Why have an Active Board of Directors?

A Quantitative Study of SMEs

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Abstract

In Sweden all limited liability companies are required to have a board of directors. The board of directors’ task is to manage the business of the firm, but in recent years boards have been subjected to critical review in the media, questioning the tasks and structure of the board. Further, there are differences in the regulations regarding limited liability companies, depending on whether they are private or public companies. Moreover, a majority of the research within the area of corporate governance has been conducted on public companies.

However, corporate governance in small and medium sized enterprises (SME) has in the last 30 years become a field of interest. Several scholars and doctorates have used different board roles to explain e.g. the tasks, demographics, and financial performance. The board roles are mainly derived from the agency-, resource dependence-, and stewardship theory. Many papers have come to the conclusion that a board of directors who performs their task, and/or have a certain board demography is beneficial to the firm. Hence, the board and its activity is of importance, however, a general image is conveyed that boards in SMEs rarely are active, but rather are seen as a necessary mean in order to have a firm. Due to this, the research question in this thesis is:

What motivates small and medium sized firms to have an active board and are boards in Norr- and Västerbotten active?

The criteria for having an active board has been derived from antecedent research and are further recommendations from StyrelseAkademien. Three different board roles have been used with the purpose of explaining the motivation behind having an active board. Further, this thesis has had a quantitative method, and in order to gather data a survey was sent out to board members in Norr- and Västerbotten.

The results show that the motivation behind having an active board cannot be explained through the roles network and service of the board. The control role could partly explain the motivation behind having an active board of directors in SMEs in Norr- and Västerbotten, having a negative relationship to board activity. Moreover, due to the opposing results in terms of whether or not boards are active, an unambiguous answer could not be found. However, 49.1 percent of the sample is considered to be active. Lastly, the finding support that in order to have an active board, the firm must recognize a need to include outside directors.
Acknowledgements

First and foremost, the authors of this thesis would like to thank each other for an outstanding collaboration in the process of writing this thesis. Moreover, we would like to thank Olof Degerfeldt, the chairman of StyrelseAkademien Norr, for his critical inputs making this thesis possible. Additionally, we want to thank our supervisor Rickard Olsson, who during the whole process has been of great help to us by providing valuable feedback and guidance. Lastly, we would like to thank those individuals who took the time to answer our survey.

Umeå 2016-05-16

Frida Björklund & Hanna Dahlström
# Table of content

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Problem Background</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Problem Discussion</td>
<td>4</td>
</tr>
<tr>
<td>1.3 Research Question</td>
<td>5</td>
</tr>
<tr>
<td>1.4 Purpose</td>
<td>5</td>
</tr>
<tr>
<td>1.5 Practical and Theoretical Implications</td>
<td>6</td>
</tr>
<tr>
<td>1.6 Limitations</td>
<td>6</td>
</tr>
<tr>
<td>1.7 Disposition</td>
<td>6</td>
</tr>
<tr>
<td>2. Theoretical Framework</td>
<td>8</td>
</tr>
<tr>
<td>2.1 Inside and Outside Directors</td>
<td>8</td>
</tr>
<tr>
<td>2.2 Active Boards</td>
<td>9</td>
</tr>
<tr>
<td>2.2.1 The Number of Directors</td>
<td>10</td>
</tr>
<tr>
<td>2.2.2 Outside Directors</td>
<td>11</td>
</tr>
<tr>
<td>2.2.3 Number of Meetings</td>
<td>11</td>
</tr>
<tr>
<td>2.3 Agency Theory</td>
<td>11</td>
</tr>
<tr>
<td>2.3.1 The Control Role of the Board</td>
<td>13</td>
</tr>
<tr>
<td>2.4 Resource Dependence Theory</td>
<td>14</td>
</tr>
<tr>
<td>2.4.1 The Network Role</td>
<td>15</td>
</tr>
<tr>
<td>2.5 Stewardship Theory</td>
<td>16</td>
</tr>
<tr>
<td>2.5.1 The Service Role</td>
<td>17</td>
</tr>
<tr>
<td>2.6 The Presence of Outside Directors</td>
<td>18</td>
</tr>
<tr>
<td>2.7 Board Structure</td>
<td>19</td>
</tr>
<tr>
<td>2.7.1 Board Member Involvement</td>
<td>19</td>
</tr>
<tr>
<td>2.7.2 Board Routines</td>
<td>20</td>
</tr>
<tr>
<td>2.8 Conceptual Model</td>
<td>20</td>
</tr>
<tr>
<td>2.9 Antecedent Research on Board of Directors</td>
<td>21</td>
</tr>
<tr>
<td>3. Operationalization</td>
<td>23</td>
</tr>
<tr>
<td>3.1 Index for Control</td>
<td>23</td>
</tr>
<tr>
<td>3.2 Index for Network</td>
<td>24</td>
</tr>
<tr>
<td>3.3 Index for Service</td>
<td>24</td>
</tr>
<tr>
<td>3.4 Index for Board Structure</td>
<td>24</td>
</tr>
<tr>
<td>3.5 Control Questions</td>
<td>24</td>
</tr>
<tr>
<td>4. Methodology</td>
<td>25</td>
</tr>
<tr>
<td>4.1 Preunderstanding and Choice of Topic</td>
<td>25</td>
</tr>
</tbody>
</table>
List of figures
Figure 1. Conceptual model .................................................................................................................. 21
Figure 2. Proportion of inhabitants and answers for each municipality .......................... 44
Figure 3. Distribution of the board roles present in the sample .................................................. 45
Figure 4. Distribution of industries present in the sample ............................................................. 45
Figure 5. The primary reason for including outside directors ....................................................... 47
Figure 6. Empirical conceptual model ............................................................................................... 55

List of tables
Table 1. Antecedent research ............................................................................................................. 22
Table 2. Overview of the indexes included in the survey ................................................................. 35
Table 3. Mean, median & standard deviation for the activity variables .......................................... 46
Table 4. Results of the one sample t-test ............................................................................................ 46
Table 5. Mean, standard deviation, skewness & Cronbach’s alpha for index 1 ................ 48
Table 6. Mean, standard deviation, skewness & Cronbach’s alpha for index 2 ................ 48
Table 7. Mean, standard deviation, skewness & Cronbach’s alpha for index 3 ................ 49
Table 8. Mean, standard deviation, skewness & Cronbach’s alpha for index 4 ................ 49
Table 9. Correlation matrix ............................................................................................................. 51
Table 10. Multiple regression analyses of the dependent variables for board activity .......... 53
Table 11. Multiple regression analysis with the dependent variable board structure ............ 54

Appendices
Appendix 1. Survey questions used by Gabrielsson & Winlund, 2000 ................................. 81
Appendix 2. Survey used in this thesis, original ............................................................................. 85
Appendix 3. Survey questions, English translation ................................................................. 89
Appendix 4. Cover letter, original ................................................................................................. 93
Appendix 5. Cover letter, English translation ................................................................................. 94
1. Introduction

1.1 Problem Background

During the last years statistics has shown that the population in the north of Sweden is growing. This since the municipalities are working to create attractive living environments and to encourage a versatile cultural life (Westin, 2014). Umeå is expected to increase its population by ten percent by 2035, however Luleå is expected to have decreased by two percent at that time (Svenskt Närsingsliv, 2011, p. 10, 12). A highly important variable when it comes to the population in different municipalities and regions in Sweden is the business climate. If the business climate provides good business opportunities, unemployment will be lower and both inhabitants staying, and immigration of new inhabitants will increase (Svenskt Närsingsliv, 2011, p. 7). According to the Swedish agency for economic and regional growth the small and medium-sized enterprises (SME) in Västerbotten have over the last years been optimistic and has had a higher will to grow compared to the average SMEs in the country (Tillväxtverket, 2016a).

Looking at Norrbotten’s SMEs, they show the same aspiration (Tillväxtverket, 2016b). Hence, the business climate is an important factor in determining the future for regions in the country as well as promoting successful companies, and every company is required by law to have a board of directors.

Besides the different regions and municipalities in Norrland the non-profit association StyrelseAkademien Norr is working for companies and their wealth by helping to improve the board work conducted. They strive to help firms and their board so that they, amongst other things, will be able to have a sustainable development and to increase the value in the firm (StyrelseAkademien, 2016).

In Sweden the board of directors in a company has four main responsibilities. Firstly, they are in charge of managing the business of the firm and to make sure that taxes are paid. Furthermore, they are in charge of inviting the shareholders to the annual general meeting and that an annual report is being produced and sent to the Swedish companies registration office (Bolagsverket, 2014). Besides this legislative approach, Zahra & Pearce (1989, p. 291) describes that the tasks of the board is to provide three different roles, service, strategy and control, which are achieved by the boards attributes, composition, characteristics, structure and process.

In general the role of the board has received more attention from the public due to various scandals, both in Sweden and internationally. The recent event in Swedbank and their board of directors is one example illustrating the confidence and responsibility the board has, and what happens when they fail to act in the interest of their shareholders (Almgren & Dahlberg, 2016). As a result of such scandals, rules and regulations has emerged internationally, as a means of ensuring a higher level of the work performed by the board of directors. The Sarbanes Oxley act is an American regulation attempting to increase the level of responsibility, reduce the risk of frauds and demanding a higher level of disclosure within corporations (U.S. Securities and Exchange Commission, 2013). The Cadbury report aims to improve the behaviours of corporations through a voluntary code of four main components. For example, the separation between the role as CEO and the role as chairman of the board, and secondly having a majority of outside directors on the
board (Percy, 1995, p. 24). An outside director is, according to Neville (2011, p. 532) not an owner of the firm and neither related to the owners. As a consequence a board member related to the CEO cannot be defined as an outside director. Further, the definition of inside directors is that they are currently in the position of a manager of the firm, or previously having had this position (Pfeffer, 1972, p. 224).

Besides the above mentioned regulations, there are further recommendations for corporate governance in publicly held companies. Regarding board composition, companies should only have one board member represented from the company’s top management team and this is usually the CEO, leading to the fact that directors in publicly held companies to a great majority consists of outside directors. When looking at private companies the rules and codes are not as specific in terms of board composition. Neither the European parliament (Europaparlamentet, 2007) nor Swedish Companies Registration Office (Bolagsverket, 2012) have stated anything about boards in private companies and whether they should have outside directors. However, 99.9 percent of Swedish companies are SMEs with less than 250 employees (Ekonomifakta, 2016a), meaning that 60 percent of Sweden’s GDP comes from these companies (Ekonomifakta, 2010).

The subject of board of directors in SMEs became more present in research during the 1990’s according to Huse (2000, p. 271). During that decade different organizations was initiated aiming to develop practices for good conduct for SMEs. Furthermore, there is evidence for the relevance of the topic due to current pressure on SMEs to have sufficient and active boards, since governmental agencies and banks, to a higher extent, evaluate businesses based on their board composition. It has further become a part of many business students curriculum to study boards in SMEs. However, research is still not integrated, referring to the fact that new studies on the subject seldom see the full picture of previous studies (Huse, 2000, p. 271). Reviewing previous research the three most common theories describing the role of board of directors are agency-, resource dependence- and stewardship theory.

According to Eisenhardt (1980a, p. 58) agency theory aims to solve two issues when having an agent and a principal. The first issue is the agency problem, meaning that the principal and the agent may have conflicting goals and/or desires. The second issue relevant for the theory is the one of risk sharing where the two parties might have different attitudes regarding risk (Eisenhardt, 1989a, p. 58). In terms of boards, where the top management is in control of the board, they may find incentives to expropriate shareholders’ wealth. However, the likelihood of this behaviour can be lessened by including outside directors, whose task is to monitor the management in accordance with the external market (Fama, 1980, p. 293-294).

According to Pfeffer (1972, p. 220), the theory of resource dependence implies that the performance of a firm will be affected by the possibility of attaining resources, aligned with the company’s interest, from the directors of the board. Practically this would result in that a firm includes members on their boards who are in possession of a needed resource (Pfeffer, 1972, p. 220). Hence, a larger need for resources not present within the firm will have the implication that a greater proportion of the directors will be outside directors (Pfeffer, 1972, p. 222).
Stewardship theory is a relatively new theory, having its roots in sociology and psychology. This theory states that organizational and collectivistic behaviour is superior to individualistic and elitist behaviour and that intrinsic motivation is an important part of corporate governance. According to the theory the manager's interest, whom in this case is the steward, will not differ from the organizational interest, hence leading to the manager setting the organizational and collective interests as their main priority (Davis et al., 1997).

Out of these three theories agency theory is the dominant theory used to explain the behaviour of the board. However, the theories greatest contribution is not to SMEs but rather to publicly held companies (Neville, 2011). In publicly held companies the agency issues are an important reason for having codes stating that e.g. the CEO cannot be the chairman (Percy, 1995, p. 24). When investigating SMEs Neville (2009, p. 249) states that the shareholders tends to have a close relationship to each other, and that 67 percent of the companies studied only had two shareholders and that four percent had four or more. It is common that the shareholders in SMEs work for the company, often meaning that the shareholders assets are non-diversified, increasing their financial risk. This type of board composition has the potential of leading to conflicts, putting the company at stake, for instance changing goals, values, or relationships turning unfriendly (Neville, 2009, p. 250-251).

As a result of the above mentioned, it appears to be a good idea to have outside directors present in the board, keeping conflict of personal level at arm’s length from the company issues. Moreover, Johannisson and Huse (2000, p. 354) found that family firms, built by an entrepreneur, often is reluctant towards recruiting external directors since they want to keep the control for themselves. According to Miller and Friesen (1984, p. 1161) one variable connected to outside directors was if the CEO was pressured by external owner demands. Further, they also conclude that larger small firms are more likely to have an outside board.

Reviewing previous studies boards has been studied in terms of for example composition, characteristics of board members and selection processes (Johannisson & Huse, 2000; Neville, 2011; Zahra & Pearce, 1989; Fiegner et al., 2000)

As aforementioned, the role of board of directors is often stated in regulations and rules of the country, in which the firm is operating. This is being described in a study by Neville (2011, p. 531) as leading to one of the roles of a board in an SME is to control the firm and its business. However, the most essential role of the board was identified as contributing with competencies. Further, the inclusion of outside members is positive for the governance of the firm. Despite these findings the owners of SMEs are described as not perceiving the benefit of having a board of directors, whom they for example can tap for resources. This results in that the owner of a firm resists to create a board, or to limit the members of the board to only consist of inside directors (Neville, 2011, p. 537).

StyrelseAkademien has also lifted the discussion of outside directors in private limited liability SMEs, stating that to have good corporate governance the firm needs to have an active board. To be considered active, StyrelseAkademien has stated three criteria that needs to be fulfilled: The board have to consist of at least three board members, at least one of the board members have to be an outside director and the board has to have a minimum of four board meetings per annum (StyrelseAkademien, 2014, p. 16, 37).
Furthermore, support for these criteria can be found in antecedent research. As presented above, several scholars have discussed the role of outside directors on boards in SMEs (Neville, 2011; Johannisson & Huse, 2000; Fiegner et al., 2000; Gabrielsson, 2007b; Clarysse et al., 2007; Duchin et al., 2010).

Relating the number of board members to financial performance has been a topic of interest for many researchers (Bennedsen et al., 2008; Yermack 1996; Eisenberg et al., 1998). Bennedsen et al. (2008, p. 1108) found a negative correlation between the number of directors and financial performance when the board consists of more than six directors. Further, they found that larger boards might be including outside directors, such as bank officers, in order to benefit from their incentive to avoid risky projects. It might even be that owners of the firm choose risk averse board members since they themselves are risk averse (Eisenberg et al., 1998, p. 48, 53). It is worth mentioning that the mean board size represented in their sample is not below 3.1 directors in any of the studied industries (Eisenberg et al., 1998, p. 40).

Due to the fact that outside directors do not take part in the daily operations and thus needs to be informed more often, Gabrielson and Winlund (2000, p. 327) argues for that a higher representation of outside directors on the board will result in the need of more frequent board meetings. Gabrielson and Winlund (2000, p. 318) hence suggest that the routines of a board relate to the probability of taking effective decisions.

1.2 Problem Discussion

Comparing the board of directors in public and private companies it is evident that research on private companies is a relatively underexplored area in research. When further investigating SME boards and the existing research, Zahra & Pearce (1989, p. 291) is a predecessor when describing the roles and attributes of board of directors. In their study they try to create a framework describing the relationship between roles and attributes, and financial performance. They did however strongly recommend further studies on the topic of boards in SMEs. When reviewing subsequent research it is apparent scholars and doctorates have taken their advice. The main topics of interest on the subject is: board composition, board recruitment, boards in family businesses, boards and their link to the above mentioned theories (agency, resource dependence and stewardship), board empowerment, board involvement, and board network (Gabrielsson & Winlund, 2000; Huse, 1998, 2000; Johannisson & Huse, 2000; Neville, 2009, 2011; Eisenhardt 1989a).

However, compared to other business research fields the research on boards in SMEs is still limited. In the Nordic countries and Sweden there are few studies focusing on SMEs and how they perceive the topic board of directors. To a large extent the previous studies has been undertaken in the U.S. (Zahra & Pearce 1989; Johnson et al. 1996; Fiegner et al., 2000). Moreover, there are studies represented from Europe as well (Ciampi, 2015). Though, when exploring the research in the Nordic countries it is limited to a few scholars, doctorates and professors (Huse, 1998, 2000; Gabrielsson & Winlund 2000; Neville, 2003, 2011). This enlightens the shortage of research in Sweden and especially in the northern regions of Sweden.

Since the north, and especially Norr- and Västerbotten are two growing regions in terms of SME ambitions, the question regarding boards in these companies are highly relevant
and of its time. Therefore, motivating further research within the field to be focused on the northern regions of Sweden.

The relatively new interest from banks and governmental agencies on the work of boards, as aforementioned, also shows that the topic is worth further research. The authors of this thesis thus recognizes that a study providing more insights to the field and contributing to empirical knowledge on the motives of SMEs choices regarding the board, would be of importance in today's business climate.

A further gap in previous research is regarding the motivational factor of management in SMEs to have a board of directors, whether the directors should be outside or inside directors, and what they view as the benefits of their choice. Further, antecedent research has tackled the question from an angle that does not recognize the motivation behind the choices SMEs have made regarding their board. They rather investigate what the current board is doing and not where it came from. For example, Gabrielsson and Winlund (2000) and Huse (2000, 1998) does not consider the motives behind SMEs having their board. Therefore, the authors of this thesis perceive the necessity of conducting a study, which considers the reasons and motives behind the decisions and choices the management of SMEs make regarding their board.

In reviewing past literature the topic of outside directors are highly present and of great importance when it comes to having an active and functioning board of directors. For example, Johannisson and Huse (2000) looked into what obstacles there are when family firms are to recruit an outside director and the ideologies behind the process. As mentioned previously Neville (2011, p. 537) describes that firms do not see the point of having a board and what benefits they might contribute with to the firm. Moreover, Neville (2011, p. 537) stated that this could be a problem from a socio-economic perspective leading to serious consequences of growth potentials in SMEs. Hence, hopefully a greater focus on the motivational factors and reasons will contribute to understanding the boards in SMEs.

Further, it is of importance to understand if boards are in fact active. Antecedent researchers have not investigated whether or not boards are active. An image have been conveyed to the authors of this thesis that boards in SMEs in Norr- and Västerbotten rarely are active. As stated above StyrelseAkademien have three criteria in order to determine whether a board is active or not. Those three criteria will further be used in this paper in order to be able to present the demographics of boards in the north of Sweden, with a focus on the two regions Norr- and Västerbotten.

1.3 Research Question

What motivates small and medium sized firms to have an active board and are boards in Norr- and Västerbotten active?

1.4 Purpose

The main purpose of this thesis is to examine what motivates SMEs to have an active board of directors and if boards in Norr- and Västerbotten are active. A sub purpose is to examine what the effects of having an active board are on board structure and what the primary reason for including outside directors is in firms who have done so.
1.5 Practical and Theoretical Implications

The theoretical implications of this thesis is that it will provide for a deeper understanding of what motivates the choice to have or not have an active board of directors, and if SMEs do or do not have outside directors and an active board. In previous studies the topic has been lifted but not as a main research question which have led to a lack of insight. Having it seen from both the CEOs and other board members perspective we believe this thesis will contribute to the theory since the previous focus has been directed mainly towards the CEOs point of view.

The results of this thesis has the possibility of showing the motives behind the board of directors in SMEs and what the primary reason is when SMEs choose to include outside directors in their boards. This has the practical implication of having management in SMEs understand and reflect over what their board of directors can do for their companies. Hence, it provides the appropriate support for the firm helping them in finding their optimal way of working to reach their goals and ambitions. Furthermore, organisations such as StyrelseAkademien and external stakeholders who actively are interested in the activities of board of directors, both for financial and societal reasons, can find the results of this thesis interesting. Municipalities are further a group that could be interested in the result. They strive to have an active business sector, contributing to growth and to attract residents, which, as discussed above, is a topic of interest right now in the north of Sweden.

1.6 Limitations

In Sweden there are different types of companies, sole trader, trading partnership/limited partnership, limited company and economic association (Verksamhet, 2015). The company type of interest for this thesis is limited companies not listed on the stock market, with 10 to 250 employees. Since, the definition of SMEs are that the firm has less than 250 employees and either a turnover of maximum 50 million Euros or a balance sheet total of maximum 43 million Euros (European Commission, 2016). There is a sub group in SMEs called micro-companies with zero to nine employees (EUR-Lex, 2016). This company group will not be included in the thesis. Hence, the focus will be on firms with 10 to 250 employees.

Moreover, this thesis will not consider different degrees of activity, hence only whether or not they are active will be of concern. The thesis is further limited to the north of Sweden, with Norrbotten and Västerbotten as the two regions of main interest. This since we found it to be a particularly interesting area due to the fact that little research has been conducted here. Further, the access to respondents in these regions is beneficial for this thesis since both authors are connected to the area. The time limit for this thesis as well as formalities can further have an effect on the generalizability of the study.

1.7 Disposition

In the subsequent thesis, the authors have chosen to first present the theoretical framework, where the hypotheses of this thesis are derived. This since the authors of this thesis recognize it to be beneficial in order to create a clear relationship between the theory and the hypotheses, and to provide the reader with a clear understanding for the
topic, and hence the subsequent methodological approaches. Following the theoretical framework, the operationalization of the research question is presented in order to provide for an understanding of how the authors aim to measure the motivation, using the different board roles. Thereafter, the method, results, analysis, and conclusions follows. These chapters relate to the preceding chapters, and hence a stringency is maintained. Further, the authors support these dispositional choices by referring to the disposition commonly used in peer reviewed papers and dissertations, from which inspiration has been taken.
2. Theoretical Framework

2.1 Inside and Outside Directors

A board of directors can be composed of both inside and outside directors, the definition of the terms can vary some depending on e.g. authors and study. According to Zahra and Pearce (1972, p. 412) the difference between the outside and inside director is their association to the company in question. Consequently, they argue for that inside directors are currently working at the company and/or are a part of the top management team. Meanwhile Neville (2011, p. 532) emphasizes the personal relationships in the definition of outside directors, meaning that an outside director is not an owner of the company or related to the owner. Further, Pfeffer (1972, p. 219) describe inside directors as managers of the company and also argues that former managers can be considered as inside directors. This contrasts the definition by Zahra and Pearce (1972), mentioned above, as they emphasises that the current participation and employment in the company are characteristics being defined as an insider. Hence, the outside members of the boards are considered to not have a management relation to the company (Pfeffer, 1972, p. 219). Outside board members are also often referred to as non-executive directors of the company (Gabrielsson & Winlund, 2000, p. 317)

Further, Zahra and Pearce (1972, p. 412) state that outside directors can be divided into affiliated and non-affiliated outsiders, meaning that individuals who have previously been working for the company, hence that have a relationship to the company, are affiliated. Meanwhile, the non-affiliated outsiders are “independent” of the company (Zahra & Pearce, 1972, p. 412). The ability of a firm to perform and survive is associated with the composition of the board and outside directors, hence the decision of having inside and/or outside directors can affect the financial performance of a company. This is further related to the possibility of handling the surrounding environment in a composed and effective way (Zahra & Pearce, 1972, p. 432-433).

