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Inside the boardroom of born globals

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Introduction

Research on born globals (BG) over the past two decades has primarily focused on the pace of internationalisation and factors contributing to the process of international involvement. The present article deviates from this focus and looks instead at the interacting roles of the board of directors, the investors and the founder(s) in this process. It is believed that these actors play a decisive role in the development of the BG and that the risks involved make the case a special one. Through case studies we aim at exploring how these roles at BGs are being played in different phases of BGs.

We have developed a conceptual model depicting how sales, profitability, and financing of BGs evolve over time. Inspired by Gabrielsson et al (2008) we have identified three distinct phases: pre-establishment/introduction, growth/maturity and break-out/independence. The scope of the model ranges from the early stages of the founder(s)' idea(s), through the stage of growth and maturity with invited venture capital investors, and ending on the stock exchange (IPO[1]), in a merger or with independence. As the number of external investors increases, the founder(s)' shareholding normally decreases, and his/her hold and influence on the company subsequently decreases. This typically has consequences for the composition of the board and for the direction of the BG development. We posit that in the early stages of the company the board members usually consist of the entrepreneur(s), invited friends and specialists, and/or family members. As the company grows in size and obtains investments from e.g. venture capitalists (VC), the board may include professionals from the VC firm in addition to the founder(s). In the later stages of growth, the board often consists of professionals only, with the founder often remaining in top management.

[1] Initial Public Offering when the company issues common stock to the public for the first time

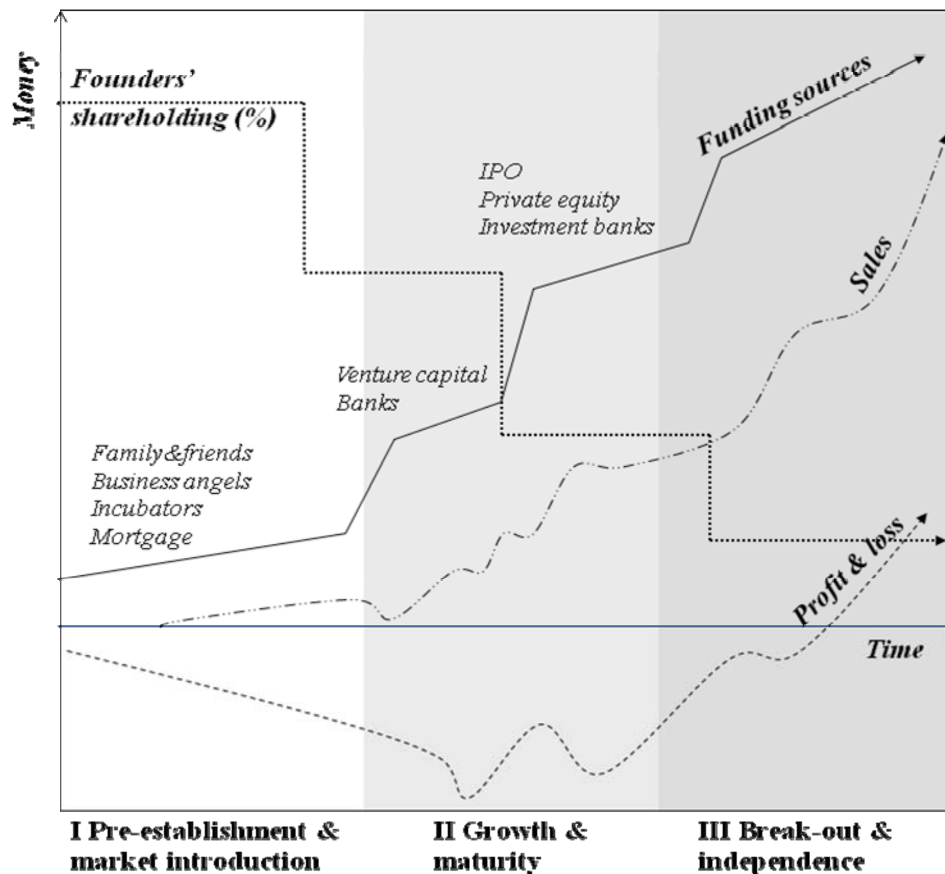

Figure 1: Conceptual model of BG development

The strategic development of a firm is often determined by the firm's corporate governance framework. The board of directors (hereafter referred to as the "board") is regarded as one of the major elements in the governance framework (Pearce and Zahra 1991). Previous research on the role of boards has tended to focus on large corporations. Since the 1990s, however, attention has shifted to include sporadic research relating to the role of the board in small and medium-sized enterprises (SMEs) (cf. Huse 2000 for a review). BG companies can be viewed as a special type of SME (Gabrielsson et al. 2008) and board roles in these companies have not, to our knowledge, previously been investigated. Indeed it "is still considered that little work has been published in the area [of boards in SMEs] that has brought the field beyond the stage of infancy" (Huse 2000: 276). The article aims to address this gap in the literature in terms of BGs.

Previous research on BGs has primarily focused on the how and why of their rapid internationalisation process, and choice of entry modes (e.g. Jones and Coviello 2005). This study departs from these earlier discussions and instead aims to address the question of what role the board of directors and the interacting relationships of the governance framework have in the strategic development of the BG. In particular we explore potential tensions between the different stakeholders over the life cycle described in figure 1. In particular we posit that tensions arising from different interests between the founder and professional investors make the BG particularly vulnerable to faulty processes within the board.

The article is organised as follows: first a literature review is presented with a discussion of the BG phenomenon, followed by a review of research on boards of directors. We then describe the research design, followed by a description of four cases. Finally, the article discusses implications for research and management.

Literature review

This review includes two streams of literature: 1) on BGs and 2) on board of directors.

