

6-9-2012

## BOARD COMPOSITION, BOARD FUNCTION AND FIRM PERFORMANCE: A TEST OF THE UPPER ECHELON PERSPECTIVE ON ENTREPRENEURSHIP, INNOVATION AND COMPETITIVENESS (INTERACTIVE PAPER)

Daniel Örtqvist

*CiiR/Luleå University of Technology*, [daniel.ortqvist@ltu.se](mailto:daniel.ortqvist@ltu.se)

Maria M. Holmgren

*CiiR/Luleå University of Technology*

---

### Recommended Citation

Örtqvist, Daniel and Holmgren, Maria M. (2012) "BOARD COMPOSITION, BOARD FUNCTION AND FIRM PERFORMANCE: A TEST OF THE UPPER ECHELON PERSPECTIVE ON ENTREPRENEURSHIP, INNOVATION AND COMPETITIVENESS (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*: Vol. 32: Iss. 11, Article 5. Available at: <http://digitalknowledge.babson.edu/fer/vol32/iss11/5>

This Interactive Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact [digitalknowledge@babson.edu](mailto:digitalknowledge@babson.edu).

≈ INTERACTIVE PAPER ≈

**BOARD COMPOSITION, BOARD FUNCTION AND FIRM PERFORMANCE: A TEST OF THE UPPER ECHELON PERSPECTIVE ON ENTREPRENEURSHIP, INNOVATION AND COMPETITIVENESS**

*Daniel Örtqvist, CiiR/Luleå University of Technology, Sweden*

*Maria Magdalena Holmgren, CiiR/Luleå University of Technology, Sweden*

**Principal Topics**

The role and influence of board composition on firm performance and development has been extensively debated over the last decades. The upper echelon perspective suggests that the demographic characteristics of firm boards may exert influence over firm performance since demographics are associated with many cognitive bases, values, and perceptions that guide and direct board members decision-making and functions. Several studies have found empirical results supporting these arguments and have further developed the conceptual reasoning for a relationship between upper echelon characteristics and firm performance. However, the wide array of theoretical underpinnings and perspectives combined with diverse empirical evidence has presented further questions over time in relation to how board composition influences firm performance and entrepreneurial levels in firms. In an attempt to address these questions, we model and test the relationship between board composition and firm performance and entrepreneurial levels. We propose a set of hypotheses that suggest that board monitoring and board capital mediates the relationship between board composition and firm performance.

**Methods/Key Propositions**

Hypotheses were tested in a three-year longitudinal data set including full responses from a sample of 296 firms (25% response rate) drawn from a population of Swedish firms. A structural equation modeling approach including mediation models and control for lagged effects were adopted to perform tests. Both subjective and objective measures of firm performance were included and longitudinal data were used to account for potential lagged effects. Besides examining board composition influence over traditional measures of performance, we examine how board composition influences firm levels of entrepreneurial orientation and innovation as well.

**Results/Implications**

Results indicate that board composition exerts influences over both firm performance and entrepreneurial levels in the studied firms. Overall, board composition both influences the firms' ability to exert effective monitoring and contribute with human and relational capital to the firm which in turn are vital areas for the firms in order to perform well. The study has implications for entrepreneurship as it shows the importance of board composition upon firm performance and entrepreneurial levels. The study also contributes to current debates in upper echelon literature by including models of how the relationship between board composition and firm performance is mediated by board functions in terms of board monitoring and board capital. The study includes competing models and tests arguments from alternative theories when examining the role of board composition.

**CONTACT:** Daniel Örtqvist; daniel.ortqvist@ltu.se.