The definition of an outside director used for this thesis has been derived from the above articles and is as follows: 

*An outside director neither works or has worked for the firm in question and is neither related to or in a relationship with any of the owners of the firm.*

2.2 Active Boards

In order to determine whether a board is active, the organization StyrelseAkademien has stated three criteria. First, the board should consist of at least three members and secondly, one of these board members should be an outside director. Lastly, the board should have at least four meetings per annum. When fulfilling these criteria the board is active, and thus have the necessary conditions in order to fulfil the task of effectively governing the company (StyrelseAkademien, 2014, p. 16, 37).

The first criteria is supported by Swedish law for publicly traded companies. According to the 46th §, chapter 8 in Aktiebolagslagen (SFS 2005:551) a publicly traded company must have a minimum of three directors. The second criteria is however not fully supported. For a public company the CEO is not allowed to hold the position as Chairman, hence having a dual structure, according to the 49th §, chapter 8 (SFS 2005:551), however nothing is spoken in regards of the number of outside directors required. The number of
board meetings per year has no clear definition in the law, however, all of these criteria is supported by antecedent research on both private and public companies.

2.2.1 The Number of Directors
With over 5000 citations, David Yermack’s (1996) article Higher market valuation of companies with a small board of directors is one of the most cited articles looking at the correlation between financial performance and the number of directors on a company’s board. In his study he looked at 452 large listed companies in the U.S. and presents evidence that companies with small boards provides better financial ratios as well as better CEO performance (Yermack, 1996, p. 185-186). In his sample only a few of the companies included had less than six or more than 24 directors (Yermack, 1996, p. 186). His main hypothesis for this study was that the value of the firm depends on the quality of decision-making and control by the board of directors, and further that the number of directors is an important factor in terms of the board’s performance (Yermack, 1996, p. 189). Why small boards had a better performance he found was due to the fact that communication, coordination and decision-making problems became more apparent the larger the board was (Yermack, 1996, p. 196).

The optimal number of directors has been expressed by both Jensen (1993, p. 865) and Lipton and Lorsch (1992, p. 67) who states that the optimal number is respectively seven to eight directors or a maximum of ten directors. Jensen (1993, p. 865) states that if the directors are too many, it will be easier for the CEO to control the board, which is supported by Lipton and Lorsch’s (1992, p. 66) arguments as well, stating that it can be difficult for board members to fulfil their monitoring tasks if the CEO has power over the board. However, in both their papers it is perceived that they have public companies as their main company type of interest.

Following the above researchers, Eisenberg et al. (1998, p. 35-36) wanted to test if there was a similar relationship between board size and financial performance present in small and medium-sized companies. To do this they looked at a sample of 900 Finnish firms and they did as well identify a negative correlation between financial performance and large boards. The smallest average number of directors in their sample, consisting of companies from different industries, was 3.1 directors per board (Eisenberg et al., 1998, p. 40). They tested if their results had any connection to firms who had increased board size due to poor performance but found that this could not explain their results (Eisenberg et al., 1998, p. 50). However, they did see the possibility that larger boards might have more outside directors, who often are more risk averse due to reputational risk, or that the firm’s management chooses a more risk averse board in order to match their own preferences. Lastly, an optimal number of directors were not concluded in their paper, since they state that it varies depending on the size of the firm. (Eisenberg et al., 1998, p. 53). In a more recent study conducted by Bennedsen et al. (2008, p. 1108), who as well investigates the relationship between financial performance and number of board members in SMEs, however in Denmark, they found that there is no size effect when the number of board members was below six.

Concluding the above presented research, the minimum number of directors of a board set by StyrelseAkademien is supported. None of the above cited papers presented a sample having an average less than three board members, the financial performance rather seemed to be an issue correlating with board size when the board included more than six
directors. Hence the use of the criteria stating that a firm needs to have at least three board members in order to be an active board is robust.

2.2.2 Outside Directors

As stated above the definition of outside directors is that an outside director neither works or has worked for the firm in question and is neither related to or in a relationship with any of the owners of the firm. Further presented above, the role of outside directors on boards in SMEs is discussed by several scholars (Neville, 2011; Johannisson & Huse, 2000; Fiegner et al., 2000; Gabrielsson, 2007b; Clarysse et al., 2007; Duchin et al., 2010). According to Gabrielsson and Huse (2005, p. 34) outside directors can be described as having different roles in different types of SMEs. Moreover, they argue that the concept of outside directors is not consistent through different theories and hence can vary depending on the theory. In their article Gabrielsson and Huse (2005, p.34) distinguish between three types of SMEs when discussing outside directors, family firms, venture capital firms and “other SMEs”.

Including outside directors is explained through agency theory, as contributing with a director who has the possibility of acting independent in the overseeing of the operations of the firm and board (Gabrielsson & Huse, 2005, p. 29). Meanwhile, theories focusing on resources emphasizes the importance of benefiting from the increased level of knowledge within the company that outside directors can contribute with, hence the outside directors can be of assistance in times when the internal knowledge is not sufficient enough (Gabrielsson & Huse, 2005, p. 29). Thus, a clear importance of outside directors can be detected, even though the definitions and perceived contributions can vary between theories. Moreover, there is a perception that the developing process of a SME can be linked to the presence of outside directors (Gabrielsson & Huse, 2005, p. 30).

As aforementioned, StyrelseAkademien argues for that a board should have at least three board members and out of these one should be an outside director. However, according to Pfeffer (1972, p. 222) the number of outside directors will be greater if the firm is in need of resources not present within the firm. Thus, one could argue for that the number of outside directors will vary with the need of external resources. In an article by Gabrielsson (2007b, p. 697) 43.3 percent of the owner-managed firms studied had no outside directors on their boards. The study moreover presented that when a firm was externally owned 13.4 percent had one outside member on their board and 43.3 percent of the companies who were in a growth phase had two or more board members (Gabrielsson, 2007b, p. 697). Therefore, from the above presented arguments it is fair to assume that there will be a higher need for, and degree of, outside directors if the firm is growing. Moreover, external owners are more willing to have outside directors on the boards of their firms (Gabrielsson, 2007b, p. 697).

The statement that a board of directors with three members should have one outside director can therefore, as a result of the above mentioned, be considered as reasonable and motivated.
2.2.3 Number of Meetings

In *Guidelines for good board practice* StyrelseAkademien states that a board in an SME should have at least one board meeting per quarter. However, if the business has a complex nature or if it is a “larger” SME the number of meetings should increase (StyrelseAkademien, 2014, p. 37). Having public companies in mind, Lipton and Lorsch (1992, p. 64) states that the average board in the U.S. meets less than eight times per year. They insist that, for a board to be effective, the board should meet at least every two months, hence six times per year. Further they state that these meetings should be full-day meetings and that one meeting per annum should be held over two to three days (Lipton & Lorsch, 1992, p. 69).

Looking at the structure of a SME, it can be quite different compared to a large public company. According to Eisenberg et al. (1998, p. 36) the choice of board structure can differ in SMEs since these types of companies often are closely held and hence, the agency issue between managers and shareholders is not a prevalent issue. Investigating board empowerment in SMEs, Gabrielsson (2007b, p. 696-697) studied a sample of 135 SMEs and found that the average number of board meetings per year was 3.75. By having a board that is empowered, he further found that the board activity was increasing, and thus the number of board meetings was higher as well (Gabrielsson, 2007b, p. 695).

Following the above cited papers, the number of meetings depends on the size of the company and the complexity of its business. The average amount of meetings in Gabrielsson’s study did not live up to the set criteria, nonetheless there is a consensus that board activity is important, and that the frequency of meetings is an important variable. In a public company, the recommendation is minimum six times per year, and due to the differences between SMEs and public companies we find that four meetings per annum is a robust criteria.

Further, it is identified that the frequency of meeting is correlated with the presence of outside directors. Gabrielsson and Winlund (2000, p. 318, 327) found that the need for a higher frequency of board meetings per year increases when outside directors are present since they need to receive regular reports on the performance of the firm.

2.3 Agency Theory

According to Eisenhardt (1989a, p. 57) agency theory has been used by many scholars in different academic fields in the previous 30 years, but it is still a topic of disagreement. Research on agency theory provides the image of the firm as being ruled by contracts where the employees act in self-interest, but is still dependent on the survival of the firm and its team of actors (Fama, 1980, p. 289). However, Fama (1980) states in his article that this view do not succeed in explaining the large modern corporation since the manager, most likely, is separated from the firm's security holders, in opposition with the old approach where she is the residual claimant and carries the whole risk.

The agency problem is described as a general problem. When including an agent to maximize the profits of the principal it can cause a potential conflict of interest (Jensen

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1 Board Empowerment means that the performance of top management is monitored by outside directors and that they can influence the management and hence change its strategic direction if it does not live up to the performance targets set by the board. In extreme cases the empowered board even has the authority to change the corporate leadership (Lorsch, 1995, p. 107).
& Meckling, 1976, p. 309). In the case of a corporation, shareholders are the principals, who have hired the manager to work for them and to cater to their interests, hence making her the agent (Bonazzi & Islam, 2007, p. 7). There are many examples of managers putting their own interests before the shareholder interests. This is called shirking or enjoying the quiet life, described by Bertrand and Mullainathan (2003, p. 1047, 1067) as when managers are poorly governed and hence avoid the effort to shut down or start new projects. Moreover, Bertrand and Mullainathan (2003) found that managers avoid activities that are cognitively difficult where several stakeholders are involved, if they need to adapt to a new industry or take on tasks that might challenge their position in the company. The conflict of interest in this case would be that shareholders might miss out on profits due to the manager’s disinclination to take on demanding projects.

Furthermore, agency theory consists of two issues, the first is the problem of goals and desires and that these can differ between the agent and the principal. It can also be difficult and too costly for the principal to investigate whether the agent is doing what it should be doing. Secondly there is a problem of risk-sharing since the agent and the principal can have different approaches to risk and either be risk-averse or risk-taking, hence prefer dissimilar approaches to the same issue (Eisenhardt, 1989a, p. 58). In agency theory Eisenhardt (1989a) identifies two different streams from previous research, positivist theory, which identifies different contractual solution to the issue, and principal-agent, which specifies what type of contract is optimal under different levels of outcome-uncertainty. Further, she states that both streams are complementary.

Investigating this theory from a board perspective Fama (1980, p. 293-294) states that bringing outside directors into the board of directors can lower the first principal-agent conflict, mentioned above, by having them encourage and supervise the top management of the firm. The outside directors are supposedly disciplined by the market and sees to the interests of the shareholders in the firm.

One of the most important functions of outside directors is the one of addressing the agency issue by protecting the shareholders from situations such as where managers “take the money and run”. This since they can demand thorough auditing procedures and ask tough questions that inside directors might not want to ask directly due to pride (Winter, 1977, p. 285).

Contemplating more recent research Baldenius et al. (2014, p. 53) have studied the optimal composition of boards from a monitoring and service perspective. The board of directors have been a present topic due to immense corporate governance failures, where the monitoring of boards has been in question looking at the effectiveness of boards. Outside directors are usually seen as a tool for the principal to make sure that the CEO act in their interest via monitoring of the CEOs – the agents - actions (Winter 1977, p. 258). However, research has shown that when the CEO of a company is in control of the recruitment of directors, the CEO can actually have incentives to appoint board members whose main focus will be to monitor the CEO (Baldenius et al., 2014, p. 64). The reasons for this is that these board members will not incrementally bring new information, which leads them to often delegating the decision-making to the CEO. In the case where the shareholders are in charge of recruiting, Baldenius et al. (2014, p. 64) further show that CEOs sometimes choose a board with more focus on the advisory role. This occurs in cases where it is believed that the CEO might have incentive to entrench
herself by e.g. exaggerating the complexity of a new project. Having an advisory board in that case can lessen the risk of CEO-entrenchment.

2.3.1 The Control Role of the Board

The control role refers to boards where agency theory is the dominating perspective. According to Gabrielsson and Winlund (2000, p. 314) this is what most research regards as the most important function of the board. The control role implies that the main task of the board of directors is to monitor the actions of the manager in order to protect the shareholders (Zahra & Pearce, 1989, p. 293). However, the control role mainly focuses on the separation of ownership and control in large corporations (Eisenhardt, 1989a, p. 68).

When investigating the control role in terms of the board of directors it is often in a context where the control is to be at the hands of an outside director. As aforementioned, in public companies there are rules and regulations controlling the proportion of outside directors. The NYSE and NASDAQ regulations in the US even states that the majority of directors in public companies have to be outside directors (Duchin et al., 2010, p. 197). In terms of small and medium-sized private limited liability companies there are, as aforementioned, no laws or regulations that states that outside directors need to be represented on the board.

Ford (1988, p. 54) investigated in his article if outside directors are necessary in privately owned firms and found that inside boards are more important to the firm, in contrast with boards consisting of a mix of outside and inside directors. The reason for this was that the outside directors were seen as lacking information about the firm and its environment, and that they were not always available to the firm. The respondent saw that insiders always have better knowledge about the firm, knowledge that might be difficult for an outsider to comprehend (Ford, 1988, p. 54). However, in more recent research it has become apparent that many SMEs still do have outside directors on their board (Fiegner et al., 2000, p. 292), even though it is not required by law and in opposition with Fords (1988) study proclaiming that it was not a necessity for the firm.

A common argument in terms of board of directors in SMEs is that they can benefit from having external board members monitoring the company and hence making sure that the stakeholders (employees, banks, society, external owners) in the firm is protected from decisions made by the management, whom might have incentives to put their own interests first hand, neglecting the needs of the company (Gabrielsson & Huse, 2005, p.29; Jensen & Meckling, 1976, p. 309). Further, there is support in research stating that firms who have a higher proportion of outside directors present on their board also will have better firm performance (Daily et al., 2000, p. 398).

However, according to Delmar (2000, p. 144) it is of importance when it comes to board composition, whether its founder manages the company or if it is professionally managed. A common reason for many individuals starting their own company is the will to be their own boss and to have the ability to decide for herself what she finds best for her company. This argument for resistance against active boards is further supported by Ranft and O’Neill (2001, p. 126), who stated that successful founding CEOs has been shown to recruit weak boards. Further, the reason for this is that the founding CEO of a successful company often becomes over confident and arrogant, leading to them missing changes in their environment, which in the worst scenario leads the firm to become a failure (Ranft
Björklund & O’Neill, 2001, p. 126). Due to the founder CEOs influence an independent board, meaning a board that contains outside directors, might be difficult to achieve, even though it strongly could contribute by navigating the founder through environmental changes, by responding to poor performance quicker than inside directors would, and by contributing with expertise the founder CEO might not have (Ranft & O’Neill, 2001, p. 129-131).

As aforementioned, the control role is connected to agency theory and comes from the idea that the agent has to be monitored in order for her to act in accordance with the principal. In public companies this is realized by the law, stating that a company needs to have outside directors present on the board, but as presented above there is also evidence for the use of outside directors in SMEs. However, the founder is often resenting to recruit outside directors in fear of losing control or due to inertia when resisting change (Ranft & O’Neill, 2001, p. 128). Following the above arguments, the authors of this thesis strongly believes that boards in SMEs would be motivated to have a board of directors if it implied not giving up control of their company, and that they still are unambiguous. From this, hypothesis one (H1) has been established as follows:

\[ H1: \text{The small and medium-sized enterprise will be motivated to have an active board of directors if they do not feel like they are giving up control of the company.} \]

2.4 Resource Dependence Theory

Even though agency theory is more commonly applied when discussing board of directors, resource dependence theory has proven, according to some, to be more successful in doing so (Hillman et al., 2009, p. 1408).

The theory of resource dependence originates from the book *The external control of organizations: a resource dependence perspective* and was written in the 1970’s by Jeffrey Pfeffer and Gerald R. Salancik. Initially the book describes the need of organizations to obtain resources to handle their surrounding environment and that these resources are external. Hence, for organizations to become more independent of their environment they are supposed to attain resources for which they are being constrained, in order to perform. However, as the environment is constantly being changed around the organization new limitations will emerge. The book further discusses the subject of power for organizations, both internal and between organizations, hence illustrating the dependence that arises between organizations, creating a situation of interdependency were some organizations are in the position of being able to exercise a higher degree of power than others (Pfeffer & Salancik, 1978, p. 258-262).

Pfeffer (1972, p. 219) explained that handling the environment could be done through various resources, one of them being the board of directors. Further, Pfeffer (1972, p. 219) states that when a board of directors are not used properly this could have the possibility of affecting the organization in a negative manner, since the environment is not being handled accurately. According to Dalton et al., (1999, p, 679) the size of the board of directors can be positively connected to the financial performance of the organization. This can be interpreted as that a larger board has the possibility of obtaining more resources that in turn have the opportunity of positively affecting the financial performance. In times of trouble the resources provided by a board of directors can be significant for the survival, hence the composition of the board will contribute to the outcome, were a higher degree of outside directors results in a more positive outcome.


than inside directors (Daily, 1995, p. 1051-1052). This implies that the resources needed by the organization might be better found outside the organization.

As a means of attaining resources and power, organizations can use the asymmetry between themselves and other organizations, hence leading to one having greater power over the other. However, the possibility of using power, as a means of controlling the environment, is limited to a great extent by laws and regulations (Pfeffer, 1972, p. 221).

Being one of the three main features of resource dependence theory, the notion of interdependence is of importance to assess. To manage interdependence Pfeffer and Salancik (1978, p. 162-167) emphasises the concept of cooptation. Pfeffer (1972, p. 222) illustrates that using the concept of cooptation for an organization can be done through the board of directors, by including people with certain desirable resources and through this they will be able to handle their environment. Interdependence between organizations leads to a transaction of information and power by the involved parties. Consequently, the degree of external resources needed for the organization thereby affect the composition of the board of directors, as a higher amount of external resources will lead to more outside directors being represented on the board (Pfeffer, 1972, p. 222).

According to this theory, the board is a mean of absorbing external people and/or organizations with whom they are interdependent. As a result, mergers can to a relatively great extent be explained through resource dependence theory as it creates for a possibility of obtaining necessary resources, at the same time achieving reduction of interdependence between the organizations (Hillman et al., 2009, p. 1406). Additionally, resource dependence theory is a common concept for explaining joint ventures, political actions and executive succession, as it can be related to the desire of changing the surrounding environment in order to create more favourable conditions and to reduce the dependence and competition of others (Hillman et al., 2009, p. 1405-1414).

2.4.1 The Network Role
In antecedent research on board of directors the resource dependence role of the board is a rather new addition. Previously, the role of the board has often been divided into the control role, as discussed above, and the service role, which often include both the stewardship and the resource dependence perspective (Gabrielsson & Winlund, 2000; Neville, 2011; Zahra & Pearce 1989). However, some have chosen to divide it into three roles. In their literature review, Johnson et al. (1996, p. 409) presents three roles, one of them being the resource dependence role.

The resource dependence role has been described as when a board of directors has good connections to external resources and has the function of a coopting-mechanism that seeks access to external resources the firm needs (Muth & Donaldson, 1998, p. 6). Looking at the network and its importance for the firm, Borch and Huse (1993, p. 23) describes that board directors in small firms may play a highly important role managing the relations in the firm's environment. A network is of high importance for small companies as a way of gathering necessary information for choosing its strategy. They found that board size is negatively related to the board’s involvement in networking. A smaller board, with a few directors was discussed as being of higher importance than to have many directors (Borch & Huse, 1993, p. 32).
Jonnergård and Stafsudd (2009, p. 130) uses the term networking role in their paper as a synonym for the resource dependence role, presented by Zahra and Pearce (1989, p. 293). Following the development in research the second role presented in this thesis will hence be the network role, since the focus is the external connections between the firm and its stakeholders and other external parties.

According to Minichilli et al. (2009, p. 57) the board has the role of contributing with critical resources, hence leading to the directors often being influential and powerful people. By including directors with desirable resources on the board the company will be better equipped to handle the environment (Pfeffer, 1972, p. 222). The network role of boards further has been described as an important function for the board to be able to gather information about the environment, and by having directors that have connections outside the firm can contribute by being a source of information and generate environmental awareness that is not present within the focal firm (Muth & Donaldson, 1998, p. 11).

In the attempt of creating legitimacy for the firm a board of director may coopt outside directors with valuable knowledge and experiences (Pfeffer & Salancik, 1972, p. 222-223). This suggesting that the experience and contacts of a person can be valuable for the firm in search of acceptance by the surrounding environment. Pfeffer and Salancik (1972, p. 223) mean that this relationship can be exemplified in a local environment by incorporating significant small town business owners on the board of directors in order to achieve acceptance from the inhabitants.

The network role hence originates in resource dependence theory, and states that board members can function as an intermediary between the firm and external parties, thus provide resources that are not present in the focal firm. Further, a board member can in herself be a resource providing knowledge and experience to the firm. To acquire this type of board member, providing a network and resources, would often imply recruiting outside directors, which is a criteria for having an active board. From this hypothesis two (H2) has been derived as follows:

**H2:** The small and medium-sized enterprise will be more motivated to have an active board of directors if they need a network and/or knowledge and experience that are not present within the company.

### 2.5 Stewardship Theory

In this relatively new theory, the actions of a person working for an organization are delegated, making the person act aligned with the goals of the organization. To work in a way that is pro-organizational will always have higher value than tending to individual needs, meaning that the individual will not derive from the interests of her organization (Davis et al., 1997, p. 24).

Donaldson and Davis (1991, p. 51), when putting it in the manager’s perspective, describes that under this theory the manager will not be opportunistic or shirk since the intrinsic motivation will lead to the manager wanting to do a good job managing the corporate assets. This theory is built on the belief that there is no general problem of CEO motivation and when assuming this the only question is how far the CEO can reach in accordance with her aspiration (Donaldson & Davis, 1991, p. 51). Furthermore, the
structure is of importance since they need to provide clear and constant role expectations and thereby put the CEO in a position of power and authority. Hence, the CEO will be able to accomplish superior performance when her role is unchallenged and not ambiguous (Donaldson & Davis, 1991, p. 51-52).

Stewardship theory has in research often been put in opposition with agency theory. According to Muth and Donaldson (1998, p. 6), it proposes a different objective on how to accomplish an effective board structure. It implies that there is a range of non-financial motives for the manager, and these can be the satisfaction of doing a good job and the need to feel that you achieve your goals (Muth and Donaldson, 1998, p. 6). To reallocate the control from the owners of the firm to the CEO makes her empowered and hence she will generate superior profits. Further, Muth and Donaldson (1998, p. 6) describes in their article that an insider dominated board is preferred since they have in-depth knowledge of the company and access to current information. For the shareholders this will lead to maximized returns since the organizational structure provides the management and the CEO with the possibility of effective control.

Dual structure of the board implies that the CEO also has the role of chairman on the board, which stewardship theory argues for (Davis, 1991, p. 85). The role of the board in this type of structure is facilitated since the CEO – the chairman – is trusted and respected by the board of directors. The directors in this case are chosen by the CEO and are people that she feels can assist her in doing a good job. They can for instance be independent experts or customers. The directors are hence there to help the CEO to achieve the goals set out for the organization and to reach superior performance (Davis, 1991, p. 87).

2.5.1 The Service Role
The service role of the board has its origin in Stewardship theory. Davis (1991, p. 87) describes stewardship theory as providing the board with a service function. He states in his doctoral dissertation that the directors on the board in the case of stewardship theory assist the CEO when she needs their point of view to achieve superior performance. However, her power stays unambiguous. Gabrielson and Winlund (2000, p. 315) are aligned with this and describe the service role as when the board has an advisory function and provides connection to strategic networks. However, the network role has by others been described as its own role, and is hence in this thesis not a part of the service role.

The service role can be related to both daily activities, and to more rare decisions needed to be taken such as acquisitions. However, the success of the service role is to a great extent dependent on the possibility of the directors on the board having the ability to apply their knowledge on the firm and its needs (Forbes & Milliken, 1999, p. 492, 496).

One considerable difference between the service role and the roles of control and network, noted by the authors of this thesis, is that, in alignment with stewardship theory, the dual structure is advocated. As stated above, the CEO should hold the role as chairman, and when doing so unchallenged, the firm’s performance will be superior. Furthermore, a board with a greater proportion of inside directors are preferred, since they are assumed to know more about the company then an outside director possibly could (Muth & Donaldson, 1998, p. 6).

