

Chairpersonship and Board Strategy Involvement in Small and Medium-sized Enterprises

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A critical issue when setting up a board of directors in small and medium-sized enterprises relates to the chairperson position. This study examines whether and how chairperson's experience and leadership influence the extent to which the board of directors is involved in strategy. We rely on survey data from multiple respondents in 326 firms and use regression analysis to test our hypotheses. We find that chairpersons' board experience and leadership efficacy have a positive and significant effect on boards' involvement in strategy. Our findings provide ample support for the significance of chairperson behaviours in explaining board outcomes in firms.

INTRODUCTION

The board of directors is a rarely used resource in small and medium-sized enterprises (SMEs). Extant research suggests that SMEs may benefit when it comes to a range of strategic issues and outcomes, such as building trust and extending the firms' strategic networks (Borch & Huse, 1993), discovering and exploiting new market opportunities (Borch, Huse, & Senneseth, 1999; Gabrielsson, Huse, & Minichilli, 2007) and building and facilitating organizational processes that support innovation, business renewal and strategic change (Brunninge, Nordqvist, & Wiklund, 2007; Zahra, Neubaum, & Huse, 2000). In this respect, there seems to be general consensus in the scholarly literature that an empowered board of directors can be both a catalyst and a working partner for the managing director in setting the strategic direction of an SME (Fiegner, 2005; Knockaert, Bjornali, & Erikson, 2015), thereby contributing to the long-term development and performance of the organization.

A critical issue when setting up a board of directors in SMEs relates to the chairperson position (Daily, McDougall, Covin, & Dalton, 2002; Machold, Huse, Minichilli, & Nordqvist, 2011). The chairperson is responsible for encouraging participation and debate by structuring and giving direction and scope to board meetings (Furr & Furr, 2005). The chairperson is also responsible for overseeing board processes to ensure that the overall direction and governance of the enterprise is in line with strategic goals and company bylaws (Cadbury, 2002; Kakabadse & Kakabadse, 2007; Parker, 1990). However, SMEs are typically characterized by close relationships between owners and managers, where board members and other influential stakeholders often are connected by family ties or by close

friendship (Gabrielsson, 2007b; Huse & Zattoni, 2008). Moreover, while the board chairperson may assume certain responsibilities (Machold et al., 2011), they have no direct authority over other board members and must thus rely on personal experience and leadership behaviours to encourage commitment and team orientation among board members (Gabrielsson et al., 2007). Hence, effective chairperson leadership is critical in order to bring out and unleash the board's full value-creating potential (Huse & Gabrielsson, 2012; Leblanc, 2005; Machold et al., 2011).

Against this backdrop, this study seeks to study how chairpersons' leadership behaviour and experience influence boards' strategy involvement in SMEs. While such scholarly knowledge can be of great relevance for a range of stakeholders in and around SMEs, including owner-managers, investors and lenders, the literature has so far been relatively silent on the issue. Rather, the bulk of studies have studied structural leadership conditions, most particularly the causes and consequences of combined CEO/chairperson leadership (Daily & Dalton, 1993; Fiegenger, Brown, Dreux Iv, & Dennis Jr, 2000; Gabrielsson, 2007b; Yar Hamidi & Gabrielsson, 2014). This stream of research has typically been embedded in theoretical arguments based on either agency theory or resource dependence theory (Gabrielsson & Huse, 2010). Agency theorists advocate for a separation of CEO and chairperson leadership, so that the board can be engaged in independent oversight (Daily & Dalton, 1993). However, they also argue that there may be little place for independent board structures in SMEs, where ownership and management often coincide (Gabrielsson, 2007b). Resource dependence theorists, on the other hand, emphasize that SMEs may provide a context that particularly calls for a separation of CEO and chairperson positions, because this structural arrangement can offer both owners and CEOs valuable inputs in terms of legitimacy, expertise and access to networks for developing their firms' long-term strategy (Gabrielsson & Huse, 2005; Gabrielsson, 2007b). On the whole, research provides mixed arguments and evidence on the relationship between structural leadership characteristics and various board- and firm-level outcomes (Yar Hamidi & Gabrielsson, 2014).

