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Recruiting outside board members in the small family business: an ideological challenge*

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The focus of this paper is to explore how contrasting ideologies influence the selection process of outside directors in the small family business. Small family businesses do not just represent small-scale economic activity but they are the outcome of entrepreneurial ambition and family involvement. This means that willpower and emotional commitment blend with calculative considerations. As emotional as well as cognitive constructs the family, management and entrepreneurship each represent an ideology: paternalism, managerialism and entrepreneurialism. The proposed ideological framework is positioned against alternative approaches to the study of board selection processes. Two sets of data are presented. A piloting survey of 12 family businesses is used to substantiate the theoretical assumption that entrepreneurial firms avoid having outside directors and managerial firms welcome outside directors, leaving paternalistically-run family businesses ambivalent. Repeated in-depth interviews in two family businesses, one founder-managed and entrepreneurial, the other established and traditional, reveal how the professionalization of the board enforces managerialism, challenging thus far dominating ideologies, entrepreneurialism and paternalism. The outcome of this ideological contest, if properly orchestrated, is an energized and more competitive family business.

Keywords: boards of directors; family business; selection process; ideology.

1. Setting the stage

> 'If you have the ability to disagree in a constructive way.
> If you can see that alternative perceptions involve possibilities for fresh ideas.
> If you understand the value of firms that are being directed and managed according to a vision and a business idea.
> Then you may be the new member of our board'.

An advertisement by a small firm in a Scandinavian newspaper begins with the above lines. While most newspapers are full of advertisements for executives, such a search for board members is rare. Generally there is little knowledge about how board members in reality are recruited (Pettigrew 1992, O'Neal and Thomas 1995). Executives asked about their selection of board members provide various responses, e.g. 'Director selection is considered to be very important and receives a lot of

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resources', 'it is the CEO, and not the shareholders, who recruits the directors', 'when you recruit people, you recruit people in your own image, people you trust and can easily communicate with', 'Prime beef (CEOs of good and wealthy companies) is the first choice when recruiting directors', 'directors are selected among the evoked set of candidates', or 'men know men and recruit men' (Mace 1971, Whisler 1984). The authors want to go beyond these anecdotes or stereotypical explanations of director selection and try to explore and understand how various ideologies encompassing different worldviews and rationales may explain the selection processes of non-executive outside directors in small family businesses.

The authors' concern in this paper is small businesses where the Chief Executive Officer (CEO) has a significant influence also over the operative activities. Most small independent companies are family businesses; most family businesses are also small. In most small family businesses management and ownership coincide. In a recent review of different definitions of a 'family business' Brunåker (1996, 1999) concludes that one or several of the following criteria are used: ownership control within a family, family management, and realized/intended leadership succession within the family. As indicated by Hoy and Verser (1994) different elements of the definition do not always coincide. Professional managers or a whole family may, for example, be hired to run a company belonging to a business group. When the firm grows, owners may become directors and then there is a need for a professional management structure (Scase and Goffee 1982). The emergent 'new economy' may motivate a review of the definition of the family business; the Schumpetarian image of the entrepreneur as a builder of an empire for generations to come seems overly optimistic. Instead the entrepreneur over her/his lifetime may run several firms in parallell and/or sequentially. Nevertheless, here a family owner-managed company is considered to be a family business if perceived as such by the owners.

The role of boards, even in small family businesses, is attracting increasing attention within rational-choice frameworks. Agency theory (Pettit and Singer 1985) and resource arguments from the strategy literature (Castaldi and Wortman 1984, Ford 1992, Borch and Huse 1993, Watkins and Shen 1997) even indicate that boards may have a more important role in small businesses than in corporations. The information gap between the small-business owner-manager and important stakeholders is especially wide in the small business. Another reason for opening up to external participation on the board is that family businesses run the risk of in-breeding (Miller and Rice 1967). Active boards in small businesses may also have a disciplining role, often producing formal planning processes that make the small-business owner-manager more aware of managerial aspects of his own business. Accordingly Dyer (1986) makes the board an important component of the culture of the family business.

A decisive reason for small family businesses *not* to activate their boards with externally recruited members, may be that this means introducing an alien element in the family-business context. This reluctance may generate irrationalities in the selection process once the decision to recruit an external board member is made, including random encounters as triggering events and emotional commitments as choice criteria. Alternative frameworks to the rational model for director selection may relate to research on leadership (Sjöstrand 1997), general network theory (Powell and Smith-Doerr 1994), more specifically to models of entrepreneurial networking (Johannisson 2000a), and 'similarity-attracts' theory (Wrightsman 1977: 161–169). The authors argue that the small family business is characterized by a configuration of ideologies, each of which is guided by its own rationale (Mariussen *et al.* 1997, Hjorth and

Johannisson 1998, Johannisson 2000b). In spite of the assumed importance of boards in small businesses and the intriguing questions concerning competing ideologies that external staffing of the board raises, research is still rare (Daily *et al.* 1996, Huse 1998, Forbes and Milliken 1999). The increasing attention directed towards boards of directors in small enterprises and family businesses, combined with the lack of knowledge about the selection process for directors, leads us to the research question of this study: How do different ideologies in the small family business influence the selection process whereby outside directors are introduced?

The rest of the paper is organized into four sections. First, the authors summarize existing alternative theoretical frameworks for understanding the selection of board members to the small family business. This review is used as a take off for introducing a framework, which elaborates on the different ideologies competing for domination of the small family business. In section 3, 12 explorative cases are presented, which has helped the authors to focus on the major empirical study. This is a longitudinal, in-depth case study of two family businesses, one entrepreneurial and one traditional. The cases are presented in subsections 4.1 and 4.2, respectively. The data were collected in two phases; at the time of introduction of an external member to the board, and a follow-up two-and-a-half years later. In subsequent subsections the case data are analysed. Conclusions are drawn and implications for research and practice are presented in the final section.

2. Director selection in the small family business: theoretical positioning

2.1 *Theories applied in mainstream board-of-directors research*

The process leading to the selection of directors has both a supply and a demand side. The *supply side* is the potential and evoked set of directors. Their characteristics and choice criteria are important to consider. What moves prospective directors to accept or reject a position as a board member in small family businesses in general and in a specific firm in particular? Earlier studies have shown that the preferences of directors vary (Whisler 1984, Lorsch and McIver 1989, Huse 1995a: 99–105). Some candidates want to utilize their existing competence, some are seeking status or extended networks, some give priorities to firms where they can learn or gain other benefits, some search opportunities to influence or take care of particular stakes, and some are guided by risk minimization in accepting board appointments. Firms with a solid management and a sound economy are in general those being favoured, but entrepreneurial firms with an attractive business idea and development potential are also popular.

In this study the authors focus on the *demand side* in order to gain an insight into how the need for an outside director is defined, how candidates are sought and found, and how the final choice is actually made in the small family business. Various theoretical frameworks have contributed to the general understanding of how directors are selected, e.g. agency theory (Fama and Jensen 1983, Eisenhardt 1989a), managerial-hegemony theory (Mace 1971, Herman 1981), resource-dependence theory (Pfeffer 1972, 1974), resource-based theory (Barney 1991), power theories (Useem 1984), and literature of interlocking directorates (Pennings 1980, Richardson 1987) as well as different stakeholder approaches (Huse 1995c).

Agency theory suggests that principals (owners) should select board members to monitor management (agents). Separation of ownership and control, and mistrust and information asymmetries are dominant ingredients of the agency-theory framework. This reasoning implies that two main attributes are associated with outside board members. First, that the prospective board members are financially and psychologically independent of the executive management, and will use this integrity to monitor the managers. Second, that the board as a collective has sufficient competencies to monitor management.

