related to that many of the participants mentioned that the auditor in the firm could contribute with financial knowledge that is of use for the firm related to some decisions. However, some seemed confused on whether the auditor was actually a part of the board or not. Furthermore, E-01 described that the auditor represents a key controlling function when it comes to overlooking the firm's operations.

E-05 highlighted that the most important aspect to consider when taking on a board member in a small firm is that they are ready to live on porridge and little money, basically that he or she has to be ready to make some sacrifices in order to be on the board. This is nothing that has been mentioned by any other participants.

**Table 2. Resources wanted in order to create a good board in small firms**

<table>
<thead>
<tr>
<th>Resources wanted in a good board</th>
<th>Number of participants who mentioned it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business knowledge(^1)</td>
<td>6</td>
</tr>
<tr>
<td>Financial knowledge</td>
<td>4</td>
</tr>
<tr>
<td>Technological knowledge</td>
<td>2</td>
</tr>
<tr>
<td>Knowledge in organisational development</td>
<td>1</td>
</tr>
<tr>
<td>External knowledge(^2)</td>
<td>1</td>
</tr>
<tr>
<td>Leadership knowledge</td>
<td>1</td>
</tr>
<tr>
<td>Board work experience</td>
<td>1</td>
</tr>
</tbody>
</table>

\(^1\) Business knowledge is defined as business-, industry-, market- and company specific knowledge.  
\(^2\) External knowledge is defined as knowledge from another industry with other viewpoints.

**4.1.2 Diversified boards**

Few participants mentioned any specific ways of diversifying the board except for recruiting external people with other knowledge than what could be found internally. One of the participants who were actually mentioning a clear example was E-04 when he highlighted the importance of having a diversified pool of directors in the board for small
firms. He exemplified this by saying that by taking on a female director they can get a whole new perspective on things. E-04 continued by saying that his experience from membership in several boards have taught him that the most important thing is to have a mix of people, both those who know the industry and business, and people who do not.

Seven of the participants mentioned that diversity in a board is important for several reasons. For example, E-01 believed that having different people and characters are much more preferable compared to having similar people, since it allows for a wider dialog. He states that there is no point of having four similar persons in the board, and that heterogeneous boards helps in terms of obtaining diversity. In the same way, E-02 mentioned that boards are in need of different competences, and that there is usually not enough room for this in the same person. E-03 also agreed that diversity in the board is important. In the same way, E-04 mentioned that it could be good to have someone different that have courage to question the others which was previously mentioned about characteristics of directors as well.

In the same fashion, E-05 preferred when someone is thinking in a different way than him, and that if someone were to be thinking in the same way they would be useless. Both E-06 and E-08 put a lot of emphasis on the importance of diversification in boards since it allows for new viewpoints on everything. E-03 also mentioned that when having a homogeneous board it is easy to become single-tracked, with too few discussions. This was also mentioned by E-06 and E-09. In contrast to the clarity in the other participants’ opinions about diversity, E-04 were indifferent between having a board composed by different versus similar directors. He felt that by having similar directors they are on the same track, whilst it at the same time is good to have someone from outside.

E-01 believed that if there are four part owners in a firm and they are all in the board, it could be viewed as the board is benefiting from it being homogeneous. Another advantage was brought up by E-05 who believed that it is good to have a homogeneous board in the event of him being on a sick leave. Related to this, E-02 believed that the risk of having a homogeneous board is that you can miss out on competence.

4.1.3 Characteristics of directors

We did not only want to see what type of components that makes a good board, but also what type of characteristics the board members optimally should possess. In this part of the interview one could find many things that were emphasised by several participants. Below in table 3 you can find the most emphasised characteristics mentioned by our participants. The common perception to be found was that the small business owners valued characteristics such as having a good personality, being humble, having the ability to be straightforward, being honest and not being a yes-persons mostly in directors.

When asking about this, E-01 put emphasis on that he wanted directors that have confidence, who are straight and honest, but who at the same time can back this up with competence in what they argue for. The importance of honesty was also mentioned by E-03. E-09 brought up that he felt the need for a sense of drive in the directors, but at the same time he or she has to be humble. Two other participants brought up the importance of humbleness as well; E-03 and E-07. E-02 believed that it is the personality of the directors that is of the highest importance, and that the combination of this with previous experience is the key to a good director. E-03, E-04 and E-07 also felt that personality played a large role in terms of being a good director. Another important quality that was
brought up by three participants (E-02, E-03 and E-04) was that the directors should not be a yes-person, and thus have to have the courage to question the management and the owners in their decisions.

**Table 3. Wanted characteristics in directors**

<table>
<thead>
<tr>
<th>Characteristics wanted in a director</th>
<th>Number of participants mentioning it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good personality</td>
<td>5</td>
</tr>
<tr>
<td>Humbleness</td>
<td>4</td>
</tr>
<tr>
<td>Straightforwardness</td>
<td>4</td>
</tr>
<tr>
<td>Not a yes-person</td>
<td>3</td>
</tr>
<tr>
<td>Honesty</td>
<td>2</td>
</tr>
</tbody>
</table>

4.1.5 **Board interlocks in small firms**
All participants, except for E-07, believed that it is common to be in several boards simultaneously. Some of them had experience from this, while others used on their gut feeling when answering. When asking how these board interlocks might be of value for small firms, E-01 described that small firms can benefit from this by the directors experience of board work. He continued that it is valuable to have people on the board that knows the drill and who makes sure the work is uncomplicated and effective. Moreover, E-04 was of the opinion that by being on several boards you get useful experience on board work and you know how companies works, especially in terms of overlooking the finances.

Another thing mentioned related to the advantages of board interlocks was brought up by E-06, who believed that it gives the directors experience from different industries and can by that provide different viewpoints to the board. E-02 believed that board interlocks could provide the firm with external competence. In contrast to many of the other participants, E-07 did not believe that board interlocks is of common occurrence in small firms, this based on his own experience together with the people in the industry he knows in the same position. However, he did state that it could be valuable if you bring in someone with experience from another industry.

4.2 **Board size**
There was a common view among the small business owners that small firms sometimes only appoint a board due to legal obligations and that this is the main reason for having boards that consist of only one or two directors. Another thing found was that several participants mentioned that firms’ financial situation could be an obstacle for having larger boards. Furthermore, not many of the small business owners we interviewed had an explanation to why their board contained the number of directors they did, and some explained it as a representation of the ownership structure.
4.2.1 Legal objectives of having a board

Some participants expressed that they only had a board due to legal reasons (E-04, E-05 and E-09), which basically means that they are having a board because they must, and could therefore take on family members in order for the power to stay within the family. E-09 said that boards of smaller size usually contain family members. E-04 owns several small firms, and he mentioned that in many of them he only has a board for the reason that he is obligated to have one, but that he does not use them for anything. However, in the firm we are interviewing E-04 about they have four directors and he feels that this firm is in need of this board, compared to the other ones. He described that the reason for this is that this firm is bigger and is facing more challenging decisions. E-05 stated that the sole reason for him having two board members is because he has to, and otherwise he would have been alone.

