

# ON NEW VENTURES' BOARD OF DIRECTORS: FORMATION, ADJUSTMENT, AND INFLUENCES ON INTERNATIONALIZATION

Anthony Kuo<sup>1</sup>, Ming-Sung Kao<sup>2</sup>, and Nichanan Sakolvieng<sup>3,\*</sup>

## Abstract

To survive and grow, young firms must leverage different means, such as strategic alliances or founders' personal networks, to access and acquire necessary external resources to overcome, or at least mitigate, the liability of newness. In this study, we found that the board of directors can serve as a means of resource provision for new ventures. We conducted a historical analysis and case studies on high-tech new ventures, in order to delve deeply into the processes regarding how boards are formed, how board members provide these resources, and what factors influence the processes. Results showed that a board of directors is more likely to be formed when the funds are raised from institutional investors, rather of individual investors. Moreover, for founders, formation of the board connotes an exchange of partial ownership for critical external resources. When more resources are needed, founders adjust their boards. Adjustments of the board can be categorized into two: "planned board adjustments" are initiated by the founders to acquire external resources, while "required board adjustments" are set out by disgruntled board members, and reduced resource endowments of the firm. In addition, board members exploit their individual assets, experience, reputation, and personal networks to provide personally endowed resources to the new venture, and leverage their firms' assets, reputation, and business networks to contribute organizationally endowed resources. Board members also facilitate new ventures' internationalization.

**Keywords:** New venture, resource dependence, survival, growth, board of directors, internationalization

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<sup>1</sup>Prof. Dr. Anthony Kuo obtains a Ph.D. degree from National Chengchi University in Taiwan and an MBA degree from University of Illinois at Urbana-Champaign, USA. Currently he is serving as the Associate Dean of College of Management and a Full Professor in the Ph.D. Program of Business Administration at Fu Jen Catholic University in Taiwan.

<sup>2</sup>Prof. Dr. Ming-Sung Kao obtains a Ph.D. degree from National Taiwan University in Taiwan. Currently he is serving as the Director of Auditing Office at Fu Jen Catholic University Hospital and a Full Professor in the Department of Finance and International Business at Fu Jen Catholic University in Taiwan.

<sup>3,\*</sup>Dr. Nichanan Sakolvieng obtains a Ph.D. degree in Organization and Management (International Business Specialization) from the University of New South Wales, Australia. Currently she is working as the Deputy Chairperson and a lecturer in the Department of International Business Management, Martin de Tours School of Management and Economics, Assumption University, Thailand. Email: nichananskl@au.edu

## **1. INTRODUCTION**

This study explores the process of board formation and adjustments in new ventures, and the influence of a board of directors in internationalization. This process has not been a focus of corporate governance research, or thoroughly investigated in new venture survival and growth studies. However, numerous entrepreneurs rely on the resources provided by board members to survive and to grow. It is essential to understand how resources are provided as the board of directors is formed and adjusted. Specifically, board members can provide certain resources or connections to facilitate internationalization of the new venture. Therefore, the authors undertook this study to better understand the above questions.

For new ventures, resources are especially important, as they usually suffer from a lack of necessary resources; they are endowed only with the resources accumulated by their founders before establishment of the firm (Chandler & Hanks, 1994; Katz & Gartner, 1988). New ventures also have lower degrees of legitimacy and reputation, due to the lack of a track record demonstrating their credibility and reliability. Thus, new ventures tend to experience higher mortality rates than established firms. They commonly suffer from liabilities of both newness and smallness (Hannan & Freeman, 1989; Levinthal, 1991; Stinchcombe, 1965). Even if a new venture is internally endowed with sufficient resources for its initial survival, the changing resource needs during its early growth stage inevitably lead to the

originally endowed resources becoming obsolete. To survive and further grow, new ventures must solicit external resources that cannot be produced internally. Various methods such as alliances (e.g. Baum & Oliver, 1991; Pisano, 1990) and the founders' personal network relationships (e.g. Gulati, 1998; Jarillo, 1989; Larson & Starr, 1993) help new ventures to access and acquire the necessary resources externally, greatly mitigating the liabilities of newness and smallness.