Resource-based approaches, resource-dependence theory, and also to a certain extent managerial-hegemony (power) theory, all basically suggest that directors should have roles and competencies that support and supplement those of the executive management. These frameworks all propose that the executive management usually has a major influence upon the actual selection of directors. This means that the director's roles are more related to service functions, such as giving advice, providing network resources, and offering legitimacy, than to control. According to these approaches two main director attributes are sought: that the board members are people on whom management can rely, and that the board members have the needed professional competencies. Reasoning within certain other theories concerning, for example, power and interlocking directorates, implies that directors are selected to preserve management elites. The selection criteria will then be that the candidates meet the membership standards of different factions.

The presented frameworks all imply thorough decision processes that encompass (a) an explicit definition of needs, (b) a systematic director-search process, (c) that the final choice of directors is based on the needs and set of evoked candidates, and (d) that the outside directors have an influence on the role(s) of the board. The authors want to question the relevance of these rationalistic assumptions by confronting them with a proposed framework where coexisting ideologies in small family businesses define both the role of the board and the selection and recruitment of its members.

2.2 *The family business as an arena for competing ideologies*

Organizations are not just vehicles for achievement of goals shared by all members but they are also arenas for emotions and politics (Sjöstrand 1997, Huse 1998). These 'irrationalities' have to be recognized when making sense out of the board-selection processes. In family businesses this is especially obvious because here business/professional and private/personal interests have to coexist (Mariussen *et al.* 1997). It is important to recognize that family businesses have to accommodate different world-views, even contrasting 'ideologies'.

The proposed approach to understanding the dynamics of small family businesses is dependent upon what meaning 'ideology' is ascribed. Metaphorically an ideology is a lens through which its members see reality and make it intelligible, i.e. separates true from false, good from bad, relevant from irrelevant. Ideology, though, is not just a cognitive construct but it includes emotional involvement as well. This means that ideology injects collective confidence and nurtures self-enforcing norms that produce a certain behaviour (cf. van Dijk 1998: 8). The present authors define *ideology* as a consistent and permanent way of perceiving and appreciating the world that, accompanied by emotional commitment, generates a specific mode of conduct.

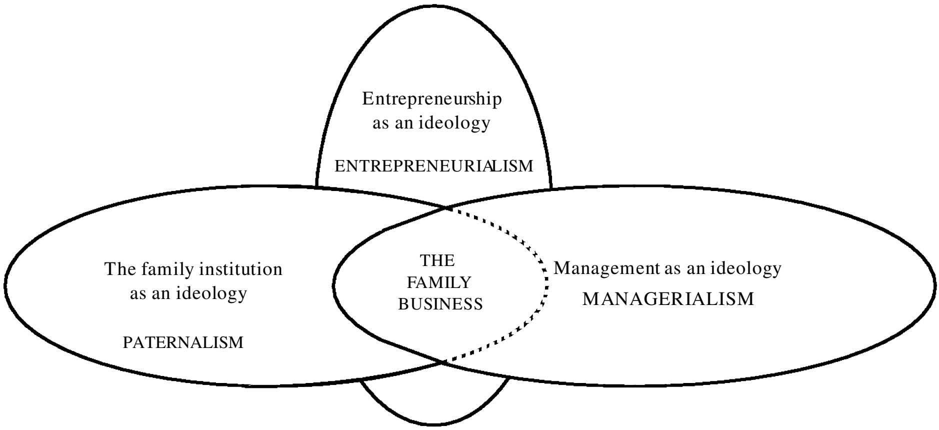

Figure 1. The Small family business at an ideological intersection

It is crucial to recognize that any ideology, as adopted in a business or party-political context, represents a societal, all-embracing phenomenon. On the one hand this means that practicing an ideology creates legitimacy in the environment and on the other hand that each specific business hosts several contrasting ideologies and associated tensions between those ideologies (as much as a living democracy is constituted by multiple political ideologies). Since ideologies emanate outside the individual business, ideological conflicts may either be discarded by attributing them to the environment or recognized as constructive tensions that may be orchestrated to energize the business. This ideological view contrasts 'political' (not party!) perspectives on organizations, where genuine conflicts of interest are focused. In the family business these may, for example, concern disputes between generations, between different (e.g. active vs. passive) ownership constellations, or between family and non-family management. While (political) conflicts are dysfunctional, ideological tensions are thus proposed to be potentially functional to the viability of the small family business.

Family-business sustainability calls for continued entrepreneurship and professional management as well as for continued family involvement (Johannisson 2000b). These organizing phenomena each have an ideological counterpart: *entrepreneurialism*, *managerialism*, and *paternalism*, respectively. Most family businesses, possibly excluding micro-firms, appear where these three ideologies intersect (figure 1).

Although all three ideologies reflect existing codes of conduct, they differ with respect to what kind of support they gain in society in general and on the market in particular. In decreasing order of priority the family and associated ideology, managerialism and entrepreneurialism, are recognized as institutions in society. The family is a universal institution, questioned in few cultures. Obviously family values remain extremely important in the small family business, where a working family life seems to be a condition for business creation and development. The image of paternalistic leadership style in owner-managed firms (Scase and Goffee 1982) has inspired the authors to label the associated ideology as *paternalism*. As a dominantly emotional structure the family obviously brings a new perspective into 'business making'. According to Berg (1979: 256–257) the emotional structure of an organization orders emotional processes into a historically determined and stable pattern representing the organization as a whole. Berg (1979) has generated his concept from in-depth research into a family business where succeeding patriarchs had a decisive influence on the emotional structure and consequently on the development of the business. Donckels (1997) recognizes the role, or rather special 'logic' (sic!) of emotions in the family business setting. Ouchi (1980), by introducing the clan as a form of governance, indirectly gives some credit to paternalism that reaches beyond the family-business context.

Managerialism as an ideology is not only dominating the market but has also colonized all spheres in society (Deetz 1992). Managerial vocabulary and ways of organizing (economic) life are systematically amplified by management schools and consultants and uncritically conveyed by mass media and by the public rhetoric. Its simplistic manner of relating objectives to measurable units, such as growth and profits, is appealing to politicians. Formal and informal institutions within both the private and public sector reflect corporate ideals with respect to both objectives and forms. The managerial mode is established as the 'normal' way of organizing economic activity, whether by business organizations, public agencies, or by voluntary organizations, e.g. trade unions.

In spite of the dominant position of management as an ideology in contemporary society, entrepreneurship remains the origin of genuinely new activity. Regardless of if we have enterprising children or business venturing in mind, playfulness, curiosity and experiential learning are needed for innovative venturing. Entrepreneurship is concerned with that which does not yet exist but which is becoming (Gartner *et al.* 1992). However, while the family institution and management are well integrated in society, the contemporary worship of entrepreneurship remains lip service. *Entrepreneurialism* as an ideology is marginalized, mainly because it explicitly challenges managerialism (Hjorth and Johannisson 1998, Johannisson 2000b). Entrepreneurialism as a sense-making and action-triggering device represents a phenomenon which is different in kind to established organizations.

