CORPORATE GOVERNANCE IN HIGH-GROWTH FIRMS

Gro Ladegard*, Casper Claudi Rasmussen**

Abstract

The purpose of this paper is to explore the governance structures in high-growth firms – "Gazelles". We analyse and compare 865 high-growth firms and 396 SMEs in Norway. The data reveals that high-growth firms differ from average SMEs on several core characteristics. They are smaller and younger, and have more owners and larger boards than the average SME. The analysis shows that high-growth firms are a special case where owners and managers appear to have shared interests, and the strategic and advisory role of the board are thus more important than the monitoring role. This knowledge is useful both for understanding high-growth firms as a particular context, and for how corporate governance systems may have different functions in different types of firms.

Keywords: Firm, Corporate Governance, SMEs, Board

JEL Code: G30, G34

**Corresponding author. Oslo School of Management, 0107 Oslo, Norway*
Tel: 47 92408441
***Oslo School of Management, 0107 Oslo, Norway*

1 Introduction

High-growth firms make a huge contribution to employment and value creation in a society. It has been shown that these firms generate a disproportionately large share of new jobs compared with firms without high growth, even during a recession (Henrekson & Johansson, 2010; Jawahar & McLaughlin, 2001). High-growth firms typically constitute 2–5% of the total business population in a country (Sims & O'Regan, 2006). Clayton and colleagues found that in the US, 2% of the population of firms in 2012 was high-growth firms, yet they were responsible for 35% of all gross job gains between 2009 and 2012 (Clayton, Sadeghi, & Talan, 2013). In Norway, the 4% most rapidly growing firms contributed 50% of all new net employment in the country between 2008 and 2012. Thus, despite the small number of firms in the high-growth category, their impact on value creation and employment is substantial. This great economic impact of high-growth firms makes them both important and interesting to study. Among the most intriguing questions about high-growth firms are: how do these firms manage to obtain their growth magnitude, and can other firms copy their success? Is growth contextually determined, or is it a result of deliberate strategies? The growth phenomenon has been discussed in depth over decades (e.g. Davidsson & Henrekson, 2002; Penrose, 1995; Storey, 1994) and reviews of the growth literature find that drivers of growth are both internal and external to the firm (Gilbert, McDougall & Audretsch, 2006). Responding to a request for internal, strategic explanations for growth, recent research on high-growth firms has applied management-oriented and strategic perspectives that consider the contribution of internal resources to growth (Barbero, Casillas, & Feldman, 2011; Casillas, Moreno, & Barbero, 2010; Hansen & Hamilton, 2011; Moreno & Casillas, 2008; Wiklund, Patzelt, & Shepherd, 2009). An intriguing question is whether high-growth firms have common characteristics in the ways in which they are managed and governed. While traditional research on corporate governance as well as corporate governance codes worldwide have tended to reflect a generalist view of corporate governance functions based on agency theory, recent literature has called for a contextual approach to the structure and functioning of governance arrangements (Lynall, Golden, & Hillman, 2003). Specifically, scholars have argued that in small and medium-sized enterprises (SMEs) and other non-public companies, corporate governance serves different functions than it does in publicly traded firms (Bennett & Robson, 2004; Huse, 2000). In line with this reasoning, we suggest that high-growth firms represent a specific context, in which corporate governance arrangements may serve particular functions. The first question thus concerns whether high-growth firms have common characteristics that differentiate them from the average SME. The second question asks whether high-growth firms have particular corporate governance arrangements, and if so, why.

In this chapter, we address these questions through an analysis of Norwegian high-growth firms, where we compare 865 high-growth firms with a randomized sample of 396 SMEs. The discussion is

organized into three parts. First, we review recent empirical research on high-growth firms and provide a picture of their common characteristics, to establish empirically our case of high-growth firms in a particular context. Second, we present research on corporate governance that has addressed high-growth firms as a specific context for corporate governance, particularly focusing on the role of the owners, boards, and CEO/founders. Next, we present our empirical study in two sequences. The first is an overview of the characteristics of the high-growth firms in our sample; the second is a description of some corporate governance arrangements. Both are compared with the SME sample. Finally, we discuss our findings and implications for viewing high-growth firms as a particular context for corporate governance research.

2 Characteristics of high-growth firms

Scholars have argued that rapid growth has a time aspect, which is apparent in the fact that most studies consider high-growth firms to be young and small; hence, they are in an early stage of their life cycle. Empirical evidence supports this assumption (Storey & Greene, 2010). For example, Clayton and colleagues found that the propensity to be a high-growth firm declines with age (Clayton et al., 2013). Furthermore, other scholars have found that high-growth companies are in general small, young, and more innovative (Coad & Rao, 2008; Grundström, Sjöström, Uddenberg, & Rönnbäck, 2012). Thus, empirical evidence suggests that a life-cycle perspective is suitable for the analysis of these firms. Depending on the model selected, a firm's life cycle will include three (Bonn & Pettigrew, 2009; Quinn & Cameron, 1983) or four stages (Filatotchev, Toms, & Wright, 2006; Lynall et al., 2003; Quinn & Cameron, 1983), and the transition to the second stage in both models is characterized by rapid growth. Firms at the high-growth stage may consider transitioning to public ownership (Bonn & Pettigrew, 2009) and may investigate other methods of expansion (Jawahar & McLaughlin, 2001) or other strategic moves, indicating that the high-growth phase is a period dominated by organizational transitions. A firm in the growth stage of its life cycle thus faces many demands, some of which are in conflict. Internal and external complexity rapidly increases during the growth stage, but formal strategic planning systems seldom develop in tandem with these changes (Bingham & Eisenhardt, 2011).