Boards of directors can serve as a means of resource provisions for new ventures. Pfeffer and Salancik (1978) noted that "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it" (1978: 163). Generally, an externally accountable board is formed, and a formalized governance structure is established in the time horizon immediately subsequent to a financing event (Fama & Jensen, 1983; Whisler, 1988). When a new venture is founded, and as it grows, the founder/CEO must make decisions to seek equity financing at critical junctures, either from informal financing sources such as angel investors or via formal ones such as venture capitalists or corporate investors. While this decision provides the funding necessary to continue the firm's further development, consequent formation of the board also introduces certain critical external resources for the firm's survival and growth. The formation of a board of directors is more than a separation of ownership and

management.<sup>1</sup>

A board of directors is a group of individuals representing different stakeholders, each promoting their specific interests through the governance of the company. Board members in most legal jurisdictions have specific fiduciary duties, whereby they act for the benefit of relevant stakeholders (Berle & Means, 1932). Hence, most corporate governance research examines how directors monitor and control managers' behavior to ensure that they are acting in accordance with the interests of shareholders (e.g. Daily & Dalton, 1993; Daily et al., 2002), with the vast majority focusing on large-scale, established organizations (e.g., Fortune 500 firms), and only a few working with newer and smaller firms (e.g. Huse, 2000; Dalton et al., 1998). Although there is a growing body of literature devoted to board members' resource provision roles in the entrepreneurial context, more research in this aspect is still strongly called for (e.g. Daily et al., 2002; Huse, 2000). Therefore, we conducted exploratory case studies to examine the processes of board formation and board adjustments in new ventures, as well as the influence of the board on firm internationalization.

This study contributes to prior theories and practices in several aspects. First, it adds to the growing yet marginal literature of resource dependence roles of board members in entrepreneurial settings. Especially, the process of board formation has seldom, to our knowledge, been thoroughly investigated in past studies.

As Lynall, Golden, and Hillman (2003) suggested, "it is...important to understand board formation as it relates to firm adolescence in order to gain fuller insights into the relationship between boards and firm performance in mature, older organizations (2003: 416)." Second, this study contributes to new venture survival and growth research. Existing literature in new venture survival and growth has highlighted several ways for new ventures to access and acquire critical resources externally, to survive, grow and further prosper, including alliances with other firms and exploitation of founders' personal network relationships. In this study, it was shown that the formation and later adjustments of the board are an alternate means for new ventures to access and acquire critical strategic resources. At the same time, this approach has its price, and risks. Third, our study also provides entrepreneurs with practical references on how to form a formal board of directors, in order to solicit external resources, the kinds of resources that can be obtained from the board, and how board members provide them.

In Section 2, the present literature on resource acquisitions by new ventures, functions of a boards of directors, and the internationalization of new ventures, is reviewed. Section 3, focuses on the research methodology. Case descriptions are presented in Section 4, followed by analysis of the data obtained from the cases and a detailed discussion of the research findings in Section 5. Section 6

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<sup>1</sup> Many private firms have "advisory boards", which mainly provide advices but do not bare fiduciary duties. (Huse, 2000; Whisler, 1988).

Given our interest in the formal board of directors, we did not include advisory boards to our study.

concludes the paper, giving implications, limitations, and future research suggestions.

## **2. LITERATURE REVIEW**

### **Resource Acquisitions by New Ventures**

In the field of entrepreneurship research, the survival and growth of new ventures has been a very important topic. Researchers from other disciplines such as strategy and organizations also noted the high mortality rates among young firms, relative to their older counterparts. Stinchcombe (1965) first introduced the concept of liability of newness to explain why more new ventures failed in comparison to established firms. He argued that new ventures usually lack considerable bases of influence and endorsement, stable exchange relationships with important external constituents, and perceptions of quality, reliability and legitimacy that mature firms are already equipped with, from their years of experience. Numerous studies supported Stinchcombe's conjecture of a liability of newness (e.g., Baum & Oliver, 1991; Carroll & Hannan, 1989; Hannan & Freeman, 1989; Levinthal, 1991). Some other research challenged this interpretation, arguing that new ventures usually start small; the liability of newness, is actually a liability of smallness (for a review see Baum, 1996).

Although researchers attribute high the mortality rate of new ventures differently, they commonly agree that new ventures are lacking in certain critical resources. A firm's resources can be defined as "those (tangible and intangible)

assets which are tied semi-permanently to the firm (Caves, 1980; Wernerfelt, 1984)". The resource-based perspective recognizes the potential impact of a startup's resource configuration on the firm's ability to survive and grow. For example, Penrose (1959) maintained that, in new firms, the absence of given resources could limit the firm's growth, while the abundance of given resources could promote growth in such firms. Resources accumulated from the past experience of the founders can help a new venture in its initial establishment (Chandler & Hanks, 1994; Chandler & Jansen 1992), but these internal resources are not sufficient for it to survive and grow in the environment in which it was born. Resources contributed by the founders may not be adequate for the new venture. In addition, institutional theory argues that newly emergent organizations have lower degrees of legitimacy and reputation. Societal acceptance of the organizations and their consequent survival depends on their attainment of support from relevant entities in their environment (DiMaggio & Powell 1983; Katz & Gartner, 1988; Ruef & Scott, 1998; Scott, 1987). Thus, emerging firms need to gain access to external resources and know-how that cannot be produced internally. This point of view coincides with the resource dependence perspective, on the critical role of gaining resources from the environment (Aldrich & Pfeffer, 1976; Jacobs, 1974; Pfeffer & Salancik, 1978). The resource dependence of new ventures, on external resources is even more salient than that of their established counterparts, due to the scarcity of resources in the founding stage.