While we acknowledge the contribution of past scholarly work, we seek in this study to expand the traditional understanding of chairperson leadership in SMEs as being primarily about the structural arrangements of the CEO and chairperson positions (Daily & Dalton, 1993). In this respect, we relate our study to a growing body of research that emphasizes behavioural processes and relational dynamics for understanding corporate governance and boards of directors (Huse, 2005; van Ees, Gabrielsson, & Huse, 2009; Yar Hamidi & Gabrielsson, 2017). To this end, following this stream of research we hypothesize that the board chairperson's background and leadership behaviours have a strong and non-trivial impact on the work of the board of directors in SMEs (Gabrielsson et al., 2007; Machold et al., 2011). We test our hypotheses using statistical analysis based on survey data from multiple respondents in 326 firms.

The rest of the paper proceeds as follows. In the next section, we build our theoretical framework and present our hypotheses in relation to how the chairperson's experience and leadership efficacy can be expected to influence boards' strategy involvement in small firms. Thereafter, we present the method section, with information about our sample and variables. Following this is a presentation of our analysis and empirical findings. The paper concludes with a discussion of the implications of our findings for theory and practice.

LITERATURE REVIEW

It is widely recognized that small and medium-sized enterprises (SMEs) play an important role in developed economies by contributing to innovation and the creation of new jobs. According to a report by the Association of Chartered Certified Accountants (ACCA), SMEs make up the vast majority (85 to 99.9 per cent) of the business population. They also account for just under 50 per cent of private sector value added and 77 per cent of private-sector employment (ACCA, 2010). Moreover, SMEs play a significant role in industrial renewal due to their ability to channel new combinations of knowledge and resources into new market offerings (Acs & Audretsch, 1993), as well as by developing new market niches for existing products and services (Timmons, 1998).

A key characteristic of small firms is their inherent constraints with respect to resources and capabilities. After all, operational definitions of SMEs imply that they employ fewer people, possess fewer assets and operate in fewer markets (Mazzarol & Reboud, 2009). This defining characteristic is often referred to as creating size disadvantages (i.e. “liabilities of smallness”), which are reflected in difficulties in securing financial capital and staff (Winborg & Landstrom, 2001), inability to capture economies of scale and gain bargaining power with key stakeholders (Strotmann, 2007), vulnerability to environmental changes (Blake & Saleh, 1992) and problems in accessing the complementary assets needed to commercialize innovations (Gans & Stern, 2003; Teece & Freeman, 1990). Overall, these difficulties imply that SMEs must think and act strategically to turn their limited resources and capabilities into competitive market offerings that will satisfy the needs of major stakeholders, particularly customers and owners.

Research evidence suggests that strategic planning in SMEs is positively associated with enhanced firm performance, both when it comes to the plan itself and in the process of developing the plan (Brinckmann, Grichnik, & Kapsa, 2010). However, strategic planning is often described as a largely implicit, informal and intuitive process in SMEs (e.g. Mintzberg, 1989), with its form and content heavily dependent on the characteristics, experience and personal goals of the managing director (Mazzarol & Reboud, 2009; Richbell, Watts, & Wardle, 2006). Managing directors are moreover typically distracted by operational work while having little time for strategy (Mazzarol & Reboud, 2009; Tell & Gabrielsson, 2013).

Empirical research suggests that SMEs may benefit from an empowered board of directors that can actively engage in evaluating, implementing and controlling strategy decisions in a systematic and analytical manner (Fiegenger, 2005; Gabrielsson & Politis, 2007; Knockaert et al., 2015). Board empowerment is often initiated by recruiting an external board member who also takes the position of the board chairperson (Gabrielsson, 2007b; Huse & Zattoni, 2008). The chairpersons are in this respect instrumental in developing the boards of directors in SMEs by influencing other board members’ general level of engagement and effectiveness (Huse, 1998), including their contribution to setting the strategic direction of the organization (Gabrielsson et al., 2007; Machold et al., 2011).