In a review of small firm growth, Macpherson and Holt (2007, p. 178) note that "growth cannot be achieved without managerial capabilities to provide specialist functions and processes designed to support and exploit entrepreneurial actions." In the high-growth phase, a firm typically must create and develop internal structures, increase coordination and communication, and manage new functions and organizational units (Lynall et al., 2003; Smith, Mitchell, & Summer, 1985). In a study comparing high-growth SMEs and non-high-growth SMEs, Moreno and Casillas (2007) found that the high-growth SMEs were smaller than their non-growth counterparts, and they had less available slack in non-financial resources, but greater access to financial resources. In contrast, Wiklund, Patzelt, and Shepherd (2009) found that access to financial and human capital did not affect growth directly, but both types of capital had a positive impact on entrepreneurial orientation, which in turn had a positive impact on growth. Two conflicting theories have addressed the role of resources in high-growth firms. The resource constraint argument suggests that firms with fewer resources tend to leverage them more efficiently, which is often the case in entrepreneurial firms (Moreno & Casillas, 2007), while the slack resources argument suggests that the availability of slack resources may promote growth (Penrose, 1995). While high-growth firms by definition have had some success in pursuing growth, it is difficult on the basis of theory to predict whether they have better access to resources than the average SME.

Nevertheless, the empirical findings indicate that high-growth firms have some specific features in common that differentiate them from other SMEs. The most consistent findings are that they are younger and smaller than the average SME; they are in transition and thus have less structured and institutionalized internal organizational arrangements. While we know little of the management and leadership of high-growth firms, the very fact that these firms are in a phase of constant transitions makes it plausible that when internal structures and systems are less developed, the management and governance of the organization play a crucial role. For example, Daily and Dalton (1992) define a threshold firm as one that is at the point of transition from entrepreneurial to professional management, usually at a time following a high-growth phase, that is, the initial public offering (IPO). Thus, the high-growth phase involves managerial challenges that probably will involve both owners and the board.

3 Functions of corporate governance in a life-cycle perspective

The Cadbury Report, published in the UK in 1992 and still the basis of corporate governance codes throughout Europe (Calder, 2008), describes corporate governance tasks as follows:

"The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship" (Calder, 2008, p. 12).

Thus, the main actors involved in the implementation of corporate governance in a company are the shareholders, the board of directors, and the CEO (Johnson, Daily, & Ellstrand, 1996).

It is often assumed that good governance can be defined across firms and contexts: "The 'holy trinity' of good corporate governance has long been seen as shareholder rights, transparency and board accountability" (Calder, 2008, p. 2). The most common theory by far in studies of corporate governance is agency theory, which is based on a similar assumption to the universal governance codes—that a primary goal for governance is to protect shareholders' interests (Daily, Dalton, & Cannella, 2003). However, despite the universal design of corporate governance codes, empirical evidence suggests that there is no one best practice of corporate governance, and scholars call for context-specific studies and a contingency perspective on the study of governance arrangements (Gabrielsson & Huse, 2004; Hambrick, Werder, & Zajac, 2008; Zona, Zattoni, & Minichilli, 2013).

Agency theory is based on the assumptions that the separation of ownership and management in a firm creates conflicts of interests (Hillman & Dalziel, 2003), and that a central function of the board is to monitor management on behalf of the shareholders. Moreover, the theory suggests that incentives such as equity ownership by directors in the board may serve to align interests and hence reduce the agency problem (Daily et al., 2003). Thus, in a context where there are conflicts of interest between the shareholders and management, the directors on the board should be external to the firm, and/or the interests of the directors should be aligned with those of the shareholders through methods such as director shareholding. In addition, the power of the CEO relative to the board (expressed in CEO duality) is considered an important factor in a board's ability to carry out its monitoring function (Finkelstein & D'Aveni, 1994).

According to the resource dependence perspective on corporate governance, an important function of a board is to provide the company with resources (Hillman & Dalziel, 2003). These resources may be of different kinds, and several types of resources and expertise have been discussed in the literature, such as building relationships with external stakeholders, facilitating access to capital, strengthening legitimation in the market, and expertise in the firms' strategic and operational activities (Hillman & Dalziel, 2003). Empirical findings support the resource dependence theory; for example, firms with strong human capital on the board have been found to have better subsequent performance, higher pricing at their initial public offering, and increased credibility and legitimacy in the market (Hillman & Dalziel, 2003). Thus, a basic assumption underlying resource dependence theory is that the composition of the board reflects the resource acquisition potential of the firm (Hillman, Cannella, & Paetzold, 2000).

