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INVESTIGATING THE LINK BETWEEN GOVERNANCE AND LONG-TERM STRATEGY MAKING IN START-UPS (SUMMARY)

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SUMMARY

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Principal Topic

Recently, there has been increased interest for the business planning/small firm performance relationship. Whereas prior studies found a positive relationship between business planning and small firm performance, it is not clear which factors drive strategic decision-makers in small firms to have attention for the long-term strategy of the firm. Two important channels to impact the strategic direction of a firm are ownership and the board of directors. We first investigate the direct effects of ownership concentration and outside board member (OBM) presence on the long-term strategic attention (LTSA) of start-ups. Subsequently, we focus on the interaction effect between the two governance variables.

First, we argue that the presence of a majority shareholder will decrease the LTSA of start-ups due to a lower willingness of majority owners to make risky strategic choices and the typically less planning-based decision-making processes characterizing small majority owned firms. Second, we argue that the presence of OBM in a start-up will increase the LTSA of these firms, through the provision of the cognitive resources needed to make the firm able and willing to invest in long-term strategies. Lastly, we expect that the negative effects of ownership concentration on the LTSA of start-ups can be mitigated by the presence of OBM, who may challenge the strategic propositions made by owner-managers and highlight the importance of strategic planning for the long-term performance of the firm.

This study builds on a cross-sectional survey of start-ups located in Flanders, Belgium. The survey data was supplemented with publicly available financial data.

Using hierarchical regression modeling, we find a significantly negative effect of ownership concentration and OBM presence on LTSA, which confirms our first hypothesis, but contradicts our second hypothesis. The significant interaction effect between both governance variables shows that the negative impact of ownership concentration on LTSA is lower when OBM are present, confirming our third hypothesis.

Being the first study to investigate the governance impact on firm LTSA, this investigation leads to the conclusion that OBM can mitigate the negative effects of ownership concentration, but are not effective when ownership is dispersed. Our findings further identify increased LTSA as an additional benefit of installing good governance mechanisms. For practitioners who make cost/benefit analyses before installing good governance, this is an important conclusion.

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