Born globals

The recent interest in BGs has led to a scrutiny of the available theoretical frameworks in order to explain the process of rapid internationalisation. BGs fall somewhat outside the traditional concept of an internationalising firm, the latter generally assuming that firms become international long after their formation. Traditionally internationalisation has been seen as a series of incremental commitment decisions depending on factors such as perception, expectation, experience, and managerial capacity as described in the so-called Uppsala model (Johanson and Vahlne 1977, 1990). In this way, uncertainty as well as risk is reduced over time for each country market. The firm is assumed to build a stable domestic position before starting international activities (Madsen, Rasmussen and Servais 2000). According to this model firms begin as non-exporters and evolve into experienced exporters in a sequential series of feedback loops. This model has received general support in the 1970 and 80'ies by a host of researchers (see for instance Bilkey

and Tesar 1977, Cavusgil 1983, Czinkota and Johnston 1983), particularly in the early stages of the process (Forsgren 1989, Solberg and Askeland 2006).

In contrast, the BG firm is young and small, with rapidly increasing international sales. Thus, it is argued, the traditional theories fail to be applicable to the BG (McDougall et al, 1994; Aspelund et al, 2007). In 1988 Johanson and Mattson pointed out that some firms might follow other internationalisation patterns. They argued, for example, that the degree of internationalisation of markets (i.e. the frequency, intensity, and integration of relationships across borders in the particular industry market) can impact the internationalisation process of the individual firm, resulting in a faster paced internationalisation process. Around the same time, Welch and Luostarinen (1988) discussed the concept of "leapfrogging" where they argued that factors such as the founder's knowledge of export markets may allow the firm to "leapfrog" to markets far away, i.e. the learning process does not need to be gradual and several of the stages in the traditional Uppsala model can be skipped.

Since the leapfrogging concept was introduced, new empirical studies of the export behaviour of firms have continued to challenge traditional stages models of firm internationalisation. Indeed, it has been demonstrated that many firms do not develop in incremental stages with respect to their internationalisation activities; rather they pursue marketing strategies that allow a much more erratic and faster paced internationalisation process. Bell (1995), for example, showed empirically that between 30 and 50% of small computer firms in Finland, Ireland, and Norway did not follow a stage model of internationalisation. Indeed many firms were observed to start international activities right from inception, and were seen for example to enter very distant markets right away, to enter multiple countries at once, and to form joint ventures without prior experience. Such firms have been labelled High Technology Start-ups (Jolly et al. 1992), International New Ventures (Oviatt and McDougall 1994), Infant Multinationals, Global Start-ups and, more consistently, BGs (e.g. McKinsey & Co. 1993; Rennie 1993; Knight and Cavusgil 1996; Madsen and Servais 1997; Luostarinen and Gabrielsson 2006; Gabrielsson et al. 2008).

Alternative theories concerning SME internationalisation and BGs have therefore been put forth, and the resource-based view (RBV) has emerged as one of the dominant frameworks (Autio 2005). The framework suggests that despite the lack of human and financial resources, early exporting firms have unique and superior resources that aid in rapid internationalisation. These include, but are not limited to, foreign work experience of top management, international networks, innovativeness, proactiveness, and a global vision resulting in a competitive advantage for the BG. Successful early exporters are high performing and innovative, and are highly likely to exploit chance opportunities that cross their path. In addition, the "global mind-set" of the entrepreneur, draws the company in an international direction from its founding (Freeman and Cavusgil 2007).

In addition to the RBV, most academic literature addressing the early exporting phenomenon mention international entrepreneurial orientation as being decisive factor for the establishment of this type of firm (Aspelund et al. 2007). Explanations for such an orientation may be based on psychological and cognitive processes or on experiential knowledge from previous international activities of the individual entrepreneur allowing him or her to interpret and react to signals and cues in global markets. It may also be the case that an entrepreneurial team as a group has international experience as well as industry and marketing experience which may lead to market knowledge, opportunity identification and network building that facilitates internationalisation (McDougall et al 2003). This may not simply be a result of the entrepreneurial team but may also include the team of investors, board of directors and other stakeholders that have the global vision and experience necessary to push for rapid international expansion and/or export.

From the above discussion, several factors can be identified to lead to a rapidly paced internationalisation process: the firm needs to have an international or global vision from inception, the product or service must be innovative and have global potential, and the organisation must be focused on international sales growth (e.g. Ganitsky 1989; Jolly et al. 1992; McDougall, Shane and Oviatt 1994; Oviatt and McDougall 1994). In addition, in order to be classified a BG the company must have the independence of any mother company or large investor in the initial phases and risk

associated with start-ups. We may conclude this section by stating that these two features (independence and risk) constitute the key challenge of the board of directors in BGs. Little attention has however been given to the fate of BGs after its initial years of operation. One exception is Gabrielsson et al (2008) who discuss a conceptual model of development of the BG. They identify a number of challenges that have to be addressed, one of which is that of securing capital to build the necessary scale to compete in globalised markets (Solberg 1997). With new capital and hence new investors, the issue of changes in the composition of the board emerges.

Literature on board of directors

Traditionally, general research on company boards has been dominated by relating board attributes (such as structures, processes, composition and characteristics) as the independent variables to company performance as the dependent variable (Zahra and Pierce 1989, Huse 2000). Huse (2000) presented a model of processes inside and outside the boardroom being influenced by structural factors and board composition, working structures and task performance or board role. The board role refers to what function the board has in terms of the company's direction and performance.

The literature on board roles has primarily drawn on agency theory, strategy literature and resource dependence theory (Huse and Zattoni 2008). Agency theory suggests that boards – representing the capital owners (the principal) – should establish monitoring and control devices so as to curtail opportunism by management (the agent) and to realign goals of the two "camps" (Eisenhardt 1989a; e.g. Fama and Jensen 1983; Kosnik 1987). Conflicts may arise as for example management may have dissimilar interests from shareholders, the parties each having differing goals and differing attitudes towards risk. In addition information asymmetry and insight into the market and technological potential of the company may exacerbate different views on goals and risk. These factors – differing goals, different risk attitudes, and information asymmetry – may be paramount in the case of (high technology) BGs where performance ambiguity is particularly high and where often very different personalities – the entrepreneur and the investor - meet.