While agency theory and resource dependence theory address different functions of a board, a combination of the two theories has been applied in studies of corporate governance that adopt a life-cycle perspective (Filatotchev et al., 2006; Lynall et al., 2003). Filatotchev and colleagues (2006) propose a model of a firm life cycle with four stages, in which each stage represents specific challenges and opportunities that call for different governance arrangements. The monitoring and resource provision functions of the board are described as related to two fundamental strategic purposes: wealth protection and wealth creation. The authors describe the high-growth phase as a transition from a tightly knit group of owners and founders to a more open governance system with external stakeholders, in which the IPO represents the threshold of the next stage. In this phase, the firm needs "access to resources and expertise that may fuel and support its growth" (Filatotchev et al., 2006, p. 260), and the wealth creation purpose of the governance arrangement predominates. Accordingly, it is suggested that the monitoring function of the board is of low priority, while the resource provision and strategic advisory functions are paramount. This rests on the assumption that in the early stages of the life cycle, the interests of the owners, founders, and management are more closely aligned and thus the agency problems are less relevant (Filatotchev et al., 2006; Garg, 2013). In addition, Lynall and colleagues (2003) propose that in the early stages of the life cycle, and when the CEO has dominant power, the composition of the board will reflect the resource dependence needs of the firm. In an empirical study of high-tech university spin-offs, Filatotchev et al. (2006) found that these firms had small boards (with an average of four members), and that the boards were typically dominated by insiders (60% of the firms had external board members). The most important roles of board members were to provide legitimacy, expertise, and external relationships with potential sources of new ideas. Venture capitalists on the board were considered crucial in the transition of the firm through growth to the next stage of the life cycle. Rosenstein et al. (1993) also underscored the directors' service role. In a study of high technology firms receiving venture capital backing, they found that CEOs valued outside board members, particularly during the early developmental stages of their firms. These CEOs especially appreciated the outside directors' information and expertise. Interestingly, CEOs reported that they tended to value outside directors less over time (Rosenstein et al., 1993).

Several other studies indicate that the boards of directors represent resources that are critical to the development of a growth strategy in young, high-growth firms (Carpenter & Westphal, 2001; Lynall et al., 2003; Zahra & Pearce, 1989). In particular, these

studies have addressed the composition of the board, most often operationalized as the proportion of outside directors. While some scholars argue that SMEs are often "closely held," most studies find that high-growth firms, as well as SMEs, have a rather high proportion of outside directors in their board. Nelson (2003) studied firms at IPO and found that the proportion of insider board members was 43%; thus, more than half of the board members were external to the firm. This is consistent with the suggestion that external board members may contribute to legitimacy and signal status in the market. In a sample of 158 spin-off firms from universities, Filatotchev (2006) found that 44% of the directors were non-executives.

Board size and diversity have also been addressed in studies of high-growth firms. Reasoning that larger firms have larger and more diverse boards, Bennett and Robson (2004) suggest that in small firms, size and diversity may be major benefits, but may act as constraints for larger firms. However, empirical findings indicate that SMEs and high-growth firms have smaller boards (Bennett & Robson, 2004) but have been found to have greater gender diversity than larger, mature firms (Minguez-Vera & Lopez-Martinez, 2010).

4 The role of the founder in SMEs

The role of the founder is particularly interesting to study in high-growth firms. While these firms may have fewer agency problems and less need for ownership control and management monitoring than do larger, mature firms (Certo et al., 2001), the high-growth phase may prompt a need to replace the founder-manager with professional management (Lynall et al., 2003). As the founder often has a central role in the management of the firm at this stage, this may create conflict or a power struggle between the new owners and the founder (Gedajlovic et al., 2004). At the same time, while there is a potential conflict of interest between the founder and the owners, a crucial criterion for venture capitalists in their investment decisions is their belief in the founder's competence. The role of the founder-manager is believed to be important for success in this phase until the IPO phase. Contrary to the suggestion that the founder should at some point be replaced by professional managers (Daily & Dalton, 1992; Gedajlovic et al., 2004; Zahra & Filatotchev, 2004), there is empirical evidence suggesting that founder-managed firms consistently perform better than do professionally managed firms. For example, Fahlenbrach (2009) noted that founder-CEO firms had higher valuation, better stock market performance, and more actively pursued active growth strategies than did professionally managed firms. Villalonga and Amit (2006) found that Fortune 500 family firms had higher valuation if they had active involvement by the founder, either as a CEO or as a chairperson of the board. These findings indicate that a founder in a strong position may be beneficial in high-growth firms.

5 Methodology

5.1 Data collection

The leading Norwegian business newspaper, Dagens Næringsliv (DN), publishes a list of high-growth firms (labelled "gazelles") each year; its lists published in 2010, 2011, and 2012 provided the population for our data set. If a company appeared on the list once or more during these three years, it was included in the population. To be defined as a high-growth firm, six requirements must be fulfilled.

1. The firm must have completed approved accounts.
2. It must have at least doubled its revenue during the previous four years.
3. It must have earned revenues of at least one million NOK (137,000 EUR).
4. It must have a positive EBIT (Earnings before interest and tax).
5. It must have avoided negative growth.
6. It must be incorporated (i.e., is registered as a corporation or limited liability company).