Hypothesis Development

The role of the chairperson is critical for influencing a board’s overall engagement and involvement in strategy (Leblanc, 2005; Roberts, McNulty, & Stiles, 2005; Yar Hamidi, 2017). SMEs, however, provide a context where owners are closely involved in the business (Forbes & Milliken, 1999) and where board members are often linked by family or friendship ties (Brunninge et al., 2007; Fiegenger, 2005). In this context, we expect that board chairpersons must rely on their personal experience and leadership qualities to unlock the full potential of board members in contributing to strategy. Our theory and logic is embedded in the behavioural approach to boards and governance (Gabrielsson, 2007a; Huse, 2005; Kaczmarek, 2017; van Ees et al., 2009), which contends that it is the behaviour of boards and their members that is likely to be most significant in explaining board- and firm-level outcomes, whatever structural arrangements are put in place ((Voordeckers, Van Gils, Gabrielsson, Politis, & Huse, 2014). In the following section, we will motivate these theoretical expectations and present our hypotheses.

Chairperson Leadership Efficacy

A key tenet in the behavioural approach to boards and governance is the power and capacity of strategic leaders to manage and orchestrate other key actors in and around the boardroom to produce desired results (van Ees et al., 2009). This stems from the observation that strategic decision-making is to a large extent a political process (Huse, 1998) that involves different coalitions of actors with a stake in the organization (Huse & Rindova, 2001). As such, the board chairperson needs to be skilled in mediating between various coalitions of internal and external actors to ensure that organizational effort is directed towards achieving the overall goals set by the dominant coalition (van Ees et al., 2009). Such leadership not only addresses the structural aspects of the boards work, but also includes process issues such as building healthy boardroom dynamics (Sonnenfeld, 2002), marshalling resources and expertise inside and

outside the boardroom (Huse, 1998), as well as ensuring that the boundaries between board and management responsibilities are clearly understood and respected (Leblanc, 2009). Thus, the chairpersons' leadership efficacy can be seen as instrumental in increasing boards' strategy involvement in SMEs. Following this theoretical logic we formulate our first hypothesis as follows:

H1: There is a positive association between chairpersons' leadership efficacy and board strategy involvement in SMEs.

Chairperson Knowledge and Experience

Another key tenet in the behavioural approach to boards and governance is the important role attributed to tacit experiential knowledge resulting from personal experience (van Ees et al., 2009). Personal experience, in contrast to reading about things or listening to others, is often seen as critical for individual learning and self-development since this stimulates inquiry, knowledge creation and skill formation (e.g. Kayes, 2002; Hoover et al., 2010). However, the behavioural approach emphasizes in particular the experientially acquired routines that are built up over time, which enable decision makers to direct their attention to selected aspects of identified problem situations (Cyert & Marsh, 1963). These experientially acquired routines also enable decision makers to develop a repertoire of "successful" solutions that can be stored in memory and reproduced in later situations (van Ees et al., 2009; see also Cohen, March and Olsen, 1972). Thus, the past experience of chairpersons can be seen as a key mechanism in a theoretical model aimed at understanding boards' overall level of engagement, including their involvement in strategy. Following this theoretical logic, we identify and propose three types of chairperson experience that can be linked to board strategy involvement in SMEs: board experience, industry experience and firm-specific experience.

First, we expect that the chairperson's accumulated board experience will be associated with increased levels of board strategy involvement in SMEs. Experience from earlier board work may provide chairpersons with experiential insights into both vicious and virtuous board dynamics (Huse, Minichilli, & Schøning, 2005), as well as practical training in fostering a culture of constructive debate among board members (Demb & Neubauer, 1992; Forbes & Milliken, 1999). As such, more-extensive board experience could raise the productivity of chairpersons through increases in their cognitive abilities (Rindova, 1999), thereby allowing them to achieve more desirable outcomes in their undertakings. To this end, we formulate our second hypothesis as follows:

H2: There is a positive association between chairpersons' board experience and board strategy involvement in SMEs.