According to Daily and Dalton (1992, p. 375), the dual structure have in predecessor research been associated with founder CEOs and their poor governance decisions. Ranft
and O’Neill (2001, p. 129) further states that a board often need to have the power to
guide founder CEOs in order to help them adjust to new environmental situations, and to
avoid inertia, or even hubris, that otherwise can define a successful founder CEO.
However, Daily and Dalton (1992, p. 375) found that founder CEOs of small public
companies are not more prone to make bad decisions regarding the board composition,
but recognised the benefits of including outside directors, even though it implied giving
up some extent of control.

The above presented facts provides the insight that the service role of the board is to
provide an advisory role to the CEO and the firm, but that the CEO and the inside
representatives still have control over the firm and the decisions made in the company.
The fact that founder CEOs and inside directors want to keep control of their company,
is supported by research, and the above discourse have led us to our third hypothesis (H3):

\[ H3: \text{The small and medium-sized enterprise will be motivated to have an active board of directors if they recognize the benefits of including knowledgeable outside directors, hence filling a knowledge and/or an experience gap, without it implying that they lose control.} \]

2.6 The Presence of Outside Directors

As previously presented, the presence of outside directors could be a result of a need of
resources which are currently not present internally within the firm and thus are desired
in an attempt of handling the external environment (Pfeffer & Salancik, 1972, p. 222).

However, as described by Huse (2000, p. 285), outside directors can be present on a board
of directors as a result of pressure from external stakeholders on the CEO of the firm.
This can be described as a means of obtaining an increased control for the external
stakeholders. Fiegner et al. (2000, p. 304-306) further supports this since they in their
study found that the main reason for why family firms include outside directors is due to
external pressure by outside owners. Moreover, this pressure increases the greater the
equity held by the outside owners is (Fiegner et al., 2000, p. 304). Further, Gabrielsson
(2007b, p. 701) also found that external pressure by outside owners, to incorporate outside
directors could explain their presence, and hence increase board empowerment by having
managers of the small firm being monitored by outside directors.

Moreover, a reason found for including outside directors was in order to gain legitimacy,
in a sense that experiences and contacts of an outside director can be valuable to the firm
since this can lead to an acceptance by the surrounding environment (Pfeffer & Salancik,
1972, p. 222-223). Hence, this provides the firm and its business with legitimacy.

Hence, it is possible to suspect that this pressure from the external stakeholders will be a
contributing factor to the number of outside directors on a board. However, the external
pressure can be derived from agency theory, since it comes from external stakeholders
and owners in the firm (Gabrielsson, 2007, p. 690). The above mentioned research
however assumes that there are external stakeholder in private SMEs, which may not
always be the case. In terms of legitimacy being the main reason for including outside
directors, the research conducted that refers to legitimacy is limited.
Depending on whether a firm is under local or national regulations, a way of handling these can be to include outside directors who possesses knowledge and resources (Pfeffer & Salancik, 1972, p. 223). Moreover, according to Daily and Dalton (1992a, p. 381-382) CEOs of small firms, in their study, have attempted to create a more professional firm by including outside directors, this is furthermore described as having the advantage of letting the CEO stay in control over the company at the same time as some of the more negative side effects of only having internal members can be avoided. When investigating what role of the board is perceived as most important by the CEOs of SMEs it was found that the contribution of competences and the strategic role of the board was most important (Neville, 2011, p. 532).

Following the arguments above, in a situation where a firm recognizes a need for either resources or experiences not present within the firm it is more likely that they will include outside directors. Above cited research showing that external pressure can also explain the presence of outside director assumes that there are outside owners of the firm. Furthermore, the finding that the board contributing with resources such as competences and experience, is seen as the most important role by CEOs, leads the authors of this thesis to argue that a need for knowledge and resources not present within the firm will have a positive relationship to the presence of outside directors on SME boards. This leads us to hypothesis four (H4):

\[ H4: \text{In SME boards, where outside directors are present, the primary reason for this will be to obtain knowledge and experience that is not present within the focal firm.} \]

### 2.7 Board Structure

Board task performance regards what role the board has in relation to the firm. The different roles referred to is the control-, service-, and the network role, have all been described in previous chapters. But in order to perform any of these roles effectively, Gabrielsson and Winlund (2000, p. 315) states that the board members have to use their knowledge and skills, be well prepared at board meetings and whilst there, be committed to their task. For this the boards working style is important, and is divided into the board members’ involvement and the board routines.

#### 2.7.1 Board Member Involvement

To be an involved board member the use of knowledge and skills, and to realize the knowledge and skills of others, is a necessity in order to perform the board role efficiently (Forbes & Milliken, 1999, p. 495-496). As a board member, there is a challenging task ahead of you. You need to balance between in depth knowledge about the focal firm and a broad perspective taking the greater picture into consideration (Demb et al., 1992, p. 101). Gabrielsson and Winlund (2000, p. 325) could in their study show a positive and significant relationship between the directors’ skills and knowledge in terms of their ability to perform their service role in a good manner. Further, they hypothesized that board members who are better prepared and more committed and involved during board meetings, will have a positive effect on the board and its task performance, which was proven correct (Gabrielsson & Winlund, 2000, p. 325). If a board member shows little or no involvement, it is likely to negatively impact the motivation for the whole board, and hence the board performance (Gabrielsson & Winlund, 2000, p. 326-327). The findings by Gabrielsson and Winlund (2000) is supported by Minichilli et al., (2009, p. 68) who found that important factors contributing to effective boards are the board members’
commitment, and the industry in which the company is present. Further, they conclude that different board characteristics and idiosyncratic circumstances, in terms of both the company and the industry, have to be taken into account when designing a board (Minichilli et al., 2009, p. 68).

Furthermore, Judge and Zeithaml (1992, p. 785) found that having a board of directors that are involved in strategic decisions positively relates to financial performance, and that the proportion of inside directors on the board negatively correlates with board involvement.

2.7.2 Board Routines

Board routines are rules set in the board with the aim to provide clear routines in terms of the meeting agenda, summoning to board meetings, a clear division of tasks amongst the directors, and other formalities. These clear standpoints help to make sure that all parties share a flow of information and thus can improve the board task performance (Gabrielsson & Winlund, 2000, p. 317). Further, Demb et al. (1992, p. 125) supports this by stating that when outside directors are present on the board, these routines are of importance to make sure that the outside directors also have the needed knowledge to contribute to the board, even though they do not work in the focal company.

Johannisson and Huse (2000, p. 353) investigated in their study why family firms recruit outside directors. The results of the study showed that the ideology of managerialism, which is known as the “normal” way of organizing economic activity, is the dominant ideology in family firms (Johannisson & Huse, 2000, p. 358). This ideology implies more formalized board routines and suggests a limitation of the owner of the firm’s freedom, but was still seen as beneficial by the respondents (Johannisson & Huse, 2000, p. 369-370). This conclusion aligns with Daily and Daltons (1992) results for small public companies.

Board evaluation is further seen as an important feature regarding board structures. Lorsch (1995, p. 116) argues that even the best performing boards must monitor their own performance. To annually evaluate the board’s performance will give all the directors, both inside and outside, the opportunity to put forth their ideas on how to improve the boards work, and hence make it more effective. This is supported by Kiel and Nicholson (2005, p. 613), who states that a board of directors need to review their work in order have a positive outcome of the tasks performed. The evaluation of the board enables the process of identifying negative performance (Kiel & Nicholson, 2005, p. 614).

The above presented discourse, implies that the board structures are an important foundation in order for the board to effectively perform its task. Hence, a board that is, per definition, active should have greater board structure than a board that is not active. This results in hypothesis five (H5):

\[ H5: \text{Active boards will have better board structure than board who are not, per definition, active.} \]

2.8 Conceptual Model

Our theoretical framework has aimed to firstly present important facts regarding what an active board is and the implications of outside versus inside directors. After that five
important theories for this thesis have been presented; 1) agency theory, 2) resource dependence theory, 3) stewardship theory, 4) presence of outside directors and 5) board structure. These theories are the basis for our hypotheses and aims to conceptualize the research questions. Figure 1 describes the relationships we aim to test to see what factors can describe the motivation behind having an active board of directors. Further, if board’s are in fact active is investigated and followed by the aim to see how active boards motivate the presence of outside directors and if this has an effect on the board structure. The hypotheses for this thesis are as follow:

**H1:** The small and medium-sized enterprise will be motivated to have an active board of directors if they do not feel like they are giving up control of the company

**H2:** The small and medium-sized enterprise will be more motivated to have an active board of directors if they need a network and/or knowledge and experience that are not present within the company

**H3:** The small and medium-sized enterprise will be motivated to have an active board of directors if they recognize the benefits of including knowledgeable outside directors, hence filling a knowledge and/or an experience gap, without it implying that they lose control.

**H4:** In SME boards, where outside directors are present, the primary reason for this will be to obtain knowledge and experience that is not present within the focal firm.

**H5:** Active boards will have better board structure than board who are not, per definition, active.

![Conceptual Model](image)

**Figure 1. Conceptual Model**

### 2.9 Antecedent Research on Board of Directors

The antecedent research on the topic of board of directors in SMEs and large companies, in public and private firms, has researched several different aspects of the firm. Following, a table of the research found most relevant for our thesis is presented. All of the articles presented in table 1, is present in the theoretical framework above, but have been compiled to provide a brief review and oversight. Support for the relevance of the research question aimed to be explored in this thesis is found, since none of the presented papers have asked the question *what motivates SMEs to have an active board of directors.*
<table>
<thead>
<tr>
<th>Authors</th>
<th>Topic</th>
<th>Method</th>
<th>Conclusion</th>
<th>Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zahra and Pearce 1989 (U.S.)</td>
<td>Create an integrative model combining board roles and attributes</td>
<td>Review of previous research</td>
<td>Recommends further empirical research on board of directors and on the expectations on a board of directors.</td>
<td>Public/Private</td>
</tr>
<tr>
<td>Daily &amp; Dalton 1992. (U.S.)</td>
<td>If founder CEOs adopt dysfunctional board structures.</td>
<td>Secondary data</td>
<td>Finds that founder CEOs see the benefits of including outside directors, hence sacrificing some control over the company.</td>
<td>Small public firms</td>
</tr>
<tr>
<td>Judge &amp; Zeithaml 1992. (U.S.)</td>
<td>The effects of having an involved board of directors</td>
<td>Interviews</td>
<td>To have a board of directors that are involved have a positive effect on financial performance</td>
<td>Public/Private</td>
</tr>
<tr>
<td>Borsch &amp; Huse 1993. (Scandinavia)</td>
<td>The development of strategic networks in small firms</td>
<td>Mail Survey</td>
<td>Valuable networking activity depends on the size of the board, the incentives provided to board members, family governance and the firms stockholders.</td>
<td>Joint stock</td>
</tr>
<tr>
<td>Johnson et al. 1996 (U.S.)</td>
<td>Reviews research from three perspectives</td>
<td>Review of previous research</td>
<td>Finds that the present research often is hard to compare and that common measures is necessary.</td>
<td>Public/Private</td>
</tr>
<tr>
<td>Huse 2000 (Scandinavia)</td>
<td>Review of research on board of directors in SMEs</td>
<td>Review of 19 articles</td>
<td>Future research should try to understand what influences the board of directors in terms of the board’s composition and its task performance.</td>
<td>Private</td>
</tr>
<tr>
<td>Gabrielson &amp; Winlund 2000 (Scandinavia)</td>
<td>The importance of structure and processes to maximize the board’s task performance.</td>
<td>Mail surveys</td>
<td>A committed board with clear board structures improves board task performance.</td>
<td>Private</td>
</tr>
<tr>
<td>Johannisson &amp; Huse 2000 (Scandinavia)</td>
<td>Recruitment of outside directors in family firms</td>
<td>In-depth interviews</td>
<td>Managerialism was surprisingly the followed ideology in the selection of outside directors.</td>
<td>Private</td>
</tr>
<tr>
<td>Fiegner et al. 2000 (U.S.)</td>
<td>Why family firms include outside directors on their boards.</td>
<td>Mail surveys</td>
<td>The main reason for outside directors being present on boards of family firms was due to external pressure from external owners of the firm.</td>
<td>Private</td>
</tr>
<tr>
<td>Minichilli et al. 2009 (Europe)</td>
<td>Wanted to create an understanding for what makes boards active.</td>
<td>Mail surveys</td>
<td>Board characteristics and idiosyncratic circumstances in terms of both the firms and the industry are important factors when designing a board.</td>
<td>Large firms</td>
</tr>
<tr>
<td>Neville 2011. (Scandinavia)</td>
<td>Examines the role of the board and investigates if these roles contributed to good corporate governance</td>
<td>Secondary data/survey</td>
<td>Agency theory cannot alone explain the role of the board of directors due to the result providing the image of the board contribution of resources being more important than the control role</td>
<td>Owner managed SMEs</td>
</tr>
</tbody>
</table>
3. Operationalization

In order to measure the motivation behind having an active board the authors of this thesis recognized the need to operationalize how this is to be done. The term operationalization reflects how the researcher aims to use data in order to measure a research question (Bryman, 2011, p. 151; Saunders et al. 2012, p. 146).

In previous chapter the three criteria for a board to be considered active was derived. The board needs to consist of at least three directors, have a minimum of four meetings per annum, and one of the directors need to be an outside director. In order to collect this data these questions were present in our survey and were used as the dependent variable in our regression analysis.

Further, the motivation behind having an active board is in this thesis hypothesised to have a relation to how the respondents view the different roles of the board, the control, network and service role of the board, hence an index for these three roles was created. In antecedent research the different roles are commonly used as dependent variables, however in this thesis they have been used as independent variables, meaning that they are believed to have an explanatory relationship with board activity.

For these three roles several questions was created for each role in order to measure the respondents view on the different roles. Further, these indexes were converted into scales. A scale is used in order to measure a concept by using several questions. These questions are then combined in order to determine the respondent's view (Saunders et al., 2012, p. 439). It is by some recommended to use already existing scales since these has been tried, often multiple times, and hence proved to be effective in measuring different attitudes and behaviours. However, when stating this, Saunders et al. (2012, p. 439) explain that when using existing scales, changing them even the slightest can drastically change the scales validity, and hence the results.

Following this, we decided to create scales by using the surveys by Minichilli et al. (2009) and Gabrielsson and Winlund (2000). Their scales and questions were somewhat altered in order to fit our research question. In order to be able to determine whether our scales are reliable, we have tested them by using Cronbach’s alpha. According to Field (2009, p. 675) a value of Cronbach’s alpha between 0.7 and 0.8 is acceptable, hence showing that the scale is reliable.

3.1 Index for Control

In order to measure the respondent’s view on the control role we created a scale using questions from Gabrielsson and Winlund’s survey (Gabrielsson, personal communication, 9th February, 2016). The questions used concerned the level of control exercised by the board on different board operations. Further, we added four questions with the aim to show if the respondents believe that control is better in the hands of inside directors or outside directors. The scale consisted of a mean of nine items.
3.2 Index for Network

The scale for the questions regarding the network role of the board was taken from the survey by Gabrielsson and Winlund (Gabrielsson, personal communication, 9th February, 2016) and Minichilli et al. (2009, p. 71). Gabrielsson and Winlund included both network and service into one scale, however, since we decided to divide the role of network and service, the relevant questions for network was used. To this we added two questions regarding how well the focal board of the respondent lived up to the networking tasks at present. The scale consisted of a mean of four items.

3.3 Index for Service

In order to be able to appreciate the respondents view on the service role we used a scale consisting of the mean of ten items. Five questions were taken from the survey by Gabrielsson and Winlund (Gabrielsson, personal communication, 9th February, 2016), and five questions were added in order to see how the respondents and their board provided the service role.

3.4 Index for Board Structure

Besides the three scales presented above, a fourth scale was created in order to measure board structure. A sub-purpose of this thesis was to see if the board structure of a board, who is per definition active, is better, than for boards who are not active. For this scale we used the questions from Gabrielsson and Winlund’s survey (Gabrielsson, personal communication, 9th February, 2016). The questions regarded the board evaluation routines and preparations. The scale consists of a mean of ten items.

3.5 Control Questions

Besides the questions used to create the scales, a set of control questions were used. These questions were used in order to determine who the respondent was, and to gather information about the company, which the board member represents. Further, these control questions was used in order to determine if the answers differ depending on the role of the person answering them, and whether board activity can be explained by other factors as well. The different control questions will be clearly discussed in the next chapter.
4. Methodology

4.1 Preunderstanding and Choice of Topic

Preunderstandings and values have the possibility of affecting the research performed by the authors of a study. Creating an awareness of these preconceptions reduces the risk of the authors transferring them to the study, however the possibility of completely eliminating this risk is described as impossible (Bryman & Bell, 2013, p. 52). Moreover, the preunderstanding of the authors and about the subject is to be revealed to create a common ground for the authors and readers (Arnbor & Bjerke, 1977, p. 10-11, 131).

Our preunderstanding is mainly obtained from the Business Administration and Economics program at Umeå School of Business and Economics, where deeper knowledge has been obtained in the fields of finance and management. One of the authors has been a member on two different boards during her time of study. However, these boards did not represent SMEs or companies, but an association and a faculty institution. The lack of experience from board in SMEs and other businesses, leads us to believe that we have the prerequisites to provide an objective view in our research.

The topic of corporate governance has been studied by both the authors and generated an interest for board of directors. However, the focus have been on publicly traded large companies, hence leading to a curiosity for SMEs. Both authors have lived in the north of Sweden for the greater part of their lives, and hence the joint interest for companies in Norr- and Västerbotten.

4.2 Research Philosophy

The research philosophy of a thesis is of importance since it allows for reflection regarding how knowledge has been formed. It investigates the ex-ante conditions of knowledge and where knowledge comes from (Gilje & Grimen, 2007, p. 20). For interested parties of this thesis it is hence important to know how the knowledge has been generated, and how it has been influenced by our view on reality and knowledge. The research philosophy undertaken in a study reveals the way the in which the authors view the world and this will have the possibility of influencing the choice of strategy and methods chosen (Saunders et al., 2009, p. 108).

4.2.1 Ontological Considerations

Ontology concerns the nature of reality and whether social entities can be seen as objective, thus possess and external view on reality, or if they are to be seen as constructs of their actions and perceptions (Bryman, 2011, p. 35; Creswell, 2013, p. 21). The importance of emphasizing that reality can be different, depending on the individual who studies it, is further discussed by Eriksson and Wiedersheim-Paul (2006, p. 39) who states that it is of importance to realize that research always to some extent, is minted by values and perspectives of the individual. The two different views on reality, presented by Bryman (2011), are respectively called objectivism and subjectivism and the ontological perspective in this thesis is objectivism.
The part of departure for the method in this thesis is objectivism since our view on reality, in terms of this thesis, is that reality is external, objective and independent of social actors, in accordance with Saunders et al. (2009, p. 140). We want to study the motivation behind having an active board in SMEs, using a survey to collect data, hence minimizing the risk of us influencing the respondents’ answers, and then analyse it as objectively as possible. This is a traditional view of science derived from natural science, and hence implies that what we know of exists before it is observed and analysed (Wiedersheim-Paul 2006, p. 40). Our view is aligned with what is discussed above since our intention has been to act as objective observers, using the data collected to analyse the results based on known theories and antecedent research.

A subjectivist approach could have served our purpose with this thesis as well if the choice of method would have been to conduct e.g. interviews. When having that approach, a large part of the research is to study and analyse details in order to accomplish a complete picture of what is happening, or to understand the reasons behind what is happening (Saunders et al., 2012, p. 132). But as stated above, the authors of this thesis aims to, as objectively as possible, analyse the data collected without influencing the respondent, and hence the objective approach is considered most suitable.

4.2.2 Epistemological Considerations
Epistemology concerns what can be considered as acceptable knowledge (Saunders et al., 2012, p. 132). There are three different epistemological philosophies, positivism, realism and interpretivism.

In positivism, also called the “standard view”, the ability to explain something is central (Robson, 2002, p. 20). In order to be able to generate credible data only phenomenon that can be observed can be used and a common strategy for this is to use existing research and theories in order to develop hypotheses that can be tested, leading to them either being confirmed or discarded (Saunders et al., 2012, p. 134). Moreover, all observations need to be critically investigated and can only build upon facts that are robust and thoroughly proven. These facts then need to be analysed in a logic manner in order to be able to draw conclusions, and preferably, treat the facts statistically in order to be able to generalize results. Hence, positivism only regards two sources of knowledge, observation and logic (Thurén, 2007, p. 17-18). An assumption underlying the positivistic philosophy is that the research is conducted value free, meaning that the researcher are not influencing the data collected in any way and hence, that the gathered data cannot have been influenced by the researcher (Saunders et al., 2012, p. 134).

Robson (2002, p. 22) states that realism is similar to positivism in the sense that it emphasizes a scientific approach, stating that you only can create knowledge from what you can observe or logically conceive. However, individuals have different interpretations, and create different meaning to what they observe. This implies that reality is conceived through a conceptual system, meaning that there can be no such thing as an objective reality (Robson, 2002, p. 22-24).

Saunders et al. (2012, p. 137) states that interpretivism sees the role of the social actor as highly important. Moreover, when interpretivism is considered, the researcher needs to take part of the social world in order to investigate individuals within it, and to understand observations from their point of view.
Following the above presented branches of epistemology, the philosophical standpoint taken in this thesis is positivism. We aim to investigate a phenomenon we can observe, the data gathered by our survey, and to analyse it by using statistical methods. It is further supported since we aim to be as objective as possible. By doing this we, in accordance with Johansson-Lindfors (1993, p. 40), are trying to find causal relationships that can provide new knowledge. Neither realism nor interpretivism can be said to reflect the view on knowledge in this thesis since no consideration have been taken to subjective interpretations in terms of their social environment.

It is however of importance to mention that positivism has been criticised. John Dudovskiy (2016) states in an extract from his book *The Ultimate Guide to Writing a Dissertation in Business Studies: a step by step assistance*, that a positivist approach lacks insight into in-depth issues and that relying on experience as a valid source of information can lead to the researcher missing other important aspects. Further, he states that when a positivist approach is undertaken the researcher assumes that she can be purely objective. This is an issue according to Mårtensson and Nilstun (1988, p. 27) since an observation never can be fully objective. Despite this, the authors of this thesis found this approach to be suitable for the aim of the study. Further, it is a challenge to be objective, but due to this recognition and awareness we believe our objectivity is high in terms of this thesis.

4.2.3 Research Approach

In this thesis the authors have used antecedent theories and acknowledged research in order to accumulate hypotheses that we aim to investigate empirically. The theories of choice are agency theory, resource dependence theory and stewardship theory. These theories are used in order to understand how different objectives of what the board should do, can impact boards in SMEs in Norr- and Västerbotten.

This departure of research agrees with a research approach called deductive research (Bryman, 2011, p. 26; Saunders et al., 2012, p. 143). A deductive approach and method, is recognized by that one ought to first investigate theories and already existing research, and through this develop hypotheses, which are used to answer the research question. (Saunders et al., 2012, p. 145). Using this approach demands that the researcher deduce hypotheses, and further, that she specifies how the data is to be collected in order to answer the hypotheses, so called operationalization. This enables the facts to be measured (Bryman, 2011, p. 26; Saunders et al. 2012, p. 146). A further elaboration to the deductive approach is done by Hartman (2004, p. 160) who states that when first developing hypotheses, which then determines what observation to undertake the approach is hypothetically-deductive. This is aligned with our approach, and further implies that the observations becomes more focused, since the focus is to observe the relationships the hypotheses implies exist or do not exist (Hartman, 2004, p. 160).