If a company fulfils all six criteria, it is considered a gazelle; otherwise, it is considered a "regular" company. Criterion 2 requires that the companies in our sample are at least five years old. By applying all six criteria, we obtained a sample of firms with a stable pattern of high growth during the previous four years.

A questionnaire was administered to the CEO of each company. A total of 2116 gazelles were identified for 2012, 1996 for 2011, and 2579 for 2010. The interviews conducted were computer-assisted telephone interviews. The questionnaire was originally written in English and was then translated into Norwegian. A total of 1000 responses was obtained from the gazelles, including 459 responses from the 2012 list (a response rate of 21.7%), 268 responses from the 2011 list, and 273 responses from the 2010 list. To correct for possible selection bias caused by non-respondents, the sample was compared with the population of gazelles on the basis of the number of employees. A mean comparison test showed no significant differences between the groups ($p<0.05$). In addition, a comparison group of SMEs was randomly sampled from the total population of Norwegian SMEs. This step yielded 501 responses.

No publicly listed companies were included in our sample. There are several international definitions of SMEs. We followed the definition used by the EU and defined SMEs as companies with fewer than 250 employees. Furthermore, as recommended by McKelvie and Wiklund (2010), we excluded acquisition growers so that only organically grown companies were included in the sample. Companies with no board members were also excluded from the

sample. The final sample consists of 1261 respondents, 865 high-growth firms, and 396 SMEs in the comparison group.

5.2 Measurements

To gain an understanding of the characteristics of the high-growth firms in the sample, a number of descriptive variables considered relevant in the literature were measured: age (foundation year), size, growth intentions, revenue growth, access to capital resources, and access to labour resources. Furthermore, we registered the geographical location of the firms and the type of industry, which would indicate the major external contingencies of the firms.

Size was measured as the number of employees. A two-item, seven-point Likert-type scale (1 = completely disagree, 7 = completely agree) was used to measure *growth intentions*. The two items used were adopted from the scale developed by Kolvereid (1992); they indicate whether the company intends to grow in terms of revenue and number of employees during the following five years. The scale showed satisfactory reliability, with a Cronbach's alpha of 0.75. *Revenue growth* was measured by subtracting the revenue in 2010 from that in 2007. *Access to capital* and *access to labour* were measured on a seven-point Likert-type scale through two single items that indicate whether the companies experience problems in attracting qualified personnel and capital. Thus, the higher the score on this variable, the less access there is to personnel and capital.

Independent directors were defined as board members who are neither owners nor employees of the company. The variable was measured as the number of independent directors relative to the total number of directors, computed as the percentage of independent directors. Similarly, *gender diversity* was computed as the percentage of women on the board. To capture the *roles of the founder*, we applied three dummy variables. The first indicates that the founder is a member of the board (founder-director). The second indicates whether the founder is part of the senior management team (founder-manager). The third measures whether the founder is an owner of the company (founder-owner). Combining these three dummy variables provides eight groups of founder roles.

6 Results

Table 1 shows the distribution of type of industry and location of both subsamples. The table shows a fairly similar distribution between the two samples, for both geographical location and type of industry. Thus, it appears that no particular industry or geographical location is more beneficial than others for high-growth firms.

Table 1. Distributions

	High growth		SMEs	
	Frequency	*Share of total (%)*	*Frequency*	*Share of total (%)*
Foundation year				
>1979	62	7.2	92	23.3
1980–1989	77	9.0	69	17.5
1990–1999	185	21.5	85	21.5
2000–2005	343	39.9	61	15.4
2006–	193	22.4	88	22.3
Sector				
Primary	20	2.3	16	4.0
Industry	105	12.1	57	14.4
Construction	144	16.6	60	15.2
Retail	249	28.8	81	20.5
Transport	45	5.2	27	6.8
Hotels/hospitality	16	1.8	25	6.3
Services	259	29.9	130	32.8
Education, health and culture	27	3.1	0	0
Location				
Capital	231	26.7	95	26.0
East	168	19.4	61	16.7
South	79	9.1	31	8.5
West	228	26.4	102	27.9
Middle	74	8.6	29	7.9
North	85	9.8	48	13.1

The literature suggests that high-growth firms are young and small. As we only include SMEs in our sample, no large firms are included. Nevertheless, Table 2 shows that the high-growth firms are

generally half the age of the average SME firm in Norway. An independent-sample *t*-test revealed that age, size, and growth intentions differed significantly between the two groups of firms. Thus, consistent with earlier findings on high-growth firms, Norwegian high-growth firms are young and small, and are in a transition phase of further growth.