Second, we expect that the accumulated industry experience of the chairperson is associated with increased levels of board involvement in strategy. Industry experience is often seen as a prerequisite to be able to contribute to strategy development in boards (Jay W. Lorsch, 1995) and may in this respect provide chairpersons with a greater understanding of strategic issues, such as the nature of the competitive environment and the key drivers of strategic change that could provide opportunities or give rise to threats. Industry experience also provides strategic networks that may channel timely information into the strategic decision-making process (Wan & Ong, 2005) (see also Pfeffer and Salancik, 1978). Industry experience can in addition serve as a valuable source of legitimacy for the chairperson in his or her position (Pick, 2007) and thereby be instrumental when initiating debates about strategy in the boardroom. In sum, based on these arguments, we formulate our third hypothesis as follows:

H3: There is a positive association between chairpersons' industry experience and board strategy involvement in SMEs.

Third, we expect the accumulated firm-specific knowledge of the chairperson to be associated with increased levels of board strategy involvement in SMEs. Experientially acquired knowledge about firm specificities is often seen as a key input in strategy discussions and a main source of competitive advantage (Barney, 1991). Such firm-specific knowledge increases the understanding of the kind of strategic resources the firm has and in what ways these resources provide an advantage over competitors (Forbes & Milliken, 1999; Gabriellsson & Winlund, 2000), and is thus a valuable cognitive input to strategy making (Rindova, 1999). Thus, the accumulated firm-specific experience of the chairperson can

be expected to be a critical component for the board's ability to shape and influence strategy, as it enables board members to more actively discuss and deal with the complexity and uncertainty associated with strategic decisions (Farjoun, 1994; J.W. Lorsch, 2009). Following this logic, we formulate the fourth hypothesis as follows:

H4: There is a positive association between chairperson's firm specific knowledge and board strategy involvement in SMEs.

DATA AND METHODS

Sample and Data Collection

Our hypotheses are tested through a quantitative analysis on data collected from the Norwegian value creating board surveys conducted in Norway during 2005–2006 (Huse, 2009). The choice of survey method is motivated by the lack of process data on behavioural aspects of boards of directors (Forbes & Milliken, 1999; Huse, 2005) and a desire to avoid secondary data as a proxy for board processes (Finkelstein & Mooney, 2003). In their review of corporate governance research, Daily, Dalton and Cannella (2003) discuss the access to process data as one of the major empirical challenges for researchers on boards of directors and corporate governance (Daily, Dalton, & Cannella, 2003).

The data set used in this study is unique in its focus on validated scales related to behavioural aspects of actual board work developed by corporate governance scholars in several countries over many years (Gabrielsson et al., 2007; Huse, 2007, 2009; Minichilli & Hansen, 2007; Pugliese & Wenstop, 2007; van Ees, van der Laan, & Postma, 2008; Zona & Zattoni, 2007). The questions used in the surveys are short and specific, using simple words to avoid ambiguous formulations (Dillman, 2011). The survey was sent out to multiple respondents in each firm and the results used in this study include responses from managing directors, chairpersons and other board members. The survey also targeted respondents in specific subsets of firms to enable control of contingencies such as firm size and industry. A full review and discussion of the background and development of the Norwegian value creating board survey can be found in (Huse, 2009).

The initial sample frame for this study consists of Norwegian private firms with fewer than 250 employees, which follows the European Community's definition of SMEs. This resulted in an initial sample of 520 firms/cases. However, our research interest in chairperson leadership also requires sample firms to have a board of at least two directors. Thus, we excluded SMEs with only one official board member, so called "paper boards" (Gabrielsson & Winlund, 2000). Finally, we went through the data carefully and excluded cases with missing or incomplete data in one or more of the variables of interest in this study. This screening resulted in a final sample of 326 cases with complete and accurate data that could be used in our statistical analysis. This figure corresponds to 63 per cent of the initial sample of SMEs included in the dataset.

The Norwegian corporate governance system has both similarities to and differences from other countries and contexts (Shleifer & Vishny, 1997). The state in Norway has had a greater influence and ownership in business affairs than Anglo-American countries (Machold et al., 2011) and this is manifested in both legislation and the large ownership of the state in publicly held corporations in Norway today. However, there are also similarities. The Norwegian code of practice for corporate governance shows many similarities to other international codes regarding board structures and the division of responsibilities among boards, shareholders and management (NUES, 2014). Further, boards of small and medium-sized firms are traditionally active boards (Huse, 1990) and therefore of special interest to our research.