Having presented and applied our definition of ideology it is equally important to point out what ideology is *not*. Similar concepts are 'perspective' and 'logic'(Prahalad and Bettis 1986). These however have a cognitive, even rationalistic, bias and thus devalue entrepreneurship and the family in business contexts. Entrepreneurialism and paternalism encompass sources of competence and energy that are beyond logic and reason, e.g. intuition and improvisation, feeling and empathy, passion and involvement. Scandinavian research states that any organization needs committed members to take action (Brunsson 1985) and that 'irrationalities' as much as reason and routine guide action (Sjöstrand 1997). These authors, though, do not recognize the ideological battle between managerialism on the one hand and entrepreneurialism and paternalism on the other hand. Inspired by Hirschmann (1977) we can imagine how the passionate and creative entrepreneur, after first being entangled in different stakeholders' concerns, finally becomes a slave under managerialism. This is especially obvious in cases of corporate entrepreneurship, where management is assumed to be able to tame entrepreneurial forces in the interest of the corporation (Stopford and Baden-Fuller 1994).

In table 1 some characteristics of the three proposed ideologies are contrasted. The table leans heavily upon Johannisson (2000b). *Entrepreneurialism* means organic organizing of internal and external resources. Networking based on trust relationships dramatically reduces transaction costs and enhances learning and access to business opportunities. The business context is continuously enacted implying that favourable

Table 1. The family business as the scene of action for contrasting ideologies.

	Entrepreneurialism	*Paternalism*	*Managerialism*
Structuring of activities	Organic (continuous networking)	Clan (emotional hierarchy)	Mechanistic (functional hierarchy)
Resource control	Trust relationships	Proprietary ownership	Contractual ties
Image of the business context	Ambiguous, potential space	Familiar, screened-off space	Uncertain, risky space
Time perspective	Emergence	Past, present, and future	Present and future
Core competencies	Tacit holistic and associative knowledge	Tacit and personal knowledge	Formal instrumental knowledge
Success criterion	Cash resources for continued venturing	Ensuring the family empire	ROI and quantitative growth

external events are amplified by own intentional and synchronized action. Time is perceived as a continuous flow; the need for alertness and synchronicity in turn calls for short-term planning and frequent follow-ups. Paradoxically this action orientation is combined with visionary abilities, a gap that is intuitively bridged by way of analogy and metaphor. According to entrepreneurialism success means generating the cash needed to maintain the venturing process as successively emerging interlocking projects.

Paternalism as it appears in a business setting presents itself as a clan structure where the hierarchy is structured by seniority and kinship ties. In this emotionally embedded structure legal ownership of resources means much more than control of their function: it reflects the basic property rights upon which all Western societies are founded. The meaning of business life is the creation of a safe domicile for the family (Miller and Rice 1967). This implies claiming a controllable niche for the operations of the firm, mentally restricted by tradition and often spatially demarcated as well. In this context everyday life becomes as important as maintaining traditions and building a future for generations to come. The competencies needed for this endeavour are deeply embedded in the personal histories of the family members and of further confidants inside the firm. Keeping the business within the family is the dominant objective in the family business.

Managerialism means the structuring of activities according to functional areas as well as separating design/planning and execution both in time and space. Internal and external dependencies are controlled by contractual agreements and uncertainties in the environment are further reduced by way of various institutional arrangements such as adherence to industry and professional norms and the adoption of a management vocabulary. External points of reference, e.g. public ownership, mean that images of the present (reports) and future (plans) success have to be continuously provided. Imagining that the environment is knowable, albeit evasive, means that superior (information) technology is assumed to provide needed competitiveness. Managers continuously have to prove themselves by providing owners with returns on (their) investments (ROI) and generally adopt the norm that quantitative growth is *the* indicator of success (Deetz 1992).

Thus the authors' basic assumption is that all family businesses have to host all three ideologies in order to remain a viable enterprise. Increasingly institutionalized business environments demand managerial competencies, and internationalized and dynamic business environments call for entrepreneurial competencies. In contrast to, for example, Hoy and Verser (1994) and Watson (1994) the authors do not think that the resolution to this challenge is some kind of puzzle-solving or integrative device. Such a functional approach to coping with coexisting ideologies would mean submitting to a managerial, technical perspective. The authors also disagree with Drucker (1986: vii) who 'treats innovation and entrepreneurship, in fact, as part of the executive's job'. That is, he argues that entrepreneurship has to submit to management. Instead, the notion of multiple ideologies means that the very tensions between entrepreneurialism, paternalism and managerialism have to be made the core of the framework. The challenge is to capitalize upon the energy that these tensions create – if properly orchestrated. Creativity, commitment and mobilization all originate in the confrontation of different images of reality.

Individual elements of the three ideologies may coincide. Paternalism does not only legitimize nepotism; it is the very reason for founding a business in the first place (Danco 1980, Brunåker 1996, 1999, Gersick *et al.* 1997). It thus also relates to entrepreneurialism, which Schumpeter (1934) recognized. The survival of the firm as a goal is shared by owner-managers and hired management. These and possibly other common attributes of the three ideologies do, however, not change the fact that these, as holistic sense-making and action-triggering constructs, differ in kind.

2.3 *Board-selection processes in the small family business – summarizing the theoretical challenge*

Introducing external board members into the small family business thus means intervening in a context where three different ideologies coexist in competing for attention and influence. This intervention is assumed to be in the interests of managerialism. Obviously this ideological perspective is far from the rationalistic, often even normative, approaches usually adopted in research on boards of directors. Existing conceptual frameworks must be reconsidered accordingly. The information-asymmetry assumption, a pillar of the agency theory, does not just become a matter of differences in access to and quantity of information, but a difference in the way of structuring and acting upon available and relevant information. Escaping control is not just a matter of favouring own interests but building and protecting an own identity, critical to both entrepreneurialism and paternalism.

The family-business literature does not concern itself with critical perspectives as reflected in the notion of conflicting ideologies. A review of the research, mainly that published in the *Family Business Review*, results in four major conclusions. First, there is little concern for differentiating between entrepreneurship and management – only the business/management and family perspectives are contrasted (Dyer 1986, Brunåker 1996, 1999, Kets de Vries 1996). Sometimes 'ownership' is included as a third 'system' (Handler 1994, Hoy and Verser 1994, Lansberg 1996, Gersick *et al.* 1997). Second, the comparative analysis is made within a cognitively biased framework, often even normative, that considers emotional processes and structures, if paid attention to at all (and, if so, correctly, cf. Donckels 1997), to be problematic (Sharma *et al.* 1997). Consequently the vocabulary used is quite vague indicating the coexistence of various (value) subsystems (Dyer and Handler 1994, Gersick *et al.* 1997). Stafford *et al.* (1999) are especially elaborate when adopting this perspective, proposing a model where the family and business systems always coexist, but how much they intermingle remains an empirical question. All these approaches, though, have a consensus bias – subsystems are assumed to 'fit'. Third, following the previous argument, it is usually assumed that, as the firm grows, it takes/should take on managerial attributes at the expense of family influences (Davis and Stern 1980, Brunåker 1996, 1999) or entrepreneurial contributions (Watson 1994). James (1999) provides a slightly different view, arguing that there has to be a balance between informal personal (family) ties and formal contractual (business) relationships within and across the family business boundaries if the business is going to stay viable. Fourth, there is little concern for constructive tensions between the business and family perspectives in the family business. On the contrary, conflicts between the family system and the business system typically are considered to be dysfunctional from the point of view of the firm. In his normative text Leach (1994) ascribes the family system weaknesses such as 'inward-looking' and 'minimizing change' while the business system, in his mind, is by definition alert and change oriented. His conclusion is that the two systems should be kept apart as much as possible (cf. Lansberg 1996). Cosier and Harvey (1998) in a research note state that (cognitive) conflict may be productive but they mainly use the family-business context as a convenient setting for their general argumentation for dialogue as a strategy for organizational development.