Table 2. Descriptive statistics on firm attributes

Variable	High growth		SMEs		
	mean	*std. dev.*	*mean*	*std. dev.*	*t-value*
Foundation year	1997	14.4	1986	28.9	9.5**
# Employees	13.2	20.8	16.8	26.0	2.4*
Growth intentions	4.4	1.7	3.9	1.9	5.5**
Revenue growth (2007–2010)	14466	43272	–405	64513	11.6**[1]
Access to capital	2.6	1.9	2.7	2.0	0.4
Access to labour	4.3	2.0	3.6	2.2	5.6**

It is also interesting to note that the standard deviation of the age variable in the comparison group of firms is double that of the group of high-growth firms. Thus, high-growth firms have less variation in age than the general population of firms, which is consistent with the life-cycle perspective. Regarding size, measured as number of employees, the differences are smaller but the mean size of an SME in Norway is still 30% larger than the average high-growth firm. Similar to the results for age, there is considerably more variation in size within the general SME population of firms than between high-growth firms. Taken together with the careful selection criteria for the sample of high-growth firms, our results confirm that these firms are special. They are significantly different on several criteria—the most central, of course, being previous growth and future growth intentions. We also ran a correlation analysis of future growth intentions and age, and the younger firms have significantly stronger growth intentions than the older ones. In Table 2, we also observe a difference in access to labour, indicating that the high-growth firms find it harder to recruit qualified people. Because the high-growth firms also have strong growth intentions and thereby plan to hire new people, the results indicate that the problem in attracting qualified labour is more relevant for the high-growth firms.

6.1 Corporate governance characteristics

Table 3 shows the corporate governance structure characteristics that we included in the study. The results show that high-growth firms have a greater number of owners than the general population of SMEs. The difference is not large, but it is significant. However, there are few owners in either group of firms. The larger number of owners in high-growth firms may indicate that firms in the high-growth stage need investors, and as the firms in our sample have grown rapidly in recent years, it indicates that the entrepreneur has been successful in finding additional investors. This is also reflected in the size of boards, as they are significantly larger in high-growth firms than among the SMEs.

Table 3. Descriptive statistics on corporate governance variables

Variable	High growth		SMEs		
	mean	*Std. dev.*	*mean*	*Std. dev.*	*t-value*
# Owners	2.6	1.4	2.3	1.4	2.6**
# Board members	3.4	1.3	3.2	1.8	2.1*
Independent directors (%)	26%	28%	26%	31%	0.3
Women (%)	21%	25%	23%	28%	1.4
Dummy variables	*Yes*	*No*	*Yes*	*No*	*Chi^2*
Founder-manager	87%	13%	63%	37%	97.3**
Founder-director	90%	10%	63%	37%	140.4**
Founder-owner	88%	12%	64%	36%	97.0**
Founder role triality	81.4%	18.6%	56.6%	43.4%	

Table 3 also shows that the proportion of independent directors on the boards is on average 26% in the high-growth firms, which is not significantly different from that in the comparison group. This is lower than the proportion of outside directors reported in other studies of high-growth firms (Filatotchev et al., 2006; Nelson, 2003). The proportion of women on the boards is 21%, which is 2% less than in the comparison group; however, the difference is not significant.

Regarding the roles of the founder, Table 3 shows large and significant differences between high-

growth firms and other SMEs for all three role combinations. The founder has a 30% larger probability of also being a senior manager or a director than in the SME group of firms. We see that by far the most common position for the founder in high-growth firms is a role triality—being owner, board member, and top leader simultaneously. Of the companies, 81.4% have a founder occupying all three roles; in the comparison group, 56.6% of the companies have founder role triality.

7 Discussion

Our first research question was whether high-growth firms have some common characteristics that separate them from the average SME. Our results indicate that there are specific features of high-growth firms that contribute to establishing these types of firms as a specific context, which warrant further studies of their management and governance. The results show that while neither geographical location nor type of industry differentiates between high-growth firms and SMEs in general, several other features signify differences. First, the high-growth firms are younger and smaller, and they are in a phase of transition. Although they appear to have sufficient financial resources available, they report resource scarcity in human resources. These results suggest that in the high-growth phase, financial resources are sufficiently secure, and the larger number of owners is an indication of this. This finding is in accordance with the description by Filatotchev et al. (2006) of the high-growth phase as a transition from a tightly knit group of owners and founders to a more open governance system with more external stakeholders. The reported scarcity of human resources in the high-growth firms is in accordance with the findings of Moreno and Casillas (2007). However, the difficulties of recruiting sufficiently qualified people may be more closely related to a very tight labour market in Norway than to the relationship between human resource availability and growth.

Our second research question addressed whether high-growth firms have particular corporate governance arrangements that are different from those of the average SME, and if so, why. This second question is obviously related to the first one, in that most literature on corporate governance in young and small firms argues that the very reasons for having particular corporate governance arrangements are the common characteristics addressed in the present study. The life-cycle perspective has been the most prominent theory in attempts to provide an explanation for specific governance arrangements in high-growth firms, and the firms in our sample appear to be similar to the descriptions of firms in early phases of the life cycle. We also found that high-growth firms have corporate governance characteristics that are different from those in SMEs. Are these characteristics the result of strategic dispositions related to their stage of the life cycle? We found that the high-growth firms have a larger number of owners, and the founder has a far stronger position than in the average SME. However, one of the most commonly researched characteristics of corporate governance in the literature—the proportion of outside directors on the board—was no different between the two groups, and gender diversity was also similar.

The final research question thus remains: why do high-growth firms have different governance characteristics? We have presented two different theoretical approaches to corporate governance, namely, agency theory and resource dependence theory, and these offer different explanations for this question. Most of the literature we have reviewed here suggests that high-growth firms are in a stage of their life cycle where agency problems are less relevant; thus, the governance arrangements reflect a resource dependence explanation.