Variables and Measures

Board strategy involvement. Our dependent variable was based on a multi-item Likert-type scale developed and used to measure boards' strategy involvement in previous studies (Machold et al., 2011; Minichilli, Zattoni, & Zona, 2009; Torchia, Calabrò, & Huse, 2011). In line with Gabrielsson (2007), we considered the CEO as the best informant regarding strategic issues in SMEs. The CEOs were thus asked

in the survey to assess the extent to which they agreed (7 = strongly agree; 1 = strongly disagree) to statements regarding the involvement of the board in (a) actively initiating strategy proposals; (b) making decisions on long term strategies and main goals; (c) implementing strategy decisions; and (d) controlling and evaluating strategy decisions. A higher score on this scale indicates a higher involvement of the board of directors in strategy. Cronbach's alpha for this construct is .93.

Independent Variables

Our theoretical framework involves four independent variables related to the leadership efficacy (Hypothesis 1), board experience (Hypothesis 2), industry experience (Hypothesis 3) and firm-specific experience (Hypothesis 4) of the chairperson of the board of directors.

Chairperson leadership efficacy was measured with a multi-item Likert-type scale based on the theoretical and empirical work of Gabrielsson et al. (2007). Following this source, the variable was measured by asking board members to what extent they agreed (7 = strongly agree; 1 = strongly disagree) that their chairperson is excellent on aspects such as (a) motivating and using each board member's competence; (b) formulating proposals for decisions and summarizing conclusions at board meetings; (c) leading board discussions; (d) working well with the CEO; (e) working constantly to develop the board's working processes; (f) demonstrating open and trustworthy leadership; and (g) always being very well prepared for board meetings. Cronbach's alpha for this variable is .86.

Chairpersons' board experience, industry experience and firm-specific experience were each gauged by single-item measures based on responses from CEOs, where they were asked to assess on a Likert-type scale to what extent they agreed (7 = strongly agree; 1 = strongly disagree) that their board chairperson had extensive board experience from other companies, extensive relevant industry experience with regard to the company's operations and extensive knowledge of the firm (main operations, key competence, products etc.). A higher score on each measure indicates greater experience.

Control Variables

Following previous research, we included two sets of control variables in our research model. The first set of variables aimed to control for industry and firm characteristics that could potentially influence boards' involvement in strategy (Golden & Zajac, 2001; Haynes & Hillman, 2010; Judge Jr & Zeithaml, 1992; Machold et al., 2011). Firm industry belongingness was gauged by a nominal dichotomous variable identifying the company's main industry as either production industry (= 1) or other (= 0). We also included a dichotomous variable indicating whether the firm was a high-technology firm (no = 0; yes = 1), since board involvement in strategy is particularly manifested in these firms (Carpenter, Pollock, & Leary, 2003). Moreover, we controlled for firm size and firm age, measured as the number of employees and the number of years the firm had existed. Both of these variables were transformed using a logarithmic transformation to adjust for the skewed distribution in the data. Finally, we also included a dichotomous variable indicating whether the CEO considered the firm to be a family firm (no = 0; yes = 1), since strategic involvement could be different in family firms (Brunninge & Nordqvist, 2004; Brunninge et al., 2007).

The second set of variables aimed to control for board characteristics that are frequently used in board research, which are often referred to as the "usual suspects" (Finkelstein & Mooney, 2003), as they are expected to influence various board- or firm-level outcomes. Board size was measured as the total number of board members. This variable was transformed using logarithmic transformation to adjust for the skewed distribution in the data. We measured outsider ratio as the percentage of outsider (non-executive) directors in the total number of board members (Malette & Fowler, 1992). Shareholder ratio was measured by dividing the number of directors holding shares in the firm by the total number of directors on the board. CEO-duality was measured as a dichotomous variable, coded 1 if the CEO were also the chairperson of the board and 0 otherwise. Chair tenure was measured with a continuous variable indicating how many years the chairperson had been working in this position.