Although Dyer (1986) brought attention to the crucial role of the board as a governing institution in the family firm, research on the characteristics and specific roles of boards of directors in family businesses is limited. Dyer and Sánchez (1998) in their survey of the *Family Business Review* over the period 1988–1997 only identified three empirical papers on the subject of boards.

The introduction of an external member to the board may radically change the conditions for the ongoing ideological battle in the family business. If the recruitment of external board members favour, as we assume, managerialism it is not surprising that traditional, defensive family businesses, dominated by paternalism, are hesitant to invite them. Genuinely entrepreneurial firms may in contrast consider the access to managerial competencies as just another resource to exploit when growth is aggressively promoted.

The generic argument that we put forward is that, in order to understand board operation in general and recruitment of outside directors in particular, it is crucial to keep in mind the differences in kind between coexisting but competing ideologies in the family business. This is why the authors propose an alternative framework to those designating normative-rational motives for having external board members, i.e. increased control, access to resources and improved services, as the pillars of the research agenda.

3. Outside board members – the empirical setting

3.1 Research design

Family-business research in general lacks empirical studies. Sharma *et al.* (1997) in their review of more than 200 papers published in 32 journals over the period 1980–1994 found that only slightly more than one-third of them included empirical data. In particular qualitative research is much needed (Dyer and Sánchez 1998). The lack of research in the substantive field addressed here – the introduction of external members to the small family-business board – implies that the authors aim at tapping qualitative case data on such insights in order to elaborate theoretically.

The field-research agenda includes a pilot study and a main study, both based on case data. The objective of the first, explorative, phase of the field studies was to empirically state the relevance of the emergent ideological framework, refine the methodology, and confirm the criteria for firm selection in the second phase. The owner-managers and directors interviewed in the first phase represent 12 small businesses in southern Sweden. The results from this study are reported in subsection 3.2.

Encouraged by the affirmative findings in the pilot study, the second study was designed. Since the concern was to find out about *how* external board directors are selected and introduced, in-depth case data were needed, opening up a narrative approach to data analysis. In the 'theoretical sampling' the authors were looking for one firm that could clearly be categorized as an established family business (i.e. with the second or even a later generation being in charge), thus presumably paternalistically run, and one fast-growing entrepreneurial firm where the founder was also the CEO. In selecting businesses the authors only considered companies that had recently appointed their first outside director, representing the invading forces of managerialism. Access was also taken into consideration as a sampling criterion. The owner-manager and the outside director were going to be (independently) interviewed and both of them had to trust both of the interviewers. The first interview (October–November 1997) thus communicated a feeling of immediacy as regards the phenomenon being studied, board extension, while the second interview two-and-a-half years later (April 2000) brought a reflective perspective.

At the time of the first interview, the external director in the paternalistic business had just been recruited while the external member of the board in the entrepreneurial business had recently become the chairman after serving less than 2 years on the board. The entrepreneurial business turned out to be a partnership, however, with the interviewee being the dominant figure. He, as well as the external chairman of the board, firmly stated that the firm is (was, it was sold in 1999) a family business. The two companies selected are located in southern Sweden, yet neither of them were among the 12 presented in subsection 3.2.

Semi-structured interviews with the CEO and the outside chairman of the board were thus conducted individually in each of the two firms. In the first round of interviews the board chair was interviewed first, and then the CEO. At the second interview the order was reversed. All interviews were audiotaped. Both authors participated in the original interviews while the follow-up interviews were carried out by the first author alone. All data, though, were available to both authors. Summarizing the methodology adopted, the approach taken both resembles and diverges from the design proposed by Eisenhardt (1989b). Similarities include theoretical sampling, supplementary data collection and parallel interpretation of data by both researchers; differences include a more explicit tentative framework and, thus, less inductive ambitions. For each person statements from the two interviews could be juxtaposed, thereby energizing a dialogue between researcher and interviewee that provided further insight. Statements made by other interviewees were never brought up in an interview; it remained the authors' responsibility to make sense of and to conceptualize the data provided by the four interviewees.

The research setting in Sweden for boards of directors in small businesses is very similar to the situation in the rest of Scandinavia (Huse 1990, 1995b). The legislative frameworks of Denmark, Norway and Sweden are much alike. All joint stock firms having a share capital of more than 1 million crowns (Danish, Norwegian or Swedish – in 1997 an ECU was equivalent to about 7 crowns) were obliged to have a board of directors with at least three members, and the CEO was not allowed to be the chairperson. In these firms the board delegates the daily operations of the firm as a 'package' to an executive management. Even firms with less than 1 million crowns in share capital are advised to have 'professional' or outside board members. In Swedish joint stock companies the employees can demand seats on the board if the number of employees exceeds 25.

3.2 *Focusing the research agenda: boards in twelve small businesses*

The potentials of having outside directors have been given increased attention in the mass media and among small-business owner-managers in Sweden during the 1990s. In order to better understand this new situation and also to focus on the research question, semi-structured interviews were held in 12 small businesses. A board member, if possible the chairperson, whether an insider or an outsider, and the owner-manager, were interviewed by MBA students in 12 randomly selected small businesses. The number of the employees varied between 10 and 100. The interview guide contained questions about board roles, composition and structure (Zahra and Pearce 1989), as well as main stakeholders of the business. In addition questions were asked about, for example, ownership, line of business and year of establishment. The authors also enquired about the respondents' image of the board's role and its composition in the future. In line with the definitions previously given five businesses were classed as entrepreneurial (just established and/or growth-oriented), and five were classed as paternalistic (independent with continued family control). Two businesses had a very dispersed ownership and since the management in neither case had any ownership interest, managerialism was assumed to rule.

The case survey revealed that it is difficult to make a clear-cut definition of a non-executive or outside director (Baysinger and Butler 1985, Daily *et al.* 1995). How should a primary family member, e.g. daughter not working in the business, be categorized? Outside or inside? How should non-executive owners be classified as directors in entrepreneurial or family businesses? Usually they were relatives or close friends of the CEO. How should a consultant or other board members who were recruited to the board by the CEO to render management services be classified? What about employee directors? In some of the businesses they were a part of the management team. In other businesses the employee directors were not expected to make any contribution, only to adhere to formalities. None of the above-mentioned categories of board members are financially or psychologically independent of management. These observations led us to a redefinition of the traditional categories of outsiders and insiders. Table 2 uses a definition of directors which implies that non-executive owners in paternalistic firms or entrepreneurial firms are classified as insiders. Employee directors are for the purpose of this paper also classified as insiders, while consultants are classified as outsiders.

Table 2 reports that all businesses had a formal board of directors but also that none of the *entrepreneurial businesses* studied had an outside director. Some of the firms realized the potential of outside directors and were therefore also considering recruiting some. In one of the businesses there was a disagreement among the founders as to the need for outside board members. One of the founders, the CEO, did not recognize the

Table 2. Classification of boards in small businesses.

	Entrepreneurial business	*Paternalistic business*	*Managerial business*
No outsiders			
Do you plan to recruit outside directors?	(a) Considering (b) No intention (c) Wants (d) Owners disagree (e) Cannot afford	(f) No intention (g) Considering	
Some outsiders			
What are the roles of the outside directors?		(h) Monitoring/ Instrumental (i) Sounding (j) Disciplining	
Majority of outsiders			
What are the roles of the board?			(k) Monitoring (l) Strategy

need, but the others did. In another business the lack of financial resources was considered as the major barrier to recruitment of an outside director.