The use of this approach can be observed in several of the research papers used in this thesis. To depart in theories and antecedent research in order to generate hypotheses, followed by a collection of data, is a common method when investigating boards in SMEs (Gabrielsson & Winlund 2000; Gabrielsson, 2007b; Fiegner et al., 2000; Minichilli et al., 2009). Following the antecedent research, the choice of approach was, from the departure of this thesis, deductive since it is proven to be a robust research approach.
4.3 Literature Search

Saunders et al. (2009, p. 80) states that the literature search can be conducted through various approaches and combinations by using e.g. books, internet and secondary literature. The relevance of the literature accessed varies partly due to the purpose and subject of the study and thus is the value of the study affected by the relevance of the literature (Saunders et al., 2009, p. 92-93). The literature search for the study in question was performed by the authors through extensive research using various methods, as those above mentioned by Saunders et al. Different search engines have been used but the focal ones have been ub.umu.se, atbi.no, Google Scholar, and Web of Science. By identifying relevant search engines and key-words, access could be made to articles on the subject. As described by Saunders et al. (2009, p. 89) there are a variety of search engines from where literature can be accessed. However, a large extent of the literature search was performed through reviewing antecedent research in the area, found through search engines, and the sources to which they referred. Through this process a large amount of relevant and valuable literature could be retrieved, and furthermore could an understanding be made for which authors and theories was the most important within the field.

However, literature and theories can become out-of-date and therefore carefulness has to be present when choosing literary sources (Saunders et al, 2009, p. 85-89). Hence, the authors of this thesis had set up criteria for the literature, which had to be met in order to be considered robust and valid. This criteria was that literature had to be peer reviewed. For an article to be considered scholarly it has to be reviewed by professionals (peers) within the same area (Umeå University Library, 2016a). Hence, our chosen criteria is supported. Moreover, an important factor was to consider the relevance of articles and theories through reviewing their presence in other articles, hence are they being used as a reference in other papers and studies. This since it will provide for an understanding for if they are considered as relevant by other researchers within the prevailing field.

In order to find peer reviewed articles the following search words was foremost applied: board, board of directors, directors, board members, chairman, CEO, agency theory, resource dependence theory, stewardship theory, control, service, network, outside directors, inside directors, external, internal, active, routines, structure, private, limited liability company, organization, SME, composition, board demography, size, corporate governance, dual structure.

These words has been used separately but also in combination with each other in order to widen the research and enable the possibility of finding relevant literature.

4.4 Critical Review of Literature

According to Saunders et al. (2009, p. 63) it is important to be critical when reviewing antecedent research and literature, in order to create a higher credibility for the sources. However, the critical review also has the advantage of in the process creating an understanding of the theories and previous research conducted within the field of interest. If holding a critical approach to the literature being reviewed, and using original sources, the credibility of the paper will increase and also enable for readers themselves to find the original sources when reading the paper (Saunders et al., 2009, p. 63). Hence, the literary sources in this thesis are to a great extent based on original sources in order
provide for a higher credibility. As a result of this some of the sources can be considered old, however as they are frequently being used in current research within the field, the authors of this thesis still regard them as valid. As for example, resource dependence theory was initiated in the 1970’s by Pfeffer and Salancik and has since then become a well-known theory and are mentioned in several articles (Zahra & Pearce, 1992; Neville, 2011; Johnson et al., 1996; Gabrielsson & Winlund, 2000; Minichilli et al., 2009). Therefore, discarding the original source due to its age and instead solely favouring newer interpretations is considered to be an inferior method and thus not applied by the authors of this thesis. Hence, consideration has been taken to the importance and relevance of the source in the process of the critical review. Furthermore, to ensure that a critical point of view has been held the guidelines of evaluating sources set up by Umeå University Library (2016b) has been applied.

As previously mentioned, peer reviewed is a measure that can be used in order to determine the credibility of a source. Therefore, in the theoretical framework only peer reviewed articles has been used. This criteria can be related to the four principals of critic of sources described by Thurén (2013, p. 7-8), who emphasizes substantiality, relationship of time, independence and freedom of tendency for sources. Hence, substantiality refers to the source being what they claim to be, relationship of time regards the time that has passed between an event and the source description of this event, independence concerns the source autonomy, and freedom of tendency reflects the inherent objectivity of a source, the degree of personal ideas and opinions affecting the reality (Thurén, 2013, p. 7-8).

Some of the research used to derive hypotheses for this thesis have been conducted on large public companies (Yermack, 1996; Eisenhardt, 1989a; Minichilli, 2009). This fact should be kept in remembrance since this thesis aims to examine SMEs. Furthermore, in the previous research some of the studies used in the theoretical framework have been conducted on family businesses (Fiegner et al. 2000; Johannisson & Huse, 2000). However, since these papers have been cited in several papers regarding SMEs, they are hence still of importance.

Having applied the above mentioned critical perspectives when reviewing literature, the authors of this thesis hence believe that the notion of acting critical has been fulfilled and satisfied. Striving for primary sources has contributed to that no secondary sources has been used and thus has the possibility of enhancing the credibility and substance of the literature and sources presented throughout this thesis been enabled. This approach is supported by Thurén and Strachal (2011, p. 16-17), who mean that primary sources are to prefer, as the risk of distortion increases with secondary sources. Moreover, having researched the area of boards in SMEs thoroughly, a saturation of the field has been achieved, thus creating a comprehensive picture of the literature available within the present field of interest.

However, in the problem background web pages have been used in order to justify the relevance of the topic, most of these where from governmental sites that were found to be relevant and credible. For example, Statistics Sweden (SCB), which is an administrative agency (Statistics Sweden, 2013). Moreover, the authors recognize the possible critique of using the source of Dudovskiy (2016), mentioned above, due to being an extract from the book “The Ultimate Guide to Writing a Dissertation in Business Studies: a step by step assistance”. However, after having researched this author and his
background, finding that he has experience from consulting multiple dissertations in his role as a lecture and advisor in dissertations, has lead the authors of this thesis to find relevance and credibility behind the words and message conveyed through the web page. Moreover, regarding that the quantity used from this web page is rather limited and used in a context of other sources of the same opinion, in an attempt of supporting a statement, it is further considered acceptable as a source. In addition, considering the aforementioned limitations of this thesis neither resources nor time was available for acquiring the book from where the extract is drawn from.
5. Method

5.1 Choice of Method

In order to determine the most suitable method to fulfil the purpose of this thesis we have investigated antecedent research and their methodological choices. Both qualitative methods, such as interviews, case studies and in-depth interviews, and quantitative methods, such as surveys and the use of secondary data, occur in antecedent research.

The use of qualitative methods to generate data on boards in SMEs is less common when reviewing antecedent research in Sweden. Johannisson and Huse (2000, p. 353) however found a qualitative approach beneficial when exploring how contrasting ideologies impact the recruitment process of outside directors in small family firms. In order to do this Johannisson and Huse (2000, p. 362) states that they needed to collect in-depth data. They interviewed the CEO and an outside director in the two companies individually (Johannisson & Huse, 2000, p. 363). Even though only two interviews are the basis for the analysis and results Johannisson and Huse (2000, p. 375) states that the results still “make analytical generalization”. They support this by referring to Eisenhardt (1989b, p. 532) who in her paper aims to describe how to build theories from case studies. A case study is defined as “a research strategy, which focuses on understanding the dynamics present within a single setting” (Eisenhardt, 1989b, p. 535).

Judge and Zeithaml (1992, p. 766) used in-depth interviews in order examine predecessors and effects of having an involved board from both an institutional and strategic choice perspective. They interviewed 114 CEOs and directors of which 72 of the interviews were conducted over the phone (Judge & Zeithaml, 1992, p. 778). They do however identify some limitations with their study, e.g. the dependent variable in the study was based on three individuals from each firm whom may not have provided an unbiased image of the board behaviour (Judge & Zeithaml, 1992, p. 787).

The use of a qualitative method has been criticised for being subjective since the results is influenced by the researchers own appreciation of what is important and meaningful in the study. Further, the method is often hard to replicate which indicate that the results relies on the interpretation of one or a few researchers. Last but not least there is an issue in regards of generalization of the results (Bryman, 2011, p. 368-369). A benefit of this method is however that there is a possibility of interpretation through the eye of the beholder, leading to the possibility of getting an inside perspective (Bryman, 2011, p. 362).

A common quantitative method is to collect data through surveys. In their study Gabrielsonn and Winlund aimed to investigate the importance of structure and processes in the boards of SMEs. To do this they distributed a survey (Gabrielsson & Winlund, 2000, p. 311). Their data consisted of a large sample of Swedish firms and the survey was mailed directly to the CEO of the company. In their sample they selected companies with 50 to 200 employees due to their interest in SMEs (Gabrielsson & Winlund, 2000, p. 319). To analyse the results from their study they conducted a correlation analysis and used multiple regressions to test their hypotheses (Gabrielsson & Winlund, 2000, p. 322). This exact method has been used by Minichilli et al. (2009) as well. They wanted to create an
understanding for what makes boards effective when performing their tasks (Minichilli et al., 2009, p. 54).

A limitation, described in both the study of Gabrielsson and Winlund (2000, p. 222) and in Minichilli et al. (2009, p. 70) is the fact that they only have a single respondent for each company, the CEO. All the authors describe that a CEO might provide biased answers since she wants to idealize her company. However, both justify their choice of respondent stating that the effort to find and contact several of the directors would not contribute to the extent making it valuable, since the CEO still is a valuable respondent.

Further, there are several other studies on the topic of board of directors in SMEs that have been done by collecting data through a mail survey (Gabrielsson, 2007a; Gabrielsson 2007b; Clarysse et al., 2007; Corbetta & Motemerlo, 1999; Fiegner et al., 2000; Jayne 2007) In neither of all the above cited articles has there been a description of the conditions behind the choice of collecting data through a survey. However, looking at Huse´’s (2000, p. 274-275) review of articles published on boards in SMEs he found that 12 out of 19 articles published during the 1990’s, have used a survey as their main method of collecting data.

The use of interviews in order to collect data on the purpose presented in this thesis could have been an alternative, since it would have provided the possibility of attaining a deeper understanding of the motivation behind having a board of directors, and if boards in the north of Sweden are active. However, the authors of this thesis see a stronger benefit in trying to give a general image of SME boards in the north of Sweden, Norr- and Västerbotten, since it has not been done before. Using secondary data would not be appropriate in order to answer the question set out for this thesis since we strive to find the motivation behind having an active board, which we believe is unlikely to find in secondary data.

Due to that a large part of the investigated articles in Huse´’s review, mentioned above, where data was collected through the use of surveys, the authors of this thesis see a strong empirical support for the choice of this method. Since hope is to be able to present a result that can represent a large number of companies, the authors found the quantitative approach to be most suitable. The possibility of gathering a large sample is greater when working under limitations such as time and resources, when using a quantitative method.

5.2 Population, Access and Selection

According to Saunders et al. (2012, p. 260) one has to choose a sample from the population when performing a study. A population is the complete collection of cases from which a sample is taken, and thereafter data is collected from. Moreover, Field (2009, p. 34-35) states that it is rarely possible to access the whole population, but that a larger sample enables a higher possibility of reflecting the population as a whole. Therefore, the population of this thesis is board members in SMEs in Norr- and Västerbotten that have 10-250 employees, thus corresponding to the limitations set up for this thesis, which has been previously mentioned. A company with less than 10 employees is considered a micro firm, meanwhile small and medium-sized firms together can have up to 250 employees (EUR-Lex, 2016).
Through a collaboration with StyrelseAkademien Norr and their chairman Olof Degerfeldt, an Excel file of board members in Norr- and Västerbotten was accessed, containing email addresses to board members from the three municipalities Umeå, Skellefteå and Luleå. These are considered by the authors to be an adequate representation of the business climate in Norr- and Västerbotten, due to them being the biggest cities in the region, hence having the possibility of covering a greater part of the two regions. However, the file was limited in information, containing contact information and the name of the company to which the board member belonged. As aforementioned this thesis will be limited to only consider board members of companies with 10-250 employees following that the authors therefore had to perform a screening process before the analysis could take part. Furthermore, as the study is limited to only study private limited liability companies the Excel file was cleared from all sole proprietorships and the directors of these firms, as they did not fulfil the previously stated criteria.

Having received the excel file, which constituted the sample of this thesis, leads to that arguments can be made for that a non-probability sampling has been applied. A probability sampling refers to the probability of a case being selected from the population and in a non-probability sampling this probability is not known (Saunders et al., 2012, p. 262; Robson, 2002, p. 263-264). Drawbacks of using non-probability sampling are that characteristics of the sample cannot be generalized statistically (Saunders et al., 2012, p. 262). But if the study does not require generalization to be made for the population and if resources are limited, non-probability sampling is a feasible method to use (Robson, 2002, p. 264).

Considering the aforementioned screening process, and the limitations in terms of time available, the authors of this thesis decided to perform the screening process after having received answers on the survey, hence the entire list was offered to participate in the survey and no selection was thus made. The participants were asked to answer for the number of employees in the company and if they were currently a board member. Leading the ones answering that the company had fewer than 10 and more than 250 employees to be eliminated, and those not currently sitting on a board. An alternative to this process would have been to retrieve the information about the number of employees through a database as for example Retriever Business. Retriever Business is a database containing information about all companies in Sweden for example regarding number of employees and financial indicators (Umeå University Library, 2016c). However, the authors chose to not follow this alternative since the information in the excel file did not correspond to the information in Retriever Business. Thus, the authors would have been required to first correct the information manually and thereafter the screening process could have begun. Therefore, following the decision made time could be saved, a less complicated screening process could be performed and the correct sample was received.

As aforementioned by Fieger et al. (2000, p. 307), the context of the board can affect its structure. Therefore, the geographical context of the board members in this sample can contribute to a biased result. The total population was represented by board members of companies in the north of Sweden, hence from both Västerbotten and Norrbotten. However, if only board members of companies in Norrbotten in the sample were to answer the survey this would contribute with a biased result and vice versa. Hence, non-responses in this case could lead to the results being distorted and not possible to generalise. In addition, the results of this thesis can be difficult to generalise for Sweden,
as companies in the north of Sweden represents the population. This is supported by the discussion of Fiegner et al. (2000, p. 307) regarding geographical context.

5.3 Respondents

The study focuses on accessing directors of boards in SMEs in the two regions Norr- and Västerbotten in Sweden. In order to minimize distortion no limitations was made to only consider a certain type of board member. In the study performed by Minichilli et al. (2009, p. 70) only CEOs were asked to participate and this was described as having the possibility of leading to distorted results as CEOs sometimes seeks to convey an idealized and normative view. However, if the respondents prove to only be of a certain position in the board, hence being homogenous, similar biases could arise. Though, since no decision has been made to focus on a certain position the possibility of the respondents holding different positions is higher in this thesis. In order to detect possible biases arising from this matter, a question of the respondents’ position in the board of directors was included in the survey. The meaning is thus not to study a single position of a board but rather the board of directors with no preferences to position taken. In a study by Pettigrew (1992, p. 163) a similar motivation was made to not focus on a certain position but to focus at the board of directors as a whole and the behaviour and operations of them.

Moreover, this thesis aims to investigate what the primary reason for including outside directors in SME boards are. This motivates that the respondents will further be either classified as inside or outside directors based on the definitions that are being discussed in the theoretical framework.

5.4 Survey Design

Gabrielsson and Winlund’s (2000) list of questions was used as inspiration when designing the survey. The list was accesses via email correspondence with Gabrielsson (9th February, 2016) where the authors of this thesis described our interest for the topic and his previous research. Gabrielsson and Winlund (2000, p. 311-313) designed their study to consist of four different indexes; control, service, board member involvement and board structures. Each index consisted of two to five questions were the respondents were asked to answer the questions on a Likert-scale of one to five. The Likert Scale is an ordinal scale used to explain the attitudes and feeling of the respondents based on statements being presented, commonly, the scale ranges between one to five and the respondents are asked to position themselves as “strongly agreeing” to “not agreeing at all” (Ejlertsson, 2014, p. 95; Trost, 2012, p. 167; Bryman, 2011, p. 157). In the survey by Gabrielsson (appendix 1) the scale ranged from one to five, with one being “very low” and five “very high”. Additionally, inspiration was retrieved from the study performed by Minichilli et al., (2009, p. 71) and especially the dependent variables examining control, advice, networking and strategic participation. Minichilli et al., (2009, p. 64) like Gabrielsson and Winlund (2000), used a Likert-scale in their study, ranging from one to five. The decision to therefore apply a five-point Likert scale for this thesis thus can be considered to be in line with previous research on the area. An alternative would have been to design the Likert-scale using an even-number, however as a result of the support from antecedent research for the odd-number alternative, the authors of this thesis have chosen this alternative. The possible downside of using this alternative would be if all of the respondents were to answer “in the middle”, however presumably should this not be a problem as the previous research mentioned above has not encountered this problem to
our knowledge. A fair assumption has been made that a majority of the respondents has Swedish as their native language, hence the questionnaire sent out was in Swedish (appendix 2). However, a translation into English is provided in appendix 3.

Due to the academic recognition, and that Gabrielsson has published several articles on the topic of boards since the turn of the millennium, the authors finds the possibility of replicating some questions and to design our survey with inspiration from Gabrielsson and Winlund (2000). To use an already proven survey and study as a foundation for the creation of a survey, is by the authors of this thesis believed to enable the possibility of receiving a higher validity and reliability.

5.4 Indexes
The survey was built on four indexes and 10 control questions. The indexes are related to four of the derived hypotheses, and are designed to answer to a specific part in the theoretical framework, which is presented in table 2. The first three indexes aim to explain the respondents’ view on each of the three board roles and the forth one aims to control whether board structure improves when having an active board. The indexes consists of several questions that have then been converted into a scale in order to be able to measure the individual respondent’s view on the topic of the index.

<table>
<thead>
<tr>
<th>Index</th>
<th>Hypothesis</th>
<th>Theory chapter</th>
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<tbody>
<tr>
<td>The control role</td>
<td>Hypothesis 1</td>
<td>2.3.1</td>
</tr>
<tr>
<td>The service role</td>
<td>Hypothesis 2</td>
<td>2.4.1</td>
</tr>
<tr>
<td>The network role</td>
<td>Hypothesis 3</td>
<td>2.5.1</td>
</tr>
<tr>
<td>Board structure</td>
<td>Hypothesis 5</td>
<td>2.7</td>
</tr>
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5.4.2 Control Questions
In order to create a foundation for the survey a number of control questions were asked. These control questions has the intention of providing background information about the respondents (Ejlertsson, 2014, p. 86).

In our survey ten control questions have been used. The first one was used in order to determine whether the respondent was a member of a board or not. Further, three critical questions were included to determine whether the board was active, these have been motivated in chapter 2.2. One question also regarded the number of employees in the company, in order for us to be able to determine whether the company fits our SME criteria.

Besides the above mentioned five questions, five more control questions was asked in order to gather information regarding the position the respondent held on the focal board, if the respondent was an inside or outside director, the industry and turnover of the company. Moreover, a question was asked regarding what the main reason for having outside directors were, if outside directors was present on the board. These question are considered relevant for the thesis and survey since they helps explaining the answers received and therefore enables conclusions to be made.
Hence, the control questions in this thesis are: (1) are you a member of a board, (2) number of directors, (3) number of board meetings, (4) presence of outside directors, (5) number of employees, (6) role on the board, (7) were respondent an inside or outside director (8) industry, (9) turnover, and (10) main reason for including outside members (see appendix 2).

In previous studies some authors have chosen to concentrate on a certain industry when studying board of directors (Zahra & Pearce, 1992; Gabrielsson & Winlund, 2000; Minichilli et al., 2009). However, for this thesis no certain industry have been in focus. The decision to include industry as a control question is based on the fact that it might have the possibility of showing interesting relationships between the industry type and active boards. The choice to not exclude answers depending on their industry we further believed would contribute to more respondents, and hence increase the possibility of generating a result that is of interest for different parties.

Looking at the reviewed studies on board of directors in SMEs, the topic of turnover is not often present. However, the authors of this thesis consider this variable to be of interest, due to the possibility of examining if any relations can be identified to this control variable. For instance, does a company with a higher turnover also have an active board of directors or if control, service and the need of resources can be related to the amount of turnover. Thus, if the answers can be connected to any of the important theories.

In this thesis we had the possibility to reach board members other than the CEO, without it implying a larger effort in terms of time and resources. Hence, we found it important to include their title since their answers might be biased by their position on the board, which could be interesting to investigate.

Whether the respondent is an outside or an inside director can also have an impact on the way they answer the questions. Hence, this control question was of importance so that there would be a possibility to control the results, and if they are biased.

Lastly, the question asking what the main reason for including outside directors are, and if they are present on the board, was used to answer to one of our sub-purposes. The authors of this thesis further believe that this question can be of use when looking at what motivates an active board since one of the criteria is that outside directors should be present.

5.4.3 Cover Letter
The survey was accompanied by a cover letter (appendix 4, 5). The cover letter was initiated with a brief presentation of the study and the purpose in order to create an understanding and interest of the subject for the respondents. Moreover, explaining that the survey was performed in collaboration with StyrelseAkademien Norr, hopefully created a higher credibility for the survey leading to a higher number of respondents. However, it was important that the tone of the letter was neutral, not leading the respondents to answer the subsequent questions in a special way. This is supported by Ejlertsson (2014, p. 113). The cover letter further contained information that the survey was targeting SMEs in Norr- and Västerbotten with 10-250 employees. By explaining the possible contributions of the study, the authors of this thesis expected respondents to be more likely to participate. To further ensure the participation of the respondents they were promised a strict anonymity and that the participation was voluntary. This is explained
by Ejlertsson (2014, p.114) to increase participation, but anonymity is only guaranteed if the gathered information does not reveal the respondent when being added together. Additionally, the respondents were informed of how to contact the authors in case of questions regarding the survey.

In order to increase the response rate, a second send out could be made to remind the sample to answer the survey (Gabrielsson & Winlund, 2000, p. 319). In order to ensure that our survey received a high response rate two additional send outs was hence applied, and for this the cover letter of the survey was reused with minor alterations. Sending out the survey two additional times increased the response rate, possibly since the ones receiving the survey were on a holiday, sick or did not have the necessary time during the first send out. According to Ejlertsson (2014, p. 119) this is a reasonable decision.

5.5 Data Collection

As concluded in previous chapters the best suiting method for the purpose of this thesis was to collect data by using a survey. In our case we used a self-reporting survey. The survey was created in a program provided by Umeå University, called Textalk Websurvey (Textalk, 2013). Through the use of Textalk Websurvey the survey could be designed as wished, emailed out to respondent and the answers could be analysed there, or exported into Excel and SPSS for further analysis.

By using an internet based survey the risk of answers being distorted are lower, since the authors themselves does not have to interpret or write down the answers as they are given by the respondents (Saunders et al., 2009, p. 364). Applying a web-based self-reporting survey for this thesis therefore reduces the risk of the authors making their own interpretations. Additionally, as part of the questions for the survey is based on previous studies and their surveys, the risk of biases and distortions are reduced, since they are proven to be effective.

Before the survey was emailed to the respondents, a pilot study was conducted. The survey was sent to three board members, with one of them holding the position of both CEO and chairman, and to two acquaintances of the authors of this thesis. Based on their feedback, in terms of the questions asked and the design of the survey, alterations were made in order make sure that the survey-questions sent out was understandable to the actual respondents. Applying a pilot study is supported by Saunders (2009, p. 394), since one has the possibility of ensuring that questions is being asked correctly and that they are answering the research question and purpose of the study.

The first survey was sent on Monday the 29th of March. It was sent to 3568 email addresses, however 354 out of these emails were not correct or still existing, so called hard bounces, lessening the amount of addresses possible to send the survey to 3214. Further, after the first sent out there were 494 soft bounces. A soft bounce implies that the address exist but there are issues in delivering it due to e.g. that the inbox is full. Generally the server tries to resend the email to a soft bounce, but if it does not succeed it turns into a hard bounce.

The first reminder was sent out Monday the 4th of April, and the last one Wednesday the 6th of April. The last day available for the respondents to answer the survey was Monday the 11th of April, hence they had two weeks to complete the survey. Following the third
send out there were 425 hard bounces and 540 soft bounces. The total amount of hard bounces lessens the amount of possible respondents to 3143. From the emails that were sent out and received, 478 responses were received. The soft bounces still present was not taken consideration to, since they had yet to turn into hard bounces, hence we do not know if the respondent received the email or not.

### 5.6 Non-Responses

Within the present field of research, a response rate between 15 and 30 percent has proven to be likely to receive when performing a survey (Minichilli et al., 2009, p. 64; Gabrielsson & Winlund, 2000, p. 319; Zahra & Pearce, 1992, p. 423; Zahra, 1991, p. 269).