The strategy literature prescribes that the board take an advisory role, assisting the management team by guiding its operations (Andrews 1980). This is thought to be particularly important for BGs as they may lack the necessary expertise and experience operating profitably in international markets. For instance, government funding agencies (such as Innovation Norway in the country of the present research) often require external board members to be appointed in order to broaden the expertise of the firm, but also to avoid the risk of in-breeding and to introduce a disciplining element in the board room. Castaldi and Wortman (1984) emphasize the complementing role of external directors, making comments or refining proposals made by management. Finally resource-dependence theory (Pfeffer and Salincik 1978) implies the networking and legitimizing roles of the board. For instance board directors can actively contribute to the successful operations of the BG by linking to relevant, previous network connections in international markets and legitimate the firm vis-à-vis its environment, such as government agencies, banks, suppliers or customers (Johannisson and Huse 2000, Solberg and Askeland 2006). Describing the service role of the board, van den Heuvel et al. (2006) distinguish between the strategic role, the service role and the resource dependence role. The strategic role includes the board's involvement in defining the firm's business concept, mission and selecting and implementing company strategy. The service role includes advising the CEO and top management as well as initiating and formulating strategy. The resource dependence role concerns the acquisition of resources critical to the firm's success.

The present study is primarily concerned with interacting relationships in the governance framework, with a particular focus on the board of directors. The board and investors tend to be strongly interlinked as larger investors often request appointing board members. Agency theory lends itself particularly well to examining these interacting relationships as it is concerned with contracts (i.e. relationships) of conflicting interests as well as what happens when the parties involved have different perceptions of risk. In terms of the founder, top management, the board, the investors, etc. each party has different goals and desires connected to their role. What is particularly interesting is that agency relationships are context-specific, in the

sense that a given individual can shift from the role of principal to that of an agent across different contexts (Bergen et al. 1992:2).

Of particular interest to this study is the discussion of which party at what given time takes on the role of principal or agent. Initially and most obviously, we believe the founder of the start-up has the role of principal – he/she has founded the company and delegates work to agents in order to build up the company in his/her vision. The initial board is appointed by the founder and its members act as agents. However, as the firm evolves and perhaps the role of the board becomes more formalized, the members may act as principals deciding for example on strategy with top management becoming the executing agents. Conflicts can arise as the founder of the BG, having deep insight into its technology and its potential, has a great belief in the company and is often willing to take great risks, personal and financial, in order to obtain the vision, whilst board members perhaps do not share this same perception and willingness of risk. Another conflict occurs when investors typically take a short to medium term view of their investment, pushing for growth and subsequent shareholder value, whilst the founder takes a more long term view of the potential ahead. Some of these conflicts arise because of the inherent roles of the different actors. However, the background of these players may also differ widely, hence the ideologies that govern their decisions are thought to be different and, therefore, create a potentially fertile soil for conflicts. The new board members from venture capitalists characteristically represent what Johannisson and Huse (2000) term managerialism as opposed to the founder's entrepreneurialism.

As external investors arrive on the scene, these will likely take on the role of principal as the founder becomes fiscally dependent on the investor. Large, active investors often appoint board members and here again the board member representing the investor takes on the role of agent with the investor being the principal. In terms of these appointed board members, these are highly likely to take on the role of principal in relation to the founder. Indeed, the whole circle of interacting relationships shifts depending on the context, the goals and personal attitudes to risk, with individuals shifting from principal to agent and back to principal again.

Agency theory is perhaps most productive when it is used to examine conflict situations that are rife in business relationships. These include goal conflicts between a principal and its agents and situations of environmental uncertainty triggering the risk-sharing implications of the theory, and situations of information asymmetries whereby it is difficult to verify whether the agent follows the instructions of the principal (Bergen et al. 1992:19). These sources of conflict are apt to arise in the interacting relationships of the governance framework of the firm, and it is for this reason that agency theory has been used to examine board relationships and board processes. Sapienza et al. (2000) discuss the effects of agency risk in boards of venture-capital backed firms. Outside board directors representing venture capitalists with considerable power are believed to have a particular incentive to be involved in the governance of the firm. Here it is suggested that factors such as increase in perceived agency risks will increase outsiders' tendency to focus efforts on monitoring and controlling board decisions, and to use formal means to resolve conflicts. They posit that fair procedures and interactions including participation and communication by all parties, through their effects on trust, will reduce these tendencies. Trust is seen as an important control mechanism in establishing and sustaining cooperative exchange structures and networks (Dwyer, Schurr and Oh 1987, Solberg 2006) and has been divided into two types: resilient or affect-based and fragile or cognition-based (Ring 1996, McAllister 1995). We believe that BGs in their introductory and growth stages (Gabrielsson et al 2008) are particularly prone to conflicts that have been discussed above. The roles of the board – controlling or servicing - may therefore have a paramount effect on the direction of these firms. We may infer from the above discussion that BGs with external board members (from venture capitalists) that actively communicate with management and the founder thereby nurturing trusting relationships hold greater chance of success than those where they impose their managerialism on the firm.

Methodology

In order to satisfy both the exploratory and qualitative criteria in terms of a research design, a case study approach is chosen. This approach involves a focus on a limited

number of cases during a limited time period in order to get an in-depth understanding of the processes at hand (Yin 2003). The aim is to develop new insights about the processes in the BG firm. The study is specifically concerned with how the perception of uncertainty and risk influences the role of the external stakeholders in their desire for control over strategic decision-making.