Two of the five *paternalistic businesses* did not have outside directors although one of them was considering the possibility. The rest of the family businesses had some outside directors, but in no case did they make up the majority of the board. The financial situation of one business made the bank require an outside director. As these problems disappeared the bank also relaxed this requirement and the person who had represented the bank was then replaced by a director who was a consultant. While the bank representative had had a fairly passive monitoring role, the new director got actively involved in the daily business operations, i.e. adopted executive roles. Yet another business was going through a succession process and the new generation wanted an external person on their board and their bank provided a candidate.

In the two *managerial businesses* the boards mainly consisted of non-executive directors who in both cases were very active. In one of these companies the board mainly focused on monitoring activities, while strategy issues seemed to be more prevalent in the other. The board members seemed to be recruited to meet different criteria of representation, e.g. stockholders' interest, functional needs and owner factions.

There are several tentative lessons to be learned from this explorative research. The importance of understanding boards in relation to both its life cycle (Lorsch and McIver 1989, Huse 1995d) and dominant ideology was indicated. The life cycle approach is theoretically rooted in a resource-dependency perspective, and 'boards are expected to perform qualitative different roles at various points of the cycle as exemplified by the different way a board performs its control function in an entrepreneurial business as opposed to a well established, mature corporation' (Zahra and Pearce 1989: 298). If the boards may have important functions in each stage of a business's life cycle, why did so few of the 12 businesses have an active board? The cases indicate that the entrepreneurial companies may not all realize the benefits of outside board members, especially since that would imply inviting managerialism into the business. Further explanations, besides the youth of the businesses in the sample, include general and active networking which provides a lot of the benefits of a formalized board without limiting the perceived autonomy (Johannisson 2000a). In the paternalistic businesses, problems were probably associated more with a lack of the kind of assets that outside board members were expected to bring, namely additional managerial competencies. Need for these is often felt stronger than the fear of becoming dominated by managerialism. The reason for managerial businesses to have an active board with outsiders is presumably that this enforces the dominant ideology.

The survey results emphasize the importance of exploring the impact of the dominant ideology in the selection process of external directors. Next the qualitative interview data from the in-depth study are examined in more detail.

4. The selection process: prospecting the hidden agenda

4.1 The entrepreneurial business

The firm was established in 1987 as a 50/50 partnership between two former work mates. At the time of the study the CEO had just received an award for being one of Sweden's most successful entrepreneurs, and the firm had much coverage in the mass media. The firm was created as a spin-off from a local establishment within a Swedish multinational corporation. This corporation also became the founders' first major customer, i.e. the venturing represented 'extrapreneurship' (Johnsson and Hägg 1987). At the time of the first interview the firm operated on industrial markets in four business sectors although these were all in the interface between electronics and electrical appliances. The CEO, who at the time of the first interview was 40 years old, was by far the most outwardly and business-oriented of the two partners. The other one had his major competencies and responsibilities in technology and product development and usually deferred to the CEO. The latter admitted: 'We have never quarrelled but that is because my partner is patient'.

Although in a traditional industry the business grew rapidly and in 1997 it employed 80 people. Many employees are, in stark contrast to the CEO, formally well educated. One of the unique features of the company is its organization; highly decentralized with self-organizing groups having wide responsibilities and encouraged to take its own initiatives also with respect to customer relationships. The business is located in a small town well known for its high industrial activity. In addition to the founders' former employer, there are a number of further local customers.

4.1.1 Introducing external directors: In 1995 the company did not have a proper board. 'The board work concerned only my partner and me. We used to finish off on Friday by going down to the local pub and talking things over. No papers or protocols'. When the business grew large enough for employee representation on the board, the CEO offered that possibility but also declared that he expected considerable contributions from all board members. The employees never made use of their legal rights. The rapid growth of the firm, however, made the CEO realize the need for supplementary competencies. 'I have bold, often wild, ideas about the future and then I feel a need for some more experienced person to tame me'. The need for external members on the board in family business was also being publicly debated both nationally and regionally.

> This discussion in the mass media made me reflect. I thought we should have somebody to use as a sounding board. One of those Friday nights in the pub I suggested to my partner that it may be the right time to get an external person onto the board. That was one year before we had our first outside director. Then the question was: who should we select? . . . I then indicated our ambition to some people I knew, and one day one of them told me that he had heard that BB was about to retire from the position as the hired CEO in a major local listed company, still family controlled. I immediately phoned BB and told him that I wanted to see him. I then told him that I wanted him to become the chairman of our board. I showed him around on the premises and recommended him to contact our auditor to check our financial accounts. He did so and then he accepted. This was his first position as an external board member (CEO).

Considering the importance of the local/regional market, further candidates being considered were also from the region. '. . . but I did not feel they had sufficient substance: substance means to me that they are competent enough to lead a business that has been successfully growing. But the personal chemistry between the two of us has to work as well' (CEO).

However, only a year after entering the business, the new chairman had to leave the board. The major owner of his former company had been involved in a hostile takeover, which was disfavouring one of the entrepreneurial business's major customers. The entrepreneur was, however, anyway about to extend the board with a second external member to bring in experience from a corporate setting. Thus, on the very day that his former employer's CEO announced his retirement in the local newspaper, he was immediately contacted by the entrepreneur. His former leader accepted and became the new chairman of the board.

4.1.2 Creating space for management: In his previous position the new chairman (TT) was not only in charge of the local establishment but also for a product division within the multinational corporation as well. He also served on a number of subsidiary boards. A year before the acceptance of the chair in the entrepreneurial firm, at the age of 58 years, he had made up his mind to resign and instead start serving on a limited number of small family-business boards. Money was not the primary motive for this new career. In 1997, TT was already on six such boards, in four cases as the chairman. He had chosen his board commitments very carefully because he wanted to be sure that he could contribute to the development of each firm. He wanted to provide what he thought was much needed in family businesses, namely a sounding board and a critical voice triggering dialogue: 'The entrepreneur often becomes his own enemy'. Further ambitions included offering the firm a strategic toolkit and getting involved in the recruitment of new management. Equally important was to organize the board and with that the whole business, to furnish it with basic administration. In addition to monthly board meetings, TT, when in the vicinity, would visit the company unannounced. Thus, although TT criticized the CEO for being obsessed by details, as entrepreneurs usually are in addition to being visionary, he himself believes that it is very important to be close to the company in order to understand what makes it tick. Both the CEO and the chairman stress that a basic condition for co-operation on the board is a personal relationship where the 'chemistry' works. In spite of his great respect for his chairman the CEO never gave up his entrepreneurial characteristic 'If the action frame defined by the board is too tight I have to stretch it; the chairman never catches me where he leaves me'.

Asked about his attitudes concerning additional external board members, the CEO answered: 'I have already been in contact with someone, but I have not told TT. I had even arranged a meeting with a woman that works for the National Association of Corporate Directors' (StyrelseAkademien). My plan was to learn what they at the StyrelseAkademien could offer us in selecting a new board member. It could be interesting to learn how she thinks. I don't see it as a necessity to have a woman director. I am trying to figure out proper names, but I have not invited anybody. If any name comes to my mind, I will present it to the board, that is, first to my partner'. With regard to what competencies he is looking for the CEO is quite clear: 'I would like someone I feel has the same experience as I have. Probably someone older than I and who has experienced the same kind of growth we now have and successfully come through it'. Asked about the flexible use of competencies in terms of occasional consultants and not permanent board members he answered: 'Using a consultant is not the same. Board members become part of the company, consultants don't'. He clearly recognizes the strategic importance and value of a professional board. 'I don't object to having more outside directors and thus a more formal board structure. I think this can help us in building more formal structures in the firm, and we need more structures. Remuneration? There are some certain accepted standards. I would consider offering higher remuneration. If I get a good board, then that won't be the problem'.