A response rate aligned with antecedent research was achieved, however, external non-responses was present. In order to prevent external non-responses, it is recommended to motivate participation through e.g. a motivational cover letter, and by sending reminders (Ejlertsson, 2014, p. 26-27). Moreover, there were cases of internal non-responses. Ejlertsson (2014, p. 26) describes this as when respondents have neglected to answer some of the questions.

In order to investigate the distribution of the received answers between the three municipalities, a comparison between the numbers of answers from each municipality with the number of inhabitants in each municipality was conducted. The number of inhabitants was retrieved from Statistics Sweden (SCB, 2016).

### 5.7 Processing of Data

The initial step in the processing of data was to transfer the data from Textalk Websurvey into an Excel file. The respondent’s answers were then coded into numbers. After this the excel file was imported into SPSS. In SPSS the first step was to match the data with the set criteria. Firstly, the respondents answering no to the first question, stating that they were not a member of a board, was deleted, resulting in 73 answers being deleted. Secondly, the firms with less than ten or more than 250 employees was deleted as well, leaving us with data consisting of 220 answers.

In order to create the indexes described in chapter 3, the variables measuring control, network, service and board structure had to be computed into one scale each. In order to do this for the questions regarding control three of the questions had to be reversed, meaning that the numerical answers with a high value was reversed into a low value, and vice versa, in order to be able to compare them with the rest of the questions in the scale. For the other three scales this was not necessary.

Moreover, in order to compute a scale the questions had to be recoded into values between 0 and 1, known as normalized. This implies that all the answers are coded so that they have a value between zero and one, which is necessary when the answers have a different number of alternative answers (e.g. one question might have five possible answers, while another one only have two possible answers). When doing this, all questions will have equal weights in relationship to each other.
In order to be able to do a correlation analysis of all our variables, the board roles and the industries present in our sample had to be made into dummy variables. This is necessary in order to be able to compare all the answers received and their correlation with each other. Further, in the survey the respondent was asked to state what industry they were present in, in an open question. Hence, the answers received had to be matched into a list of industries. The list of different industries was retrieved from Ekonomifakta (2016b) and our data consisted of a mix of 24 different industries.

5.8 Method of Analysis

5.8.1 Descriptive Statistics

Descriptive statistics can present the data, and different aspects of it, by using numbers (Robson, 2002, p. 407). Further, it is a good way to summarize data, enabling you to show specific values (Saunders et al. 2012, p. 488). The descriptive statistics applied for the data in this thesis has been mean/median, standard deviation, frequency, percent and skewness. Not all the measures were used for all descriptive variables, but was rather used where they were considered suitable. This first stage in the analysis was supported by Gabrielsson and Winlund (2000, p. 319), who established the mean, standard deviation (SD) and the skewness of all the variables. The control variables were further analysed in order to be able to see the demographics of our sample.

When analysing the actual responses, we could see which email addresses had answered our survey through Texttalk Websurvey. Further, these email addresses was compared to the Excel-file received from StyrelseAkademien Norr in order to be able to see the distribution between the three municipalities.

For turnover and the number of employees mean and median was used. These measures measure the so called central tendency, meaning that one can identify a number representing the distribution of answers (Robson, 2002, p. 407-408). However, the arithmetic mean can be considered to be a rough estimate suffering from impreciseness (Robson, 2002, p. 407-408). Why both mean and median has been used in this thesis in order to detect if larger differences exists in the answers. Further, mean and median can be applied in order to detect if skewness is present. If the mean is greater than the median one can assume that more than half of the values are lower than the mean (Robson, 2002, p. 415).

Frequency and percent was used to describe the industries, the different board roles present in the sample, and the proportion between the respondents answering who were an outside member, and those who were inside members. Moreover, measuring the variability in the answers can be done through e.g. standard deviation. This measurement contributes with an understanding of how the scores are spread or bundled together (Robson, 2002, p. 407-409). Standard deviation was used in the four indexes, control, service, network and board structure. Furthermore, the skewness of each index was measured and presented. Skewness can be either negative or positive, meaning that the greater part of the values is lower respectively higher than the mean (Robson, 2002, p. 415).

One of the aims of this thesis was further to investigate if boards in the selected regions are active or not. In order to do this the data was sorted such as to be able to conclude how many of the respondents represent an active board. In order to do this the three
criteria for an active board (see chapter 2.2) was used, and hence a conclusion of how many active boards there are in our sample could be made. A one sample t-test was used to compare the mean of the three groups regarding number of board meetings, number of board members and number of outside directors, respectively, to predetermined values which are founded in theory. Leading to the numbers of four board meetings per annum, three board members and one outside director had been derived and used in the test together with the mean values found in the sample. Field (2009, p. 327-330) states that the one sample t-test is applied to see if two means is significantly different from each other, having been collected from the same sample or other observations.

Moreover, two independent sample t-tests were used in order to compare the mean between two different groups. The first t-test was conducted on the variables used in order to determine if a board is active (number of meetings, -members, and -outside directors), and the different groups active boards and boards that are not active. The second t-test was conducted on board structure, and the difference in board structure between active and not active boards. According to Field (2009, p. 334) an independent t-test can explain if the means of two independent variables are significantly different. The independent t-test of Levene is significant at a p<0.05 level, meaning that if significance is not present the variance between the variables is approximately equivalent (Field, 2009, p. 340). Hence, the possibility of viewing if the means were significantly different from the sample was enabled.

In order to provide for a clear oversight of the results, and ease the analysis, a table was created containing the most relevant descriptive statistics. The indexes created were later used in the statistical analysis of correlation and the multiple regressions.

5.8.2 Reliability
Since the authors of this thesis used questions already empirically tested combined with questions created to answer to our specific purpose Cronbach’s alpha was used in order to test the reliability of our scales. This measure of reliability is often used by researchers that have used surveys to analyse their answers (Gabrielsson & Winlund 2000; Gabrielsson 2007a; Minichilli, 2009)

According to Bonett and Wright (2015, p. 3) Cronbach’s alpha is one of the most commonly used measure for reliability in both social and organizational research. Moreover, when Cronbach’s alpha is used to measure several answers, which is the common use, it measures the “internal consistency” reliability. The value can be between 0.0 and 1.0 where a higher value implies higher reliability. A good value is generally considered to be 0.7 or higher, in some cases 0.8 or higher (Ejlertsson, 2014, p. 98). Further, this measure of reliability is often used by researchers on the topic of boards in SMEs that have used surveys to analyse their answers (Gabrielsson & Winlund 2000; Gabrielsson 2007a; Minichilli, 2009)

5.8.3 Correlation Analysis
After having created four scales and dummy variables for the industries and board roles present in our sample we had 44 variables that were used in order to control the correlation between the variables. To perform a correlation analysis is supported by Gabrielsson and Winlund (2000, p.322).
According to Saunders et al. (2012, p. 521) and Robson (2002, p. 420) correlation can either be positive or negative and this describes the strength and direction of a relationship between two variables. Pearson correlation coefficient can range between +1 and -1, a correlation at +1 means that there is a perfect positive relationship between the variables meanwhile -1 indicates that there is a perfectly negative relationship, hence there is no relationship between the variables if the value is zero (Field et al., 2009, p. 170; Saunders et al., 2012, p. 521). Hence, by performing a correlation analysis the possibility of identifying potential relationships was created for the authors. However, awareness of multicollinearity has to be present when analysing. Multicollinearity arises when there is absence correlation amongst two or several variables that are independent (Saunders et al., 2012, p. 524). According to Saunders et al., (2012, p. 524) a correlation above 0.9 is an indication of multicollinearity, meanwhile Field (2009, p. 224) argues for that a correlation above 0.7 and 0.8 is an indication of multicollinearity. In order to explain the correlation we will use the rule of thumb presented by Fink (1995, p. 36) who argues for that values between 0 to +/-0.25 indicates little or no relationship, a reasonable degree of relationship exists if values are between +/-0.26 and +/-0.5 meanwhile a +/-0.51 to +/-0.75 describes a modest to good relationship.

The aforementioned 44 variables was then presented in a correlation matrix where possible multicollinearity also could be identified. This in order to ease the assessment of the values created and displayed.

**5.8.4 Multiple Regression Analysis**

In order to be able to predict one variable by using another, you need to use a regression analysis (Field, 2009, p. 198). According to Zahra et al. (1999), where they review research on firm level entrepreneurship, most of the past studies on that topic have used regression analysis to analyse their results (Zahra et al. 1999, p. 54). Moreover, a regression analysis was performed by Gabrielsson and Winlund (2000, p. 322). Further, this is a very useful method since it makes it possible to go beyond the data that is collected (Field, 2005, p. 143-144). When performing a regression you assume that the relationship is linear, hence implying that the data can be summarized into a straight line (Fink, 1995, p. 39). However, when there are more than one variable that can predict the dependent variable, a multiple regression is best suited. This type of regression is hence more complex (Field, 2009, p. 210-211).

When analysing the multiple regressions used to explain our data, multiple R and R square values was analysed. Multiple R describes the correlation of the observed values in the dependent variable with the values of the dependent variable expected in the regression. A multiple regression model is a perfect predictor of the observed data if the multiple R is equal to 1. Thus, it tells us how accurately the model can predict the observed data. Further, to describe the extent of variation in the dependent variable accounted for in the model, R square is used (Field, 2009, p. 211-212). Moreover, the F-ratio revealed in the multiple regressions together with the significance level allows for an analysis of how well the model predicts the dependent variable (Field, 2009, p. 207). Hence, this measure is also used. Lastly the coefficients (b) of the multiple regressions will be analysed. This in order to be able to tell if the variable b has a significant contribution to predict the dependent variable (Field, 2009, p. 208)

Before doing a regression, there are some steps that needs to be taken in order to know how well the regression can explain the dependent variable. Firstly, it is necessary to
check the data for outliers that differ substantially from the data, since they can have a big impact on the regression (Field, 2009, p. 215). Secondly, if there are cases present in the data that are highly influential, meaning that if you delete this item from the data, the regression coefficients will be different. Hence, the regression will not be optimal (Field, 2009, p. 216). The data collected for this thesis have been submitted to such review.

Moreover, since the data collected consists of 44 variables a stepwise method was used in order to guide the choice of independent variables. When doing this, the computer uses mathematical criteria in order to select variables (Field, 2009, p. 213). However, caution was taken when doing so since Field (2009, p. 213) states that there are some risks in doing this. The method comes with the risk of e.g. “overfitting” or “underfitting” the regression model, hence using too many or too few variables. In order to select the most suitting variables for the regression models, trial and error have been used to find the best fitting model in accordance with the found correlations and the multiple R for each regression explored.

5.8.5 Hypotheses
The previously stated hypotheses and conceptual model (see chapter 2.8) was tested in order to see if any relationship could be identified. According to Olsson and Sörensen (2011, p. 45) hypotheses are often used when there is a large amount of theory in an area and there is a possibility of deriving assumptions about the reality from this theory. Considering the extensive amount of research within the present field of this thesis we argue for that the decision to use hypothesis is supported. Having research extending back to the 1970’s, and research considering SMEs from 1989, literature and articles within this field has been continuously produced within the area. Testing hypotheses is done in the interest of finding and explaining relationships between two or more variables, further when testing the hypotheses, they can either be determined, verified, or falsified (Olsson & Sörensen, 2011, p. 46)

Determining if a hypothesis is to be considered as verified or falsified, is commonly done by using a significance level of 0.01 or 0.05 (Olsson & Sörensen, 2011, p. 252). This definition of a suitable significance level and its antecedents is unclear. Field (2009, p. 51, 53) argues that the significance rule comes from a suggestion made in 1925. Further, if you get significant results (p<0.05) this does not mean that the hypotheses are true, and vice versa. However, in this thesis a significance level of 0.05 have been applied since it is seen as robust.

5.8.6 Previous Research
When analysing the results, the findings have been reviewed by investigating antecedent research and their findings. According to Jacobsen (2000, p. 256) it is necessary to validate the findings by finding support in antecedent research. Moreover, a comparison of the results found, with previous results, can further strengthen the results. In accordance with the research philosophy of this thesis, the analysis was conducted objectively, hence the importance of elaborating our results with the studies and theories presented in the theoretical framework has been recognized and applied.
5.9 Ethical Considerations

According to Ejlertsson (2014, p. 31-32) there are mainly four research ethics to consider when performing a study and these are, the requirement of information, -consent, -confidentiality and use of information. In the appurtenant cover letter of this survey each participant was informed of pre stated requirements and thus an ethical approach towards the participants was present. Moreover, considering the questions asked in the survey we argue for that they, to no greater extent, could be regarded as sensitive, and thus did not put the respondent in a peculiar situation. Due to the fact that information such as turnover, number of employees and industry are public information and can be easily gathered. Following this notion when creating a survey is supported by Ejlertsson (2014, p. 32-33).

As mentioned in previous chapter, the list of respondents targeted in this thesis was received from the chairman of StyrelseAkademien Norr. In order for us to use the data, a correspondence regarding how we aim to use the data have during the research process been constant, and the chairman of StyrelseAkademien Norr have had the opportunity to review and discuss the survey questions before they were sent out to the respondents. This can be related to the discussion regarding the ethical considerations when applying for research grants provided by Gustafsson et al. (2005, p. 27-28). They state that when a researcher is trying to gather external resources, it is of high importance to be transparent in terms of what the purpose and possible contribution of the research project is.

In terms of identification of the respondents, the authors of this thesis could, through the survey platform Textalk Websurvey, identify which of the email-addresses who had completed the survey. However, the answers received could not be connected to a specific address, hence further strengthening the anonymity of the respondent. The email-addresses are, as stated above, confidential, and will be deleted in full when the entire process following this thesis is completed.

An important aspect of the above discussed is the honour and integrity of the researcher. For a researcher to be the above mentioned, it is of high importance that the analysis, results and interpretation never is compromised by a wish of the researcher to prove her hypothesis or research question (Gustafsson et al., 2005, p. 16). The authors of this thesis strictly follow this advice, since the aim is to objectively view the data collected and analyse it thereafter. Further, we have critically reviewed all parts in this thesis, the theoretical framework, the chosen research method, the analysis conducted, and the final results. This is, according to Gustafsson et al. (2005, p. 16), an important part in the researcher's integrity. In order to create a high credibility of this thesis constant referencing has been present with the purpose of acknowledging others work and separating our own discussion from others, through this process dishonesty is to the best of our ability eliminated. Treating the entire research process this way is supported by Gustafsson et al., (2005, p. 75) and Olsson and Sörensen (2011, p. 89).

During the entire process of this thesis, reviews has been made, and criticism received through regular seminars with our supervisor and fellow students. This criticism has been assimilated, acknowledged and appreciated by the authors of this thesis.
6. Empirical Results

6.1 Descriptive Statistics

In order to appreciate the respondent and the characteristics of the firm, for which the respondent was a board member, we have chosen to firstly present the descriptive statistics for our control variables.

6.1.1 The Sample

The study received a response rate of 15.2 percent, hence meaning that 84.8 percent of the respondents receiving the email to participate did not respond at all. The distribution of the three municipalities, Umeå, Skellefteå and Luleå, is presented in figure 2 and is, with consideration taken to the proportion of inhabitants, rather well aligned.

As mentioned, 220 of the answers received were the basis for the results of this thesis. Due to internal non-responses one answer was lost in the question of turnover. Hence, the basis for those results relied on 219 respondents.

The number of employees for the companies in the sample had a range between 10 and 250, due to this being a criteria for this thesis. Further, the mean value of employees was 44.83, however the median was used as well, which had a value of 25. The skewness was 2.25, hence showing that a majority of the extreme observed values are above the mean value.

The turnover ranged from 106 000 Swedish kronor (SEK) to 1 000 million Swedish kronor (MSEK). The mean turnover in the sample was 97.23 MSEK and the median 35 MSEK. The skewness, 3.26, showed that a majority of the extreme observed answers was above the mean value.

In figure 3 the percentages of the distribution between each of the board roles are displayed. As can be seen, almost a third of the respondent where the CEO of their company but did not have the role as chairman of the board. The second most common position was as a board member also holding the role of CEO for the company. Lastly, only two respondents were deputy board members (0.9 percent).
In order to determine how many of the respondents who were inside respectively outside directors in our sample, they were asked to answer this question. The statistical analysis shows that 14.5 percent were outside director, hence 85.5 percent was inside directors.

In our sample 24 industries was represented. In figure 4 the entire distribution can be viewed, most of the companies in our sample are within the two industries of production and industry, and construction, design and interior. However, the answers are widely dispersed between the industries.
6.1.2 Determinants of an Active Board

In order to determine whether the board was per definition active or not three questions were asked regarding the number of board members, number of outside directors, and the number of board meetings held in 2015.

The mean values for the number of board meetings, members and outside directors are presented in table 3. These means show that boards in Norr- and Västerbotten are active.

The one sample t-test and the results are presented in table 4, and revealed that the numbers of boards that fulfil the set criteria are a majority of the boards. Moreover, the one sample t-test showed that the mean values are significant, implying that the value is greater than four meetings per annum, three board members and one outside director.

<table>
<thead>
<tr>
<th>Number of board meetings</th>
<th>Mean</th>
<th>Median</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,83</td>
<td>4</td>
<td>2,552</td>
</tr>
<tr>
<td>Number of board members</td>
<td>4,90</td>
<td>5,0</td>
<td>1,150</td>
</tr>
<tr>
<td>Number of outside directors</td>
<td>1,59</td>
<td>1</td>
<td>1,747</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of meetings</th>
<th>Mean</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.7591</td>
<td>.000</td>
</tr>
<tr>
<td>Number of board members</td>
<td>.9227</td>
<td>.000</td>
</tr>
<tr>
<td>Number of outside directors</td>
<td>.5682</td>
<td>.000</td>
</tr>
</tbody>
</table>

As presented in chapter 2.2, in order for a board to be active the first criteria is that they need to have at least four board meetings per annum. The percentage of respondents, and hence their boards, fulfilling this criteria was 75.9 percent, as seen in table 4, in the column of means. The second criteria, stating that they need to have at least three board members was further fulfilled by 92.3 percent. The third criteria, that at least one of the three board members has to be an outside director was fulfilled by 56.8 percent.

However, to be an active board all three of the above mentioned criteria had to be fulfilled. Resulting in 49.1 percent of the sample board being active, making 50.9 percent in the sample not active. These results are based on 219 respondents and their answers, since one of the respondents did not give an answer to the number of external board members.
6.1.3 Board Structure in Active versus not Active Boards

In order to see if active boards have a better board structure an independent t-test was conducted. The results of the independent t-test, conducted for each of the variables determining whether a board is active or not, resulted in that the boards that are active in terms of number of meetings and having included outside directors showed significance. Hence, these two variables fulfilled the significance criteria of $p < 0.05$, thus the variances are significantly different in terms of board structure. Hence implying that there is a significant difference between active- and not active boards. For the variable number of board members, the t-test did not show statistically significant results, $p > 0.05$.

6.1.4 Primary Reason for Outside Directors

When there were outside directors present on the board of the respondent, the primary reason for this was in order to provide the board with knowledge and experience that was not present within the focal firm. Further, as seen in figure 5, only a few respondents answered that external pressure or the will to obtain legitimacy, was the primary reason for including outside directors.

![Primary reason for including outside directors](image)

**Figure 5. The primary reason for including outside directors**

6.2 Indexes

The presentation for each index, and the scale used to measure the respondents’ view of each index, will be done in a table with the results of Cronbach’s alpha, mean, standard deviation and skewness, this in order to provide for a clear and distinctive presentation.

6.2.1 Index 1 - Control

As seen in table 5, the mean value of index 1 was 0.66. In order to compute the index, making it into a scale, all of the values were normalized in order to make sure each question had equal weight. The result of the mean shows that the respondents prefer having a majority of the control over the board held by internal directors. Looking at the mean values for each of the variables included in the index it is obvious that they differ. The mean values are between 0.28 and 0.9. Question three regarded whom the respondent found most suited to have the role as chairman, the CEO of the company, who is assumed to have great knowledge of the company, or an outside director assumed to have great knowledge about the business climate in which the firm operates. The majority of the
respondents answered that they found an outside director most suited to have the role as chairman of the board. The other eight variables and their mean show that a majority of the respondents prefer control being at the hands of inside directors.

As mentioned in chapter 5, Cronbach’s alpha was used in order to determine the reliability of the indexes. The Cronbach’s alpha of this index was 0.7.

| Table 5. Mean, standard deviation, skewness & Cronbach’s alpha for index 1 |
|-------------------|---|---|---|---|
| Index 1 - Control | Mean | SD  | Skewness | α   |
| Q.1               | 0.66 | 0.17 | 0.28     | 0.70 |
| Q.2               | 0.87 | 0.25 | -2.12    |      |
| Q.3               | 0.28 | 0.45 | 0.98     |      |
| Q.4               | 0.69 | 0.28 | -0.52    |      |
| Q.5               | 0.65 | 0.29 | -0.28    |      |
| Q.6               | 0.57 | 0.32 | -0.04    |      |
| Q.7               | 0.90 | 0.17 | -1.99    |      |
| Q.8               | 0.83 | 0.27 | -1.47    |      |
| Q.9               | 0.59 | 0.34 | -0.27    |      |

Q = question. See appendix 3 for full questions
SD = Standard deviation
α = Cronbach’s alpha

6.2.2 Index 2 - Network
The mean value of the scale computed for index 2 was 0.67, as seen in table 6. This result means that the majority of the respondents consider the network role to be important, with the board contributing with valuable connections and attempting to affect the surrounding environment of the company. As in index 1, index 2 was also normalized. Viewing the means of all the questions in scale 2, all had a majority with the opinion of network being important, ranging between 0.59 and 0.79. Hence, the importance of the board of directors contributing with connections that creates values is considered great, as it has a mean of 0.79. Cronbach’s alpha for this index was 0.82.

| Table 6. Mean, standard deviation, skewness & Cronbach’s alpha for index 2 |
|-------------------|---|---|---|---|
| Index 2 - Network | Mean | SD  | Skewness | α   |
| Q.1               | 0.67 | 0.21 | -0.57    | 0.82 |
| Q.2               | 0.79 | 0.23 | -1.1     |      |
| Q.3               | 0.64 | 0.26 | -0.57    |      |
| Q.4               | 0.66 | 0.26 | -0.34    |      |

Q = question. See appendix 3 for full questions
SD = Standard deviation
α = Cronbach’s alpha

6.2.3 Index 3 - Service
As seen in table 7, the mean value of index 3, that aims to indicate the respondents view on the boards service role, was 0.66. This indicates that the respondents find it important to have a board contributing with knowledge, experience and advice. The individual mean for each variable used in the index differs between 0.59 and 0.83. Hence, this shows that the respondents value knowledge, expertise and advice higher in questions regarding the management of the firm, and budget and financing compared to the other alternative
concerns. Further, the mean values for how well their board provide service in questions regarding the management of the firm, and budget and financing, proves that this is an important service in their boards. The Cronbach’s alpha for this index was 0.82.

**Table 7. Mean, standard deviation, skewness & Cronbach’s alpha for index 3**

<table>
<thead>
<tr>
<th>Index 3 - Service</th>
<th>Mean</th>
<th>SD</th>
<th>Skewness</th>
<th>α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.1</td>
<td>0.66</td>
<td>0.16</td>
<td>-0.09</td>
<td>0.82</td>
</tr>
<tr>
<td>Q.2</td>
<td>0.83</td>
<td>0.22</td>
<td>-1.25</td>
<td></td>
</tr>
<tr>
<td>Q.3</td>
<td>0.59</td>
<td>0.27</td>
<td>-0.11</td>
<td></td>
</tr>
<tr>
<td>Q.4</td>
<td>0.82</td>
<td>0.2</td>
<td>-1.06</td>
<td></td>
</tr>
<tr>
<td>Q.5</td>
<td>0.53</td>
<td>0.28</td>
<td>-0.03</td>
<td></td>
</tr>
<tr>
<td>Q.6</td>
<td>0.63</td>
<td>0.27</td>
<td>-0.35</td>
<td></td>
</tr>
<tr>
<td>Q.7</td>
<td>0.79</td>
<td>0.23</td>
<td>-0.92</td>
<td></td>
</tr>
<tr>
<td>Q.8</td>
<td>0.54</td>
<td>0.28</td>
<td>0.11</td>
<td></td>
</tr>
<tr>
<td>Q.9</td>
<td>0.5</td>
<td>0.29</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>Q.10</td>
<td>0.59</td>
<td>0.28</td>
<td>-0.2</td>
<td></td>
</tr>
</tbody>
</table>

Q = question. See appendix 3 for full questions
SD = Standard deviation
α = Cronbach’s alpha

### 6.2.4 Index 4 - Board Structure

The mean for index 4, board structure, presented in table 8, was 0.7. This means that boards of the respondents are to a majority involved in the practice of board structure. The questions in index 4 ranged between 0.41 and 0.9. The highest mean was received for question two, meaning that the board has a great level of knowledge of the company’s business. Meanwhile, question six and ten received means below 0.5, meaning that fewer of the respondents board has clearly divided the work between the board members and that fewer of the boards are evaluated on an annual basis. Cronbach’s alpha for this index was 0.76.