ANALYSIS AND RESULTS

We had a metric measure as the dependent variable and several metric and binary independent variables in our research model, since we chose to apply a linear multiple regression analysis to test our hypotheses. The linear regression analyses for our three models were conducted in steps, so as to capture the contribution of each set of variables to the model significance. Additionally, the F-changes for all three models are significant for all of the changes displayed in the table. Table 1 shows descriptive data, including mean, minimum, maximum and standard deviation, for all of the variables used in the analysis.

TABLE 1
DESCRIPTIVE STATISTICS FOR RELEVANT VARIABLES

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------------------|-----|---------|---------|-------|----------------|
| Hi-tech firm | 468 | 0.00 | 1.00 | 0.31 | 0.46 |
| Firm size (Ln employees) | 508 | 0.00 | 5.48 | 3.78 | 1.14 |
| Firm age | 512 | 0.00 | 181.00 | 42.71 | 40.73 |
| Family firm | 509 | 0.00 | 1.00 | 0.28 | 0.45 |
| Firm industry | 515 | 0.00 | 1.00 | 0.35 | 0.48 |
| Number of board members (Ln) | 507 | .69 | 2.30 | 1.66 | 0.30 |
| Outsider ratio | 487 | 0.00 | 1.00 | 0.78 | 0.31 |
| Shareholder ratio | 467 | 0.00 | 1.00 | 0.32 | 0.34 |
| CEO-duality | 490 | 0.00 | 1.00 | 0.08 | 0.28 |
| Chair tenure | 446 | 0.00 | 40.00 | 5.60 | 5.71 |
| Chairperson leadership | 488 | 1.00 | 7.00 | 5.16 | 1.04 |
| Chairperson board experience | 505 | 1.00 | 7.00 | 5.23 | 1.79 |
| Chairperson industry experience | 505 | 1.00 | 7.00 | 5.32 | 1.57 |
| Chairperson firm specific knowledge | 506 | 1.00 | 7.00 | 5.94 | 1.12 |
| Strategy involvement | 499 | 1.00 | 7.00 | 5.03 | 1.48 |
| Valid N (listwise) | 328 | | | | |

Before running our analysis we examined potential problems in the distribution of our variables by conducting residual analysis to verify the assumptions of the hierarchical regression analysis. No results were found that indicated a need for a change in our main conclusions. In our hypothesis testing, we combined the interpretation of F-change results in the linear regression with the beta coefficients in the models, and correlation coefficients. Correlations for all variables are presented in Table 2.

A preliminary analysis of correlations between predictors suggest that they are below the recommended level of $r < .70$ (Nunnally, 1978). We also conducted variance inflation factor analysis (VIF) after each regression to check for multicollinearity. VIF values ranged from 1.1 to 1.5, thus clearly indicating that multicollinearity is not a problem in our study (Kutner, 2005; Neter, Wasserman, & Kutner, 1990).

As discussed above, the methodological approach taken in this study is to explore theoretical relationships via measures collected via a survey. While insightful, this explorative approach may influence the risk of rejecting a true null hypothesis (a Type I error). To cope with this, we have in our analysis chosen to interpret statistical results at the 10 percent level of significance, even if it increases the risk of failing to reject a false null hypothesis (a Type II error). By doing so, we hope to find a reasonable

balance between the risk of Type I vs. Type II errors within the context of our study. The regression analyses, where we insert variables in different steps, are shown in Table 3.