The larger number of owners may reflect that the founder has been successful in attracting financial capital. Thus, these firms have no scarcity of financial capital, and they have opened their governance structure to include more owners on the board, rather than recruiting independent directors. This is also reflected in the finding that the boards of high-growth firms are larger than those of SMEs. The relatively low proportion of independent directors may indicate that these firms are not close to an IPO, where the external market will exert pressure on the firm; hence, legitimation of the firm through high-status directors is less relevant. Thus, while a resource dependence perspective could fit our findings, it appears that resources commonly proposed to be provided by outsiders, such as legitimacy, networks, and external linkages, are less essential for these firms. Financial resources may thus be the paramount type of resources, although we do not know what expertise or other non-financial resources the owners can provide. These could be substantial.

An overwhelming majority of the founders of the high-growth firms are concurrently owners, directors, and members of the senior management team. First, this finding supports the assumption that founders and managers of young firms have interests that are aligned with those of the firm owners (Filatotchev et al., 2006; Garg, 2012). These common interests may also play an important role in the firms' ability to pursue a persistent growth strategy. Second, it is a further indication of a resource dependence explanation of board composition in these firms. The founder has unique competence, and as an owner probably a strong interest in further growth, and consequently plays a crucial role in contributing both knowledge and effort to the growth strategy. Founders are often the embodiment of the firm's culture, and they typically possess unique networks and have exclusive knowledge of the firm (Garg, 2012). In founding a firm, founders typically develop the firm's strategy, and they often continue to have strong

psychological attachment and involvement over time (Brunninge, Nordqvist, & Wiklund, 2007; Garg, 2012). Furthermore, active founders are the longest-serving members of the organization, and their presence on the board may lead to increased strength within the board's collective mindset (Nelson, 2003).

Contrary to predictions based on the theory of the threshold firm (Gedajlovic et al., 2004; Zahra & Filatotchev, 2004), founder role triality is thus the rule rather than the exception in the high-growth firms. It could be argued that this is because the threshold stage has not yet been reached. However, these firms are well beyond the entrepreneurial stages, in both age and size, and our findings raise the question concerning when it would be preferable to replace the entrepreneur with a professional manager. As we have shown above in this chapter, there are empirical results indicating that the answer to this question could be "never" (Fahlenbrach, 2009; Nelson, 2003).

8 Conclusions and suggestions for future research

While there is quite a large body of literature attempting to explain growth, relatively little is known of the "inner life" of a high-growth firm. The results from our study on Norwegian high-growth firms have yielded some interesting knowledge on their features. However, as is often the case, new knowledge prompts new questions and sheds lights on what we still do not know. We have suggested here that the resource dependence theory appears to be the best model to explain our findings; however, the theory as presented here is quite general and we need more fine-grained studies to establish more precise explanations for the governance arrangements of high-growth firms.

Four questions have emerged from this study. First, our data appear to support the assumption that high-growth firms have fewer conflicts of interest between the owners and the manager, and thus less need for the monitoring function of the board. However, as the founder in almost all of the firms is also the manager, director, and owner, common interests are more or less implicit in the structure. Thus, more knowledge of the relationship between the individual directors, owners, and founder(s) is needed to understand the power and interest relationships in the governance and management of these firms. Specifically, it is likely that the board does not act as one, so we need more knowledge about the individual directors' preferences and behaviour (Krause & Bruton, 2014). Particularly in small boards, one single director may have a large impact on the functioning of the board; for example, the balance between the monitoring role versus the resource provision role.

Second, while we have suggested that a resource dependence approach is relevant to explain the corporate governance arrangements of high-growth firms, we still do not know what kinds of resources are paramount for these firms. That is, what resources are so important that seeking access to them may determine the composition of the board? From our data, it appears that financial resources have precedence, but we need more knowledge of the various resources—both financial and non-financial—that may be beneficial for a firm in the high-growth phase (Barbero et al., 2011). Thus, a more fine-grained theory of resource dependence could be developed for this particular context.

The third question arising from our study concerns the founder role. It appears that theory and practice do not agree on this matter. While the threshold theory asserts that a transition from founder-manager to professional manager is necessary, empirical evidence indicates the opposite—that the founder-managed firms consistently perform better. However, there is a set of roles available for the founder—owner, manager, director, and chair of the board. Are some roles more productive than others, and according to what criteria? What is the impact of having the founder in various roles, and what determines these roles over time as the firm develops? There is little theory on the founder roles in the literature on ventures and high-growth firms, or in the corporate governance literature.

Our final question concerns the independent directors—perhaps the most studied variable in the corporate governance literature, at least within the agency theory perspective. Do independent directors have specific roles in high-growth firms, and what is the reason for their presence? In a study of roles of outside directors in three types of privately held firms, Gabrielsson and Huse (2005) found that outsider directors had different roles across the types of firms. Moreover, do the independent directors act individually or as a group (Krause & Bruton, 2014)?

While many questions remain regarding high-growth firms, the present study has shown that high-growth firms can safely be studied as a specific context, unlike that of SMEs in general, and further theory building and research is needed to "break the code" of the high-growth firm. We hope the findings here will contribute to this development.