**Table 8. Mean, standard deviation, skewness & Cronbach’s alpha for index 4**

<table>
<thead>
<tr>
<th>Index 4 – Board Structure</th>
<th>Mean</th>
<th>SD</th>
<th>Skewness</th>
<th>α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.1</td>
<td>0.7</td>
<td>0.16</td>
<td>-0.4</td>
<td>0.76</td>
</tr>
<tr>
<td>Q.2</td>
<td>0.8</td>
<td>0.27</td>
<td>-1.28</td>
<td></td>
</tr>
<tr>
<td>Q.3</td>
<td>0.9</td>
<td>0.16</td>
<td>-1.67</td>
<td></td>
</tr>
<tr>
<td>Q.4</td>
<td>0.83</td>
<td>0.21</td>
<td>-0.9</td>
<td></td>
</tr>
<tr>
<td>Q.5</td>
<td>0.71</td>
<td>0.22</td>
<td>-0.46</td>
<td></td>
</tr>
<tr>
<td>Q.6</td>
<td>0.81</td>
<td>0.21</td>
<td>-1.02</td>
<td></td>
</tr>
<tr>
<td>Q.7</td>
<td>0.41</td>
<td>0.35</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>Q.8</td>
<td>0.72</td>
<td>0.28</td>
<td>-0.96</td>
<td></td>
</tr>
<tr>
<td>Q.9</td>
<td>0.58</td>
<td>0.3</td>
<td>-0.15</td>
<td></td>
</tr>
<tr>
<td>Q.10</td>
<td>0.76</td>
<td>0.28</td>
<td>-1.11</td>
<td></td>
</tr>
</tbody>
</table>

Q = question. See appendix 3 for full questions
SD = Standard deviation
α = Cronbach’s alpha
6.3 Correlation Matrix

When reviewing the correlation matrix (table 9) to see if there were any multicollinearity issues two higher values where noted. Between the number of employees and turnover the correlation was 0.61 showing that there is a slightly strong relationship between these two variables. Moreover, the variables indicating that there are no outside directors present on the board (question 10 in the survey, see appendix 2, 3), and the variable stating that the reason for including outside directors is due to an identified need for knowledge and experience. The two variables had had a correlation of -0.795. However, since these two variables were present in the same question, and the first one mentioned is an exclusionary question this correlation was expected.

In table 9 the correlations between the three variables regarding board activity, and the four scales are presented. This since they are of high importance for the purpose of this thesis. The full correlation matrix can be received from the authors of this thesis by request.

Besides the variables mentioned above, the correlation between the variables in table 9 does not indicate on any multicollinearity. However, the asterisks show that there are some significant correlations, meaning that genuine relationship exists between the two variables, at the significance level of either 0.01 or 0.05. However, the correlation between some of the variables are low, between 0 and 0.25, indicating that little or no relationship exists, in accordance with Fink (1995, p. 36). Five of the correlations presented in the table show a good significant relationship (p<0.01). Eleven of the correlations present that the degree of the relationship is to be considered as reasonable, this in line with the guidelines of Fink (1995, p.36)

As can be seen in table 9 strong correlation can be seen between the different roles of the board; control, service, network and board structure.
<table>
<thead>
<tr>
<th></th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
<th>7.</th>
<th>8.</th>
<th>9.</th>
<th>10.</th>
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<th>12.</th>
<th>13.</th>
<th>14.</th>
<th>15.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Index for control</strong></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Corr.</td>
<td>1</td>
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<tr>
<td>Sig.</td>
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<tr>
<td><strong>2. Index for Network</strong></td>
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<tr>
<td>Corr.</td>
<td>.284**</td>
<td>1</td>
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<tr>
<td>Sig.</td>
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<tr>
<td><strong>3. Index for Service</strong></td>
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</tr>
<tr>
<td>Corr.</td>
<td>.472**</td>
<td>.486**</td>
<td>1</td>
<td></td>
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</tr>
<tr>
<td>Sig.</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>4. Index for Board Structure</strong></td>
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<tr>
<td>Corr.</td>
<td>0.024</td>
<td>.288**</td>
<td>.393**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sig.</td>
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<td>0.000</td>
<td>0.000</td>
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<tr>
<td><strong>5. Turnover</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Corr.</td>
<td>.015</td>
<td>0.066</td>
<td>.013</td>
<td>0.064</td>
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</tr>
<tr>
<td>Sig.</td>
<td>0.008</td>
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<td>0.346</td>
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<td><strong>6. Respondent: internal or external member</strong></td>
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<td>0.110</td>
<td>.244**</td>
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<tr>
<td>Corr.</td>
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<td>.053</td>
<td>.177**</td>
<td>.086</td>
<td>.341**</td>
<td>.348**</td>
<td>.189**</td>
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<td><strong>9. Number of external board members</strong></td>
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<td>.563**</td>
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<td>.540**</td>
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<td><strong>10. CEO not Chairman</strong></td>
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<td>.077</td>
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<td>.152*</td>
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<td><strong>11. CEO and Chairman</strong></td>
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<td>.154*</td>
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<td>.258**</td>
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<td>.263*</td>
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<td>.015</td>
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<td><strong>12. Get legitimacy</strong></td>
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<tr>
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<td>.279**</td>
<td>.092</td>
<td>.294**</td>
<td>.414**</td>
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</tr>
<tr>
<td>Corr.</td>
<td>.540**</td>
<td>.043</td>
<td>.045</td>
<td>.252**</td>
<td>.142*</td>
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<td>.182**</td>
<td>.354**</td>
<td>.559**</td>
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<td>.15*</td>
<td>.205**</td>
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<td>.084</td>
<td>.045</td>
<td>.000</td>
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<td><strong>14. External pressure</strong></td>
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<tr>
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<td>.010</td>
<td>.002</td>
<td>.031</td>
<td>.071</td>
<td>.034</td>
<td>.049</td>
<td>.065</td>
<td>.028</td>
<td>.080</td>
<td>.066</td>
<td>.190*</td>
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<td>.886</td>
<td>.972</td>
<td>.650</td>
<td>.283</td>
<td>.617</td>
<td>.472</td>
<td>.075</td>
<td>.240</td>
<td>.374</td>
<td>.003</td>
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<td><strong>15. Get knowledge and experience</strong></td>
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<tr>
<td>Corr.</td>
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<td>.002</td>
<td>.015</td>
<td>.269**</td>
<td>.086</td>
<td>.140*</td>
<td>.020</td>
<td>.160**</td>
<td>.327**</td>
<td>.048</td>
<td>.122</td>
<td>-.244*</td>
<td>.795**</td>
<td>-.234*</td>
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<td>.416</td>
<td>.000</td>
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<td>.038</td>
<td>.076</td>
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<td>.000</td>
<td>.482</td>
<td>.072</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).   * Correlation is significant at the 0.05 level (2-tailed).
6.4 Multiple Regression

6.4.1 The Motivation Behind Having an Active Board
When having tested multiple variables in the regression the variables that had a significant impact (p<0.05), on the dependent variable *number of board meetings* was the role of CEO and Chairman of the board, and the index of board structure, which can be seen in table 10.

The multiple R for this regression indicates that the regression model can explain 31.3 percent of the dependent variable.

Hence, in terms of explaining the motivation behind having an active board, in terms of the number of meetings, neither the control, network or service index can assist. When these variables were included in the regression it was evident that they did not fulfil the significance criteria, hence showing high values. However, the chosen predictors for number of meetings was when the respondent held the role as both the CEO of the company and chairman of their board, and the index of board structure, since they both significantly explains the dependent variable. These variables shows that the number of meetings will decrease respectively increase when there is a dual structure, when the CEO holds the position as chairman of the board, and when the value of board structure is high.

The dependent variable *number of board members* can be significantly predicted by four variables. Here, the index, and the created scale for control is important in order to predict the dependent variable. This shows that the number of board members partly is explained by the firms will to have internal control over the board. The number of directors on the board are expected to be less when there is a will to allocate control to inside directors. However, neither the indexes for network nor for service, can provide a significant explanation to the number of board members.

Moreover, the number of members is also dependent on what role the respondent, who answered, had on the board. When the respondent was both CEO and chairman of the board, the number of members decreased. The regression further shows that, the number of board members will increase when there is a need and desire to increase the legitimacy of the firm.

Lastly, when investigating the results of the regression explaining the *number of outside directors*, the network nor the service index can predict the dependent variable. The control index do however explain the number of outside directors since the regression shows that when internal control over the board is preferred, the number of outside directors are expected to be less. The number of outside directors can further, also be explained by the variables stating that outside directors are present in terms of them providing legitimacy and knowledge and experience. Moreover, that the number of outside directors will be higher when there is an external pressure on the firm. As seen in table 10, the results are not based on the whole sample due to internal non-responses.
### Table 10. Multiple regression analyses of the dependent variables for board activity

<table>
<thead>
<tr>
<th></th>
<th>Coefficient (B)</th>
<th>SE. B</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of board meetings (n=217)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>1,837</td>
<td>.858</td>
<td>.033</td>
</tr>
<tr>
<td>CEO and Chairman</td>
<td>-1,710</td>
<td>.566</td>
<td>.003</td>
</tr>
<tr>
<td>Index for board structure</td>
<td>4,563</td>
<td>1,190</td>
<td>.000</td>
</tr>
<tr>
<td>Multiple R</td>
<td>.313</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>.098</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.090</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$F$ (F-sign.)</td>
<td>11,661 (.000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of board members (n=215)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>7,443</td>
<td>.509</td>
<td>.000</td>
</tr>
<tr>
<td>Index for control</td>
<td>-4,250</td>
<td>.732</td>
<td>.000</td>
</tr>
<tr>
<td>Turnover</td>
<td>.003</td>
<td>.001</td>
<td>.000</td>
</tr>
<tr>
<td>Get Legitimacy</td>
<td>1,596</td>
<td>.513</td>
<td>.002</td>
</tr>
<tr>
<td>Chairman and CEO</td>
<td>-2,879</td>
<td>.359</td>
<td>.015</td>
</tr>
<tr>
<td>Multiple R</td>
<td>.581</td>
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<tr>
<td>$R^2$</td>
<td>.337</td>
<td></td>
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<tr>
<td>Adjusted $R^2$</td>
<td>.324</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$F$ (F-sign.)</td>
<td>26,686 (.000)</td>
<td></td>
<td></td>
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<tr>
<td><strong>Number of outside directors (n=215)</strong></td>
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<td></td>
</tr>
<tr>
<td>Constant</td>
<td>3,418</td>
<td>.599</td>
<td>.000</td>
</tr>
<tr>
<td>Index for control</td>
<td>-4,213</td>
<td>.742</td>
<td>.000</td>
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<tr>
<td>Get Legitimacy</td>
<td>3,810</td>
<td>.499</td>
<td>.000</td>
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<td>External pressure</td>
<td>1,791</td>
<td>.497</td>
<td>.000</td>
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<td>Get Knowledge &amp; Experience</td>
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<td>.000</td>
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<tr>
<td>Multiple R</td>
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<tr>
<td>$R^2$</td>
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<td>$F$ (F-sign.)</td>
<td>49,814 (.000)</td>
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</tbody>
</table>

$n = number of answers$

#### 6.4.2 Active Boards and Board Structure

When having **board structure** as the dependent variable three variables fulfilled the criteria of the significance level of $p<0.05$, as shown in table 11. The index for service and number of board meetings assists in explaining the board structure positively. Meanwhile, no outside directors assist in explaining the value of board structure negatively. Multiple $R$ shows that these three variables together explain 50.1 percent of the value of board structure.
### Table 11. Multiple regression analysis with the dependent variable board structure

<table>
<thead>
<tr>
<th>Board structure (n=217)</th>
<th>Coefficient (B)</th>
<th>SE. B</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
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<td>.000</td>
</tr>
<tr>
<td>Index for service</td>
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<td>.062</td>
<td>.000</td>
</tr>
<tr>
<td>Number of board meetings</td>
<td>.009</td>
<td>.003</td>
<td>.010</td>
</tr>
<tr>
<td>No outside directors</td>
<td>-.081</td>
<td>.020</td>
<td>.000</td>
</tr>
<tr>
<td>Multiple R</td>
<td>.501</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>.251</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R²</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>F (F-sign.)</td>
<td>23.751 (.000)</td>
<td></td>
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</tr>
</tbody>
</table>

n = number of answers

### 6.5 Hypotheses

Below the results of the hypotheses are presented. The hypotheses were either supported, not supported, or opposed, and in chapter 6.6 the conceptual model is revised accordingly.

**H1:** The results imply that the motivation behind having an active board partly can be explained by the board role control. There was a significant negative relationship between the number of board members, the number of outside directors and the control index. However, there was no significant relationship between the control index and the number of board meetings. Hence, hypothesis one is opposed, due to the negative relationship indicating that a board are not active if the board is controlled internally.

**H2:** The hypothesis suggests that there is a relationship between motivation behind having an active board and the network role. The results showed no significant relationship between these variables and hence, hypothesis 2 is not supported.

**H3:** This hypothesis suggests that there is a relationship between the service role of the board and the motivation behind having an active board. The results showed no significant relationship between these variables and hence, hypothesis 3 is not supported.

**H4:** The results imply that the primary reason for including outside directors on the board in SMEs, is due to a need for knowledge and experience not present within the company. Hence, hypothesis four is supported.

**H5:** The hypothesis stated that an active board would have better board structure than boards who are not active. This is partly supported. There are a significant difference between the means of active and not active boards in terms of the variables number of meetings, the number of outside directors and board structure. However, there is no significant difference between the mean of the two groups, active and not active boards, in terms of the number of board members and board structure.
6.6 Empirical Conceptual Model

From the results above the conceptual model presented in chapter 2.8 has been revised as shown in figure 6. The dashed arrows (H1 and H5) indicate the partially supported/opposed hypotheses, and the filled arrow (H4) are fully supported. For H1 the significant coefficients derived from the multiple regressions are presented. H4 was supported, as stated above in chapter 2.6, the primary reason for the presence of outside directors can be explained by the will to obtain knowledge and experience. Lastly, H5 was partly supported in accordance with the two significant t-tests.

![Empirical Conceptual Model Diagram](image)

**Figure 6. Empirical Conceptual Model**

1. = number of board members
2. = number of outside directors
a. = number of meetings
b. = number of outside directors
** = correlation is significant at the 0.01 level (2-tailed)
7. Analysis

7.1 The Sample

7.1.1 Non-Responses
Receiving a response rate of 15.2 percent was considered to be a robust amount of answers for this thesis, with consideration taken to antecedent research and the response rate of their studies, where a response rate of 15-30 percent was considered acceptable. Moreover, since the survey was voluntary and with regards to the response rate of antecedent research on the topic of boards in SMEs external non-responses was expected.

By analysing the non-responses one can identify if the non-responses have something in common that might bias the results by being left out (Ejlertsson, 2014, p. 27). Ejlertsson (2014, p. 27) further describes that this analysis can be done through contacting a selection of the non-respondents over phone and thus retrieve additional answers. According to Ejlertsson (2014, p. 13-14) the response rate has in general decreased when comparing it with the response rates received 30 years back. One reason for this could be that email inboxes are filled with commercial emails and spam, leading to a survey easily being lost in the amount of mails. The reason for non-responses in this thesis is by the authors believed to be related to the above discussion. It is likely that the respondents might have missed the email, or that it simply was not a priority in a busy work situation. Through not asking questions which could be perceived as sensitive, the authors of this thesis does not believe they have provided a reason for the respondents to not answer the survey. Moreover, the internal non-responses should neither be a consequence of having sensitive questions. Thus, the possibility of the internal non-responses arising due to the respondent simply missing a question is considered to be reasonable.

Furthermore, the three municipalities are considered to be representative for the business climate in Norr- and Västerbotten, due to them being the biggest cities in Norr- and Västerbotten. Thus, providing for an acceptable and relevant basis and sample for the results to be retrieved from. Further, having received responses that are rather aligned with the proportion of inhabitants in respective municipality further strengthens the results received. Thus the risk of biases arising due to homogeneity is reduced and not seen as an issue in this thesis.

7.1.2 Final Sample
Our final sample, from which the analysis was conducted, consisted of 220 respondents. These respondents represents firms with employees ranging between 10 and 250, this has previously been stated as a criteria for the thesis in general in order to only examine SMEs. The empirical results showed the mean value of employees was 44.83. Meanwhile, Gabrielsson and Winlund (2000, p. 319) in their study received a mean of 99.74 employees when examining industrial firms. However, this difference between our thesis and the study by Gabrielsson and Winlund (2000), regarding the mean value of employees, could possibly be related to the focus, or lack of focus, on a specific industry. Therefore, one could suggest that the skewness detected in the variable of number of employees in this thesis could be referred to the different industries present within the study. Our sample consisted of 24 different industries, of which only 15.9 percent of our respondents represented the industry of industry and production (figure 4).
Moreover, the skewness and the median detected in our sample, indicates that more than half of our respondents has fewer employees than the mean value presented. Comparing this to Gabrielsson and Winlund (2000, p. 319) shows that their sample was more normally distributed around their mean. Hence, our sample does in general represent smaller firms in terms of the number of employees.

The turnover in our sample further can be seen as a representation of the dispersed industries presented in our sample. Moreover, half the companies represented in the sample had a turnover lower than the mean. Thus, this fact further has the possibility of affecting the results presented by this study and to enable an explanation from the differences between this thesis and the antecedent research.

An important distinction between our thesis and the papers by Gabrielsson and Winlund (2000) and Minichilli et al. (2009) is that we did not exclude respondents depending on their role in the company and the board. In their research they made the distinction to only use CEOs as respondents. In our thesis we have however chosen to include everyone who is a member of a board of directors. As shown by the results most of our respondents was the CEO of their company however not holding the role as chairman of the board, closely followed by respondents who were board members neither holding the role as chairman or CEO. Only 13.6 percent of the respondent represented the dual structure, representative of stewardship theory, where Davis (1991, p. 85) describes that this is optimal in order to achieve superior performance. This indicates that a relatively small part of the sample agrees with stewardship theory, in terms of who should be the chairman of the board. Furthermore, most of the respondents position can somewhat be derived from agency theory. According to this theory the board’s main task is to monitor the CEO and hence the CEO should not hold the role a chairman (Eisenhardt, 1989a, p. 68). However, Eisenhardt (1989a, p. 68) further states that this in general applies to large corporations.

As above mentioned, to exclude all other directors but the CEO has been conducted in both the studies by Gabrielsson and Winlund (2000) and Minichilli et al. (2009). Considering that respondents holding the position of inside directors answered this study to a majority, one could relate this to the possibility of an idealized picture, described by the above mentioned authors, being conveyed. In both their papers they describe that having the CEO as the single respondents for each company can lead to idealized answers due to the CEOs inclination to convey a good image of her company (Gabrielsson & Winlund, 2000, p. 222; Minichilli et al. 2009, p. 70). Since inside directors, in this thesis, are defined as having a personal relationship to the owner of the firm, either in terms of personal relationships or by having worked in the firm before, thus similar biases could be present in our sample of respondents.

### 7.2 Correlation between the Board Roles and Board Structure

As seen in the correlation matrix (table 9), the different board roles and the index for board structure correlates. The service role is significantly correlated with the other three indexes and this is partially supported by Gabrielsson and Winlund (2000, p. 322) who found that there was a significant correlation between the service and the control role. Hence, the conclusion was made that a board that is involved in one of the roles to a great extent also is involved in the other role. Moreover, Minichilli et al. (2009, p. 36) found significant correlations between the network and service role as well, which was also found in our results. Minichilli et al. (2009) do however not further elaborate on this
event, but the authors of this thesis see it to be likely that Gabrielsson and Winlund’s (2000) analysis can be extended to the network role, which hence shows that when a board is involved in one of the other two roles, it is likely that it is involved in the network role as well.

The index for board structure and the significant correlations between both the service and network role, implies that when a board finds these roles important an enhanced board structure is expected. Gabrielsson and Winlund (2000, p. 322) did in their sample also find this significance between these roles, and hence the analysis is supported.

### 7.3 Active Boards

When determining whether a board can be defined as active or not three questions had to be answered by the respondent. The first question regarded how many meetings the board represented by the respondent had in 2015. Since the criteria for activity implied that at least four board meetings had to be held per annum the results revealed that 75.9 percent fulfilled this criteria. The mean value of board meetings in our sample was 4.8 meetings. The importance of having board meetings is emphasized by both the independent organization StyrelseAkademien Norr and by researchers within this field. Lipton and Lorsch (1992, p. 69) stated that a public company should have at least six board meetings per annum. However, due to the fact that SMEs and their structure differ from public companies it is expected that this type of firm have less meetings. In Gabrielsson’s (2007b, p. 696-697) study the sample had a mean value of 3.75 meetings per year, hence fewer meetings than the sample presented in this thesis. Moreover, the mean values for number of board members and outside directors were also higher than the set criteria, implying that boards in Norr- and Västerbotten are active.

The results from the one sample t-test further verifies that boards are active. This opposes Gabrielsson (2007b, p. 689), who presents that in general boards can be considered to be so called paper boards and thus not having more than e.g. one outside director. However, the one sample t-test conducted assumes that the sample is representative for the population in this case, though one could contemplate over whether or not the sample can represent the population for this thesis. With consideration taken to that our sample has been received from StyrelseAkademien Norr the respondents in the sample might hence be more likely to have an opinion of what an active board is, which might have an effect on the decision to participate in the survey. It could further explain why the mean value for number of board meetings in out sample was higher than the mean found in Gabrielsson’s (2007b) study. Moreover, similar biases have been discussed by Gabrielsson and Winlund (2000, p. 222) and Minichilli et al. (2009, p. 70), where they saw a possible bias in having only CEOs respond to their surveys. In the sample used in this thesis, a majority of the respondents were inside directors, hence the possible bias of an idealized picture being conveyed can also be considered in our sample. Furthermore, in order to be active all criteria had to be fulfilled, and this was achieved by 49.1 percent. Following that the results are opposing each other it cannot be determined with full certainty that our sample represents active boards.

Hence, the research question regarding if boards in Norr- and Västerbotten are active has been answered, and thus this part of the purpose has also been answered.
The motivation behind having an active board of directors has been described to be related to three different board roles, control, network and service. These roles are derived from agency-, resource dependence-, and stewardship theory.

### 7.4.1 Number of Board Meetings - Analysis

When investigating which variables in our data that can predict the number of board meetings the results showed that it is best done by the respondents’ role stating that they are both the CEO and the chairman of the board, and by the index board structure of the firm. Hence this could not be explained by the respondents’ view on the different board roles.

However, an interesting observation is that when the board is ruled by a dual structure, the board meetings are predicted to lessen (see table 10). It has been argued in antecedent research that when outside directors are present on the board, more meetings are a necessity following that the outside directors have to be informed more frequently regarding the firm’s business (Gabrielsson & Winlund, 2000, p. 327). Moreover, Muth and Donaldson (1998, p. 6) states that when having an insider dominated board, the directors have access to current information regarding the firm. Hence, the fact that in boards where there is a dual structure, the need for meetings in order to inform the directors of the current operations of the firm might not be as important. In the correlation matrix (table 9) a significant correlation between having no outside directors and the number of board meetings can be identified. This can further point to the lack of outside directors having influence over the board, to have a negative impact on the number of board meetings. However, this variable was not included in the final regression since it had a negative impact on the multiple R.