Frequently brought up by our participants’ who only had one person in the board was that it made the decision making process easier and E-05 even mentioned that he always had short and 100 percent nice board meetings since he was alone in it. E-07 said that the choice of being alone in the board was not something he actively chose, rather it way how it became when the firm went from being a traded company into being a limited company. E-09 who is not herself in the board, but her husband is, described that since he owns 100 percent of the firm he has chosen to be alone in the board so he does not have to compromise in his decisions.

4.2.2 The financial cost of recruiting more directors

One of our questions related to board composition was about how they recruit new board members today. When asked E-06 he basically said that they do not recruit any new board members. E-05, E-07 and E-09 gave us the impression that they were satisfied with how the board looked today and that they showed no indications of changing the structure by taking on more directors. E-01 and E-04 both said that they themselves would make the decision if new board members were to be recruited. E-01, who is a part owner mentioned that he and his partner would use their network of contacts and would almost always makes the decision based on recommendations, the same goes for E-03. In the same way, E-02 describes that if they were to recruit new members they would first see what resources that are lacking, and handpick them based on recommendations.

A subject that we did not consider that much before the interviews was the financial aspect of having a board. However, this was brought up by three of our participants as a reason for why one does not appoint members in a larger extent in smaller firms. To start with, E-04 described that larger firms might need more directors than smaller ones, but that this could also be a question of the small firms financial situation and the cost of taking on one more director. Related to this, E-01 brought up that it is more expensive to bring in someone external to the board, that the director fee is higher, but that he or she might provide more resources in form of knowledge and experience. E-07 said that you as owner for a small firm do not want to take on a cost of a board if you do not need it, when the board is functioning well as it is composed there is no need to pay the price of taking on more members. To be noted is that he is currently alone in his board, but he uses an external person who he can discuss decisions with, thus feel no need to appoint more board members. E-04 believed that the board does not have to contain all competences that is required by it; rather that one can use it as a form of workgroup with other people and not just the directors when facing certain decisions or strategic choices. E-01 confirmed this by pointing out that not all of the “capital” has to be in the board,
since it becomes too similar to the annual general meeting in that way. This could be seen as a reason for not appointing too many directors, when considering the cost of doing so.

4.2.3 Board effectiveness and execution in relation to board size
E-01 believed that too few directors in the board resulted in that the work is not being taken seriously, whilst too many made it hard to have meetings. He also continued with saying that he had experience from being a director in other boards, where they were five directors, and he believes that is where the size line is for small firms. Additionally, when E-02 were asked about board effectiveness and execution resulted from the size of the board he stated:

“If you want to have an operative board of directors in a firm, it cannot be too big”

E-02 continued with that it is possible to miss out on competence if having a too small board, since more directors equal more competence. Moreover, E-04 believed that as long as the firm is small and you as a CEO can get a grip on everything related to the company that you do not have to have a large board, but as it gets harder to control everything by yourself as the firm grow, so does the need for more directors in the board. E-05 described that since he is alone, he does not have to have any board meetings, and thus it is a quick and easy process. This could be related to that E-08 believed that a smaller board is more efficient compared to a larger one. In the same fashion, E-06 emphasised that larger board requires more time, and restricts the board members to discuss things on a daily basis.

4.2.4 Ownership structure and its effect on board structure
When asking about board size and the reason for that size, E-01 put emphasis on that their size of the board was a direct representation of the ownership structure, where he owned 50 percent and his partner 50 percent. Similar to this E-04 highlighted that a clear difference existed between firms that has an ownership structure where one person owns 100 percent compared to five people owning 20 percent each. He believed that the work of the board becomes increasingly important by having more owners, since you have to consider their opinions when making decisions. Moreover, E-03 mentioned that they are currently seven people in the board and that all are part owners. Their wish is to reduce the number of part owners and increase the level of external members in the board.

4.2.5 Controlling function of boards
Among the four small business owners, E-05, E-06, E-07 and E-09, with only one director on the board, no specific control function existed in terms of board-management control. E-05 described that he is the person who makes all recruitments in the firm, and if someone misbehave he is the one who has to deal with it, since he is both the manager and the CEO. When asking about the control function of the board E-02 explained that the board on a monthly basis overlooks the results and goals that have been decided upon. This clear description on how the board controls the firm and the management was E-02 quite alone with giving. However, another participant who also gave a good description on how the board controls the management was E-01. Just as E-02 he mentions that the board overlooks the financial situation and the results. Furthermore E-03 described that since the board is giving directives to the board it is indirectly controlling it, however this was not something systematically being done by the board in his firm.
4.3 Internal and external directors

The question regarding if a firm should take in external directors, and how internal and external directors separates themselves from each other is highly connected to what one is looking for when putting together a board of directors. If one is looking for some kind of personalities or competences, which is addressed in previous sections, that do not exist within the company, it might be necessary to bring in external directors that can contribute with these requested experiences, knowledge or personality features.

Most of the small business owners agree that there is a need to have internal board members included in their board of board of directors. E-01, E-02, E-03 and E-04 clearly stated that internal board members contribute with knowledge in how that particular firm is operating. E-08 and E-02 both mentioned that internal members entails for a closer relationship with the business and its customers. E-01 further stated, that due to this, one can assume that an internal director bases his or her vote on the will of different stakeholders. Additional advantages with the internal board members is the increase in efficiency, and according to E-03 one can experience “higher ceilings”, that people are more outspoken. Furthermore, some negative characteristics with an internal board member are addressed by a few of the small business owners. E-04, E-05 and E-06 all acknowledged tunnel vision as a risk connected to internal members. However, this is emphasised as being a risk in the event of the whole board consisting of internal members.

All the small business owners are agreeing upon that there is a need for both internal and external directors. Every one of them stated that they could see the reason for bringing in external directors, including the ones with only internal board members. E-02 stated that including an external director can contribute with competence that currently is missing, this competence can be found in different ways but an external board member is one of them. For example E-06 mentioned that it is a risk that one can get confined in their own business, but he has no answer on why they do not have an external director operating on their board.

Even though the small business owners have different experiences regarding working with external board members they all seemed to have a similar attitude towards them. No one could state that an external board member will have negative impact on the boards’ work or firms operations. The firms that have only one member and the firms that did not have any external members also agreed with the positive aspects that an external person could impose. Advantages that are mentioned are mainly the new or other perspective that an external can contribute with. E-02 stated that experiences in how things are done in other businesses is recognised as crucial and therefore are external directors considered being beneficial. E-05 believed that including someone external will lead to them going through everything more thoroughly, hence also leading to new perspectives. Networking and knowledge are further described as reason behind the use of external board members. Additionally, E-01 stated that an external board member could contribute with dynamic and general board knowledge. This participant is also emphasising that in smaller firms the risks connected to external directors are close to non-existing.

During the interview with E-07 he told us that he is using an external person, whom he meets on a frequent basis to discuss the challenges and opportunities his firm is facing, and also to discuss decisions E-07 is about make. This origin from that he is alone in the board, and he feels that it sometimes is good to have somebody to discuss ideas with.
However, he had no intention of letting this person into the board, or to hire someone else external as for now.