Looking in retrospect the CEO concluded the first interview as follows: 'When we started the firm, we felt that we were subordinate to the bank. The bank gave us some very bad advice, but we had neither the competency nor the financial position to argue. This situation made the need for an outside board member to grow. We wanted a person who could discuss on at least equal terms with the bank. And now we have got the best'.

4.1.3 Taming or suppressing entrepreneurship: The CEO's plans for further expansion of the business operations by locating a plant in a science park in an expanding metropolitan region were, due to the risks involved, held back by the chairman of the board. In late 1997 TT instead initiated and partially also managed a rationalization programme that sorted out unprofitable products and customers. The company growth was thereby somewhat hampered, although the objective of having 100 employees before the new millennium was reached. The profitability the business operations was improved as well. TTs annual fee was increased because of his intensified involvement, however not dramatically.

In July 1999 the company was acquired by a listed company after only 4 months of negotiations. Although the CEO realized the need for improved administrative routines – this is why he extended the board with outsiders – he instinctively dislikes red tape. He, however, did not foresee that handing over the design of these issues to the chairman did not exclude him from being entangled: 'It wasn't fun any longer'. The high growth rate of the company was beginning to tell 'I did not get a burn-out, but I was slightly burnt'. Also, in the local community he was no longer considered to be a 'working class hero' but a well-off businessperson and therefore envied by many.

At the sale the founding partners kept the premises and TT remained the chairman of the board in the restructured real estate company. The CEO, as well as his partner, stayed in the company but after only another 7 months he left, disillusioned by the further routines being introduced by the parent company, for example, to evaluate new customers. 'I am used to using my instinct – and we never lost money due to customer failure', the CEO in his typically abrupt way illustrated his discomfort with the new management.

4.2 *The established family business*

In this business, founded in 1944, the CEO was 56 years old at the time of the first interview. He was the second generation in the business and the third generation had started to take on executive positions. There were 30 owners – all family members. Half of them were working in the firm, which altogether employed 45 people. Ownership is widely spread within the extended family; the largest shareholder controls just about 15% of the equity. Only those working in the company can have shares with voting rights. Since there is no (internal or external) market for the shares, changes in ownership basically occurs only through inheritance.

The board was traditionally recruited among the owners, mainly according to the functional position he (no women are managers) held. One year before the first interview there were seven board members and five substitutes. The board then was mainly looked upon as a training arena for family members intended to become managers. According to the CEO 'the work of the board was not professionally administered during these years. All decisions were made informally'. The employees had been offered board representation but had declined, probably because of the family domination. Instead the whole staff was regularly informed about major events in the business operations.

4.2.1 The outside director and the selection process: At the time of the first interview by the authors the board chairman (LL) had recently chaired his first meeting. Born in 1940 LL started his professional career in his own family's business. He later worked in a bank and then at a public local development agency (for many years as its director). Then LL for some years was hired as the CEO by another family firm operating a wholesale consumer-product business. Since 1990 he worked as a consultant and as a board member in entrepreneurial companies. In 1997 LL held 12 positions as a board member, in most cases as the chairman.

'I have been asked by various kinds of persons to join boards in small family businesses. Sometimes I am approached by the CEO and owner-manager, sometimes the bank or the CEO of a firm that is affiliated with the one needing a more active board'. Personal networking is the main means of assignment as an external board member according to LL. 'The network is important. It is constantly renewed, but it is also necessary to maintain existing ties to auditors, banks, attorneys, and all the business persons I learnt to know as a local-development agent'. According to LL both pull and push factors had contributed to his enrolment in small family-business boards.

The CEO frankly stated that the recruitment of an external board chairman in the paternalistic firm was triggered by a crisis. The introduction of an external board member had been discussed many times, but never really seriously. The situation in the spring of 1997 was different. The company had its second consecutive year with negative financial results. Except for 1969, in all previous years the company had made a profit. The CEO now had to consider structural changes in the firm, and it was realized that an outsider's opinion was needed to accomplish that. The CEO had the impression that their main bank had a similar opinion. With the right person the work of the board would become more professional; more concerned with the future, visions and objectives. The proper protocol procedures were already there but that was all.

Previous conceptions of a more active board had been quite vague, as the CEO reported: 'We have had some thoughts about recruiting external board members earlier, but there was no good candidate. This (1997) spring we first made the decision to more systematically look for external competency for the board. We also decided to reduce the number of board members from seven to five and to exclude substitutes'. The search process generated four or five candidates – among them LL. When the company had its first financial crisis, back in 1969, he as a consultant had helped the company to overcome its problems and since then he had stayed in touch. This made LL the major candidate and no-one else was systematically researched and evaluated by the board.

> The discussions concerning what person to recruit did not only take place within the boardroom: we even had this discussion while sitting in the office or around the coffee table. Before entering the boardroom, all the names had already been presented. LL has always been interested in our business and his and my personal chemistry fitted. In addition, in his previous CEO positions he was much involved with consumer marketing, and we wanted to strengthen our marketing efforts. It also turned out that he even was on the board of another business in our industry. We discussed his joining our board and he sorted it out with the other firm.

The negotiations concerning the entering director's remuneration did not cause problems because it was well argued and accepted by all owners. Nevertheless, LL himself asked for a trial period of 3 months. He also asked to become the chairman (although neither party admitted this at the first interview).

4.2.2 Formalizing routines and focusing strategy: The recruitment of an external board member generally formalized management routines in the traditional family business according to the CEO. 'Without the outside board member we could handle many board affairs during the week, and then put the issues into the protocol later. We cannot do that any more'. Before the recruitment of LL there was no real difference between the board meetings and the shareholder's meeting either. Since many shareholders were spouses and children of the board members, any board issue brought up became family business.

The appointment of a new external chairman of the board also generally signalled new times in the traditional firm. A top management team headed by the CEO was created to implement the new regime. The CEO was very happy with the composition of the board and the company organization at large.

> In a board with five directors, I think it is appropriate to have four members from within the firm. We are all working in the firm. Together we span all functions, and it is the people who have such eyes that should be board members. The role in the firm is more important than the family position, but everybody in the management team is anyway a member of the same family.

Owing to his intense involvement, LL was at times hired as a consultant (and paid accordingly). Due to the family-business curse in terms of 'kindness', as the CEO put it, different departments were nurtured differently, e.g. the own production department was for a long time protected from cuts. With LL a greater market focus was introduced, including that all internal activities as well as relations to customers and suppliers were reviewed with respect to costs and benefits. Although the business operations some years before LL's entry was split into two profit centres (production and trade), the opportunity costs associated with 'own production' were never systematically analysed. This was affected when LL took charge of the board. Wherever costs could be saved through outsourcing, needed measures were taken. This review even included the bank as a supplier of financial capital. The existing bank was replaced in spite of the fact that the then CEO was a member of its board (which he left). Staff was reduced by about 20%, the personnel involved encompassing both family and non-family members. Two further strategic measures included becoming a major subcontractor to the global company IKEA and acquiring a global trademark in the toy business. Nevertheless the company made losses for another 2 years (1997 and 1998) before it was again profitable in 1999. By spring 2000 the workforce was almost back to pre-reconstruction size (although few of same people were hired again).

Paradoxically the measures initiated reduced the gap between the marketing and administrative functions in the business. This has considerable implications for the position of the CEO, who is associated with the administrative/production-oriented faction of the organization. The new 'order' introduced by LL dissolved former functional disagreements, which had been enforced and politicized because different family factions represented different functions. Even the marketing side now realized the need for calculation and this created a platform for the CEO's integrative role. The CEO was very pleased. 'Every time I go down the stairs after the board meeting I tell myself: this is the best thing that has happened to the business. I plan to resign in about three years and my only concern is to keep the business profitable until then'.