References

1. Barbero, J.L., Casillas, J.C. and Feldman, H.D. (2011), "Managerial capabilities and paths to growth as determinants of high-growth small and medium-sized enterprises", International Small Business Journal, Vol. 29 No. 3, pp. 671-694.
2. Bennett, R.J. and Robson, P.J.A. (2004), "The role of boards of directors in small and medium-sized firms", Journal of Small Business and Enterprise Development, Vol. 11 No. 1, pp. 95-113.
3. Bingham, C.B. and Eisenhardt, K.M. (2011), "Rational heuristics: the 'simple rules' that strategists learn from process experience", Strategic management journal, Vol. 32 No. 13, pp. 1437-1464.
4. Bonn, I. and Pettigrew, A. (2009), "Towards a dynamic theory of boards: An organisational life cycle

approach", Journal of Management & Organization, Vol. 15 No. 1, pp. 2-16.
5. Brunninge, O., Nordqvist, M. and Wiklund, J. (2007), "Corporate governance and strategic change in SMEs: The effects of ownership, board composition and top management teams", Small Business Economics, Vol. 29 No. 3, pp. 295-308.
6. Calder, A. (2008). Corporate governance: a practical guide to the legal frameworks and international codes of practice, London, Kogan Page.
7. Carpenter, M.A. and Westphal, J.D. (2001), "The strategic context of external network ties: Examining the impact of director appointments on board involvement in strategic decision making", Academy of Management Journal, Vol. 44 No. 4, pp. 639-660.
8. Casillas, J.C., Moreno, A.M. and Barbero, J.L. (2010), "A Configurational Approach of the Relationship Between Entrepreneurial Orientation and Growth of Family Firms", Family Business Review, Vol. 23, No. 1, p. 27.
9. Certo, S.T., Covin, J.G., Daily, C.M. and Dalton, D.R. (2001), "Wealth and the effects of founder management among IPO-stage new ventures", Strategic management journal, Vol. 22, No. 6-7, pp. 641-658.
10. Clayton, R.L., Sadeghi, A. and Talan, D.M. (2013), "High-employment-growth firms: defining and counting them", *Monthly Labor Review,* (June)**,** pp. 3-13.
11. Coad, A. and Rao, R. (2008), "Innovation and firm growth in high-tech sectors: A quantile regression approach", Research Policy, Vol. 37 No. 4, pp. 633-648.
12. Daily, C.M. and Dalton, D.R. (1992), "Financial performance of founder-managed versus professionally managed small corporations", Journal of Small Business Management, Vol. 30, No. 2, pp. 25-34.
13. Daily, C.M., Dalton, D.R. and Cannella, A.a.J. (2003), "Corporate governance: Decades of dialogue and data", Academy of Management Review, Vol. 28 No. 3, pp. 371-382.
14. Davidsson, P. and Henrekson, M. (2002), "Determinants of the prevalence of start-ups and high-growth firms", Small Business Economics, Vol. 19 No. 2, pp. 81-104.
15. Fahlenbrach, R. (2009), "Founder-CEOs, investment decisions, and stock market performance", Journal of Financial and Quantitative Analysis, Vol. 44 No. 2, pp. 439-466.
16. Filatotchev, I., Toms, S. and Wright, M. (2006), "The firm's strategic dynamics and corporate governance life-cycle", International Journal of Managerial Finance, Vol. 2 No. 4, pp. 256-279.
17. Finkelstein, S. and D'aveni, R.A. (1994), "CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command", Academy of Management Journal, Vol. 37 No. 5, pp. 1079-1108.
18. Gabrielsson, J. and Huse, M. (2004), "Context, Behavior, and Evolution", International Studies of Management & Organization, Vol. 34, pp. 11-36.
19. Garg, S. (2013), "Venture boards: Distinctive monitoring and implications for firm performance", Academy of Management Review, Vol. 38 No. 1, pp. 90-108.
20. Gedajlovic, E., Lubatkin, M.H. and Schulze, W.S. (2004), "Crossing the threshold from founder management to professional management: A governance perspective", Journal of Management Studies, Vol. 41 No. 5, pp. 899-912.
21. Gilbert, B.A., Mcdougall, P.P. and Audretsch, D.B. (2006), "New venture growth: A review and extension", Journal of Management, Vol. 32 No. 6, pp. 926-950.
22. Grundström, C., Sjöström, R., Uddenberg, A. and Rönnbäck, A.Ö. (2012), "Fast growing SMEs and the role of innovation", International Journal of Innovation Management, Vol. 16 No. 3, pp. 1-19.
23. Hambrick, D.C., Werder, A.V. and Zajac, E.J. 2008. New Directions in Corporate Governance Research. Organization Science, Vol. 19 No. 3, pp. 381-385.
24. Hansen, B. and Hamilton, R.T. (2011), "Factors distinguishing small firm growers and non-growers", International small business journal, Vol. 29 No. 3, pp. 278-294.
25. Henrekson, M. and Johansson, D. (2010), "Gazelles as job creators: a survey and interpretation of the evidence", Small Business Economics, Vol. 35 No. 2, pp. 227-244.
26. Hillman, A.J., Cannella, A.A. and Paetzold, R.L. (2000), "The resource dependency role of corporate directors: Strategic adoption of board composition in response to environmental change", Journal of Management Studies, Vol. 37 No. 2, pp. 235-255.
27. Hillman, A.J. and Dalziel, T. (2003), "Boards of directors and firm performance: Integrating agency and resource dependence perspectives", Academy of Management Review, Vol. 28 No. 3, pp. 383-396.
28. Huse, M. (2000), "Board of Directors in SMEs: A Review and Research Agenda", Entrepreneurship and Regional Development, Vol. 12 No. 4, pp. 271-290.
29. Jawahar, I.M. and Mclaughlin, G.L. (2001), "Toward a descriptive stakeholder theory: An organizational life cycle approach", Academy of Management Review, Vol. 26 No. 3, pp. 397-414.
30. Johnson, J.L., Daily, C.M. and Ellstrand, A.E. (1996), "Board of Directors: A Review and Research Agenda", Journal of Management, Vol. 22 No. 3, pp. 409-438.
31. Kolvereid, L. (1992), "Growth aspirations among Norwegian entrepreneurs", Journal of Business Venturing, Vol. 7 No. 3, pp. 209-222.
32. Krause, R. and Bruton, G. (2014), "Agency and monitoring clarity on venture boards of directors", Academy of Management Review, Vol. 39 No. 1, pp. 111-117.
33. Lynall, M.D., Golden, B.R. and Hillman, A.J. (2003), "Board composition from adolescence to maturity: A multitheoretic view", Academy of Management Review, Vol. 28 No. 3, pp. 416-431.
34. Macpherson, A. and Holt, R. (2007), "Knowledge, learning and small firm growth: A systematic review of the evidence", Research Policy, Vol. 36 No. 2, pp. 172-192.
35. Mckelvie, A. and Wiklund, J. (2010), "Advancing firm growth research: A focus on growth mode instead of growth rate", Entrepreneurship Theory and Practice, Vol. 34 No. 2, pp. 261-288.
36. Minguez-Vera, A. and Lopez-Martinez, R. (2010), "Female directors and SMEs: An empirical analysis", Journal of Global Strategic Management, Vol. 8 (December), pp. 34-46.