The concept of uncertainty can be considered to have many dimensions. For the purpose of this study, two specific dimensions of uncertainty are chosen. These include the international dimension, as well as the dimension of the technological level of the industry the company is operating in. BG firms can be considered higher on the risk and uncertainty dimension, than nationally oriented firms. In addition, firms operating in high- and low-tech industries are compared, as high-tech industries can be considered more risk-laden as they depend more heavily on innovation and require a high degree of research and development (R&D) in the early phases of development as compared with low-tech industries.

There is a continuum from the high-tech and aggressively born global, which is the one predicted to present the highest degree of uncertainty and risk for the involved stakeholders to the low tech and much less internationally oriented firm, predicted to present the "safest" option with the least uncertainty and risk for involved stakeholders. The aim of the research design is to understand the processes within the firm, particular in relation to how the board is used.

Sampling

This study uses theoretical sampling when selecting cases. When using several cases, Yin (2003) suggests either selecting cases so that they predict same results, or so that they give opposite results but for predictable reasons. This study uses the latter approach. We have chosen two cases from low tech industries *Den Blinde Ku*, in English: *The Blind Cow AS,* (artisanal cheese) and *Voss Water ASA* (premium artesian bottled water), the former (after a brief period of international sales) being far less exposed to global markets than the latter. Two cases are drawn from hi-tech industries *Nebb Engineering AS* (engineering solutions and automation systems to

process and energy industry) and *Scanweb* [2]. Nebb Engineering is indeed internationally oriented, but to a much less extent than Scanweb.

Data collection

Case studies handle multiple sources of information, and good case studies use as many sources as possible, including primary and secondary information (Yin 2003). This study uses for the most part in-depth structured interviews as the primary source of data, supplemented by secondary sources taken from newspapers, public company registers and other online media. Semi-structured interviews were carried out with key informants in the different firms. Informants were chosen based on their background knowledge of the firm in question and their involvement in the strategic direction of the firm. In all cases informants were the founder, senior manager or board member. As far as possible, the researchers strived to conduct personal interviews with the informants, but in one case this was not possible and a telephone interview was conducted instead.

The interviews were relatively structured in order to ascertain that all topics would be covered in all interviews; an approach recommended by Miles and Huberman (1994). Informants were, however, allowed to digress and expand on issues particularly pertinent to their particular case. Semi-structured interviews allow for guided, concentrated, focused and open-ended communication with interviewees (Crabtree and Miller 1992).

Results

This section presents an overview of each case.

Den Blinde Ku AS ("*The Blind Cow*")

The Blind Cow was established in 1998 a year after the founder received a half-blind cow for her 50th birthday! Due to distribution regulations limiting sales to Norwegian supermarket chains, initial sales did not really take off and in order to survive they started exports in 2002 to France and the US (Manhattan speciality shops). A weak dollar in 2003, internal resource constraints (only 11 employees) and a concurrent

[2] Scanweb is a fictional name, as the company wanted to remain anonymous.

liberalisation of the Norwegian regulations led to a focus on the Norwegian market. Today exports have been abandoned.

Initial investments were low and financial risks therefore also limited. The founder had been running a successful horticultural farm, and had access to private savings. In addition her husband retained his day-job in order to ensure a steady family income. As sales increased, particularly as a result of export activity to France and the USA, there was a need to increase production capacity and new, external investors were needed. As a consequence the founder invited new investors to take part in the expansion, 1,5 million NOK. In addition to an initial start-up loan, *Innovation Norway* gave financial support in 2003 to a joint project with *Tine*, the largest dairy producer in Norway, aimed to create a "bridge of cheese" to France. *The Blind Cow* ended this collaboration in May 2006. In the years 2002-2005 revenues were doubled each fiscal year, and the founder wished to focus exclusively on improving distribution of *Blind Cow* cheese. Later in 2006, a directed equity offering brought in a larger, external investor with 3 million NOK in fresh capital, but with no demand on board membership. Despite larger investments, the founder and her family – including her brother - have managed to retain ownership of approximately two thirds of the venture. The strategy may be best qualified as "emerging strategy" (Mintzberg), having shifted from 100% exports in its initial phase, to no exports some six years later, from a strategic distribution alliance with the second largest cheese manufacturer in Norway to breaking up and establishing a franchise operation, with potential reengagement in export markets. The company has now plans to bring in a new investor, a successful businessman with experience from retail industry in Norway. He will also be an active board member.

Management has been mostly in the hands of the family, first the founder herself, then during an interim period an external manager, to be replaced after three years by the founder's daughter. Since the start, the founder has been Chairman of the board. Today, additional board members include the former Managing Director (external), a former CEO of *Tine,* and the founder's brother. Other board members have included the founder's mentor at a leadership seminar hosted by *Innovation Norway*, and a few appointed board members over the years designated by external investors.

Despite larger investments, the company is not producing positive fiscal results. The founder has expressed that she would like someone else to be Chairman of the board, in order to but the challenge is finding someone who is as engaged in the company and believes in it as much as she does. “There have been some very hard times where I have worked around the clock and I don’t think that anyone external would have put as much effort into it as I have”.

Table 1: Den Blinde Ku - Key issues

Issue / Stage	Pre-sestablishment and introduction →			Growth and maturity →	Break-out and independence
Ownership structure founder's and family's shareholding	100%			66%	60%?
Industry experience· network of founders	Partly; she has previously operated a horti-cultural farm, but not cheese production				
Development of sales	Slow in the beginning	Took off after contract with major retailer		Stagnating sales. Distribution joint venture.	Breaking out of J/V, establishing own franchise chain
Profit loss	Profit	Loss		Loss	Loss
Funding sources	Family	Innovation Norway	Public offering	Public offering	Public offering
Composition of the board	Founder, investor friends and invited external professionals				New member with industry and entrepre-neurial experience
Role of the board	Some control and service	Limited role			Service role
Interaction board→ founder→management	Founder was MD and chairperson	New MD appointed		MD leaves the job to daughter of founder, and enters the board	New member of the board to take an active part.