Summarizing the thoughts on external board members we see two risks the small business owners brings up. E-06 stated that even though bringing in externals are generally seen as a positive thing one needs to make sure that information, thoughts and ideas are not spread around. Regardless of how the externals are, this is and needs to be considered as a risk. Furthermore, external directors can become a risk if they make majority in a board. E-01 addressed this and adds that even if external board members act and vote in line with the rest of the board, it is a risk that the owners will be passive.

A few of the small business owners dared to make an assumption regarding the optimal ratio between the different directors. E-01 stated that it is important for his business that they have a majority of internal board members, which goes in line with risks that he sees with external members. He connects this to it being more reasonable when operating in a smaller firm. E-04 agreed with him and points out that stating a ratio is hard but personally he wants more internal members. The more common response was that it was very individual what the ratio between insiders and outsiders should be and some participants therefore emphasised that it was impossible to answer.

4.4 Board of directors and firm performance

After going through the different features, thoughts and experiences that the small business owners had with board of directors we wanted to see if they believe there were any effect on the firm's results, both operational and financial. All the small business owners differed in their attitude toward board work affecting firm performance. E-01, E-02, E-03, E-05, E-06, E-07 and E-08 all clearly stated that there is a connection between the board of directors and firms’ results. E-01 further explained that this is not something that he is sure of, rather something that one can hope for. E-03 saw a board of directors as a key function, if managed properly and containing external members it can result in fast growth and keeping the result under control. It is also stated that:

“[…] if you have a proper board work you have greater possibilities to expand and earn good money”

Base on this, E-03 saw potential in the work with board of directors, especially in small firms. E-08 recognized the same potential and adds that an engaged, active and well-functioning board will affect a small firm in a positive way. E-07 addressed that humans work in habits and therefore it is necessary to bring in people that have various viewpoints and mind-sets. This can help to see both potential opportunities and eventual threats. This participant further emphasised an important aspect in all of this; a board of directors need to affect the results in a firm, otherwise it is just being harmful in form of a cost.

Contrary to the rest of the participants E-04 stated that he could not see a connection between the board of directors and the performances’ in the firms. It was mentioned that this might be the case for larger firms but he do not believe it affects smaller firms. This is directly related to his own firm where he is the sole owner. He meant that larger firms have more owners and then a board of directors can represent the different views and wills, while in smaller firms it is not considered necessary.
E-05 agreed that a board's work in some extent would affect the performance of the firm. However, we saw that this participant views this in a similar way as E-04. It is stated that there might be a limit for when a board's work is getting interesting in the context. This participant was willing to put this limit at a 10 million turnover, hence stating that the use of a board increase with the size of the firm.

4.5 Industry specific differences

When asking the participants about what type of resources they had and wanted in their boards, E-01, E-02 and E-03 were all specific in their descriptions, and emphasised the importance of business knowledge and industry knowledge. They are all operating in the IT industry.

Looking if any differences exist between the industries regarding what characteristics the participants wanted on the board one could not find any clear difference. However, some tendencies existed that the participants working in the construction industry emphasised humbleness more, two out of the three mentioning this characteristic were from this industry (E-07 and E-09). Participants E-01, E-02, E-04 and E-06 believed that board interlocks was something valuable for small firms, since it contributed with experience and external knowledge. That is, two participants from the IT industry and two from the transportation industry emphasised this importance. However, participant E-07 did not believe that it is valuable, and neither of his fellow participants from the construction industry could give any answer on this. One thing we discovered during the interviews was the commonness of only having a board due to legal reasons. Neither of the IT participants mentioned this.

Comparing between the industries when it comes to the controlling function of the board, one could see that this is highly related to the number of directors in the board. The two directors in the transportation industry together with the two directors in the construction industry who were alone on the board did not have any control function. Which can be understandable, since the director and the CEO in almost all cases were the same person. Here once again the three participants from the IT industry gave clear answers on how this function did and should work.

When it came to the question of what internal directors can bring to the board, all three participants in the IT industry described that they can provide firm specific knowledge of value. One participant in the transportation industry mentioned this as well. In contrast, all three participants in the transportation industry highlighted the disadvantages of having internal directors, which could result in a narrow view in the board. What must be denoted here is that two out of three participants in the transportation industry only have one director on their boards. Related to this is also the participant’s attitude towards external directors, where all of them could see the value coming from taking on outside directors. Thus, once again many of the small firms that the participants are operating in do not have any external director on the board.

4.6 Key findings

Derived from the interviews in this study we have found the small business owners’ key perceptions and view over inside and outside board members provision of resources that can enhance firm performance. To start with, inside directors can provide boards with
business knowledge, efficient board work and a shorter decision-making process, while outside directors can provide resources such as external knowledge, new perspectives and links to external networks. Continuing, in general the small business owners emphasised the want for directors with the right personality, who are humble and straightforward. Board diversity is also something that is good for boards, since it can lead to new perspectives and better decision-making. The small business owners found board interlocks as a common phenomenon within the small firm market, and it can be valuable in terms of the directors’ experience gained from board work in multiple firms. By having an optimally composed board with directors providing the right resources, having the right characteristics and providing dynamic the firms can achieve enhanced firm performance. The general belief was indirectly that if the resources provided by the directors are not expected to lead to enhanced firm performance or enhanced board work there is no point appointing those directors.
5. Analysis

This chapter will show the analysis and discussion of the findings presented in the section of Empirical data. Here one can read about how the small business owners’ perceptions and views about the subject of board of directors in small firms can be related to the findings from previous literature, which was presented in the theoretical framework. We will discuss similarities and differences between what has been found in other empirical studies compared to what was found in the current study.

5.1 Corporate governance in small firms

The subject of board of directors in small firms has many interesting angles. To start with, it became clear during the interviews that many of the small business owners had not put that much thought into their board of directors and how it can be useful for a firm. The result became that in some questions the participants needed to answer in a more hypothetic way, rather than speaking about experiences from their own boards.

After collecting the perceptions and views of our small business owners we can argue for two reasons to support our use of resource dependency theory as a theoretical lens, in comparison to agency theory. Firstly, during the interviews we asked our participants about the controlling function that a board of directors severs between management and firm’s owners. The response showed that this function was non-existing, mainly because the owner participated in both board and operating managerially. Secondly, we generally saw a limited use of their boards. When this is the case we would like to argue that it is more crucial to emphasise the resources that one can extract from a board of directors in small firms. Resource dependency theory provides a foundation for the role that a director has, and how this will entail access to the resources and advice that is needed to enhance organisational functioning and survival (Dharmadasa et al., 2014, p. 9).