As new ventures move from

emergence to early growth, their resource needs change, and they face new resource acquisition challenges. These resource acquisition challenges vary across the strategic contexts of emergence and early growth, creating an important catalyst for new ventures to solicit various paths to acquiring resources externally. Alliances have been found to provide access to complementary assets (Pisano, 1990) as well as access to external legitimacy and status, similar to that provided by legitimating institutions (Baum & Oliver, 1991; Miner et al., 1990; Stuart et al., 1999). Scholars have also identified that founders' personal networks are critical avenues for the accessing and acquisition of resources for new venture survival and growth (e.g. Gulati, 1998; Jarillo, 1989; Larson & Starr, 1993).

A board of directors, in addition to alliances and the founders own personal networks, can provide desirable resources for new ventures. Prior to a new venture's founding, and during its early growth stage, the founders must make decisions in seeking equity financing at critical junctures, either through informal financing sources such as angels, or via formal ones such as venture capitalists or corporate investors. In general, externally accountable boards are formed in the time horizon immediately after a funding event (Fama & Jensen, 1983; Whisler, 1988). While the fund-raising activities provide the financing necessary to continue the firm's further development, formation of the board further introduces certain critical external resources for the firm's survival and growth. However, the resource provision function of the board does not seem to attract as much attention as the monitoring function.

## **Roles of Boards of Directors: Agency Theory vs. The Resource Provision Perspective**

Current studies on the roles and functions of boards of directors usually follow two distinctive paths. The dominant path builds on agency theory, arguing that a crucial role for boards is to monitor or control management on behalf of shareholders; effective monitoring or controlling can improve firm performance by reducing agency costs. This stream of research has examined the relationship between the board and firm performance, either by focusing on board composition, or by focusing on board incentives, such as board independence or equity compensation. The second, relatively less explored, path of research is based on the resource dependence perspective (e.g. Pfeffer & Salancik, 1978), which focuses on the capability of boards of directors to provide resources otherwise unavailable to the firm. Scholars scrutinized the relationship between the board as a provider of resources (e.g., legitimacy, advice and counsel, and links to other organizations, etc.) and firm performance (see Johnson et al., 1996, Dalton et al., 1998 for a review).

### **Agency Theory and The Monitoring Role**

The majority of researchers from several different disciplines, including law, finance, sociology, and strategic management, have placed their focus on the monitoring role, also described as the "control" role (e.g. Johnson et al., 1996; Zahra & Pearce, 1989), of the board of directors. The monitoring role refers to

the responsibility of directors to monitor managers on behalf of shareholders. The theoretical foundation of the board's monitoring function originated from agency theory, which illustrates the potential for conflicts of interest arising from the separation of ownership and control in firms (Berle & Means, 1932; Fama & Jensen, 1983). Agency theorists see the key function of boards as, monitoring the actions or controlling the behavior of "agents"—managers—to protect the interests of "principals"—owners or shareholders, in modern corporations (Eisenhardt, 1989; Jensen & Meckling, 1976).

Correspondingly, legal and finance scholars emphasize the fiduciary responsibilities of directors to ensure that managers are acting in accordance with the interests of shareholders (e.g. Baysinger & Butler, 1985; Berle & Means, 1932). For years, the main concern has been "how owners, shareholders, and managers minimize the loss of value that results from the separation of ownership and control" (Denis & McConnell, 2003). Numerous studies have addressed the influence of board composition, ownership concentration, or board incentives to monitor firm performance. However, empirical findings have been inconclusive. Two recent meta-analyses of existing studies further found no statistical support for a relationship with board incentives when monitoring and firm performance (Dalton et al., 1998; Dalton et al., 2003).

### **Resource Dependence Theory and The Resource Provision Role**

The provision of resources also serves as an important role of the boards

of directors. This role refers to the ability of a board to bring the resources necessary to a firm, with resources being "those (tangible and intangible) assets which are tied semi-permanently to a firm" (Caves, 1980; Wernerfelt, 1984). The theoretical foundation of this role is built on Pfeffer and Salancik's (1978) work on resource dependency. Pfeffer and Salancik (1978: 2) argued that "the key to organizational survival is the ability to acquire and maintain resources", and, "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it" (Pfeffer & Salancik, 1978: 163).