TABLE 2
CORRELATION ANALYSIS

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|--|---------|---------|--------|---------|--------|---------|---------|---------|---------|-------|--------|--------|--------|--------|----|
| 1 Hi-tech firm | 1 | | | | | | | | | | | | | | |
| 2 Firm size (Ln employees) | .186** | 1 | | | | | | | | | | | | | |
| 3 Firm age | .030 | .287** | 1 | | | | | | | | | | | | |
| 4 Family firm | -.130** | .015 | .172** | 1 | | | | | | | | | | | |
| 5 Firm industry | .105* | .190** | .064 | .037 | 1 | | | | | | | | | | |
| 6 Number of board members (Ln) | .086 | .354** | .181** | -.208** | -.052 | 1 | | | | | | | | | |
| 7 Outsider ratio | .189** | .187** | .073 | -.225** | .008 | .363** | 1 | | | | | | | | |
| 8 Shareholder ratio | -.064 | -.263** | .004 | .214** | -.019 | -.223** | -.360** | 1 | | | | | | | |
| 9 CEO-duality | -.068 | -.109* | .024 | .190** | -.002 | -.199** | -.303** | .222** | 1 | | | | | | |
| 10 Chair tenure | -.200** | -.089 | .034 | .309** | .014 | -.182** | -.286** | .271** | .272** | 1 | | | | | |
| 11 Chairperson leadership | .024 | -.008 | .034 | -.004 | -.024 | -.021 | .072 | .067 | .032 | .028 | 1 | | | | |
| 12 Chairperson board experience | .101* | .051 | .061 | .009 | .076 | .040 | .270** | -.130** | -.134** | -.083 | .151** | 1 | | | |
| 13 Chairperson industry experience | -.046 | -.025 | -.106* | .076 | .146** | -.172** | -.102* | -.049 | .154** | .051 | .094* | .226** | 1 | | |
| 14 Chairperson firm specific knowledge | -.056 | -.074 | -.047 | .041 | .047 | -.233** | -.120** | .029 | .199** | .095* | .076 | .185** | .635** | 1 | |
| 15 Strategy involvement | .219** | .094* | -.030 | .011 | .036 | .070 | .264** | -.064 | .059 | -.087 | .132** | .152** | .075 | .192** | 1 |

Step I includes our first set of control variables, which related to industry and firm characteristics. Step II includes our control for board characteristics. In model I, as expected, the coefficients are weak and, aside from industry effects (hi-tech firm, $p < .001$), there are no signs of significance. Step II shows continuous significant coefficient regarding industry characteristic (hi-tech firm, $p < .01$), in addition to board characteristic (outsider ratio, $p < .01$).

Step III includes the chairperson variables and tests hypotheses 1–4. Our first hypothesis (H1) is supported in the analysis ($p < .10$), indicating that there is a moderate positive association between chairperson leadership efficacy and board strategy involvement in SMEs. Our second hypothesis (H2) is supported ($p < .01$) and indicates that there is a strong positive association between chairperson board experience and board strategy involvement in SMEs. However, our third hypothesis (H3) is not supported as the regression analysis in our model indicates a moderate but reverse relationship ($p < .10$) between chairperson industry experience and board strategy involvement. However, the last hypothesis (H4) is supported and indicates that chairperson firm-specific knowledge is positively associated ($p < .05$) with board strategy involvement in SMEs.

DISCUSSION AND IMPLICATIONS

In this study, we aim to contribute to scholarly research and literature on actual board behaviour in SMEs (Huse, 2000) by examining whether and how the experience and leadership efficacy of the chairperson influence the extent to which the board of directors are involved in setting the strategic direction of the firm. We tested our hypotheses on data collected from multiple respondents in 326 Norwegian SMEs. The variables are based on validated scales related to behavioural aspects of actual board work (Huse, 2009). Overall, our findings provide ample support for the significance of chairperson behaviours in explaining and understanding board outcomes in SMEs. We find support for three of our

four conjectures: chairpersons' leadership efficacy (H1), board experience (H2) and firm-specific experience (H4) all have a positive effect on the extent to which the boards of directors are involved in strategy in SMEs. Interestingly, and in contrast to our theoretical expectations, we find that chairpersons' industry experience has a reverse relation with board strategic involvement. We will elaborate on the implications of our findings below.