The variable board structure, was a positive predictor of the number of board meetings (table 10). Having a good board structure partly implies that there are annual evaluations of the board’s performance and according to Lorsch (1995, p. 116), even boards that have a high performance benefits from the evaluations, since it allows all the directors to together provide input on how to further improve the board’s work and hence making it more effective. Further, to have board members that are well prepared and engaged in the meetings was proven by Gabrielsson and Winlund (2000, p. 325) to have a positive effect on the board’s performance. Moreover, Judge and Zeithaml (1992, p. 766, 785) found that the proportion of inside directors have a negative correlation with involvement. Hence, the two variables used in order to explain the number of board meetings are relevant since they both have an, according to us, important impact on the number of meetings.

### 7.4.2 Number of Board Members - Analysis

Examining what motivates the number of board members proved to be done best by four variables for this sample (see table 10). The network role and the service role did however not have a relationship to the number of board members. Meanwhile, the index of control had a negative relationship to the number of board members. According to agency theory, a firm can be reluctant to include a larger number of directors and especially outside directors, on the board due to the risk of losing control (Ranft & O’Neill, 2001, p.128). Moreover, this can be supported by the discussion of Ranft and O’Neill (2001) and
Delmar (2000). Ranft and O’Neill (2001, p. 126, 129-131) and Delmar (2000, p. 144) discusses the importance of whether a firm is managed by a founder or a professional, and that the founder in general is more likely to have a weaker board with less outside directors. Thus, when control is higher within the firm and located to an owner or a founder of a firm, the number of board members will be fewer. Furthermore, related to this discussion, is the result showing that when the chairman of the board and the CEO is the same person, the number of board members will be fewer, thus having a negative relationship to each other.

Having a dual structure, hence implying that the CEO also holds the role as chairman of the board, is proposed in the service role. Further, this is supported by Muth and Donaldson (1998, p. 6), stating that internal control and dominance of the board is beneficial for the firm. A consequence of this is hence that it can lead to a centralization of control around a certain person. Support for this is found as Davis (1991, p. 87) proposes that the CEO should be unambiguously challenged. However, the overall results oppose Davis (1991, p. 87) proposition that outside directors can be present in order to provide the board with a service function through e.g. contribute with knowledge and experience. Hence, the dual structure seems to provide an unwillingness to include more board members, possibly due to a perceived risk of losing control.

Moreover, the result pointed to that when the turnover of a firm increases the number of board members increases as well. The directors present on a board is related to costs for the firm (StyrelseAkademien, 2014, p. 43). This could be an explanation for that when more money is available the possibility of recruiting additional members is enabled. However, this result can be debatable. Since antecedent research has shown that there seems to be a positive result on financial performance when adding additional members to a certain level, after which the effect becomes negative, since the quality and control is being reduced (Yermack, 1996, p. 189, 196; Eisenberg et al., 1998, p.35-36).

Furthermore, the number of board members can from the results be associated with legitimacy. This can be supported by Pfeffer and Salancik (1972). Since they stated that in an attempt of gaining legitimacy outside directors may be added to the board, due to them being resourceful (Pfeffer & Salancik, 1972, p. 222-223). Hence, the outcome is supported by resource dependence theory, since the legitimacy is gained through the process of including people with more resources, such as a network, knowledge, and experiences, which is needed in order to handle the surrounding environment of the firm. However, as the result of this thesis is based in directors in general, one can reflect over this being a part of the explanation behind the motivation.

7.4.3 Number of Outside Directors - Analysis

Lastly, the number of outside directors is best predicted by the variables index for control, and the variables describing the reason for including outside directors. Hence, firms who have chosen to include outside directors due to a need for knowledge and experience, or in order to get legitimacy not present within the firm will explain the number of outside directors present on the board. In the paragraph above, the strive for legitimacy is discussed, and the same discussion can be applied to this regression, the presence of outside director in order to get legitimacy originates from the wish to coopt resourceful directors, and hence get acceptance from the environment (Pfeffer & Salancik, 1972, p. 222-223). In terms of the wish to gain knowledge and experience this is supported by Davis (1991, p. 87), stating that the directors should assist the CEO in
providing their point of view and hence helping the CEO to provide superior performance. Moreover, external pressure to include outside directors can be used as a predictor. This is aligned with the findings by Fiegner et al. (2000, p. 291) who found that the presence of outside directors in small family firms is due to external pressure. Moreover, they found that external pressure increases when outside owners holds more equity in the firm (Fiegner et al., 2000, p. 304). This is likely to apply to the respondents who have recruited outside directors due to external pressure.

The control index does also predict the number of outside directors. As well as when explaining the number of board members, the same antecedent research mentioned in chapter 7.4.2 can explain this coefficient. Hence, the fact that the index for control is a negative predictor in the regression shows that if the inside directors want control over the board, the number of outside directors are predicted to be less. Besides the previous references on the topic (Ranft & O’Neill, 2001; Delmar, 2000), an interesting observation is that the research providing insight to the fact that outside directors can be beneficial to SMEs, in terms of increasing the firm’s financial performance, and by working as a gauge for poor decisions, (Gabrielsson & Huse, 2005, p.29; Jensen & Meckling, 1976, p. 309; Daily et al., 2000, p. 398) does not appear to have been absorbed by the boards represented in our sample.

7.4.4 Analysis of Hypotheses

Above the factors predicting the three variables determining board structure was analysed. As shown the respondents opinions regarding the three different board roles cannot fully assist in explaining whether or not the board is in fact active or not.

In terms of hypothesis one, the control role partially answered the question in terms of the motivation behind having an active board. The hypothesis is opposed since the results show that when internal control is of importance, the board will not be active. However, it cannot fully predict board activity since the number of board meetings cannot be explained by the respondents view on the control role. This is supported by the results of Gabrielsson and Winlund (2000, p. 325), where they neither found a significant relationship between the control role of the board and the frequency of meetings.

Hypothesis two could not be supported, hence concluding that the network role of the board cannot predict whether or not a board is active. However, when analysing the mean values for the network index it is apparent that this role is considered important for the respondents, conveying the opinion of the network role being of value for the board. The mean values seen are aligned with the research presented by Borsch and Huse (1993, p. 23) stating that a network is of importance for small firms.

Moreover, when analysing the regression in terms of the network role the findings are supported by Minichilli et al. (2009, p. 67) and their results, since neither they could find a significant relation between the boards networking, board size and the number of outside directors present on the board. Their study was conducted on large Italian industrial firms, but those results do to some extent seem to be representative for the sample in this thesis as well. However, the approach and purpose in their study differs from ours, hence the application of their results on ours may not be robust. Borsch and Huse (1993, p. 31) found a significant negative relationship between board size and the networking task of the board, but this could not be seen in our sample.
There are two significant relationships to be found in our regression of the number of outside directors, get legitimacy and get knowledge and experience that in themselves can be related to the theory used to conceive the network role. This can indicate that a network aspect still can be seen as influential in terms of the reason for including outside directors and hence may have a partial impact on the motivation of board activity.

**Hypothesis three** could neither be supported, hence the service role of the board cannot be used to explain the motivation behind having an active board of directors. However, the importance of the service role is still recognized by the respondents when analysing the mean values in the index (table 7). Though, the results of the regressions used showed that the service role do not have a significant relationship to having an active board. In the study by Gabrielsson and Winlund (2000, p. 324) they found that the board size, frequency of meeting and the number of outside director did not have a significant relationship to the board’s service role. These variables was in this thesis used to determine board activity and can support the finding that board activity cannot be explained by the service role of the board. With regards to antecedent research, stewardship theory implies that the control is still held by inside directors in the firm, and some research even state that the CEO should be unambiguous (Davis, 1991, p. 87). The service role derived do hence not challenge the internal control in the company, but rather enables directors to act in line with the service role towards the CEO (Davis, 1991, p. 87). The results from the mean values, presented in table 7, and the regression analysis can be supported by Neville (2011). She found that managers in SMEs perceived the role of service as important however did not act alignment with this (Neville, 2011, p. 536-537). Thus, directors seem to consider the service role as important but not at the expense of internal control.

In terms of the purpose and research question to answer what motivates a board in an SME to be active, neither the network role not the service role could aid in explaining the motivation behind having an active board. Further, the control role had a partial negative relationship to board activity.

### 7.5 Presence of Outside Directors

**Hypothesis four** could be supported, since the main reason for including outside directors on the board proved to be when the need for knowledge and experience is necessary for the board. This is aligned with both the network role and the service role, which respectively are based upon resource dependence and stewardship theory.

Obtaining knowledge and experience has been described in research as possible through including outside directors (Gabrielsson & Huse, 2005, p. 29). Inside directors has to a greater extent been described as possessing knowledge about the company and outside directors to have knowledge and experience that is not present within the company (Fiegner et al., 2000; Gabrielsson & Huse, 2005, p. 29). Thus this can be an indication of that when there is not enough knowledge within the companies the decision to include outside directors is made. Moreover, the inclusion of outside directors is supported by Daily and Dalton (1992, p. 379) since it shows that CEOs recognize the benefits of including outside directors. Daily (1995, p. 1051-1052) further supports this by describing that the resources provided by outside directors often is of critical value to the firm.
However, external pressure and obtaining legitimacy was also found to be a reason for including outside directors. However, the small representation of these answers can be seen as surprising, since Pfeffer and Salancik (1972, p. 223) described that legitimacy may be of high importance when a firm operates in a local environment, in order to gain acceptance from the society. The sample in this study is likely to represent local firms, but legitimacy is not of primary concern, in terms of including outside directors, for the majority of boards represented in the sample.

The fact that the results showed that only a small part of the sample had included outside directors as a consequence of external pressure, can be interpreted in accordance with Gabrielsson (2007b), Fiegngr et al. (2000) and Huse (2000) who found that external pressure by outside owners can explain the presence of outside directors. Hence, this assumes that there are external owners, but the ownership structure cannot be derived from our sample. Moreover, supported by the above cited researchers, external stakeholders can also pressure the firm to include outside directors. This is supported by Gabrielsson and Huse (2005, p. 29) and Jensen and Meckling, (1976, p. 309) who states that outside directors can primarily hold the firm and its stakeholder’s interests first.

Thus, the sub-purpose of why firms who have included outside directors in their board have done so has been answered, and the main reason for this was to obtain resources and experiences from the outside directors that are not present within the focal firm.

7.6 Board Structure in Active Boards

In terms of hypothesis five, it was stated that active boards will have better board structure than boards who are not active, and this hypothesis was found to be partly supported. The mean for the index board structure (table 8) as well indicated on the perceived importance of board member involvement and the routines of the board.

Moreover, this is supported by the results of the regression analysis, since the number of outside directors and number of meetings positively affected board structure. This is supported by Demb et al. (1992, p. 125), who stated that outside directors would demand a better structure of the activities of the board since they do not possess the same knowledge as inside directors. Gabrielsson and Winlund (2000, p. 325) further supports this as they state that preparations will lead to a better performance of the board due to a higher activity. Gabrielsson and Winlund (2000, p. 318, 327) additionally states that the frequency, thus the number of board meetings, will be higher when outside directors are present on the board. Hence, these two determinants of activity, number of board meetings and number of outside directors seems to go hand in hand to some extent in explaining board structure. Furthermore, an interesting observation was made in the regression analysis since the number of meetings showed to be an explanation to the board structure, hence further supporting the discussion above. Additionally, the negative predictor of no outside directors in the regression analysis further supported the importance of having outside directors for the structure of a board.

However, considering that the number of board members showed no significant difference with active and not active boards in terms of board structure, in the independent t-test, it can be reasoned to be due to the difficulty of ensuring that all directors are involved and motivated. This has been discussed by Gabrielsson and Winlund (2000, p. 326-327), who imply that a lack of involvement will negatively affect the structure and
performance of the board. Moreover, this can be related to the previous discussion, in chapter 7.4.2, that an increasing number of board members only is positively affecting the firm and board to a certain point where after it becomes negative. Jensen (1993, p. 865) and Lipton and Lorch (1992, p. 66) stated that a greater number of directors will increase the control of the CEO and thus hinder the directors to perform their tasks. Which, in turn can be perceived as decreasing the involvement and routines of a board. This can be supported by Demb et al. (1992, p. 125) and Gabrielsson and Winlund (2000, p. 317) whom emphasizes the importance of dividing tasks amongst the members in order to have a structured board. This can further be considered to be supported by the regression analysis, which provided for the explanation of that board structure could be explained by the index of service. This since the service role implies that directors are supposed to aid the CEO in reaching the goals of the firm (Davis, 1991, p. 87).

Hence, the second sub-purpose of this thesis has been answered for, due to the significant difference, detected in the independent t-test, between the board structures in two out of three variables of board activity. Hence, partly showing that an active board positively affects the board structure.
8. Conclusions

8.1 Conclusions Drawn from the Thesis

The aim of this thesis has been to answer the following research question:

*What motivates small and medium sized firms to have an active board and are boards in the north of Sweden active?*

The findings in this thesis show that the motivation behind having an active board cannot be explained through the roles of network and service of the board. The control role could partly explain the motivation behind having an active board of directors in SMEs in Norr- and Västerbotten. However, the control role had a negative relationship to board activity, implying that when the respondents’ value internal control of the board, the number of board members and number of outside directors will lessen, hence not being beneficial conditions to have an active board. This agrees with the finding by Ranft and O’Neill (2001, p. 128), stating that firms can be hesitant to include a large number of directors, and especially outside directors, since they do not want to lose control. Moreover, due to the opposing results in terms of whether or not boards are active, an unambiguous answer could not be found. However, 49.1 percent of the sample is considered to be active considering that they fulfil all three criteria.

Hence, the main purpose of this thesis has been answered. The first sub-purpose in this thesis regarded what the effects of having an active board are on board structure. The results showed that having an active board partially has a positive effect on the board’s structure. This could be supported by Demb et al. (1992, p. 125) since they found that when there are outside directors present on the board, board routines are important to make sure that the outside directors are updated, hence having the knowledge needed in order to be able to contribute to the board.

The second sub-purpose regarded why firms who have included outside directors in their board have done so. The hypothesis stating that the main reason for doing so was in order to obtain knowledge and experience proved to be supported. The result found hence differs from the findings by Fiegner et al. (2000, p. 304) since they found that the main reason to include outside directors was due to external pressure from outside owners. However, our findings are aligned with the discussion by Gabrielson and Huse (2005, p. 29) and Pfeffer (1972, p. 222), discussing that outside directors are a mean to gather knowledge that is not present in the focal firm.

The empirical finding of this thesis point to the fact that dual structure of the board has a relationship to whether or not the board is active. When the CEO of the firm also had the role as chairman of the board, both the number of meetings, and the numbers of directors lessen. This can be discussed in relation to Muth and Donaldson (1998, p. 6) who states that internal control is beneficial for the firm. Our findings, that the dual structure is negatively related to board activity, can hence question if it is beneficial for the firm. Moreover, the finding support that in order to have an active board, the firm must recognize a need to include outside directors and hence through that get access to legitimacy, knowledge and experience, and to handle the external pressure facing the firm. Furthermore, in order for a board to be active it is beneficial if the directors of the
board are involved and have clear routines regarding their board work. This is supported by Gabrielsson and Winlund (2000, p. 325), stating that involved board members will have a positive effect on the board and its task performance. Moreover, the importance of routines is also supported by Gabrielsson and Winlund (2000, p. 317).

Lastly, the internal control is of high importance for the respondents while at the same time they recognize the benefits of having a board providing the tasks of the service and network role. Neville (2011, p. 536-537) found similar result in her study, where she found that owner managers thought that the most important role of the board is as a provider of resources, even though the results also showed that the owner managers did not see the benefits of having a board.

### 8.2 Theoretical and Practical Implications

This thesis has contributed with theoretical implications in the sense that it aimed to open up the black box in terms of what the motivation behind having an active board is. In the extensive literature review preceding this thesis it became apparent that the different roles of the board have been used as dependent variables in order to explain different aspects of the outcome of the board’s work (Gabrielsson & Winlund, 2000; Minichilli et al., 2009; Zahra & Pearce, 1989). However, whether or not these roles, which are found in the majority of the research on board in SMEs, can assist in explaining the prerequisites of an active board has not been done. Moreover, questions concerning what an active board is has not reached cohesiveness in past research. Hence, a contribution to the field has been made in the sense that a proposition for factors used to determine if a board is active or not has been derived, through the use of antecedent research combined with recommendations from StyrelseAkademien.

As previously mentioned, the main focus in research on board of directors have been conducted on only one or two roles of the board member, however this thesis offers a more comprehensive approach since all board members, independent on their role on the board, has been the basis for this thesis. This has contributed to extending the research on the field. As an example, our results provide an indication that the results depend on the role the respondent has on the board, and hence it is of importance to embrace all the roles present on the board when conducting this type of research. Moreover, the previous research on the field has been dependent on their method and sample of their time. Thus, this thesis is contributing to exploring the subject at current time and for a specific sample of board of directors.

Through the quantitative approach of this thesis the possibility of empirically confirming one hypothesis fully (H4) and one hypotheses partly (H5) was enabled. Moreover, one hypothesis was partly opposed (H1). Hence, contributing to the explanation of what motivates board of directors to be active and thus arguing for that this thesis and model contributes to adding perspectives to the current research. Moreover, arguing for that the results of this thesis contributes to the existing research since this thesis was conducted in the northern parts of Sweden. Considering the regional differences within a country, this has the possibility of providing for a broader explanation, for what the motives behind having an active board could be.

Lastly, the antecedent research is cohesive in the sense that it emphasizes the importance of having a board contributing to the firm and its operations. Hence, through this thesis
light has been shed upon the question of what motivates boards to become active, thus, with the possibility of improving the business conducted by companies.

An important practical implication resulting from this thesis is the fact that having internal control over the board and the decisions made, is of high importance to companies. Moreover, this contributes to boards not being active. Hence, it is of importance to clearly communicate that becoming an active board, especially in the sense of including outside directors, does not have to be at the expense of losing control over the board. If this message can be conveyed, more boards would likely include outside directors, and hence reap the benefits previously described of being an active board.

A practical implication found in this thesis that can be applied to board of directors is that the findings show that the dual structure is not good in terms of the board being active. This allows for reflection regarding how the board is composed and can hence lead to more boards being active. In a macro perspective, active board has the potential of higher output and hence can provide more job opportunities, which is a topic of high importance in the northern regions of Sweden.

Lastly, since this thesis provides insight to the contributions made possible by including outside directors on the board, it opens up for the possibility of more board positions available. Hence, the barrier for individuals with important competences can be lowered and their expertise exercised.

8.3 Societal and Ethical Implications

Good research ethics is considered as research that aspires to contribute with new results to the scientific field. Moreover, this implies that the researcher cannot fully follow it predecessors, since striving for new results often calls for deviation from the path of antecedents (Gustafsson et al., 2005, p. 7-8). In this thesis the approach followed has to a great extent been dependent on the work of predecessors. However, the research question aimed to examine the known concepts of board roles in a new manner.

Objectivity has been an ethical consideration of high importance throughout the process of this thesis. However, complete objectivity is hard to accomplish but the recognition of this have enabled a constant discourse leading to that a high objectivity has been maintained. In this thesis the collection of data, gathering information from a list of individuals received from a second party, could open up for an ethical issue. However, transparency in the whole research process enables prerequisites for critical review, and hence it is of high importance for us that the research is found to be accomplished in an ethical manner. The respondents who have provided answers for this thesis are known, by their email addresses, by the authors, but their individual answers cannot be connected to the respondent. Thus, creating a foundation of anonymity and objectivity to be present for this thesis. Moreover, objectivity has been strived for and thus been present in the decisions made regarding the platforms used to produce the statistical results. This has limited the risk of human error in our results. In order to perform the necessary analysis, manipulation, in terms of re-coding, has been conducted. The transparency in the methodological course of action, and the alignment with admitted procedures, has been elucidated, and hence allows for the reader of this thesis to trust that the input has not been manipulated in the purpose of improving results.
Lastly, the results of this thesis has, as stated, not been compromised in a will to generate a sought for result. Moreover, the various scandals that have surfaced in public corporation and their boards can be appointed as unethical behaviour. However, no standpoint has been taken regarding whether or not a board that is not active implies unethical behaviour.

Societal implications for this thesis can be considered in the sense of a micro level, as the study focuses on a limited area in the northern parts of Sweden, where the business climate, to some extent, faces differing challenges from more populated regions in the country. To have an active business climate is of high importance in order to hinder emigration from the northern regions, Norrbotten and Västerbotten. A functioning board is beneficial to firms and can hence have a positive impact on the business climate, leading to the possibility of more job opportunities.

Furthermore, since there is evidence of poor governance in boards of public corporations, and our result can in certain aspects be supported by research conducted on board in public corporation, it is not unlikely that boards in SMEs face similar difficulties. The notion of an active board and its resulting effects can hence be of importance for SMEs, and in extension, for legislators as well. This since the recognition of theories within this field having the possibility of applying to both public and private companies and, thus contemplation over the value-adding effects of extending rules and regulations for public firms to private firms can be done. Hence, enforcing private firms to, to some extent, become more active, due to the demand of at least including three members on the board for a public company.

The results of this thesis are somewhat limited since the survey was sent out to individuals present on the list of board members received by StyrelseAkademien Norr. The list was not complemented with other board members leading to a possible bias in terms of the answers received. This has the risk of affecting the results since the board in the sample might be more active than the average board in the region, due to them having connections to StyrelseAkademien Norr. However, to conclude this with certainty cannot be done, but it is of importance to consider this.

8.4 Suggestions for Further Research

Future researchers are encouraged to investigate the question of motivation behind having an active board of directors. By selecting a sample independent of StyrelseAkademien Norr, the results might be differing from the ones found in this thesis. Furthermore, in order to investigate the motivation behind having an active board, the authors of this thesis sees the possibility of generating more in-depth knowledge by investigating the issue using a combined or qualitative approach.

Moreover, in this thesis no consideration has been taken to the degree of activity. However, this could be an interesting area for future research since it is likely that there are different degrees of activity in different boards.

In our research the results indicate that when dual structure is applied on a board, board activity is compromised. Hence, we find that an interesting topic for subsequent research would be to empirically study the benefits and drawbacks in SMEs when having this type of structure.
In our sample we saw a wide range of different industries represented. There might be interesting differences in terms of board activity to be found depending on the industry in which the company operates. This was not investigated further in this thesis due to it not being a part of the research question and because of the limited time available. However, we urge future scholars to contribute to the question, since the results possibly could offer insight to whether or not there are significant differences between industries.
9. Criteria of Quality and Truthfulness

9.1 Validity

Validity concerns whether the chosen instrument measures what it is supposed to measure, and hence concerns the empirical findings and its relevance (Jacobsen, 2000, p. 21; Field, 2009, p. 11; Bryman, 2011, p. 163). Bryman (2011, p. 50) states that there are several different aspects of validity that a researcher needs to take into consideration. Measurement validity is one of them and concerns to what extent a measure of a certain aspect can in fact explain this aspect. In our thesis the different board roles have been used in order to see if they relate to firms having an active board, and hence used in order to see if the view of these roles can be part of the motivation behind having an active board. The questions concerning the different roles has been used by researcher on the topic of board in SMEs ex ante our thesis (Gabrielsson & Winlund, 2000; Minichilli et al., 2009). Hence, this improves the likelihood that we have measured what have been intended. The use of questions previously used by individuals with an acknowledged experience on a certain topic, implies consensual validity implying that there is an agreement that the instrument used to measure something is valid (Olsson & Sörensen, 2011, p. 125). However, some of the questions used were created by us, which can question the measurement validity.

According to Ejlertsson (2014, p. 108-109) it is of high importance to thoroughly review the questions used in a questionnaire. Further, validity does not regard the questions asked, but the questions in relation to the purpose, and hence there should be a link to a theoretical background, from which the questions are derived. The questions used in this thesis have, according to the authors, a strong relationship to the theoretical framework presented. Through the operationalization questions was conceived and hence measured what we aimed to measure.