The general understanding for corporate governance did not seem to be entrenched in the participating firms. During some interviews there were a need to explain the concept and what it meant for a firm to work with corporate governance. One can state that it is crucial to work with the resources that are extracted from the board and make sure that the controlling function is well working (Tihany, et al., 2014, p. 2). However, what we acknowledged during this study was that this was not applicable for all small firms. Here we saw that owners are mostly engaged in the firm in a different way compared to larger firms, management and owner generally work more closely and can often be the same person. This leads to the work of being a controlling function and working with motivational factors is not organized in the same way. Moreover, Tihany et al. (2014, p. 2) acknowledged the intention of using corporate governance for motivational purposes in order to get managers to use the resources provided by the shareholders effectively and efficiently. However, since smaller firms are combining management and owners, the motivational function is of less importance. Nonetheless, there are still parts of corporate governance that can be implemented in smaller firms and lead to positive results.

5.2 Composition of board of directors in small firms

5.2.1 Knowledge-rich board members

Most of the participant described the need for people on the board that had business or industry specific knowledge, although many of them could not point out the exact
knowledge or competences they wanted from a board member. This could be related to our question regarding what resources can be extracted from their boards today, where few of them could give any concrete examples of the resources to be found. This in turn could have a relationship with the fact that most of them had not analysed their boards in advance, and thus did not see how each individual in it could contribute with different things or how a board can increasing the performance of the firm (Wilson et al., 2014, p. 734). We could see that small business owners differed in the knowledge and attitude of what they wanted, needed and were actively looking for. It also seemed to be a great difference between what they generally believed that one wanted in a board and what they had. However, within the IT industry one could see a slight higher specification on both what components a board needed to be good and what resources they had in their board today. This could be connected to that smaller firms operate in an increasingly global a complex environment, leading to that they have to become more and more competitive (Neville 2011, p. 530). That this could be markedly more present for firms in the IT industry, since their businesses can spread in a geographical sense that for example small construction firms cannot.

The participants acknowledged that a board of directors is a good place to increase a firm’s access to external networks or resources. Different kind of competences was requested, and included some resources that only could be contributed by outside board members. Neville (2011, p. 530) emphasised that a common characteristic for smaller firms is that there is a lack of resources that can be extracted internally, which we assume can be explained by the smaller amount of people operating in the firm. The response we got from the participant and previous litterateur goes in line with one another. We see a need for firms to review their resources and what they might need to complement.

We want to highlight the difference of human capital that is based in knowledge and experience. We see a trend in that firms who consider themselves to achieve great results and having a good market position also have a utilized and active board. The reason behind this can be assumed to be the skills and knowledge of the small business owners in these firms. Which in turn could come from different levels of education. Unger et al. (2011, p. 342) discuss the relationship between human capital and success and emphasised the stronger relation between firm success and human capital in form of knowledge and skills. Related to this, Mori (2014) found a positive relationship between the level of education of the director and its impact on board performance. However, since this was not addressed within the interviews it would be harsh to state that this difference is due to their degrees. Though, one could assume that people in general with higher business knowledge, have a higher knowledge related to the theoretical aspects of organisations, thus also the use of a board of directors.

Analysing the answers and the previous literature we make the conclusion that this is a question that demands a very individual answer in order to have any substance. Like before, we saw a clear difference in what the participant believed in a more general sense and what was actually applicable in their firms.

5.2.2 Diversified boards
Continuing, when analysing the findings we saw that heterogeneous boards are more desirable than homogenous boards, this coming from that seven out of nine believed that having a heterogeneous board would be valuable. This can be connected to the positive aspects of having a diversified board of directors, since a heterogeneous board provide
access to a broader range of experiences and knowledge (Wilson et al., 2014, p. 734). The reasoning behind this was the same in both the previous literature as in the empirical data we collected. E-02 mentioned that the risk with a homogeneous board is that one can miss out on competence, and a majority of the participants had similar answers, but E-02 was only one that simultaneously was operating in line with his statement. By having seven board members, one increase the possibilities to have people that differs and are questioning decisions, thus a heterogeneous board. Contrary to this is E-05 also recognized the positive aspects of a heterogeneous board but by only having one board member it have not translated from a thought to action. This in turn can lead to E-05 having a hard time to be self-sufficient and therefore risk being affected by its environment (Voss and Brettel, 2013, p.412).

Related to the diversity of boards it was quite interesting to hear that almost all participants described this as something valuable, but few of them actually had diversified boards. Here once again one could argue that most of our participants spoke hypothetically, and had some sense of what would be best for the board, but still did not imagining changing the structure they currently had in their boards. The reason for why this is the case is not entirely clear, and could be a mixture of comfort and the financial costs involved in recruiting more directors, which will be discussed further down.

5.2.3 Characteristics of directors
When asking the participant about what types of characteristic they were looking for we were aiming at exploring their thoughts regarding board diversity. When compiled all interviews we saw that the participant could list many different characteristics that they wanted, both those provided by inside directors and from outside directors. Their mind-sets go well in line with the literature that we conducted before the interviews, namely that a board should be consisting of resource-rich directors (Boyd, 1990, p.428). Moreover, since nearly all the small business owners stated that they wanted board members that possess different types of knowledge, this implies that they are looking for people that will create board diversity (Pugliese & Wenstøp, 2007, p. 398). Pugliese and Wenstep (2007, p. 398) additionally stated that for a board to fulfil its requirements regarding all the knowledge and experience that it needed, it cannot consist of a single director. Since the four of our nine participants had one board member, one can assume that it would be hard for them to fulfil all requirements needed to create the optimal board without taking in more directors. However, here one has to consider the cost-benefit of bringing in one more director, and we argue that maybe it is not always necessary for small firms to recruit more directors if they cannot identify a specific need for any resource they can bring.

5.2.4 Board interlocks in small firms
In our introduction we made the assumption that the use of board interlocks could vary among smaller firms. What was found was that a majority of our participants could see the advantages with the concept of board interlocks and believed it was common among small firms. They stated in accordance with the literature that this could lead to knowledge sharing and networking possibilities (Chiu et al., 2013, pp. 918-919; Bøhren & Strøm, 2010, p. 1305). Most the small business owners assumed that it brought value to a firm when including a board member that had experience and knowledge from other board appointments. This is argued to be a good way of exchanging knowledge and experiences in previous empirical studies (Chiu et al., 2013, pp. 918-919). Further this a good way to work with the environment and controlling the marketplace (Simmons,
2012, pp. 56-57). This is closely connected to resource dependency theory that put focus on the resources a firm can extract from its external environment (Simmons, 2012, p. 56). By working with board interlocks a firm will increase its access to external resource, creating larger networks and increasing their human capital. Interlocks are a way of obtaining essential resources from the environment and a good way of exchanging knowledge and experience (Simmons, 2012, pp. 56-57) Furthermore, this is what is suggested by resource dependency theory, a firm is looking to create interdependence with its environment in order to decrease uncertainty. We look positively on the fact that this is considered common within smaller firms and believe that it is a great way of maintaining the large number of small firms that exist in the Swedish marketplace today.

5.3 Board size

We believe that it is important to emphasise that even though research on corporate governance and board composition is moving away from size as a reason for successful board work, we see after analysing our findings that it is of high importance and relevance regarding smaller firms. For example, the discussion about whether firms have the right members and if they are providing the right resources is more relevant if a board have a number of members compared to only one member.