Two reviews on boards of directors discuss the board's roles regarding their resource provision function. Zahra and Pearce (1989) suggested two roles for directors beyond the monitoring or control role: strategy and service. They depicted the "service" role as "enhancing company reputation, establishing contacts with the external environment, and giving advice and counsel to executives" (1989: 292), and the "strategy" role as directors' participation "in the strategic arena through advice and counsel to the CEO, by initiating their own analyses, or by suggesting alternatives" (1989: 298). In a more recent review, Johnson et al. (1996) adopted a somewhat different categorization, consisting of control, service, and resource dependence roles. They defined the "service" role as "directors advising the CEO and top managers on administrative and other managerial issues, as well as more actively initiating and formulating strategy" (1996: 411) and the "resource dependence" role as "the

board as a means for facilitating the acquisition of resources critical to the firm's success" and "may also serve a legitimizing function" (1996: 411).

### **The Need to Study Boards' Resource Provision Roles in New Ventures**

Despite the differences in taxonomy, both the strategy and service roles from Zahra and Pearce (1989), and the service and resource dependence roles from Johnson et al. (1996) emphasize the board's role in provision of resources, as opposed to the monitoring and controlling activities. The resource provision role is at least equally, if not more important, than the monitoring function.

Most of the literature on boards of directors is based on large and well-established firms and the boards of small and new firms have only recently received the attention of researchers (Daily, 2002; Huse, 1998). However, small firms are not just smaller versions of larger firms; they differ significantly from large firms in terms of their managerial style and corporate culture, independence, ownership, and the scale and scope of operations (e.g. Storey, 1987 & 1994), and also in their structure and decision-making process (e.g. Smith et al, 1988). Applications of the findings in large firms to their smaller counterparts may suffer from faulty generalizations. The same concern also holds for mature firms, because the boards in well-established firms may "reflect anachronistic attributes unadjusted for the firms' present situations and needs (Lynall et al., 2003: 416)." It is therefore essential to pursue the study of boards of directors in entrepreneurial settings.

As discussed earlier, resource dependencies are especially significant in the context of new ventures. Resources provided by boards can be particularly valuable for the survival and growth of new ventures. Daily et al. (2002) articulated that "in entrepreneurial firms, the resource dependence role may be even more critical than for large, mature firms. The crucial issues may not be that firm's boards, or their investors, are able to control the policies, procedures, or practices of CEOs and their TMT members. Instead, it may be the ability of board members, venture capitalists, or high-ranking managers to provide the firm with access to information, and resources that would otherwise be unavailable to it." These arguments are in line with the resource dependence perspective, and reinforce the necessity of studies on boards in entrepreneurial settings.

### **The Internationalization in New Ventures**

Internationalization is an important growth strategy for new ventures (Fernhaber & Li, 2013; George, Wiklund, & Zahra, (2005); Prashantham & Floyd, 2019). A prominent study by Oviatt and McDougall (2005) proposed a framework for international new ventures, suggesting alternative governance structures, which rely on external networks sharing complementary assets with the firm. These findings imply that when new ventures have insufficient resources to pursue internationalization, they will adopt alternative governance structures, e.g. finding (new) external partners who can provide access to important resources.

Despite the pivotal focus on the changes in governance structures in new ventures after internationalization, other recent studies have investigated factors that influence the internationalization and the performance of new ventures in different contexts (Evers, 2010; Klijn, Reuer, Volberda, & van den Bosch, 2019; Prashantham & Dhanaraj, 2015). However, there still exists a limited volume of relevant literature that offers an overview of the formation and adjustment processes of the board, especially regarding a firm's internationalization.

Among the studies with key emphasis on the role of the board of directors in new ventures, Barroso, Villegas, and Pérez-Carelo (2011) attempted to identify sources of board competence and revealed a negative relationship between average board tenure and a firm's degree of international diversification. In a different study, Chen, Chang, and Hsu, (2017) focused on the effects of board capital on firm's internationalization and included board co-working as a positive moderator in the board capital-internationalization relationship. More recently, Hooghiemstra, Hermes, Oxelheim, and Randøy (2019) investigated the monitoring role of the board of directors to explain the reasons why board internationalization could increase or decrease earning management practices. Noticeably, these authors did not sufficiently provide insights into the pattern and the degree of involvement of the board of directors in the internationalization.

Given the inadequacy of the current literature on the board's resource provision roles in new ventures and their

involvement in the internationalization of the new ventures, our study seeks to offer preliminary insights into the process of board formation, adjustment, as well as the level of board involvement in the internationalization of the new ventures.