In spite of poor financial records, no decisive criticism has been raised by other board members, and the role of the board in *The Blind Cow* has been rather that of rubberstamping. Although there is some expertise among the board members - e.g. former *Tine* CEO has relevant industry-experience; the mentor from *Innovation Norway* has experience from operational management and strategy – this expertise has not really been voiced in the board room. The real decision-making power lies in family, with the founder as Chairman and her daughter as Managing Director. In

November 2007, the signatory was changed such that the Managing Director and the Chairman, i.e. the founder and her daughter, now have a co-joint signature in all cases – in essence sealing control of company actions. Although the board is an advisory agent whereby important issues are presented and discussed, the real decision-making power is retained in the founder's family.

Nebb Engineering AS

Nebb was established in 1997 with the vision that they would deliver the best engineering solutions worldwide. Their initial focus was on software solutions within the Paper Machine Clothing (PMC) industry. The PMC industry manufactures felt and wire for paper mills as a paper mill will use felt and wire throughout their paper-making process. Felts are large and complex; and an extreme repeatable and uniform quality is required. There is no PMC industry in Norway, and as a result *Nebb* began exporting its products right from inception. They have now branched out to include a variety of industries, some industries which also exist in Norway, including aluminium, energy, and petroleum.

Initial investments required for the company's founding were low. The company essentially began by offering consulting services within the engineering industry, delivering their first automation solutions to a former employer of the founder. Thus, with costs low and no initial large investments needed, there was little need for external investment in the company. In addition, the two co-founders had access to private savings. *Innovation Norway* has later contributed with financial support and advice to specific projects, for example when *Nebb* entered the Indian market in 2006.

Initially the family owned 90% of *Nebb*, with 10% distributed amongst the first employees. In 2006, 34% of *Nebb* was sold, in a combination of a public equity offering and shares, to the Swedish consulting and engineering firm *FB Engineering AB*.

"In 2006, we sold part of Nebb to enable the company to pursue larger projects. We needed access to more resources if we wanted to be able to say yes to large

resource-demanding projects, such as building complete effluent-free gas power plants. In addition, we see it important that key employees are connected to the firm, and have therefore, over the years, offered such employees the opportunity to purchase shares" (founder).

When Swedish *FB Engineering* bought 34% of *Nebb*, two representatives from the Swedish company were appointed on the board. These were to be the link between *Nebb* and *FB Engineering* such that larger projects could be undertaken. In addition, one of the board members was appointed as he has extensive experience from operations, in particular in the petroleum industry. In this sense the external representatives are mainly responsible for granting the board the role of providing access to additional resources that will help in the long-term strategic development of the venture.

One of the co-founders is both Managing Director and Chairman of the board. The other co-founder is Department Manager as well as a member of the board. The other board members, apart from the external representatives, include an accountant and an employee representative. The processes involving the board have continuously evolved since the very beginning of the venture. Initially, the board was simply a legal necessity, used primarily for legal and accounting means. Over the years, however,

"*the board has definitely become much more professional. The primary objective now, is for the board to develop strategy and for management to carry out execution. [CEO duality] does not really pose a problem, as the roles of Chairman and Managing Director are so vastly different and clearly separated"*. (co-founder)

Table 3: Nebb Engineering AS - Key issues

Issue \ Stage	Pre-sestablishment and introduction →	Growth and maturity →	Break-out and independence
Ownership structure/ founder's and family's shareholding	90%	Class A: 59,4% Class B: 38,3%	
Industry experience/ network of founders	The founders left a key player in the industry and brought with them experience and network		
Development of sales	Positive but erratic development since the beginning		
Profit loss	Profit →	→	Profit
Funding sources	Family; Innovation Norway	Invited shareholder (FB Engineering	
Composition of the board	Founder and invited external professionals	New shareholder represented on the board	
Role of the board	Control and some service →	→	Service
Interaction board→ founder→management	Founder MD and Chairman; Founder's son is also a shareholder, member of the board and department manager		Founder still MD and Chairman

Indeed, the board now has a predominantly strategic role, in that it is responsible for deciding the long-term strategic direction of the firm, entries to markets, strategic alliances, and so on. Thus, as the company has developed, the role of the board has shifted from a formalised control role to that of a strong service role, particularly in the domains of deciding on strategy as well as providing access to resources through board members' networks.

Voss Water ASA

Voss was established in 1998 with the vision of selling Norwegian bottled water to the American market and beyond. The company is a super-premium brand, selling bottled water to upmarket restaurants and hotels. Today they are present in the USA, Europe and Asia, with only a negligible presence in the founders' home country, Norway. Sales of *Voss* water began in the USA in 2000. First year turnover was around 5 million NOK; increasing to ca. 19 million NOK in 2001 (2.1 million US$)

and the company's compound annual growth rate was over 82% between 2001 and 2006. Despite continuing increases in volume *Voss* has been plagued by severe financial losses. Reasons for this include challenges related to limits in production capacity and the devaluation of the US dollar currency, which has been steadily decreasing since 2001. Over the years, *Voss* has sustained substantial fiscal losses, and by 2008 the losses had increased to about 200 million NOK since its founding.

To date, there have been a total of twelve investment rounds nine of which have been limited to family and friends. In 2004, 30% was sold to a US equity investor, but was bought back again in 2006. Today, ca. 80% of the company is owned by family and friends. The company still is in need of fresh capital, but has recently (May 2009) rejected a bid from an American investor willing to invest 175 million NOK, apparently in order not to dilute the shareholding of the controlling partners. The last round was completed in Spring 2009, with the main shareholders pitching in fresh capital to secure continued operations. The venture has from its very beginnings had a long-term investment horizon, with a commitment to grow the brand continuously. According one of the co-founders a long-term commitment is easier to achieve with family and friends as investors, as "*they have an interest in that the company will succeed but have not exactly invested all their savings*". The founders' share of *Voss* has decreased steadily over the years. Initially both founders owned 50%, but subsequent investment rounds have decreased this percentage. The main shareholder, a group of Norwegian private investors hold some 40%, the managing director holds 20% and one of the co-founders holds an estimated 10%.