The internal validity concerns whether or not the results are valid since the results reached can depend on several relationships. However, the term validity can be discussed in the sense that it is not likely that society can be described objectively, and the fact that there is one description of a phenomenon that is true (Jacobsen, 2000, p. 256). Moreover, Jacobsen (2000, p. 256) states that in societal research the term intersubjectivity is more appropriate, and implies that it is the closest thing we can come to the truth. In our analysis the results have been interpreted through the lens of antecedent research. By doing this intersubjectivity is to some extent upheld since the only way to validate research finding is when there are others who agree on your findings (Jacobsen, 2000, p. 256). However, all of our results cannot be confirmed or discarded through antecedent research since there are no ex ante study that have investigated the motivation behind having an active board. Hence, new results have been found that can hence not be fully supported by our predecessors.

The external validity concerns whether the research findings can be generalized. Important factors determining this is the sample chosen and whether or not the results are valid (Jacobsen, 2000, p. 267, 269).
In our study the results are according to us valid. A way to control this is to allow for other individuals to review the concretization made in order to get assistance in determining whether they are valid. This is called face validity (Litwin, 1995, p. 35). Moreover, topics that are more complex to measure should be measured using more than one question (Jacobsen, 2000, p. 422). Our survey has been reviewed by both our supervisor and fellow students and in order to measure the respondents view on the different board roles and board structure, indexes where composed. Moreover, the results of this thesis have been compared to results of antecedent research results, which is supported by Jacobsen (2000, p. 426). In terms of the sample chosen for the study the external validity can be questioned. Our sample is a non-probability sample, and the implications of this are further discussed in chapter 9.4.

Lastly, validity requires reliability. If a study is not reliable, it can neither be valid since the measurement used are not sufficient. If the study is reliable but not valid, there is no consensus regarding what have been observed, and the measures becomes useless (Bryman, 2011, p. 167).

9.2 Reliability

Reliability regards the possibility of a measurement instrument used to provide for the same outcome when performed under the same circumstances (Field, 2009, p. 11-12; Litwin, 1995, p. 6; Ejlertsson, 2014, p. 107). To assess whether this criteria of quality is fulfilled one can perform a test-retest, meaning that if one receives the same results having performed the same test twice a test-retest reliability is achieved (Litwin, 1995, p. 8; Field, 2009, p. 12). However, as the possibility of performing the same test twice was not possible for this thesis and survey, other methods of securing reliability was applied. To secure the reliability of this thesis, one has to assure that the questions are asked correctly. Therefore, a pilot study was applied and the respondents had the possibility of giving critique and suggestions for improvements, thus increasing the reliability in the questions asked. This procedure to assure the reliability is supported by Ejlertsson (2014, p. 111).

Moreover, Cronbach’s alpha is a measurement tool used in order to determine the internal consistency, thus meaning how well the different components of a test measures the same issue of the concept (Litwin, 1995, p. 21; Field, 2009, p. 674-675; Ejlertsson, 2014, p. 98). As aforementioned in chapter 5.8.2, Cronbach’s alpha was applied in order to measure the internal consistency and the authors of this thesis did so in line with the guidelines of Field (2009, p. 675), which has been previously stated. Receiving values above 0.7 (index 1: $\alpha = 0.7$, index 2: $\alpha = 0.82$, index 3: $\alpha = 0.82$, index 4: $\alpha = 0.76$) indicates an internal consistency and thus arguments can be made for that the reliability of this thesis is high. Furthermore, this is supported by Olsson and Sörensen (2011, p. 124) who argue for that values between 0.7 and 0.89 indicates on an acceptable level of reliability.

9.3 Replicability

In order to ensure the replicability of a study one has to reduce the personal influences of the authors themselves and clearly describe the procedure that has been used (Bryman, 2011, p. 169). Bryman (2008, p. 169) furthermore states that, challenge can be made to the validity of a study if replicability is not present. According to Robson (2002, p. 42) the notion of replicability is highly present in natural science, and states that the results
of a study cannot be considered as secure unless they have been replicated several times, however he further states that this notion is seldom practiced within social science and thus replications only occasionally is made.

Hence, to assure for a high degree of replicability all steps of this thesis has been clearly described and transparency has been strived for throughout the whole process of this thesis. In the method chapter clear descriptions has been made for how the data has been retrieved and processed. Moreover, the analysis has been explicitly described and thus further enables for others to replicate the process of this thesis. Furthermore, the non-responses have been described and clearly analysed in chapter 7.1.1, thus creating for an understanding of the sample, which has been present for this study. Additionally, consequentely referring to the original sources and acknowledging the work of others has been present in this thesis, in accordance to prevailing guidelines and rules. Moreover, this is described by Bryman (2008, p. 169) to enable objectivity and limit the influences of the authors. Hence, if following the process of this thesis the possibility of replicability is considered to be present.

9.4 Generalizability

Generalizability regards the possibility of drawing conclusions from the sample and applying it for the population at large (Field, 2009, p. 214). According to Field (2009, p. 214) one has to determine whether or not the model applied is a correct image of the data and thereafter if any generalizations can be made. However, Robson (2002, p. 106) discusses that there are mainly four possible threats that can hinder the opportunity of generalization.

Considering the fact that the sample being studied are specific to its nature and are derived from a certain environment arguments can be made for that generalization is aggravated. According to Bryman (2008, p. 169) the generalizability is related to the selection, which has been made in order to retrieve the sample for the study, thus will the selection process applied for a study affect the possibility of generalization. Hence, as the sample is specific for a certain region in Sweden, difficulties of applying the retrieved results arise. This is supported by Bryman (2008, p. 169), who argues for that samples deriving from a specific region cannot be applied beyond this sample. Thus, based on the above discussion, the decisions made and method applied for this thesis, the authors of this thesis recognize that the possibility to generalize the results is limited.
10. References


Appendices

APPENDIX 1. SURVEY QUESTIONS USED BY GABRIELSSON & WINLUND, 2000

THE EFFECTS OF THE BOARD’S WORKING STYLE ON BOARD TASK PERFORMANCE

CONTROL

Decision control: ratifying

*Respondents were asked to rate five items along a five-point scale (1 = very low, 5 = very high)*

Please indicate to what extent the board is involved in ratifying decisions related to:

1. Marketing and customers.
2. Product development and technology.
3. The competence among employees.
4. Budgets and financial reports.
5. Equity and ownership.

Decision control: monitoring

*Respondents were asked to rate five items along a five-point scale (1 = very low, 5 = very high)*

Please indicate to what extent the board is involved in monitoring decisions related to:

1. Marketing and customers.
2. Product development and technology.
3. The competence among employees.
4. Budgets and financial reports.
5. Equity and ownership.

SERVICE

Networking and lobbying

*Respondents were asked to rate two items along a five-point scale (1 = very low, 5 = very high)*

Please indicate to what extent the board is involved in establishing contacts with important parts of the environment, such as financial institutions, customers, governmental bodies etc.
Please indicate to what extent the board is involved in influencing important parts of the environment, such as financial institutions, customers, governmental bodies etc.

**Advice and counsel**

*Respondents were asked to rate five items along a five-point scale (1 = very low, 5 = very high).*

Please indicate to what extent the board is involved in advice and counsel related to:

1. General management
2. Legal issues
3. Financial/economic issues
4. Technical issues
5. Marketing

**BOARD MEMBER INVOLVEMENT**

**Knowledge and skills**

*Respondents were asked to rate three items along a five-point scale (1 = very low, 5 = very high).*

Please indicate to what extent the board has:

1. Overall competence in two relevant areas of expertise.
2. Familiarity with company operations.
3. Familiarity with industry conditions.

**Preparations and commitment**

*Respondents were asked to rate two items along a five-point scale (1 = very low, 5 = very high).*

Please indicate your perception of to what extent the directors are:

1. Well prepared for the board meetings.
2. Committed during the board meetings.

**Independence**

*Respondents were asked to rate two items along a five-point scale (1 = very low, 5 = very high).*

Please indicate to what extent:

1. The board usually collects its own information about the progress of the strategic decision in addition to top management reports.
2. The board usually asks probing questions concerning proposals that are formed primarily by top management.
BOARD STRUCTURES

Formal board routines

Respondents were asked to rate four items along a five-point scale (1 = very low, 5 = very high).

Please indicate to what extent there is:

1. A clearly stated work division between the directors.
2. A clearly stated work division between the board and the CEO.
3. Rules concerning evaluation and follow-ups of board decisions.
4. Fixed rules for summons, sending out the agenda, preparations etc. for the board meetings.

Formal board evaluations

Are there annual evaluations of the work of the board?
Are there evaluations of the work of the board after most board meetings?

Frequency of meetings

How many board meetings were held during 1998?
How long does an ordinary board meeting last (hours)?

CONTROL VARIABLES

Number of directors

How many permanent directors with voting power, including the board chairperson, was on the board by the 31/12 1999?

Insider ratio

1. How many board seats have the CEO, or the CEOs closest family?
   (children, siblings, siblings’ children, husband/wife, brother-in-law, sister-in-law, or their children)

2. How many board seats do other persons in the management team have?

Firm size

The number of employees by the 31/12 1998? (data collected from secondary source).

Technology level

Would you characterize the firm as a high-technology firm?
Ownership structure

1. How much of the total equity is owned by the CEO, or the CEOs closes family? (children, siblings, siblings’ children, husband/wife, brother-in-law, sister-in-law, or their children)

2. Is the firm a subsidiary?
APPENDIX 2. SURVEY USED IN THIS THESIS, ORIGINAL

Styrelser i små- och medelstora företag i Norr- & Västerbotten

Vi uppskattar väldigt mycket att du vill svara på denna enkät. Om du har frågor, skriv ett mejl till: enkat.sme@outlook.com Med vänlig hälsning/ Frida Björklund & Hanna Dahlström

= Frågan är obligatorisk

1. Ar du medlem i en eller flera styrelser?  
   - Ja  
   - Nej

Om du inte är medlem i en styrelse, välj "Nej" och hoppar över resterande frågor.

2. Vilket av följande stämmer bäst överens med din roll i styrelsen:
   - VD för företaget, ej ordförande
   - VD för företaget och ordförande
   - Ordförande, ej VD för företaget
   - Styrelseledamot och VD för företaget
   - Styrelseledamot, ej VD för företaget
   - Suppleant

3. Ange antal anställda i företaget vars styrelse du var medlem i under 2015
   Cirka antal i siffror

4. Ange den industribransch företaget tillhör:

5. Vad var ert företags omsättning vid det senaste årsbokslutet
   Cirka, ange i miljoner kronor

6. Ange antal styrelsemöten som ägde rum under 2015:

7. Ange antalet medlemmar i eir styrelse under 2015
   Ange svar i siffror

8. Ange antalet styrelsemedlemmar som var externa ledamöter i eir styrelse under 2015
   Definition: En extern ledamot varken jobbarhar jobbat i företaget och/eller är inte släktpartner med någon av företagets ägare.
   Ange svar i siffror.
9. Ange om du var extern eller intern styrelsemedlem under 2015

Definition: En extern ledamot varken jobbar har jobbat i företaget och/eller är inte släkt eller en släktsperson med någon av företagets ägare.

- Extern
- Intern

10. Om externa ledamöter fanns representerade i er styrelse under 2015, ange den primära anledningen för detta:

Definition: En extern ledamot varken jobbar har jobbat i företaget och/eller är inte släkt eller en släktsperson med någon av företagets ägare.

- Påtryckningar från utomstående parter företaget är i beroendeställning till (långivare osv.)
- Erhålla kunskap och erfarenhet som inte fanns internt i företaget
- Erhålla legitimitet eller erkännande av omgivningen
- Fanns inga externa ledamöter

11. Hur stort inflytande upplever du att EXTERNA ledamöter har i beslut fattade av styrelsen?

Definition: En extern ledamot varken jobbar har jobbat i företaget och/eller är inte släkt eller en släktsperson med någon av företagets ägare.

Om ni inte har externa ledamöter i er styrelse svara "Inget inflytande".

Ange svar på frågan i denna skala:

<table>
<thead>
<tr>
<th>1. Inget inflytande</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Stort inflytande</th>
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</tbody>
</table>

12. Hur stort inflytande upplever du att INTERNA ledamöter har i beslut fattade av styrelsen?

Definition: En intern ledamot jobbar har jobbat i företaget och/eller är släkt eller en släktsperson med någon av företagets ägare.

Om ni endast har interna ledamöter svara "Stort inflytande".

Ange svar på frågan i denna skala:

<table>
<thead>
<tr>
<th>1. Inget inflytande</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Stort inflytande</th>
</tr>
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</table>

13. Ange vilken typ av person och kunskap du anser är mest lämpad för rollen som styrelseordförande?

- VO - antas ha expertkunskaper om det aktuella företaget
- Extern person - antas ha expertkunskaper om aktuell marknad

14. I vilken grad kontrollerar er styrelse beslut fattade inom följande områden:

<table>
<thead>
<tr>
<th>1. Ingen kontroll</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Hög grad av kontroll</th>
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Marknadsföring och kunder
Teknologi och produktutveckling
Kompetensutveckling hos anställda
Budget och finansiella rapporter
Företagets aktiekapital och ägandeskap

15. Enligt dig, i vilken grad är ägaren/na i ert företag villig att avstå majoritet i styrelsen till fördel för ökad kunskapsexpertis från extern ledamot?

<table>
<thead>
<tr>
<th>1. Inte alls, majoritet är primärt</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Kunskapsexpertis är viktigare än kontroll</th>
</tr>
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</tbody>
</table>

Ange svar på frågan i denna skala:
16. Ange svar på frågorna i skalan nedan:

<table>
<thead>
<tr>
<th></th>
<th>1. Inte alls</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Väldigt mycket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hur viktigt tycker du att det är att styrelsen kan bidra till etablerande av värdeskapande kontakter?</td>
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<tr>
<td>I vilken grad är er styrelse involverad i etablerande av viktiga kontakter inom företagsväden?</td>
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<td></td>
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</tr>
<tr>
<td>Hur viktigt tycker du att det är att styrelsen kan påverka omgivningen företaget verkar i?</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>I vilken grad är er styrelse engagerad i att påverka företagets omgivning?</td>
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</table>

17. Inom vilka av följande områden anser du att det är viktigt att styrelsen bidrar med kunskap, erfarenhet och råd?

<table>
<thead>
<tr>
<th></th>
<th>1. Inte väldigt</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Väldigt väldigt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Företagets ledning</td>
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<tr>
<td>Juridik och lagar</td>
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<tr>
<td>Ekonomi och finansiering</td>
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<tr>
<td>Teknologi</td>
<td></td>
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<tr>
<td>Marknadsföring</td>
<td></td>
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</tbody>
</table>

18. I vilken grad bidrar er styrelse idag till kunskap, erfarenhet och råd inom nedanstående områden:

<table>
<thead>
<tr>
<th></th>
<th>1. Inte alls</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Väldigt mycket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fågor som rör företagets ledning</td>
<td></td>
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<tr>
<td>Fågor som rör juridik och lagar</td>
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<td></td>
</tr>
<tr>
<td>Fågor som rör ekonomi och finansiering</td>
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<tr>
<td>Fågor som rör teknologi</td>
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<tr>
<td>Fågor som rör marknadsföring</td>
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</tbody>
</table>

19. Var vänlig indikera på skalan nedan i vilken utsträckning er styrelse har:

<table>
<thead>
<tr>
<th></th>
<th>1. Väldigt låg</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Väldigt hög</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertkompetens inom minst 2 områden</td>
<td></td>
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<tr>
<td>Kännedom om företagets verksamhet</td>
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<tr>
<td>Kännedom om branschenindustrin företaget verkar i</td>
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</table>

20. Var vänlig indikera på skalan nedan:

<table>
<thead>
<tr>
<th></th>
<th>1. Inte alls</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Väldigt mycket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hur väl förberedd styrelseledamöterna är vid styrelsemötena</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hur engagerade styrelseledamöterna är vid styrelsemötena</td>
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<td></td>
</tr>
</tbody>
</table>

21. Ange på skalan nedan i vilken utsträckning:

<table>
<thead>
<tr>
<th></th>
<th>1. Inte alls</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5. Väldigt hög</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varje ledamot har blivit tilldelad ett ansvarsområde</td>
<td></td>
<td></td>
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<tr>
<td>Det finns en tydig arbetsfördelning mellan styrelsen och VD:n</td>
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</tbody>
</table>
Det finns regler för utvärdering och uppföljning av styrelsens beslut.
Det finns rutiner för sammankomster, utskick av mötesagenda, förberedelser för styrelsemöten.

22. Utvärderas styrelsens arbete årligen?
   - Ja
   - Nej
APPENDIX 3. SURVEY QUESTIONS, ENGLISH TRANSLATION

Boards in small and medium-sized companies in Norr- & Västerbotten

We do highly appreciate your participation in this survey. If you have any questions write an email to: enkat.sme@outlook.com. Kind regards/ Frida Björklund & Hanna Dahlström

**Question 1.** Are you a member in one or several boards?
*If you are not a board member, chose alternative “no” and skip the remaining questions.*

Alternative answers: Yes No

**Question 2.** Which of the following alternatives suits your role on the board?
*If you are a member of several boards, chose one company and your role on that board and answer the rest of the questions accordingly.*

Alternative answers:
- CEO for the company, not chairman
- CEO for the company and chairman
- Chairman, not CEO for the company
- Board member and CEO for the company
- Board members, not CEO for the company
- Deputy member

**Question 3.** State the number of employees in 2015, for the company at which you were a board member

Open question

**Question 4.** State the industry in which the company is present

Open question

**Question 5.** What was the company’s turnover in 2015?

Open question

**Question 6.** How many board meetings occurred during 2015?

Open question

**Question 7.** How many members did the board have during 2015?

Open question
**Question 8.** State the number of employees who were outside directors in the board during 2015.

*Definition:* An outside director neither works or has worked for the firm in question and is neither related to or in a relationship with any of the owners of the firm.

Open question

**Question 9.** State whether you were an inside or outside director during 2015.

Alternative answers: internal (inside) external (outside)

**Question 10.** If there were outside directors present on the board in 2015, state the primary reason for this. *Definition:* An outside director neither works or has worked for the firm in question and is neither related to or in a relationship with any of the owners of the firm.

Alternative answers:
- External pressure form external parties of whom the company is dependent (e.g. lenders and so on)
- To acquire knowledge and experience that was not present in the company
- To acquire legitimacy from the environment
- There were no outside directors

**Question 11.** How big influence do you perceive that outside directors have in decisions made by the board?

*Definition:* An outside director neither works or has worked for the firm in question and is neither related to or in a relationship with any of the owners of the firm.

If no outside directors was present answer “no influence”.

Alternative answers:
Rate on a scale of 1-5.

1 = no influence. 5 = High influence

**Question 12.** How big influence do you perceive that inside directors have in decisions made by the board?

*Definition:* An inside director works or has worked for the firm in question or is related to, or in a relationship with the owners of the firm.

If the board consist of only inside directors answer “high influence”.

Alternative answers:
Rate on a scale of 1-5.

1 = no influence. 5 = High influence

**Question 13.** Stat what type of person and knowledge you find most suitable in the role as chairman of the board.

Alternative answers:
- CEO – assumed to have expert knowledge regarding the focal company
- External person – assumed to have expert knowledge about the focal market
**Question 14.** To what extent do your board control decisions taken in the following areas:

Alternative answers:
Rate on a scale of 1-5.
1 = No control. 5 = High control

- Marketing and customers
- Technology and development
- The employee competences
- Budget and financial statements
- The company’s equity and ownership structure

**Question 15.** According to you, to what extent is the owner/s of the company willing to abstain majority on the board in exchange for increased knowledge/expertise from an outside director?

Alternative answers:
Rate on a scale of 1-5.
1 = not at all. 5 = Knowledge/expertise is more important than majority

**Question 16.** Answer the following questions on the scale below:

Alternative answers:
Rate on a scale of 1-5.
1 = not at all. 5 = very important/very much

- How important do you think it is that a board can contribute to the creation of valuable contacts?
- To what extent is your board involved in creating valuable contacts within your business climate?
- How important do you think it is that a board can impact the environment of the company?
- To what extent is your board involved in impacting the environment of your company?

**Question 17.** In which of the following areas do you perceive it to be important that a board contributes with knowledge, experience and advice:

Alternative answers:
Rate on a scale of 1-5.
1 = not important. 5 = very important

- The management of the company
- The law
- Business and financing
- Technology
- Marketing
Question 18. To what extent do your board contribute with knowledge, experience and advice today?

Alternative answers:
Rate on a scale of 1-5.
1 = not at all. 5 = very much
- In questions regarding management of the firm
- In questions regarding the law
- In questions regarding business and financing
- In questions regarding technology
- In questions regarding marketing

Question 19. Please indicate on the scale below to what extent your board has:

Alternative answers:
Rate on a scale of 1-5.
1 = very low. 5 = very high
- Expert knowledge in at least two areas
- Knowledge about the company’s operations
- Knowledge about the industry in which the company is present

Question 20. Please indicate on the scale below:

Alternative answers:
Rate on a scale of 1-5.
1 = not at all. 5 = very well/much
- How well prepared are the board members at the board meeting
- How engaged are the board members on the board meeting

Question 21. Please indicate on the scale below to what extent:

Alternative answers:
Rate on a scale of 1-5.
1 = not at all. 5 = very well/much
- Each board member has been given an area of responsibility
- There is an clear division between the work of the board and the CEO
- There are rules for evaluations and follow-ups on the decisions made by the board
- There are routines for meetings, send outs of the meeting agenda, and preparations before the boards meetings

Question 22. Is the board work evaluated annually?

Alternative answers: Yes No
Hej!

Vi är två civilekonomstudenter vid Handelshögskolan vid Umeå universitet som just nu skriver vårt examensarbete i samverkan med StyrelseAkademien Norr. Vi vill undersöka styrelser i Norr- och Västerbotten och framförallt vad som motiverar företag till styrelsearbete och om styrelser i regionen är aktiva.

Det finns mycket forskning om hur styrelser ser ut och teorier bakom detta, men vi är intresserade av hur du som medlem uppfattar styrelsearbete. Vi är hoppfulla om att resultatet av denna studie ska kunna bidra till en förståelse för hur styrelsearbete ser ut i Norr- och Västerbotten, vilket är viktigt för ett framgångsrikt företagande.

Ditt deltagande i denna enkät sker helt anonymt och vi kommer inte kunna spåra svaren tillbaka till en enskild individ och ditt deltagande är frivilligt, men skulle uppskattas väldigt mycket.

Enkäten tar cirka 5 minuter att fylla i och vi hoppas att du har den tiden att avvara för att bidra till denna studie. Ytterligare en påminnelse kommer komma under denna vecka.

För att delta, klicka på länken nedan:

https://websurvey.textalk.se/start.php?ID=96269&usr=frid&pwn=4869

Har du några frågor så är du mer än välkommen att höra av dig till oss på:

enkat.sme@outlook.com

Tack på förhand för ditt deltagande

Med vänlig hälsning
Frida Björklund & Hanna Dahlström
Hello!

We are two Business Administration students from Umeå School of Business and Economics at Umeå University who at the moment are writing our master thesis in cooperation with StyrelseAkademien Norr. We aim to investigate boards in Norr- and Västerbotten and especially in terms of what motivates board work in firms, and if firms in this region have active boards.

There is a lot of research concerning board characteristics and theories explaining this, but we are interested in how you, as a board member perceive the board work. We are hopeful that the results of this thesis will be able to contribute to an understanding of how board work is conducted in Norr- and Västerbotten, which is important in order to have a successful business climate.

Your participation in this survey is completely anonymous and we will not be able to back track the answers received to a certain participant, moreover your participation is voluntary, however it would be highly appreciated.

The survey takes about 5 minutes to fulfil and we hope that you can spare that time in order to contribute to this thesis. If no answer has been received within a week a reminder will be sent to you.

To participate, please klick on the link provided below:

https://websurvey.textalk.se/start.php?ID=96269&usr=frid&pwd=4869

In case you have any questions, do not hesitate to contact us on the email below:

Enkat.sme@outlook.com

Thank you in advance for your participation

Kind regards
Frida Björklund & Hanna Dahlström