### **3. RESEARCH METHODOLOGY**

This study adopted an exploratory case study approach for several reasons. First, exploratory fieldwork is essential in emerging areas of research that lack an existing body of theories and data (Glaser & Strauss, 1967; Noda & Bower, 1996). Second, qualitative studies are necessary where organizational processes, such as the processes of board formation and board adjustments, are involved. Quantitative measurements are either inappropriate or not preferable in this situation. (Strauss & Corbin, 1990; Van Maanen, 1979; Yin, 1983). Third, detailed exploration of the processes of how the board of directors is formed, and how the board members contribute necessary resources for the survival and growth of a new venture, requires a level of analysis not available through survey-based research (Yin, 1983). In addition, according to Paul and Rosado-Serrano (2018), who reviewed research on the internationalization of new ventures during 1995-2018, summarizing the research methods used in those studies, it was found that the majority of research in this field adopted a case study approach (38%), followed by quantitative approaches using regression analysis (23%), surveys (22%), mixed methods (14%), and cluster analysis (3%). So, the adoption of a case study approach is common in this field. Finally, the use of



exploratory case research enables ideas to be developed for further study (Noda & Bower, 1996).

Five companies were selected for use as case studies (see Table 1). The firms were chosen through purposeful sampling (Patton, 1990), which is a criterion-based selection method that permits a sample to be constructed fitting a predefined profile. Two reasons led to the selection of companies in the computer and electronics industry only. First, Taiwanese firms play an important role in the global economic landscape—more than 90% of the laptops produced worldwide are manufactured by Taiwanese contract manufacturers (Lin, 2015). Second, firms from the computer and electronics industry exhibit a higher degree of internationalization than firms from other industries—13 of the top 20 companies with the highest level of internationalization are computer and electronics firms (Kuo & Kao, 2011). To understand board formation and board adjustments in new ventures, and their influences in internationalization, selecting cases from the computer and electronics industry will generate more insights. Only new ventures with Taiwanese founders were selected, but selection was not limited to only founding locations within Taiwan, in order to increase the richness of information. To be eligible for selection, each company had to match the definition of a new venture [defined as companies that are less than eight years old by McDougall, Covin, Robinson & Herron (1994)] and small in size [fewer than 500 employees, the definition of small and medium-sized

firm (an SME) provided by the American Small Business Administration (c.f. Hodgetts & Kuratko, 1998)], and must have a formal board of directors bearing fiduciary duties. Existing literature showed that externally accountable boards are usually formed in the time horizon immediately after a financing event (Fama & Jensen, 1983; Whisler, 1988).

To ensure correct understanding of the board formation and adjustment processes, examination of the board formation process was broadened to include relevant funding activities. The data required for the study were collected from in-depth interviews with founders, CEOs, CTOs or managers (90 minutes for each interview on average) and publicly available archival sources, including company websites and documents (such as financial reports, annual reports, corporate press releases, public conferences, and magazine or newspaper reports). Follow-up questions were conducted via email communication iteratively. The data obtained from interviews, email, and archival sources were triangulated, revealing a high level of consistency (Denzin, 1978; Janesick, 1994). Interviewees (key informants) were selected based on their experience of founding their firms and forming the board of directors. Only individuals who had complete experience of board formation and board adjustment were eligible to be the key informants. Table 2 summarizes the profiles of the key informants.

Table 1. A summary of the companies examined

	Company A	Company B	Company C	Company D	Company E
Industry	Hardware	Software	Software	Internet/service	Software
Main products/ services	Blade servers	Cellular phone mobility management software	Melody recognition software and firmware	Chinese female community website	Real-time multi-lingual transformation software
Country founded	US	US	Taiwan	Taiwan	US

Table 2: Key informants’ profiles

Company	Key Informant	Position	Industry experience	Gender
Company A	Mr. Q	Co-founder & CEO	22 years	Male
Company B	Mr. C	Co-founder & CTO	10 years	Male
Company C	Ms. S	Co-founder & COO	15 years	Female
Company D	Mr. H	Co-founder & CEO	12 years	Male
Company E	Mr. L	Co-founder & CTO	25 years	Male

Adopting a case study approach allows the use of replication logic and helps to obtain validity (Rialp, Rialp, Urbano, & Vaillant, 2005). To ensure the validity of our findings, a research assistant was needed. Besides the interviewer and the participant, a research assistant was present to take note of the conversation during the interview. Interview scripts were then transcribed and prepared individually by the interviewer and the research assistant. After checking and combining the two scripts, the full write-ups were completed. The transcription process was not carried out in isolation, but also engaged note-taking of key findings to form an initial analysis which was to be followed by a more in-depth examination. To verify the overall accuracy of the transcripts and the

summary of key findings, a process of cross-checking with the interview participants was employed. It allowed the participants to provide clarification and add further comments. These processes were used to triangulate the validity of the findings and to enhance the quality of the research design.

To address the global endeavor issue in qualitative research (Flick, 2014; Flick & Röhnisch, 2014), this study also noted the local and cultural challenges in conducting qualitative research. As suggested by Flick and Röhnisch (2014), we employed a systematic triangulation of perspectives, i.e. investigator triangulation (by using a research assistant with a Western background and English skills to be involved with the data collection) and methodological triangulation (by

using different data collection methods, e.g. interviews, observation, and collection of publicly available data from various archival sources).