TABLE 3
REGRESSION ANALYSIS FOR STRATEGY INVOLVEMENT

| | Model I | Model II | Model III |
|---|----------|----------|-----------|
| <u>Industry and firm characteristics</u> | | | |
| Hi-tech firm | 0.64*** | 0.51*** | 0.46*** |
| Firm size (Ln employees) | 0.09 | 0.10 | 0.11 |
| Firm age | 0.00 | 0.00 | -0.01** |
| Family firm | 0.13 | 0.26 | 0.36† |
| Firm industry | 0.06 | 0.10 | 0.14 |
| <u>Board characteristics</u> | | | |
| Number of board members (Ln) | | -0.22 | 0.06 |
| Outsider ratio | | 1.09*** | 0.92*** |
| Shareholder ratio | | 0.28 | 0.26 |
| CEO-duality | | 0.68 | 0.72* |
| Chair tenure | | -0.02 | -0.02 |
| <u>Chairperson characteristics</u> | | | |
| H1 Chairperson leadership | | | 0.14† |
| H2 Chairperson board experience | | | 0.14** |
| H3 Chairperson industry experience | | | -0.11† |
| H4 Chairperson firm specific knowledge | | | 0.22* |
| R | .249 | .334 | .416 |
| Adjusted R2 | .047 | .083 | .136 |
| F (sign) Full model | 4.243*** | 3.995*** | 4.669*** |
| F change | 4.243*** | 3.502** | 5.846*** |
| N= | 326 | 326 | 326 |

† = .10-level; * = .05-level; ** = .01-level; *** = .001-level.

When it comes to implications for owners of SMEs who seek to increase board's strategic involvement, our findings speak in favour of employing chairpersons with explicit leadership skills, and with prior experience from working in firms and with boards. However, if the chairperson has greater amount of industry experience it seems on the other hand that the board's involvement in strategy is reduced. While this finding may sound counter-intuitive, we may seek explanation in research that suggest that managers and entrepreneurs who operate in the same industry over time develop a set of

institutionalised and highly shared beliefs (Cliff, Jennings, & Greenwood, 2006; Gabrielsson & Politis, 2012; Spender, 1989). Such “industry recipes” (Spender, 1989) triggers the adoption of taken-for-granted behaviour, which may reduce the likelihood that the chairperson actively engages fellow board members in evaluating, implementing and controlling strategy decisions from various perspectives and viewpoints. Thus, we need to acknowledge that different types of chairperson experiences may influence board's strategic involvement in different ways.

In line with our theorizing, the findings provide ample support for the proposition that chairpersons' experience and leadership behaviours have a significant, non-trivial impact on the extent to which boards are involved in strategy. As such, our findings contribute to theory on boards of directors by emphasizing behavioural processes and relational dynamics for understanding and explaining board- and firm-level outcomes (Huse, 2005; van Ees et al., 2009). Past studies on corporate governance and boards of directors conducted within the behavioural approach have to a large extent addressed issues related to the boards' task performance (e.g. Gabrielsson and Windlund, 2000; Gabrielsson, 2007b; Minichilli, Zattoni and Zona, 2009), while largely neglecting how the background and behaviour of individual board members can impact board- and firm-level outcomes (Huse, 2005). In this respect, our study advances current conceptualizations within the behavioural approach to boards and governance as we theorize about how chairperson behaviours explain variations in board strategy involvement.

We fully acknowledge that the study is embedded in a number of limitations. A major limitation is the survey approach used to collect data. The questionnaire provided us with data from a large number of multiple respondents but also led us to rely on subjective assessments of the experience of chairpersons. In this respect, future studies should correlate these subjective measures with objective human capital proxies (e.g. Gabrielsson and Politis, 2012), for example the number of years of experience in each experience category. Moreover, we acknowledge that our analysis is based on responses from CEOs and board members operating in Norway. Previous research has suggested that board structures are largely decoupled from actual board behaviour in privately held SMEs (Voordeckers et al., 2014), which suggests that it is possible to disseminate board development research across countries. However, this finding is not undisputed and generalizations across context should thus be made with caution. In this respect, we welcome further empirical studies that can corroborate and extend our theorizing in different national settings.

Despite these potential limitations, we believe that our study provides theoretical insights that can inform board development practices in SMEs. The board of directors is often emphasized as a largely untapped resource in SMEs, which can be both a catalyst and a working partner for the managing director in setting the strategic direction of an SME. However, SMEs often suffer from weak boards, with little or no influence over the strategic direction and performance of the firm (Fiegener, 2005). To this end, our findings suggest that appointing an external board chairperson can be instrumental in developing the board of directors in SMEs, especially with regard to its role in shaping firm strategy. Furthermore, our findings identify personal qualifications related to the experience and leadership behaviours of chairpersons, which can be used as an input in the recruitment process when firms and their stakeholders seek to increase boards' overall involvement in the strategic arena.

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