

FIRMS' LIFE STAGE AND DIRECTORSHIP NEEDS: A RESEARCH AGENDA

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Abstract

Firms have different governance needs according to their development stage. Therefore, the question of “what is an ideal board of directors” is not the right one, as it depends on several dimensions, as for instance the business specifics, the economic context, alongside the specific firm’s life stage. This extended abstract exposes some models derived from literature on the subject, raising some questions which may help shape an agenda for further research. While the literature on corporate governance has been focusing mostly on matured businesses, or sometimes on some specific dimensions as the specific industry, and business context; a critical dimension seems to have caught less attention from academics, and perhaps practitioners alike — that of the specific governance needs as a function of the firm life stage. Some stereotypes are exposed, and some preliminary ideas for a framework for selecting the right directing structure for the specific life stage are laid down.

1. INTRODUCTION

A considerable amount of corporate governance literature focuses on mature, listed companies, however, such is just one business typology. Conversely, there is less literature on directorship and governance needs of start-ups and firms in earlier lifecycle stages, as there are for firms that may enter a decline, be it because of technological change or

disruptions in markets. Regardless, as such firms in decline may approach the end, they deserve attention in order to reduce economic and social costs, making the end-of-life transition “smooth”. Start-ups and declining firms’ life stages are just two extremes, as there is a multitude of typologies in between. At the same time, the literature on governance needs over time as firms’ transition from one life stage to the next one is almost inexistent.

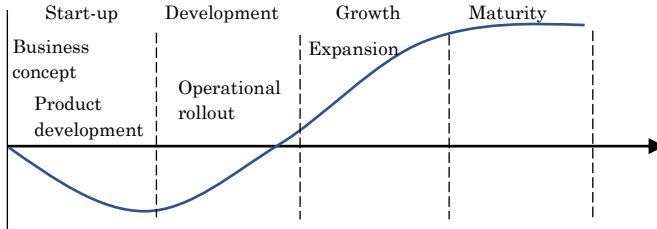
This article calls attention to such a subject, based on some information and a critical thinking approach, ending up at some categorization, necessarily incomplete, as such typification does not capture all the possible paradigms. The idea behind this study aims to propose: 1) a taxonomy for a firm’s different life stages; and 2) some recommendations and awareness for solutions addressing the directorship needs associated with such life stages, as it is in the transitions between stages that risks may arise from having inadequate governance structures.

2. BACKGROUND

Each life stage has specific governance needs, which in turn demand different “functionalities” from the board of directors. For instance, it is easily understandable that the governance needs of a start-up, where some growing cycle is taking off — the needs for financing or help for opening some markets — are quite different from the governance paradigm of a listed and well-established company that has been around for forty years.

From their inception as brand-new start-ups, until the survivors become matured firms, the governance needs differ as a function of the specific life stage (Nueno, 2016). Similarly, to a living system, firms also have distinct dynamics which dictates different governance needs over time Figure 1. Therefore, an organic approach to organizations seems an adequate one (De Geus, 1997). Innovation, for instance, a key enabler of sustainability needs specific board attention depending on the firm’s stage (Água & Correia, 2020). The same would be true in what concerns boards attention to risks, or the information needs as a function of the lifecycle stage (Bain & Barker, 2010).

Figure 1. Firms’ needs vary over time



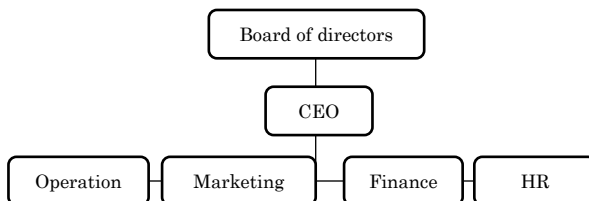
Like living beings with their morphosis over time, it is observable that firms also go through changes during their lifecycle. Riera (2019), focusing on family businesses suggests four stereotypes for a generic firm lifecycle (Table 1).