The next section provides the analysis of our five cases.

#### 4. CASE ANALYSIS AND DISCUSSION OF FINDINGS

Case studies were analyzed by looking at the entire process of raising initial funds, forming the board of directors, and adjusting the board of

directors after additional funding activities. Data showed that the boards of directors in each of the case studies did provide critical resources for the new ventures. Meanwhile, the study showed that there were distinctions in the processes of board formation and board adjustments, between the five cases. Diversity in the boards' provision of resources was also revealed. A summary of board formation, board adjustments, and resource provision, is provided in Table 3.

Table 3. A summary of board formation and adjustment processes and resource provisions.

	Company A	Company B	Company C	Company D	Company E
Initial funding source	VC	Family & friends	Family & friends; corporate investors	Corporate investors	Founders
Resources acquired in initial fund raising	Financial capital; business functions; consultation; business opportunities; legitimacy	Financial capital; consultation; business opportunities;	Financial capital; business function; office space	Financial capital	Founders' endowments
Second funding source	Corporate investors	Vcs; corporate investors	Corporate investors	Family & friends	Vcs; corporate investors
Resources acquired in additional fund raising	Unknown yet (joint R&D and other cooperation efforts are expected)	Financial capital; business functions; consultation; business opportunities; legitimacy	Financial capital; business function (joint product development); legitimacy (product credibility)	Financial capital	Financial capital; legitimacy

time ↓

- Notes:** ▶ Indicating the formation of the board.  
 ▷ Indicating the adjustment of the board.  
 □ "Shaded cell" representing resources provided by board members

In the following paragraphs, the processes of board formation and board adjustments, the means of boards' resource provisions, and the influence of the board (in terms of degree and pattern) on internationalization are discussed.

### **Processes of Board Formation and Adjustments**

*A board of directors is more likely to be formed when institutional investors participate*

Common to all the five cases is that board formations were subsequent to the participation of institutional investors. When new ventures received funds from individual investors, formal boards of directors were not always formed. Only when institutional investors stepped in, boards of directors were formed. Such a phenomenon, we suspect, is mainly due to the influence of institutional pressures such as isomorphism - a process that brings organizations to greater similarities (DiMaggio & Powell, 1983), rather than that of separation of ownership and control (Berle & Means, 1932). Separation of ownership and control holds, no matter whether funds come from an individual or institutional investor. If separation of ownership and control is the main reason for board formation, both individual investors and institutional investors, should equally demand to form the board. Virtually all institutional investors have formal boards in the firms in which they have invested; they may actually provide the impetus that pushes a reticent CEO to adopt more professional management practices such as the formation of an externally accountable board of directors. Formation of the board

signals a new venture's transition to professional management.

*Formation of the board as an exchange of partial ownership for critical external resources*

While attributing the higher likelihood of board formation to the participation of institutional investors, we do not deny the importance of separation of ownership and control in new ventures. Formation of the board does signify separation of ownership, but we deem it more a consequence, than a cause of board formation. Our observations lead to the perspective that formation of the board represents *an exchange of partial ownership for critical external resources*. If a new venture does not need any external resources, it will not be necessary to seek help from outside financiers and to form a formal board of directors. But this is usually not the case. Organizations, especially new ventures, depend on external resources to a greater or lesser extent, in order to survive and grow.

With respect to the case studies, Company A, Company C, and Company D did not have sufficient financial capital to begin initial operations, so funds were raised from outside and boards were formed in exchange of financial capital. Company B raised their initial funds from family and friends, while Company E self-financed to commence business, both without formal boards being formed simultaneously. Operations could have been maintained without a board if self-funding could be sustained indefinitely, but the later need for external resources eventually led to the formation of a board. Company B intended to expand to the Japanese market while Company E

needed external funding to relieve the founders' personal financial burdens. Hence, they sought external financiers to invest, but inevitably traded off portions of ownership, in order to access and acquire critical resources from external sources. Company E's founder and CTO, Mr. L, said:

*"I knew the company will no longer be ours once I have them [representatives from VCs and corporate investors] on the board. But our financial burdens were too heavy. We had loans to pay. We had to find money from outside to relieve our burdens."*

Founders from other companies also expressed similar thoughts and concerns of loss of ownership. For example, Company D's founder and CEO, Mr. H, remarked:

*"The company has never been ours [the founders] since day one. We're running the company for directors."*

*Adjustments of the board: "planned" vs. "required"*

Adjustments of the board also reflect the resource dependencies of the new venture. When resource needs evolve as a new venture grows, founders endeavor to adjust the board in order to acquire further resources from external sources. Company A and Company C plan to adjust their boards, aiming for more strategic alliances with business partners to develop or market new products. Although they are still in the processes of board adjustments, new resources are already expected to be introduced by new

board members. In contrast, Company D exhibited a different fashion of board adjustment. Some faithless financiers drew back their investments and left the board. Financial capital was thus reduced as the board size shrank. Thus, from the new venture's point of view, board adjustments were categorized into two types: "planned or intended" and "required or demanded". Planned and intended board adjustments originate from the new venture's needs for additional external resources, and increase the resource endowments of the new venture, while required or demanded board adjustments are initiated by dissatisfied board members, and reduced resource endowments of the firm.