"Professional investors demand a seat on the board, and appoint a board member of their choice. Family and friend-investors have merely demanded a professional board. The initial board was chosen in order to provide guidance to us founders, as we were young and inexperienced." (co-founder).

Initial investment rounds were limited to family and friends, and as quoted above, these demanded that the board be professional. Thus, the founders chose people who had an international outlook, international experience and experience from start-ups, and the first board Chairman was a director of the Confederation of Norwegian

Industries. Later a Norwegian lawyer with the bar exam from New York became Chairman. Board members have included top people from advertising and with experience from global start-ups. The Chairman (up to the Fall of 2008) is an active stakeholder, both as a shareholder and Chairman. Board members are chosen based on competency. External, professional, investors in *Voss* appoint a board member for the duration of the investment relationship, in order to gain some form of control over boardroom proceedings as well as indirectly over management.

"In the beginning, the board was very active, and we relied on their advice and competence for guidance. Today the board has a more passive role; I have daily contact with the Chairman, but the other [board members] have little influence on the daily running of the company" (co-founder).

"The last couple of years the board's role has been first and foremost to creatively identify new opportunities in the market when the market was with us – both concerning distribution and new products, then when things started to go sour to identify new investors. A bit of practical work in this context was done also by non executive board members" (former board member).

The initial inexperience of the two founders led to a heavy reliance on the board for practical advice. Despite this it was the two founders who had the global vision of *Voss* from its very founding – they were always clear with regards to that *Voss* was a Norwegian company targeting the American and eventually global market. Throughout the history of the venture it has been the founders and top management who have largely decided on the strategic direction of the firm. In the beginning, the board largely fulfilled a service role whereby the board advised top management and the CEO in providing guidance, experience-sharing and knowledge. Later the role of the board has shifted – the Chairman is still very active in the day-to-day running of the venture and has taken on the role of mentor. The rest of the board, however, is now concerned with "*bringing in funds and the financial side of the company, as well as rules and regulations"*, thus having assumed a more passive role, however, still taking active part in the funding. The former Chairman was the only really active

player on the board and in a sense seems to have replaced the need for a wholly active board team.

One co-founder left management in 2001 and in 2006 the other one stepped down as CEO to head global marketing, branding, new products and US operations. Until the Fall of 2008 the group CEO had extensive experience from top positions in the European fast moving consumer goods industry. He was then replaced by the former Chairman of the board, who was replaced by an external individual (that may be described as a professional and an "enthusiast").

Table 5: Voss Water ASA – Key issues

Issue \ Stage	Pre-sestablishment and introduction →	Growth and maturity →	Break-out and independence
Ownership structure: founder's and family's shareholding	100% ⟶		10% one founder 40% family and friends 20% Managing director
Industry experience network of founders	No experience/network by the two founders	fmcg specialists, designers	fmcg specialists, designers
Development of sales	From NOK 5 million first year of operations (2000) to 226 million in 2007		
Profit/loss	Loss	Big losses	Break even?
Funding sources	Family	30% US equity investor. Bought back by? two years later	Over the years nine invited capital expansion rounds
Composition of the board	Founder and invited external professionals	New shareholder represented on the board	Independent fmcg specialists, founders and investors
Role of the board	Service Very active	Control&Service Less active	Control&Service More active
Interaction board→ founder→management	In the beginning, external professionals were important and active on the board	Later changes have been made to better comply with the shareholder composistion	As of Spring 2009 new members with industry experience are active on the board

Voss Water was originally a dream brought to life by two founders that saw the opportunities in the high end mineral water market. Their lack of experience in the industry, and hence also in relevant networks (particularly distribution networks) was sought alleviated by inviting professionals from the industry on the board. One

challenge has been the inability to profitably operate in this market – particularly in the retail market. The goal of the existing owners is to bring the company up to a financial standard where they will get a good price from potential bidders such as Nestlé, Schweppes, Louis Vuitton or other branders in the industry.

"Scanweb"

Scanweb was established in 1998 by a young entrepreneur – in his early 30'ies. He had previously worked with a telecommunication company and brought with him ICT competence. The business idea was to build a platform for registration of web domains, and to service these domains with a particular emphasis on SMEs. Once a customer had established a domain with the assistance of the firm, it would have an ongoing customer relationship on a yearly subscription basis "for years to come".
The plan was extremely ambitious with a view to capture the European market within only a limited number of years, and thereafter "attack" the US market, potentially with a local partner. This was deemed necessary in order to survive in the longer term, as there was a window of opportunity that would otherwise be lost.

The founder brought with him into the venture friends and former colleagues, and the first couple of years they were less than ten employees working in the firm. The development of the firm was thereafter exponential, as demonstrated by the capital expansions to follow the first year of foundation:

1998 2 million USD (facilitated by a venture capital firm A)
1999 6 million USD (facilitated by a venture capital firm A)
2000 100 million USD (IPO organized by a venture capital firm, spread on a number of initial investors and then quoted at the Stock Exchange)
2000 30 million USD (additional funding by a another venture capitalist - B)

The founder and his friends had a majority of the shares (75%) in the first two rounds, and reduced this to a controlling minority (33%) in the third and fourth rounds. It was important to the founder to wield control through network/friends whom he could trust.

The board was the three first years composed by the following persons:

- Chairman, a friend of the founder, not directly employed by the firm (but with some shares)
- Representative from the VC A
- Representative from a leading law firm
- An independent entrepreneur (just a few shares)
- The founder himself

Later the board was supplemented by a representative from VC B.

The organisation consisted of the founder and his companions/former colleagues – few of whom had any particular experience in setting up a fast growing company or run it.