Table 1. Four critical life stages in the maturity ladder

<i>Typology</i>	<i>Characterization</i>	<i>Examples</i>
Sole business	Only one directing structure	Most start-ups and young businesses
Multi business	Diversified businesses with different management structures	A group of businesses, resulting from diversification
Corporate structure	Holding structure with different boards per business	The “big corporation”
“Patrimonial” structure	Existence of a family office and/or owner’s councils	When the founding family is still “associated”

The *Sole business governance* represents the simplest structure. It is typically characterized by clearly defined functions (Figure 2). In such typology, the CEO may be quite intertwined with the board’s works, which may be characterized by a higher level of detail than at some later stages. Because there is only one business, the level of specialization may be considerable; the CEO may have a preminent role in its dealings with the board, and the board’s agenda may tend to contemplate a considerable number of operational issues.

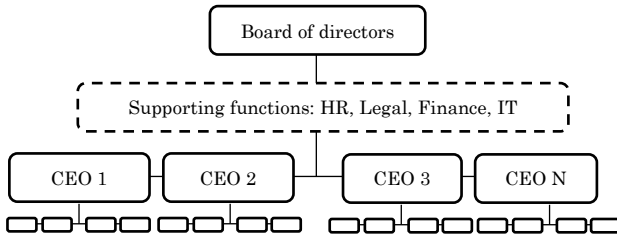
Figure 2. Sole business structure



Source: Adapted from Riera (2019).

As for the *Multi-business structure*, it increases the governance effort as the board of directors is accountable for different businesses, each with its CEO (Figure 3). Resource competition is expected from individual businesses, and politics is a central issue within such governance paradigm. The board focus changes from more operational issues towards setting up policies, placing some effort on the coordination among different businesses, establishing inter-business committees. A key question concerns having a “group CEO”? Board leadership is a core issue in this arrangement.

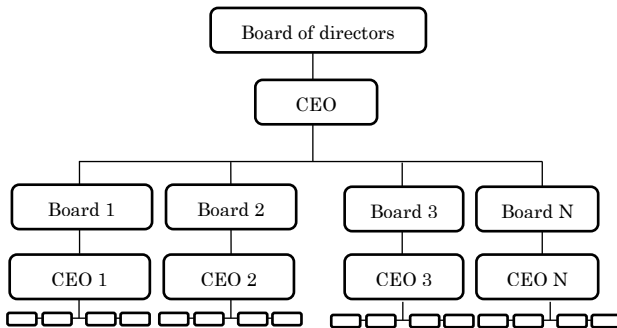
Figure 3. A multi-business governance structure



Source: Adapted from Riera (2019).

The *Corporate structure* comprises several business level boards answerable to a corporate CEO, which in turn integrates a corporate Level board of directors (Figure 4). In such a governance paradigm, the corporate board focuses on solving the issues brought about by the individual business boards. The role of “corporate CEO” is a major issue to bring smoothness to the whole governance structure. Board meetings may become intense, due to internal competition and strategic choices. The establishment of policies and corporate “values” is of the essence and may help guide decision-making under crisis situations (Fernández & Mazza, 2014).

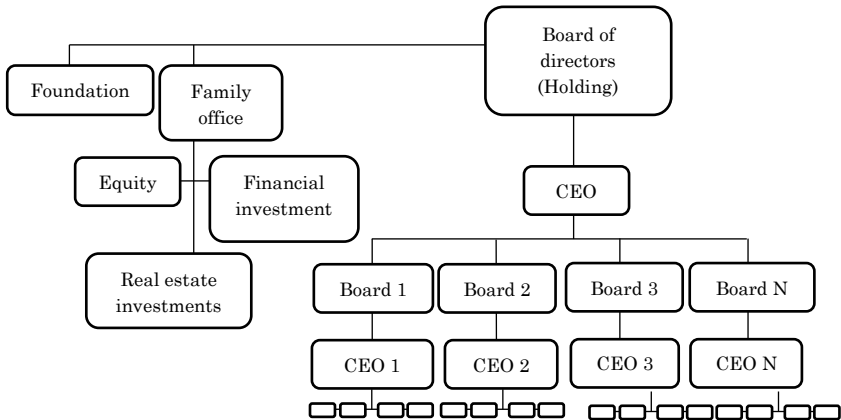
Figure 4. A “corporate” structure



Source: Adapted from Riera (2019).

Finally, a more complex governance arrangement would involve a family office, with a value-creation investor mindset being common and influencing governance decisions (Figure 5). The positions to be taken during general assemblies is an agenda core subject, together with investment decisions; being the family’s position influential for decision-making.