### **Means of Resource Provisions**

Board members exploited various means to provide resources to the new ventures. Some resources are personally endowed (attached to individuals), while some are organizationally endowed (associated with firms). Board members exploited their individual assets, experience, reputation, and personal networks to provide personally endowed resources to a new venture, and leveraged their firms' assets, reputation, and business networks to contribute organizationally endowed resources. For instance, a new venture's legitimacy may result from individual endorsement brought about by a board member's outstanding reputation, or from organizational endorsement made possible by the reputation of an institutional investor. A summarized matrix is shown in Table 4.

Table 4. Types of board members and sources of resource provisions.

	(1) Founders	(2) Family & friends	(3) Venture capitalists	(4) Corporate investors
<b>Personally-endowed resources (individual level)</b>				
Assets	Founders' endorsements	Financial capital	Financial capital	Financial capital
Experience		Consultation	Consultation	Consultation
Reputation		Individual endorsements	Individual endorsements	Individual endorsements
Personal networks		Customers, business partners, channels	Customers, business partners, channels	Customers, business partners, channels
<b>Organizationally-endowed resources (firm level)</b>				
Assets	(Not applicable)	(Not applicable)	Financial capital	Financial capital
Reputation			Organizational endorsements	Organizational endorsements
Business networks			Customers, business partners, channels	Customers, business partners, channels

Board members are categorized as (a) founders, (b) family and friends, (c) VCs, and (d) corporate investors. The former two types are comprised of individuals, while the latter two consist of representatives from institutional investors. Different types of board members contribute different resources to new ventures. In the case studies, VCs and corporate investors tended to provide more resources than individuals, as organizationally endowed resources were often unavailable from individual sources, such as organizational endorsements and introduction of business partners via business networks. The most prominent examples are the board members in Company A and those in Company B, where board members contributed valuable resources associated with their firms. The partnerships with Taiwanese manufactures in the case of Company A, and introductions to Japanese customers and business partners in the case of Company B were both enabled by the board members representing institutional

investors. However, institutional investors may not always intend to help or be capable of contributing the necessary resources to new ventures. We will discuss this issue in the next section.

### Degree of Directors' Involvement in Internationalization

The analysis of data also suggested that the board members of several companies provided abundant resources to lead the company to internationalize instantly after its establishment. For example, the experiences of Company A's Chairman contributed to the formation of this company's unique business model, and his personal networks linked the company with its technology and manufacturing service providers, so that the company could go international instantly. In Company E, the resources provided by the board members also enabled the company to internationalize to some extent. However, what is more crucial to the company, is

when one of the board members provides the introduction of a more resourceful new board member, who further initiates strategic change and guides the company to deeper internationalization.

### **Pattern of Directors' Involvement in Internationalization: Direct vs. Indirect**

While comparing the processes regarding how the board of directors provided crucial resources for the firm's internationalization, different patterns of director involvement were found in the internationalization process. Company B's inside directors, directly participated in internationalization activities, while Company E's Tech's outside directors contributed to the firm's internationalization via strategic change. That is, Company E's outside directors first initiated the strategic change, which consequently led to new activities in the foreign country.

## **5. IMPLICATIONS, LIMITATIONS, AND FUTURE RESEARCH SUGGESTIONS**

The exploratory cases allowed for the examination of the processes of board formation and board adjustments in new ventures. How boards are formed and consequently adjusted in new ventures, what types of resources are provided by board members, how board members provided these resources, and what factors influence the processes were explored. We elaborated on several findings. First, board formations do not always coincide with financing activities. When a new venture raises funds from

outside, a formal board of directors may not necessarily be founded concurrently. Second, a board of directors is more likely to be formed when the fund is raised from institutional investors. The reason mainly originates from the institutional pressure to demand that the founders adopt a more professional management practice. Formation of the board signals a new venture's transition to professional management. Third, formation of the board connotes an exchange of partial ownership for critical external resources. Founders trade off portions of their ownership to acquire critical resources only available externally. Fourth, we categorized adjustments of the board into two types: "planned and intended board adjustments" are initiated by the founders to acquire external resources, while "required or demanded board adjustments" are set out by disgruntled board members, and the reduced resource endowments of the firm. Fifth, directors exploit their individual assets, experience, reputation, and personal networks to provide personally endowed resources to the new venture, and may leverage their firms' assets, reputation, and business networks to contribute organizationally endowed resources. Institutional investors contribute more resources than individuals as some of resources are only attainable from organizations. Seventh, our study found evidence that the board of directors facilitates the internationalization of new ventures.