The firm was at first very successful in attracting new customers, and the main product (the domain platform) seemed to satisfy the needs of the market. With the new capital emission (130 million USD) the firm had indeed ample financial strength. They used it to build an organisation of 150 people (from 10 to 150 over 8 months) establishing sales and service subsidiaries in ten countries, and to advertise heavily on the web.

In 2000-2001, when the whole venture was about to take off; they received between 500 and 1.000 new customers per day! It was important for the company to be able to boast a large number of customers, since its value – through the subscription system – basically lay in that very figure. They had however a main problem in that the billing system and the organisation around it were not calibrated for such an influx of new customers. The result was that they did not have a system at hand to follow up the billing, nor did they have personnel to do this. This was so much the more critical as many of the new customers were recruited in countries where credit worthiness was difficult to ascertain (such as India, Pakistan, Ukraine).

The limited management experience of the original team confronted with such an aggressive expansion plan became an insurmountable challenge. Also the members of the board displayed their shortcomings: The VC representatives on the board were

mainly investors that were good at following up financial results, but did not have any experience in running businesses. The lawyer was a lawyer, and not a businessman, and the chairman – although knowledgeable within the field of activity, was mainly a friend in whom the founder could trust. Therefore, it was primarily founder who was the leading force in the board room. He was the one with the vision, with the technological knowledge, with the market insight. The board – during the first years of operations did not really wield any power/will concerning the business as such.

Compounding these internal deficiencies, in 2001 the dot com bubble burst and the shares fell dramatically in value. This was of course a main concern of the external investors, and thus of their representatives on the board. But the share price not only reflected the bubble, but also the fact that invoices at an increasing rate were not honoured, partly because of the flawed billing system. At one point the board decided to bring an external consultant, at an exorbitant cost, seemingly without any positive result! The independent entrepreneur at the board was changed for a person (also that an independent entrepreneur) who had a network in the US, also that without any visible positive results.

The impression is that the board – without the necessary clout or competence started to panic when things went wrong. They had board meetings every second week, and oftentimes these meetings did not follow any specific agenda. The discussion in the board room was mainly about "how can we save our money" rather than "how can we secure a proper development of our business". The founder was heavily involved in these board meetings, deviating his attention from his main task: to lead the company build up into world markets. The chairman of the board quit in the beginning of 2001 and a new chairman recruited from the ICT industry was engaged, apparently without much success! The founder later quit the company in 2001, but had still clout with the board members and was occasionally used as a consultant to the board.

"The board really did not care about the business as such. They did not have any insight and did not really understand the business logics. They only wanted return on investment!" (former manager).

The company was eventually sold to a Benelux firm at a "reduced price", and this company in turn split it up, and then again brought to the stock exchange, only to be bought up some years later by a large

Table 5: Scanweb– Key issues

Issue \ Stage	Pre-sestablishment and introduction →	Growth and maturity →	Break-out and independence
Ownership structure founder's and family's shareholding	Founders/friends 75% →50% → VC 25% →50% → IPO	Control. minority Control. Minority Minority	Acquired by Benelux firm, then relaunched on the stock exchange
Industry experience/ network of founders	Relevant technological experience by the founder and his closest associates; limited business experience		
Development of sales	From NOK 8 mill. (1998) →1160 mill.in 2001 →		50 mill. In 2007
Profit loss	Loss	Big losses	Struggling to "keep the head above the water"
Funding sources	Founder and friends	Venture capitalists	Refinanced by new owner
Composition of the board	Founder, invited external professionals and VC reps	New shareholders repre-sented on the board	New board
Role of the board	Service → Control & Service	Control	Control
Interaction board→ founder→management	Founder plays a domi-nant role as member of the board and MD	Investor members take on a controlling role in wake of losses	Acquirer takes full control. Management is replaced

We may conclude that the board of directors did not have satisfactory knowledge about the business model of the firm, and as such did not show any interest in the heart of the business; rather they were obsessed by the lack of return when things went wrong. The founder was therefore pulled into the board room at much too frequent intervals and his attention was thereby taken away from his main task: build a company. He was still able to maintain his credibility – as he really was the only

one on the board that had a full understanding of the business logic. One could say that because of information (and knowledge) asymmetry he could hold on to his position, in spite of the fact that he probably was not the man to lead the build-up of a large organisation.

Also, the incredible amount of money that was “poured into” the company blinded management and made them less critical of the spending plan. They engaged in a number of markets without having control of costs and results. Eventually they disinvested in five of the ten markets after only a short period of time – less than a year.

Discussion

The initial assumption at the start of this study (that potential tensions between external investors such as private equity firms or venture capitalists and the founders of the firm because of agency problems) was not supported. This is particularly the case with Den Blinde Ku, Nebb but also to some extent Voss and Scanweb. The founder and his/her close allies had controlling financial positions in their firms and they will therefore find themselves at both sides of the table, making archetypal agency theory issues less applicable in the four firms. The behaviour of boards in the firms that have consistently endured continuous losses over several years, Den Blinde Ku, Voss Water, and Scanweb also warrants a comment. In these cases the two former seem to alleviate potential conflicts through trusting relationships with its investors / board members (Sapienza et al 2000), whereas in the latter case, the board consists of external professionals representing investors without any in depth insight into the business model of the firm.

On the other hand, the vulnerability of start ups and different aspects of the relationship between the board/investors and the founder has been uncovered. The four companies have followed highly diverse trajectories in their development in international markets. They are in different stages and have grappled with vastly different challenges. One of the high tech companies exhibit the best financial outcomes so far and has grown steadily over the years, the other one showing an

extremely rapid growth, and – probably as a consequence – was at one point in deep trouble. One of the reasons for that was not only the growth as such, but allegedly also the inability of management/the board to do something about it. The two low tech companies struggle with continuing losses since their establishment. In other words, the supposed uncertainties linked to introduction of high technology products do not necessarily translate into a more uncertain future for the firms. Rather it seems as though other factors, such as for instance experience and networks in the industry – as illustrated in the case of *Nebb*, weigh more heavily in the equation. Also, the low tech firms enter markets with products that essentially compete more or less directly with well established brands and with well established marketing channels making the market introduction a highly risky venture. Conversely, hi-tech firms bring something *new* to the market, "filling a gap".