Pfeffer (1972, p. 226) state that the size of the board is related to firms environmental needs. Even though this is an old study is would explain why small firms today tends to have low number of directors in their boards, excluding those that appoint a board for legal reasons. It would further be a foundation to the todays needs to increase that number. Small firms today, more than before, need to meet more environmental demands, globalisation and increasing competitive advance puts pressure on the development of small firms (Neville, 2011, p. 530). This is emphasised by one participant, E-03, who states that this will enhance fast growth and provide greater possibilities to expand.

5.3.1 Legal objectives of having a board

As you can see in table 1, four out of the nine selected firms have one director operating on their board. The reason for this could be connected to the general attitude we have got during the interviews, that many small firms only have a board solely since they are obligated by the law to have one. Further, this is strengthening our initial assumptions, that the board is not a central role in smaller firms. This also indicates what were stated in the theoretical framework, namely that some firms actually appoint a board only due to legal reasons (Huse & Zattoni, 2008, p. 75). One interesting thing here is that we believe that there is room for some additional reasons as well. Board of directors could be considered as not being that necessary for small firms, and in some instances it could be due to that those small firms does not know how to use boards in a favourable manner.

Related to this is the general reluctance of sharing the control that was present among some of the participants who only had one director on the board. This could be connected to Neville’s (2011, p. 535) definition of this type of board as a “passive board” and that a reason for this can be seen in their unwillingness to share control with independent directors, which was in accordance with what we found with some of our participants.
5.3.2 Financial cost of recruiting more directors
The subjects of corporate governance and board of directors are hard to avoid if you are running a firm. However, as learned in the interviews, many of the participant had not put much effort into analysing how the board is used in their firms and what role this plays in terms of performance.

Gabrielsson (2007, p. 688) mentioned that size is usually left out in research on board of directors and small firms. This could be because of the cost that is related to more engaged and active board members. The financial aspect of taking on more directors is something discovered during the interviews. Some participants believed that small firms have to consider the financial cost of taking on directors, especially external ones. This was mentioned by three of the participants, and it would be hard to make any conclusion from this, however, if considering that the usual size of boards in small firms is small one could see some connection to the financial aspects of this. In our literature we discuss the trade off between extracting more resource by appointing outside board members and how that might lead to small business owners losing control of their firm. After conducting our empirical data it became clear that a larger aspects to all of this was the financial cost of including an outside director.

The financial objective that restricts small firms of recruiting more directors could be seen as an indication that this is something present for most small firms. Since smaller firms usually have less financial flexibility it would seem logical to not spend any extra money taking on more directors, especially if the firm does not need it. When asking about the reason behind their board size we received different responses. Except of the financial cost, some stated that it was only the owner who was a part of their board, and that due to the legal requirements to appoint a board like mentioned earlier. This proved to be in accordance with Huse and Zattoni (2008, p. 75) who state that this is something of common occurrences. For example, when E-04 described that he only has a board because of the requirements in transforming the firm into a limited company.

5.3.3 Board effectiveness and execution in relation to board size
Also connected to board size, something we experienced as interesting is the participants’ thought regarding homogeneously and heterogeneously composed boards. Almost all of them agreed on the fact that heterogeneous boards will lead to better work and results provided by the board. However, later when asking for a reason behind the size that they have today we got contradictory answers. For those that have a board of directors containing of one person they explained the reason to be a shorter decision making process. This allowed us to draw a conclusion based on this sample that more effective and efficient board work is perceived as more important than the resources that can be connected to a board if composed in the right way. Though, this conclusion has proven to be of different substance regarding the answers from the different industries. This could be connected to what Beiner et al. (2006, p. 256) stated: that boards in larger firms are experiencing greater problems regarding communications and coordination compared to boards in smaller firms, which could be interpreted as also among smaller boards.

5.3.4 Ownership structure and its effect on board structure
Another thing we found interesting that was being brought up by some participants was that the ownership structure tend to have large impact on the structure of the board, both in terms of what directors that are being appointed and also the number of board members. Basically, since small firms tend to have one or few owners, the boards are
representing these owners and they are not taking in external members if they cannot provide anything essential that the owners cannot. As participants argued, as the level of ownership increases, the board becomes more important in order to consider all partners wishes. However, the participants did not mention the other stakeholders except for the owners as important to consider. We assume that the reason for this is the generally low level of outside ownership that is in small firms, and that they do not consider other stakeholders for example employees, financial institutions and customers as equally important to consider in terms of board decisions.

This could further be connected to what we wrote previously about that a general reluctance existed among some of our participants who only had one director on the board when it came to sharing the control. As long as they are the owner, the CEO and the sole director simultaneously they can remain in control over all decisions in the firm. Depending on the firm’s ambition to grow and increase their market share, one could argue that in some cases it would be reasonable to loosen the control and embrace knowledge and experience from others as suggested by resource dependency theory. This reluctance of loosing control is in accordance with what Pfeffer and Salancik (1979, p. 258) wrote about that in order to obtain resources other people control, organisations provides these people with power over the organisations.

Not mentioned in the exactly by our participants is something found in a study from the U.S., where the level of outside ownership of the firm affects how likely it is that the board has outside directors (Fiegener et al., 2000, p. 306). The reason for why we believe that this did not seem relevant for our participants is because the outside ownership is usually low in small firms, and that it is more common to have all owners involved in these firms.

5.3.5 Controlling function of boards
One additional thing we noticed from our findings was that the controlling function is not interesting in the same way when owner and management are working as closely or even are the same person. We assume that this is one of the reasons behind the minimal board work that is being done by most of our participants’ firms. The general essence of a board of directors is making sure that firms’ owners are represented in the operation that is done by the firm. Whenever this is not interesting a board loses one of its primarily responsibilities. We can see that the participant with the largest board was the only one that could state this was one of the undertakings that their board preformed.

5.4 Internal and external directors
Our findings showed that some of the small business owners in the small firms value the resources that an inside director adds to a board. According to our participants these directors are significant due to their contributions of firm and industry specific knowledge. Further this is something that also can be seen in previous research were Coles (2008, p. 351) state that firms with the need for industry specific knowledge tend to favour inside board members. For those participants who in the interview stated that they are in need for these competences we also see that these were the ones that emphasised the importance of inside board members. Here we see a difference between the industries that we used in our study. In the IT industry all participants showed an ambition to create growth for the business and almost exclusively talked about aspects that would help that to happen. Together with two other participants, with similar aspirations, they are looking
for board members that can contribute with resources that are not to be found within the organisation. A similar feature for these are that they all considered themselves to have a profitable business and are looking for resources that are not industry specific. It is important to state that they still value these resource provided by inside board members, however they emphasise that in order to keep on growing and create more profit they need to look for board members that can add other resources.

In the same fashion, another thing some participants mentioned related to the disadvantages of having inside directors were in accordance with our assumptions about that the largest downside with inside directors is connected to them being narrower in their views compared to outside directors. However, it was also emphasised by some participants that some perks exist by having people who think alike, which we personally would like to argue would be a negative thing for small firms due to the reason that it is valuable with outside expertise in order to get more perspectives into decision making. Though, this would maybe be more relevant for firms with high growth ambitions.