4.3 The selection process

Table 3 displays some of the main observations of the board-selection process in the two family businesses. The table shows that even though there are considerable differences between the two cases, there are also similarities reflecting the family-business status of both companies.

4.3.1 Definition of needs: The need for an activated board was only vaguely experienced in both businesses. Although the paternalistic company had made losses for 2 years, its solvency was reassuring. The CEOs in both companies were very attentive to the ongoing debate in the Swedish mass media about the potentials and resources that a 'professional' board could offer; they had also a positive attitude to such a board even though this could mean limitations to their own freedom. They both felt the need to make the board into an arena for structuring firm operations. The general positive image of 'professional management', that it was fashionable to have outside directors, seemed to be more important than a clear awareness of actual board behaviour, roles and potential. Both CEOs felt a need for a sounding board to cope with, in the entrepreneurial business, ideas that were too wild, and in the traditional company, varying ideas. They both hoped to provide for this need by inviting an outside director onto the board. Various stakeholders may have different expectations concerning the roles of a board (Huse 1995c). Huse (1995d, 1998) showed in a Norwegian study how boards in three small companies were empowered by the relative strength and importance of internal and external stakeholders. It was also apparent in the present study that the relative strength of internal and external stakeholders led to the need for a 'professional' board being articulate. In

Table 3. The board-selection process in the two family businesses

	The entrepreneurial business	*The paternalistic business*	*Similarities in the two businesses*
Definition of needs			
Initiation	Internal initiative	External influence	The identification of a potential candidate initiated the final process
External stakeholders	The entreprenuer/CEO does not want to be suppressed by the bank	The bank indicates interest in external directors	The potential in 'professional' directors is evoked through the mass media
Internal stakeholders	The entrepeneur/CEO realizes the potential of the resources of external directors	The company needs to turn red figures into black	The CEO wants a sounding board
The evoked set of candidates			
The search process	A continuous informal search process runs	A process structured by formal decision is launched	The network is mobilized to provide candidates
Identification of candidates	A highly recognized person is identified	The core of the family (the board) is invited to suggest candidates	The bank had suggestions
	The entrepeneur/CEO takes immediate action	A long-term relationship with a persion is activated	The main candidate is suggested by the CEO
The actual choice of directors			
The decision	The partner is informed about the CEO's choice	There is a formal decision processes among the family members	It is the CEO who is in reality making the decision
Starting up	The entrepreneur/CEO offers the candidate the position without any formal decisions	An 'engagement period' preceeds the full status as a director	Personal 'chemistry' a necessary criterion Remuneration no problem
Results			
Main function	Legitimation Networking	Providing advice	Offering a sounding board, discipling
Lessons?	Additional directors are sought systematically	One outside director enough for the time being	The outside director ends up as chairperson

both cases it was very important to the CEOs to be able to manage the bank by way of a reconstructed board. At both our meetings the entrepreneurial CEO mentioned the situation where the bank had forced the company to take – as it turned out to be – an unfavourable loan in foreign currency when financing the original premises. The CEO in the established family business at the second interview recalled a unpleasant situation from the first of the four consecutive loss years where he alone had to defend the company facing three bank managers. Obviously independent businessmen are not comfortable with being subordinate and without control.

4.3.2 The evoked set of candidates: The process of searching for a director was in neither case systematic and not surprisingly quite different results emerged in the two cases. The CEO in the entrepreneurial business was constantly but informally seeking candidates and took immediate action once he identified the appropriate person. In the paternalistic business a formalized decision process was staged and all members of the board were invited to seek and suggest candidates. However, the only real candidate was a person whom the CEO and the company at large had nurtured in a long-term relationship. In both cases, as reported in studies of managerial hegemony (Mace 1971, Herman 1981), it was the CEO who controlled the set of candidates finally considered as well as the rationalization/reconstruction of selection criteria.

4.3.3 The actual choice of directors: The actual choice of directors was very much consonant with the search phases in the two family businesses. It was the CEO who in practice made the decisions, and the final choice was according to the intentions of the CEO. The entrepreneurial CEO and the paternalistic CEO were in control of the selection processes, which were also pursued according to the entrepreneurial (i.e. aggressively) and paternalistic (i.e. prudently) ideology, respectively. The 'personal chemistry' between the CEO and the new person was in both cases the most important criterion besides the track record of the candidate. This feeling of mutual trust and respect embedded all the phases of the process, which in a virtuous circle created constructive solutions. Remuneration was not a problem in any of the cases. In the traditional family business there was a mutual engagement period between the firm and the candidate before the joint decision was made, but in both cases the formal recruitment was embedded in personal relations going back several decades. This is why there was no need for further reflection in the entrepreneurial business.

4.3.4 Results: Here the authors focus on the 'technical' outcome as regards the operations of the board, leaving most of the implications for the ideological struggle to subsection 4.4. In the entrepreneurial business the legitimating and networking roles of the external board member were obvious at the time of recruitment and remained so throughout the life of the company as a family business. In addition TT in practice took on the responsibility of making the family business more efficient administratively. On the one hand the CEO realized the need for these measures, on the other hand he did not feel comfortable with them. The bureaucratization of the firm contributed considerably to the decision to sell the business and within less than a year the CEO had left it. In the established family business the new director's role was to bridge different family factions in the company and make it take needed action: 'It was a relief to get LL on the board', the CEO commented at the second interview.

The two CEOs had different attitudes with respect to the need for additional outside directors. The entrepreneur saw no limitation to the number of outside directors but in spite of a systematic search for further candidates at the time of the first interview, TT remained the only external member of the board until the sale of the company. The patriarch found that one outsider was enough in a board consisting of five persons, although he recognized the need for further legal expertise in the company.

A common feature of both firms was that the outside director ended up as chairperson, which meant that he was given not just a formal position on the board but also that, through him, managerialism was given a leading role, equal to that of entrepreneurialism in the founder-managed business. This increased the visibility of two parallel and strong ideologies. In the traditional family business the market-oriented chairman, besides adding professional management, also infused some entrepreneurial spirit in a business thus far being dominated by paternalism. LL, though, also gave managerialism an internally accepted face by demonstrating how cost accounting could be used to direct strategic market re-orientation. Thus, in both firms, those ideologies which were until then under-represented, were upgraded through the recruitment of external board members. A dynamic power balance involving all three proposed ideologies seems to have been created to the benefit of each business.

4.4 The hidden agenda: challenging the ruling ideology

The very introduction of external non-executive directors to a board of small family businesses may as a process itself involve some elements of managerialism with respect to how (1) the needs are defined, (2) the set of candidates is evoked, and (3) the actual choice of directors is made (table 3). However, the table shows that the dominant ideology defines the major pattern in the recruitment process, demonstrated, for example, by offensive action in the entrepreneurial business and elaborate and lengthy family negotiations in the paternalistic business. The conceptual elaborations and empirical research undertaken leads to the conclusion that professionalizing the board means an institutionalization of managerialism in businesses dominated by either entrepreneurialism or paternalism.