37. Moreno, A.M. and Casillas, J.C. (2007), "High-Growth SMEs versus Non-High-Growth SMEs: A Discriminant Analysis", Entrepreneurship and Regional Development, Vol. 19 No. 1, pp. 69-88.
38. Moreno, A.M. and Casillas, J.C. (2008), "Entrepreneurial Orientation and Growth of SMEs: A Causal Model", Entrepreneurship Theory and Practice, Vol. 32 No. 3, pp. 507-528.
39. Nelson, T. (2003), "The persistence of founder influence: Management, ownership and performance effects at initial public offering", Strategic Management Journal, Vol. 24, pp. 707-724.
40. Penrose, E. (1995). The theory of the growth of the firm, Oxford and New York, Oxford University Press.
41. Quinn, R.E. and Cameron, K. (1983), "Organizational life-cycles and shifting criteria on effectiveness - some preliminary evidence", Management Science, Vol. 29 No. 1, pp. 33-51.
42. Rosenstein, J., Bruno, A.V., Bygrave, W.D. and Taylor, N.T. (1993), "The CEO, Venture Capitalists, and the Board", Journal of Business Venturing, Vol. 8 No. 2, p. 99.
43. Sims, M.A. and O'regan, N. (2006), "In search of gazelles using a research DNA model", Technovation, Vol. 26 No. 8, pp. 943-954.
44. Smith, K.G., Mitchell, T.R. and Summer, C.E. (1985), "Top level management priorities in different stages of the organizational life-cycle", Academy of Management Journal, Vol. 28 No. 4, pp. 799-820.
45. Storey, D.J. (1994). Understanding the small business sector, London, Rourledge.
46. Storey, D.J. and Greene, F.J. (2010). Small business and entrepreneurship, Essex, Pearson Education Ltd.
47. Villalonga, B. and Amit, R. (2006), "How do family ownership, control and management affect firm value?", Journal of Financial Economics, *80*(2)**,** Vol. 80 No. 2, pp. 385-417.
48. Wiklund, J., Patzelt, H. and Shepherd, D.A. (2009), "Building an Integrative Model of Small Business Growth", Small Business Economics, Vol. 32 No. 4, pp. 351-374.
49. Zahra, S.A. and Filatotchev, I. (2004), "Governance of the entrepreneurial threshold firm: a knowledge-based perspective", Journal of Management Studies, Vol. 41 No. 5, pp. 885-897.
50. Zahra, S.A. and Pearce, J.A. (1989), "Boards of directors and corporate financial performance - a review and integrative model ", Journal of Management, Vol. 15 No. 2, pp. 291-334.
51. Zona, F., Zattoni, A. and Minichilli, A. (2013), "A Contingency Model of Boards of Directors and Firm Innovation: The Moderating Role of Firm Size", British Journal of Management, Vol. 24 No. 3, pp. 299-315.