It is stated in previous literature that outside board members creates an increased risk for board conflict and loss of effectiveness (Goldstein et al, 1994, pp. 248-249). This is emphasised by two participants that recognize the loss in effectiveness, however still believe that the advantages are overriding. Kor and Sundaramurthy (2008, p. 998) argue that outside directors can lead to firm growth by providing business knowledge and access to various networks. Outside board members is also one way of managing the external environment, which is suggested to be crucial by resource dependency theory Hillman et al. (2009, p. 1404). Moreover, connected to this is Neville’s (2011, p. 530) argument that small firms commonly lack of internal resources, and that they are usually in need for complementing the human capital that already exists. Many participants mention connection to the environment and new perspective as reasons behind including an outside board member. They are aware of the advantages of including these, however it does not seem to be worth enough considering the opportunity costs.

Van den Berghe and Levrau (2004, p. 470) state that is of less importance to discuss the ratio between inside and outside board members. We argue that that stating a ratio is not important due to the fact that it is very individual when it comes to what resource firm is in need for. By looking at the answers we received from them interviews we can draw the conclusion that our participants do not make any decision based on a ratio between inside and outside directors. This could, however, had been an interesting aspect to discuss if there was any clear differences between the industries, and if some specific industry required more of any sort of director compared to the others. Though, once again, since many firms have individual need of resources it would probably be hard to find this difference.

5.5 Board of directors and firm performance

Lastly, related to the subject of whether boards had any impact on firm performance, most of our participant states that they see a connection between board work and a firm’s performance. For the majority of the small business owners this was stated in a hypothetical way, this because this was not applicable in their own firms. The lack of board work, made is hard for them to state whether this actually was affecting them or not. The participants that had an active board states that it does have an effect and that it is a key to further growth and to maintaining good profitability. The difference between
the participants is shown in their distinctiveness in how it is affecting the firm. Firms with active boards have more distinct and clarified outcomes of a board’s work while the rest just state a more general effect.

Our theoretical framework suggests that there is a positive connection between firm performance and the amount of human capital one got access to (Unger et al., 2011, p. 342). We argue that a board is a great way of increasing a firm’s capital in that area, and by interpreting the answers from the interviews firm owners agrees.

5.6 Industry specific differences

To start with it was hard to detect any industry specific differences related to our participants’ view and perceptions about the subject of board of directors in small firms. However, we could see some tendencies that the participants from the IT industries view and used the board in another way compared to the rest of the participants. It would, however, be hard to know if this was coincidental or something that is applicable to most IT firms. However, like mentioned before, the reason for this difference could be that the IT firms we interviews had seemed to be more growth oriented compared to the other firms, and one could also make a connection to that these firms were founded more recently. Another reason for this difference could be that the firms in the IT industry had more directors, hence used the board to a higher extent compared to the firms with only one director. Since we have selected this sample to represent the small firms in Västerbotten and in some sense Sweden as a whole, we leave these found differences as indications of differences between industries within the Swedish market.

The difference that was standing out the most between the industries of IT, transportation and construction was that the participants from the IT industries described in a clearer way what type of resources they had and needed in their boards. All three participants in the IT industry also had a clear description on how they would recruit new directors if needed, compared to that only one participant in the transportation industry could do this, and none in the construction industry. Two participants from the construction industry and two from transportation were satisfied with how their boards looked and had no intention of recruiting new directors.

Moreover, another slight tendency of difference was found that small firms in the construction industry did not value board interlocks in the same way as firms in the IT and transportation industry do. This was found by that two participants in IT firms, and two participants in transportation firms believed that board interlocks were of high value for small firms, and in contrast one participants from the construction industry believe it was not valuable, and neither of his fellow participants from the construction industry could give any answer on this. It would be hard to give a reason to this difference in opinion between the industries, and it could come from a coincidence.

Looking solely at the number of directors that were currently on the board in these small firms we selected, one can see that in all the IT firms they have more than one director (See table 1). In contrast, in both the transportation industry and the construction industry two out of three firms have board consisting of only one participant. One could by this and all other indications of differences conclude that firms within the IT industry values the board in another way that firms within the transportation industry and construction industry.
6. Conclusion

In this section the general conclusions from this study is presented, and it intends to give an overview over how the small business owners’ perceptions and view related to corporate governance and board of directors together with previous findings, and how this contributes to new knowledge in the field. Furthermore, in this chapter the research questions and the stated objectives of the study are revisited and answered. In the end of the chapter one can find our recommendations of where future studies within both corporate governance and board of directors should be directed.

6.1 Research questions

To begin with, the research questions we aimed to answer in this study were; What kind of characteristics are small business owners looking for when selecting new board members, what type of different resources can different types of directors bring, and what impact do small business owners believe that this has on their firms’ performance? The purpose and objectives of this study were to explore and get insight into how small business owners in small firms perceive board of directors and its role, composition and diversity, together with the boards’ impact on firm performance.

From the findings we can conclude that our participants were all looking to fill the knowledge and experience gap that existed within their board of directors. The most essential characteristics our small business owners desired in directors were humbleness, not being a yes-person, straightforwardness and generally having a good personality, which were all traits mentioned by several participants. A majority of the small business owners stated that it was important to have a board composition that consisted of different directors, thus both inside and outside directors that is in accordance with resource dependency theory. The crucial aspect when discussing inside and outside board members was the contributions of these characteristics while adding different perspectives. Together with this, the small business owners also aimed at finding the balance between the different directors, inside knowledge and outside perspectives. The belief from our small business owners were that inside directors can provide boards with business knowledge, efficient board work and shorten the decision-making process, while outside directors can provide resources such as external knowledge, new perspectives and links to external networks as is described under resource dependency theory. Furthermore, we can conclude that the small business owners were of the opinion that by having an optimally composed board with directors providing the right resources and having the right characteristics the firms can achieve enhanced firm performance. Further, this is one way of managing the external environment which according to resource dependency theory is needed to achieve firm success. Regarding the connection to firm performance, we can conclude that the respondents acknowledge a link between board work and firm performance. However, they could not specify in what way.

6.2 Theoretical contributions

Our findings from this study support the knowledge of resource dependency theory by indicating the need for firms to extract resources to manage the external environment. It can be emphasised that this need is established among small firms in Västerbotten and further also the difficulties in accessing desired resources. Our findings additionally add knowledge by suggesting that the trade-off between loosing control and bringing in
outside directors might not be as important as the balance between resources revised through outside directors and financial costs connected to that. Further, our findings confirm resource dependency theory by showing that our participants in the IT industry are more vulnerable to the external environment and therefore operate to add more external resource, in form of outside board members compared to firms with less growth ambitions. Moreover, it is emphasised by the participants, in accordance with resource dependency theory, that their firms would gain value from extracting external and other resources that are essential for enhanced performance.