Figure 5. Raising complexity: The “Patrimonial” board



Source: Adapted from Riera (2019).

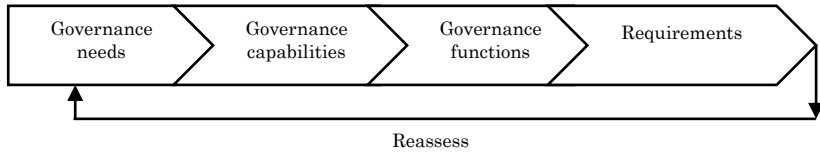
Departing from Riera’s (2019) four stereotypes, two critical questions arise: 1) What characterizes each life stage? and 2) What are the adequate board directors’ profiles for each life stage? In sum, what is the adequate board design as a function of a firm’s life stage?

Enrione (2020) suggests some criteria for board design as a function of three dimensions: 1) business dimension, 2) ownership dimension, and 3) leadership dimension. Considering the firm’s institutional configuration (Vicente & Tomás, 2018), at any lifecycle stage the board shall ensure the support for the right flow of business initiatives; the power network is adequately led; and, the adequate financial robustness and organization is taken care of (see Figure 1).

3. PRELIMINARY ANALYSIS AND SYNTHESIS

Such governance paradigms have different associated directorship *needs*. An adequate analysis could be by electing corporate governance *capabilities*. Then, in order to achieve such capabilities, some *functionalities* will be required from such boards; which by their side have some underlying *requirements* (Figure 6).

Figure 6. Uncovering governance needs



Source: Author’s elaboration.

Therefore, the specification of what constitutes the “best” board configuration is not the right question, as it depends on: 1) the business specifics and industry; 2) the context, and 3) the firm stage within a broad lifecycle.

Focusing exclusively on a generic business life stage, which for sake of discussion could be the introduced stereotypes (Figures 2–5), some broad specifications could be laid down, through critical questioning.

4. A RESEARCH AGENDA: DESIGNING THE RIGHT BOARD FOR A SPECIFIC LIFE STAGE

Considering the subject and the associated complexities, some lines of research are suggested, by questioning the what? how? why? and when? Table 2 presents a sample of possible questions, among many, depending on the approach to a specific firm’s analysis and diagnosis (Vicente & Tomás, 2018).

Table 2. What are the specific needs for each lifecycle stage?

	<i>Board dynamics specifics</i>	<i>Board structure & composition</i>	<i>Meeting’s frequency and type</i>	<i>Agenda main topics</i>	<i>Information type</i>	<i>Decision making</i>
What should be the agenda priorities for each lifecycle stage? And why?						
What sort of competencies should boards have? And when?						
When should board typology transitions occur as a function of firms’ lifecycle stages? And how?						
...						

Legend: ☺ Improve; ☹ Maintain; ☹ Discard, symbols could be used on this table for easing discussions.

Such a table or matrix could be the basis for a framework, which would help decide what would constitute an adequate board depending on firms' life stage (Table 3).

Table 3. A framework relating firm's maturity stage to boards effort

Firm's maturity stage+	Corporate structure	Multi business
	Sole business structure	"Patrimonial" structure
	Board tasks complexity+	

Source: Author's elaboration.

5. CONCLUSION

There is a considerable amount of literature about boards diversity and composition, which helps understand some adequacy dimensions, however, the specifics of board's adequacy as a function of firms' life stages are less common. It is suggested that directorship needs differ not only among industries, and specific companies, but also and perhaps more critically, as a function of the firm's evolving life stages. Some authors have proposed a preliminary taxonomy, suggesting four main governance structures as a function of such life stages, without relating them to business and industry specifics. Each of such structures should help answer different questions that emerge during each life stage, and which will impose different priorities on boards' agendas and decision-making. It is further suggested for research purposes, that in addition to such specific governance structures, each life stage may demand a different director's profile generalizing them into two broad categories — "specialist" or "generalist" ones. The review of some background literature suggests there is some space for research on this subject, critically important as transitions from one stage to the next one raises risks, and therefore more care is needed to ensure companies are travelling safely on their journey to maturity. A research agenda could include a systems approach to the subject, potentially developing some simulator based on one of the well-known systems modelling methodologies, after which, several different scenarios could be designed and tested and lessons learned from such simulations.

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