Despite these different situations – parallels exist between the case companies and the way in which their board of directors are composed and operate. It is in fact mostly the founders and their friends and families that hold majority stakes - in three of the four firms even after ten years of operation, including for two of them financially difficult times. As stated by one of the interviewees, founders and their family and friends are more patient. This may be one important reason why the boards still take on at best a service oriented and sometimes a passive role rather than a controlling function inspired by agency theory. Even though there may be conflicts in board meetings when budgets are decided and poor financial results are "swallowed", such conflicts do seemingly not sway the original strategies laid out by the founders. The question then remains for how long the losses should be allowed to persist – in the three loss making firms this period has lasted between five and ten years. In one case (Scanweb) the firm was taken over by new owners who totally restructured the whole firm.

Another similarity between the firms is the strong position of the founders often with the help of their closest allies. In spite of the poor financial results in three of the firms, the investors and their representatives on the board still held on to the founder, possibly because they were to various degrees dependent on him/her. It is telling that the general assembly of one of the most "prominent losers" (Voss) rejected a new

investor at a period when they were in great need of new funding. Instead they provided the necessary funding to continue the operations. In most of the cases the role of the board was initially that of a service role or even a passive, "rubberstamping" role, then gradually becoming more control oriented as financial stakes and losses increased, and as new and external directors came on board.

There are also some noticeable differences. For instance the board of directors of the loss-making Voss Water has been subject to continuous changes, with external (to the inner circle of family and friends) investors playing a more active role than the board of the other firms. We also observe – not surprisingly - that heavy losses (Voss Water) lead to a more controlling board, both in terms of following up budgets and in terms of securing future funding. In Scanweb's case the board met "incessantly" – every two weeks – over a long period of time, squabbling about what actions to take and what strategies to follow, taking a controlling stance allegedly doing more wrong than right. This seems not to be the case of the third loss-making firm (Den Blinde Ku) where the losses are far less consequential. In this case the board's role is much more withdrawn, the founder being the strongwoman, partly because she is the main shareholder, partly because she is so proactively involved in the business, and partly also because no one else is ready to take on the job as executive chairperson on the conditions offered (virtually no fee/ salary). In the case of Nebb, the only profit maker among our case companies, the board has been strengthened with representatives from a strategic partner, in order to reinforce its position in certain market segments, in other words mainly a service and network facilitating role.

Based on our findings we posit a number of propositions that we deem should be explored further in a broader context through surveys.

P1

a) Boards of fast growing BGs need relevant industry competence and network in order to properly assist the firm in its market deployment.

b) Boards without such competence tend to take the role as controllers rather than service providers to the firm.

c) A powerful founder (in terms of capital and/or industry competence) in such firms needs a competent board to discuss and contrast his / her ideas in order for the firm to develop a viable long term strategy.

P2

Investor groups such as friends and former business partners are more patient than private equity firms and venture capitalists and are willing to endure higher losses for a longer period of time than professional investors.

P3

The more trust in the founder, and the more reliant the investor is on the founder's expertise the more patient the investor. This may in the longer run create agency problems that are not apparent in the first stages of the BG life cycle (Gabrielsson et al 2008).

P4

Firms with patient investors are prone to expand more slowly than firms with impatient investors.

P5

Firms expanding rapidly in international markets will more frequently meet unforeseen challenges and will therefore also have more tensions in the board room than firms that expand less rapidly.

P6

BGs with high tensions in the board room tend to fare less successfully in international markets than firms without such tensions.

Conclusions

The purpose of this paper has been to uncover critical issues concerning the relationships between investors, board members and founders of BGs. In spite of the fact that boards of directors play a decisive role in the development of firm strategies, this aspect of BG management has largely been neglected in the literature. Since the demands placed upon this class of firms often are greater than on firms that develop their international sales more gradually (McDougall and Oviatt 1994, Knight and Cavusgil 1996, Madsen et al 2000) the main assumption has been that agency problems will create an atmosphere of tension between the relevant stakeholders (investors, founders, board members), and hence also lead to strategic decisions that sometimes are less than desirable. Through interviews and secondary data we have sought information that is difficult to access and therefore we may have failed to uncover the real tensions inside the board room, and their consequences on BG strategic decisions.

However some tentative conclusions emerge: 1. Potential conflicts are much more rife in fast growing BGs with external investors (Scanweb); 2. Family and friends of the founder tend to stay put much longer than anticipated and therefore extend the period of "patient capital" in the firm (Voss Water and Den Blinde Ku); 3. Although agency problems exist they do so with much less prevalence than in "ordinary firms" since the founder normally finds him/herself on both sides of the table (principal *and* agent); 4. Competence in the boardroom, not only about business operations in general, but also about the business logic of the industry in which the BG operates is critical for propitious development of the firm. Or conversely: board members *without* concrete knowledge of / experience from the business of the BG firm are prone to play a lesser role in the strategic decision making process, placing more emphasis on the control role (than on the service role) of the board.

It is difficult to "get under the skin" of board room deliberations, and therefore – even though we have been able to interview key people (either the founders or representatives of the board and management), critical aspects of the phenomenon

under study may not have been sufficiently uncovered. Possibly the best way to delve deeply into these issues is to participate in the board room either as an observer, or as an active member of the board (Huse and Zattoni 2008). If this is the best way, it is also a very difficult way of accessing information because of confidentiality issues. Nevertheless, more research is needed to uncover the role of the board in BGs both through more case studies to explore these issues further and through surveys to be able to possibly identify a broader picture.

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