We have learned through our interviews that there are areas in which the competence of boards is needed and requested, but that the small business owners were somewhat reluctant to see that those competences could be accessed through the board of directors. Further, it was shown that resources are not as easily retrieved, as we believed, and that it is not obvious what resources firms are in need of, especially if the small business owners cannot see what value they might provide to the board. Furthermore, when conducting this study we have realised the need for exploration on how boards in small firms can operate in the most useful way in order to maximize firm performance. From this study we have added knowledge about how small business owners in small firms would compose their boards in terms of diversity and inside or outside directors, but we did not put the focus towards how these firms can use the boards in the most profitable way.

6.3 Practical implications
The most important finding from this study that can be perceived as valuable to small business owners and small firms is that proper board work is perceived as something that can enhance firm performance and profitability. Both our findings and the theoretical framework, built from previous studies on the subject, indicates that implementing a board, that is composed by the necessary components, and that is utilised and active will contribute to the opportunity for the firm to grow and reach set goals. Initially, firms and small business owners need to analyse their need of resources to the firm and the board, and also determine whether it optimally can be contributed from inside or outside the organisation. This analysis must include an assessment of the resources already existing within the organisation, and what type of resources that are lacking in order to achieve best possible firm performance. Further, this study can help small business owners and small firms to decide if the resources they need to be extracted from the external environment and giving them the opportunity to choose the distribution among different directors. Overall the findings from this study aims to provide the small business owners with information to create a resource-rich board of directors and subsequently respond well to environmental changes.

The small business owners have proven that they are mostly aware of the advantages of a board of directors, nonetheless they have chosen not to expand or utilise their board. However, if they are made aware of this discrepancy through our study perhaps they will be encourage to consider the idea that they need an active board.

6.4 Recommendations of future studies
After conducting this study, we see great possibilities of future research within the field of corporate governance and specifically within the subject of board of directors in small
firms. Firstly, since this research is restricted by limitations such as resources and time we would recommend for further studies on board of directors in smaller firms that approaches the subject from different and more angles, which could complement the findings from this study and further help to fill this knowledge gap. For example, we see the focus on specific characteristics, such as; gender, age and education, and their impact on firm performance as a potential area for future studies. Further we see a reason to investigate possible differences when expanding the sample, both within industries and when adding other industries. There is also a need for this kind of research in other countries, due to differences in how companies in different countries work with corporate governance and board of directors. Additionally, a quantitative study would increase the possibilities of findings that one could interpret in a more generalized way. In that way it would be easier and more trustworthy to determine weather small firms use their board or not. We would also find it interesting to see a more distinct connection between profitability and the use of a board of directors. Researchers can examine the stated profitability and investigate the processes in their board work, this would maybe best be done through a mix method study. Our findings show that the small business owners to some extent considered themselves to be in need of the different resources that can be contributed by a diverse board of directors. Therefore we suggest research on how these competences can be retrieved alternately.

As mentioned previously, we have realised a gap in the knowledge on how board of directors in small firms can operate in the most useful way in order to maximize firm performance. Since boards seem to be used differently between small and large corporations, and most studies have been directed towards larger firms we see the need for filling this knowledge gap in order for small firms to meet the increased competitive market that they are faced with (Neville, 2011, p. 530).

We would further recommend that future studies within the field to be directed towards other aspects of corporate governance than board or directors, this for further exploration of the subject that broadens the knowledge of small firms and how they are run. Like mentioned previously in the text, the market in Sweden consist to 99 percent of small firms, which should makes the subject highly interesting for research.
7. Quality criteria

In order to assure that this study was conducted with highest possible quality this chapter presents a thorough review of how the criterion of quality was managed. The quality will be confirmed by a description of how we have established; worthy topic, rich rigor, sincerity, credibility, resonance, significant contribution, ethics and meaningful coherence (Tracy, 2010, p. 838).

During the past 25-30 years qualitative studies have become more common, which also has increased the interest of establishing a good quality of this type of research (Bryman et al., 2008, p. 262). In qualitative research there are several criterions that has to be established in order to obtain a high quality. These are commonly acknowledged as; credibility, transferability, dependability and conformability (Saunders et al., 2012, p. 381; Cope, 2014, p. 89). Though, one could also find the criterions mentioned as; validity, reliability, replicability and generalizability (Bryman et al., 2008, p. 265). It is easy to notices when viewing literature on quality criteria in qualitative research that the terms used for the criterions can differ, but the content stays the same. In this study we have chosen to use Tracy’s (2010, pp. 839-848) framework of the eight criterions that have to be considered in order to achieve an excellent qualitative research. The reason for this developed framework was to find something that was suitable for all qualitative research, despite methodological choices, that makes the quality of the studies as high as possible (Tracy, 2010, p. 837). The eight criterions that was considered in this study was; worthy topic, rich rigor, sincerity, credibility, resonance, significant contribution, ethics and meaningful coherence (Tracy, 2010, p. 838).

The first criterion worthy topic is related to selecting a topic that is relevant, timely interesting and significant (Tracy, 2010, p. 840). The topic of corporate governance and board of directors in small firms were chosen both due to the existing lack of knowledge within this field, and together with the large amount of small firms that are operating on the Swedish market. We believe that due to the commonness of small firms in Sweden, as well as the rest of the world, it is crucial to have insight and understanding of how these use and value the boards. In order to develop these firms and the market they operate in one has to start by increasing the knowledge about them. This is not restricted to our study on board of directors and how small business owners value these, but is also related to many other aspects regarding small firms that need further exploration. We also found the selected topic in this study interesting, especially since it is relatively unexplored and also due to that many of us might end up working in small firms.

Continuing with the second criterion rich rigor, which concerns establishing a study that uses sufficient, appropriate, abundant and complex; theoretical constructs, data and time in the field, sample, context, data collection and analytical processes (Tracy, 2010, p. 840). In this study we have considered this criterion firstly by making sure that the theoretical framework contained the most essential empirical findings and relevant authors within the subject. Secondly we have carefully selected the sample from purposive sampling, leading us to answering the research questions in best possible way in relation to limitations such as time and resources.

Related to establishing a rich rigor, there are several issues that must be in consideration when using interviews for collecting the data. One of them being the potential lack of trust, meaning that it is important that the interviewee feel a sense of trust for the
interviewers in order to give out information that she or he consider to be sensitive (Myers, 2013, p. 125). This was established in this study by considering the ethical aspects when negotiated access to the participants (Saunders et al., 2012, pp. 217-226; Bryman & Bell, 2011, pp. 435-436). Another problem of common occurrence that arises when using interviews is the lack of time, which can restrict the quality of the data collected (Myers, 2013, p. 125). It can also push the participants into creating opinions and meaning under a time pressure, thus these might not be as valid as they would have been if the participant had the chance to consider it longer. However, we did not experience that our participants restricted themselves when answering, or gave us incomplete answers to our questions, but one thing we could have done to prevent this is to send the questions in advance so they had the chance to reflect upon them before the actual interview.

Risk of ambiguity of language also has to be considered in terms of obtaining the best possible quality, which basically means that it does not matter how careful you are when using the spoken findings and coding if the answers always contain a certain amount of ambiguity analytical process we have made sure to be as objective as possible, as being described in the chapter of methodology. Since we were two researchers we had the possibility of always reviewing the work of each other to decrease the risk of someone mixing too much subjectivistic angles into the study.

