NASCENT GOVERNANCE: THE IMPACT OF ENTREPRENEURIAL FINANCE ON BOARD FORMATION AND ROLES
(SUMMARY)

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SUMMARY

NASCENT GOVERNANCE: THE IMPACT OF ENTREPRENEURIAL FINANCE ON BOARD FORMATION AND ROLES

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Principal Topic

The present research is an attempt to make progress in the understanding of the process of board formation and its impact on the functions performed by the board in young entrepreneurial ventures. The link between board members’ characteristics in terms of particular interests/incentives, demographics, knowledge and skills and the effective accomplishment of such functions as monitoring and resource provision is not immediate, but most likely depends on the way the board is initially configured and develops routines through directors’ interaction. Little attention has been given to the process of early board formation in young ventures, although some contributions suggest that a board’s composition and working style are influenced by the lifecycle-stage of its formation and the action of powerful stakeholders (Lynall et al., 2003). Expanding earlier research concerning the impact of directors’ multiple identities on their board roles (Hillman et al., 2008), we argue that the identity of external financiers matters in configuring the board of directors and designing its working mode and roles. This is because different investors (1) may be endowed with different skills and knowledge, and (2) their social identities influence the intrinsic motivation to accomplish different board roles.

Method

We present a conceptual framework of the process of board formation in fast growing entrepreneurial firms. It is confronted with an in-depth longitudinal case study of a young venture that has received funding from business angels and venture capitalists.

Results

The analysis shows that board composition and routines are co-constructed by different (but not all) salient stakeholders who participated in negotiations leading to the first input of external capital. The intended and actual role of the board members not only depends on their specific capabilities and financial stakes, but also on processes of social identification. The observation of evolving board routines shows that certain members participate in two parallel processes of interaction with the entrepreneurs. Formal board meetings essentially serve the purpose of regular monitoring, whereas certain board members contribute to resource provision in parallel informal interactions, when they strongly identify themselves with entrepreneurs.

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