### **Implications for Theories of New Venture Survival and Growth**

This study contributes to the issues of new venture survival and growth in

several ways. First, current research has found that strategic alliances (e.g. Pisano, 1990; Baum and Oliver, 1991; Gulati, 1998) and founders' personal network relationships (e.g. Gulati, 1998; Jarillo, 1989; Larson & Starr, 1993) facilitate new ventures to mitigate the liability of newness. Our findings reveal evidence that new ventures also rely on board members to acquire external resources that are critical for continued survival and growth. Second, as firms dynamically progress from emergence toward early growth, the firm's resource needs evolve. New and additional resources from outside are expected to support continuous growth. Our findings suggest that new ventures further adjust their boards, in an attempt to acquire resources which will sustain growth in later stages. Third, relying on board members to obtain resources has its price and risks. Founders must trade off portions of ownership, and risks of "required or demanded board adjustments" do exist.

### **The Relationship of Board Members and Their Degree and Pattern of Involvement in Internationalization**

Researchers in the field of international business and entrepreneurship generally agree that different firms have different routes to internationalization based on differences in existing resources, such as market knowledge, the personal network of the entrepreneur, international contacts, experience transmitted from former occupations, relations, and education, etc. (Bell, 1995). Social capital theory implies that new ventures should pursue strategies focusing on the development of valuable

networks, with external resource owners, in order to succeed. Hillman and Dalziel (2003) used the term "board capital" to combine both human capital and relational capital. More recently, Chen, Chang, and Hsu (2017) investigated the effects of board capital on a firm's internationalization and included board co-working as a positive moderator in the board capital-internationalization relationship. In line with these prior studies, our findings also revealed the significance of board capital in internationalization.

Here, we would like to highlight several key findings in the first two cases, which correspond with the current literature, and to raise more potential research questions. First, for the two cases in this study, the boards of directors did provide various resources, including financial capital, advice and counsel to the CEO mentioned in the literature, and they also provided the resources necessary for internationalization. The "board capital", comprised of human capital and relational capital, shapes what kind of resources boards provide.

Second, when perceiving a lack of certain resources, founders sought for suitable outside board members to bring in the resources required as suggested in the literature. However, when encountering unsuitable potential board members, founders would rather not accept them.

Third, the degree of directors' involvement in internationalization is contingent on a founder's or a firm's existing resources. Meanwhile, the outside director's degree of involvement depends on their mind share in the firm. Outside board members can also serve on



the board of other companies; they allocate a different portion of their efforts on different companies.

Fourth, in the given case studies, some outside board members provided only financial capital, not being involved in internationalization, or they were involved indirectly in internationalization — via strategic change. This finding leads us to a new research question: is it possible for founders to recruit outside directors for the purpose of instant internationalization? More studies are suggested in this area of research.

### **Limitations and Future Research Suggestions for Board of Directors' Role in New Ventures**

While contributing to the research of new ventures, this study has limitations as well. We studied new ventures from a specific industrial origin — the computer and electronics industry — due to its importance and higher degree of internationalization. This allowed us to bring more insights, but also made it hard to generalize our findings to other industries or contexts. When applying the findings of this study to other contexts, we need to bear in mind the limitations of their generalizability.

Given the critical role of the board in new ventures, as revealed by our study, we would like to call for more research in this area. Some suggestions are: first, it will be interesting to compare the pros and cons of different approaches of resource acquisitions, including via a boards of directors, strategic alliances, and founders' personal network relationships. A comparative study is recommended. Second, more in-depth studies on the

board as a means of resource provision are advocated. It will be essential to study the benefits and shortcomings of relying on the board for critical external resources. For example, how should founders balance the gains and the losses? How can the founder prevent losing power after outside directors join the board? We believe the above research topics will highly benefit the academic field of survival and growth in new ventures.

## **6. CONCLUSION**

Built on the resource dependency theory and the board's resource provision roles, five companies were selected from the computer and electronics industry, to explore board formation and adjustment processes in new ventures, and their influences on firm internationalization, which is expected to contribute to current theories and practices. Based on the chosen case studies, we have revealed diversity in the boards' provision of resources. We have also identified and differentiated sources of resource provisions. Moreover, two types of board adjustment processes were derived and categorized: "planned adjustment" and "required adjustment". Our study also sheds some light on the degree and the pattern of a board's involvement in internationalization to some extent. Thus, this study contributes new findings to new venture studies by highlighting the processes of board formation and adjustment. Nonetheless, the exploratory nature and the selection of cases of the present study undoubtedly limits the insights uncovered. Further research is warranted to extend our understanding of the board's resource provision roles in

different contexts.

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