By giving clear description of how the findings will be used to analyse the data, as we did when mentioning the system that will be used to code the findings, this is also related to the aspect of confirmability (Code, 2014, p. 89). We tried to use the perceptions and meanings of the participants that were mentioned by several of them as much as possible, and aimed to avoid meanings only mentioned by single participants, due to that the level of generalizability is lower in those answers (Bryman et al., 2008, p. 265).

The third criterion is related to establishing sincerity in the study, by making sure to be transparent about the methods and challenges of the study, together with self-reflexibility about subjective values, biases and inclinations of the researcher (Tracy, 2010, p. 840). This can be connected to the previous paragraph about the level of objectivity upheld throughout the study, together with us making clear and transparent descriptions of the methods used to conduct the study. We also tried to establish this by being honest and transparent about miscellaneous limitations or biases that the study faced. Also related to this criterion, like mentioned in the methodology chapter, our intention was to hold all interviews face-to-face with the belief that this would increase some sort of trust-building during the meeting, which in turn would give better and more thought through answers. This if compared to holding them over the phone as we in many of the cases actually had to do. With hindsight, we experienced that some part of our assumptions might have been true, that the connection with the participants we met face-to-face were better, however, if this improved their answers is hard to say. We experienced that the participants we met face-to-face allowed for the interviews to take longer time, and explained some things more thoroughly compared to the ones we had telephone interviews with. The reason for this could be that the participants choosing to have it over the phone did it since it requires less time from them.

Like mentioned, dependability is also one aspect one should establish in order to establish a high quality in a study and this could be connected to the criterion of sincerity (Saunders et al., 2012, p. 381; Cope, 2014, p. 89). Thus the aspect of us being transparent
in describing the metadological procedures in this study could increase the replicability and thus the level of dependability, since it makes it easier for other researchers to replicate the study within the same conditions and potentially achieving the same findings.

The fourth criterion *credibility* is concerning that the study is marked by containing thick descriptions, concrete details, and explication of tacit knowledge. *Credibility* in a qualitative study should also be marked as using triangulation, multivocality and member reflections (Tracy, 2010, p. 840). In this research the transparency of methodological choices is important to establish replicability, and we have done this to the highest extent possible. An example of this is that we clearly describe the procedures on how we found our sample and showing the interview guide. We have also made sure to make references to everything that were written or found by other authors, to distinguish our own interpretations and opinions from those who are coming from someone else. Another thing that increased the credibility of this study was to describe our personal experiences about the subject and what impact this can have on the study (Cope, 2014, p. 89).

*Resonance*, the fifth criterion, is about that qualitative research should influence or affect particular readers or audiences by naturalistic generalisations, transferable findings and aesthetic, evocative representation (Tracy, 2010, p. 840). In this study we aimed to present the findings in a way to represent the essential meanings and perceptions of our participants in the fairest way possible, but since the subject per se is not that sensitive, and the participants emotions about it was of little relevance to us we did not transfer *how* the participants spoke their meaning. This is a criterion we believe is more important to consider if conducting studies on sensitive subject, or when aiming to obtain another type of data from the interviews compared to this study. However, in order to achieve aesthetic merit we did try to compose a text so that readers would find the subject interesting, even those who have no prior knowledge on the subject.

The sixth criterion is called *significant contribution* and it is about that the study should provide theoretically, practically, morally, methodologically or heuristically contributions (Tracy, 2010, p. 840). Due to the fact that there few existing empirical studies on small firms and their perception of the role of the board, we believe that our study’s contribution to the knowledge gap is significant. Further, we also hope that this study contain the heuristic contribution of increasing peoples’ interest on the subject and see potential need for further research. In several places in the text we have given some indications to what could be potential areas for future studies, which can be of help if someone wants to continue researching the field. The practical contributions from this study are clearly outlined in the conclusion section in this thesis.

The seventh criterion *ethical* is related to the importance of the ethical aspects that one has to consider conducting a qualitative study (Tracy, 2010, p. 840). These involve, procedural-, situational-, relational- and existing ethics. Like described in the ethical part of the methodology chapter we have focus on considering the ethical aspects facing the study and also the aspects of gaining access to the data. Examples of this is that we selected the following ethical aspects that were of highest importance for our study; confidentiality, objectivity and anonymity of the participants (Saunders et al., 2012, pp. 217-226; Bryman & Bell, 2011, pp. 435-436). The confidentiality and objectivity of the participants were addressed by informing them of their anonymity in the study and that each and one of them will have a separate code to represent them throughout the findings.
When informing the participants of this we aimed to assure that they felt free to spoke their opinions, without any thought of giving out too much information on the firms. We also worked actively to assure the participants that we did not put any judgement in their answers, and that we wanted to get their personal perceptions about the subject, rather than them answering what they believed we wanted to hear.

Lastly, the eight criterion *meaningful coherence* relates to that the study overall uses methods and procedures that is suited for the stated goals, achieves the stated objectives and in a meaningful way connects literature, research questions and findings with each other (Tracy, 2010, p. 840). In the end of this study in the analysis and conclusion we have aimed to connect everything together, both in terms of connecting our findings with previous literature, and also in terms of restating the research questions and answering these. We hope to have achieved a sense of meaningful coherence in these chapters, where the reader can grasp that the objectives and goals were met.
8. Reference list


Appendix 1

Interview guide

The respondent’s role in the firm

1. What position do you have in the firm?
2. In what way are you involved in the board?

Current situation analysis

3. How does it look for your firm today?
4. How is your firm placed on the market compared to your main competitors?
5. What are the firm’s main challenges and goals for the future?

Board of directors in small firms

6. What do you consider to be the components of a good board of directors in small firms?
7. What kind of resources do you consider your firm already possess in the board?
   a. What kind of resources are you lacking?
8. How many board members are in your board of directors?
   a. Why did you choose to have that number of board members?
   b. Do you believe that the size of the board have any impact on board effectiveness and performance?
9. How do you recruit new board members today?
10. How does the board in your firm control the work of the management?

Board composition and diversity

11. What characteristics are you looking for when recruiting a new board member?
   a. How might these affect the efficiency and performance of the board work?
12. What do you consider to be the difference between having a board composed with similar respectively differentiated resources?
   a. Are there any advantages or disadvantages with having a homogenous board?
   b. Are there any advantaged or disadvantages with having a heterogeneous board?
13. Do you consider it is common to be a board member in multiple boards?
   a. Do you have any experience from this?
   b. Do you believe this is valuable in small firms?
Inside and outside board members

14. How do you value inside versus outside directors when appointing a new director?
15. What kind of resources do you believe inside directors can bring to the firm?
   a. How are these resources valuable for the firm?
   b. What risks are associated with having inside directors?
16. What kind of resources do you believe outside directors can bring to the firm?
   a. How are these resources valuable for the firm?
   b. What risks are associated with having outside directors?
17. What ratio between outside and inside board members do you prefer?
   a. For what reason?

Firm performance

18. In what way does the work of the board affect firm performance in small firms