In table 4 the enacted ideologies are presented in the two cases: the characteristics of the two firms and the consequences of the introduction of an external board member. The framework was presented and commented on in table 1. The two cases obviously well reflect the ‘ideal’ and contrasting images of the entrepreneurship and family ideologies. Nevertheless the CEOs seem to have similar expectations concerning the recruitment of an external board member: supplementing not only existing competencies in a technical sense but also bringing in different perspectives, namely that of professional management (in the family business this also included entrepreneurship in terms of a stronger opportunity and market orientation). These changes, in fact, reflect ideological reconfiguration. More professional management in both family businesses meant that managerialism advanced and this lead to strong emotional tensions. In the entrepreneurial business these tensions caused frustration as regards the CEO; in the paternalistic business there were strong feelings of relief that the board had become an arena where family conflicts could be resolved. Paradoxically, in both cases the arousal associated with the ideological restructuring caused the CEOs to decide to separate from their firms, a decision that has been implemented already in the entrepreneurial business. Thus, on the one hand the introduction of outside directors of the board in the family businesses researched here confirm what received theories suggest, namely the provision of, for example, legitimacy, advice and network resources. On the other hand the two longitudinal cases illustrate the need for the proposed ideological framework as a way to uncover the drama associated with professionalizing the board in the small family business.

The ideological framework, supported and elaborated by the in-depth case research, suggests that family businesses need more ideological tensions, not less, in order to stay competitive. This means that the enforcement of an under-represented

Table 4. Enacted ideologies in the two family businesses.

	Characteristics of the entrepreneurial business (*Entrepreneurialism*)	*Characteristics of the established family business* (*Paternalism*)	*Consequences of the introduction of an external board member* (*Managerialism*)
Structuring of activities	Flat organization, self-organizing groups including customer ties	Seniority and equality between different parts of extended family basis for functional organization	Formalization of the role of the board, introduction of planning routines
Resource control	Trust relationships basis for venture creation	Ownership of premises major symbol	Systematic outscoring
Business context	Successive emergence of new lines of business	Slow and hesitant approach to new markets	More focus on market segments with potential and possible influence
Time perspective	Explicit visions framing spontaneous action	As much concern for heritage from first generations as for coming generations	Structuring of present activities in order to build a platform for future offensives
Core competencies	Willpower and intuition guiding product and market development	Knowledge socialized into the extended family	Managerial technology as embedded in relevant experience
Success criterion	Ability to internally generate the cash needed to finance expansion	Ensuring that the family business remains in the family	Definitive ROI and the growth needed to ensure it

ideology should not be achieved at the expense of the other two. In the established family business the new chairperson, guided by managerialism, succeeded in injecting some entrepreneurial spirit without denying paternalism: 'At the annual meeting of shareholders I feel as a family member', LL stated at the second interview. In the entrepreneurial business the chairman joined the board out of respect for the entrepreneurial qualities of the CEO. He also adopted some traditional family-business behavioural norms such as staying close to the concrete operations of the firm.

This study illustrates that the managerial invasion that is invited when family businesses open up their boards to outsiders may benefit both the owner-managers as persons and the family businesses if balanced by way of entrepreneurialism and paternalism. Adopting an ideological framework unwraps the 'irrationalities' associated with recruitment of external board members in the small family business. Such firms' competitiveness can be increased by balancing, even enforcing, rather than denying their special features. If properly orchestrated, the tensions between entrepreneurialism, paternalism and managerialism create an increased strategic awareness (Gibb and Scott 1985), and more generally enhances the absorptive (Cohen and Levinthal 1990) and learning capacity of the organization (Cosier and Harvey 1998). Reflecting upon reality through the three lenses provided by the ideologies adds to knowledge creation albeit along a different track than that proposed by Nonaka and Takeuchi (1995). Their image of dynamics, generated by switching between tacit and explicit knowledge, and between different organizational levels, is in our framework replaced by sensitivity as regards the nurturing and balancing of different ideologies.

5. Conclusions

The main objective of this study was to contribute to the understanding of the role of the board of directors in the small family business in general, and to explore the rationales behind recruiting outside board members in particular. As a conceptual platform the authors then developed an ideological framework to differentiate between the existence and influences of entrepreneurship, management and family/ownership, not an attitudinal framework, cf. Stewart *et al.* (1998). Only two cases in Sweden have been studied but the 'theoretical sampling' based on a systematic search of the literature makes 'analytical generalisation' (Yin 1989, Eisenhardt 1989b) possible. The study has implications for practice and research in several ways.

First, while most studies of the board of directors are input-output analyses not exploring what matters most – actual board behaviour that has interest beyond the academic community – this study has provided insight that may be helpful also to practitioners in addition to broadening the theorizing about family businesses. The dilemmas that small business owner-managers encounter are presented, and the role of outside board members in the solution to such dilemmas are discussed. An active board with non-executive directors may prepare the business to orchestrate and exploit *the creative tensions between entrepreneurialism, paternalism and managerialism*. Future studies should make further investigations into the role of the various ideologies. Besides expecting a continuous 'friendly competition' and 'constructive tensions' between the three ideologies, the authors imagine the possibility of empirically finding further configurations such as one ideology dominating the others, ideologies taking turns as the business develops, or the creation of different reserves in the organization for each ideology (Johannisson 2000b). The last case can be illustrated by the situation where the traditional, paternalistically run family business is forced by its bank to appoint an external board member (Huse 1995d). This may be coped with by restricting the managerial logic to the formal board meetings.

Second, the study has *provided rationales for recruiting non-executive directors in small family businesses*. The cognitive and emotional profiles of entrepreneurial and paternalistic businesses have received particular attention. Keeping in mind that entrepreneurs value independence very highly, we have seen that this assumption has to be qualified. Entrepreneurs in particular may defy any definitive control, including that of a formal board. If entrepreneurs eventually do decide to extend their board of directors with external members, they are expected to do so decisively (Huse 1995d). Traditional, paternalistic businesses protect their independence as well but may be forced to activate their boards. Whether the introduction of external membership is offensive or reluctant, this may not only favour managerial interests: by appointing, for example, a self-made entrepreneur to the board, both entrepreneurial and paternalistic interests are served as well (Borch and Huse 1993). Future studies should test these and similar assumptions on large-scale samples using various empirical settings, for example, also cross-country comparisons.

Third, we have also seen that recruiting outside or non-executive directors may have *signalling effects*. The signalling involves some kind of monitoring on behalf of external stakeholders, for example, the bank (Hill and Jones 1992). The board of directors in the small family business may be monitoring by enacting a disciplinary role and by providing competency. This study indicates that banks and other external stakeholders may have the power to initiate dramatic changes in the role of the board of directors in small family businesses. Future studies should explore how external stakeholders evaluate boards in such small companies. How are the banks evaluating the boards in such firms, and what are the implications of such evaluations? Are the trends changing, and will the banks in future have a more active role in relation to boards in small firms? How will the role of the bank in practice differ from the role of the venture capitalist (Rosenstein *et al.* 1993)? Then it has to be kept in mind that the case studies demonstrate that professionalization of the board in the small family business may be a way to control the banks!

Fourth, *personal networking* is especially important to consider in this context: it invites ideological bridging. Three out of the four respondents in the study explicitly stated that the different ideologies of the board chair and the entrepreneur/patriarch could be interlinked because of the 'personal chemistry' characterizing their relationships. This notion of 'personal chemistry' seems to go far beyond instrumental trust, shared respect and the fact that similarity attracts. It appears as a factor that makes personal networking generic to the creation and maintenance of entrepreneurial processes (Johannisson 2000a). Along with, for example, Borch and Huse (1993), O'Neal and Thomas (1995), and Watkins and Shen (1997) the authors think that it is appropriate to make networks and networking a generic framework for studying board-recruitment processes. Ideologies, by definition, are phenomena originating in society, the forces they represent can be orchestrated in the interest of the family business by way of reflecting and interacting individuals.

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