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WHY SMALL FIRMS ARE DIFFERENT: ADDRESSING VARYING NEEDS FROM BOARDS OF DIRECTORS

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ABSTRACT

Board of director member diversity has an impact on the functions each director successfully provides. Appropriate and necessary board member capabilities differ between small and large firms. Although these differences seem apparent, current research has favored studies related to large firms and neglected those related to board member needs of small firms. Grounded in Agency Theory and Resource Dependence Theory, the following manuscript theoretically suggests that firm size moderates the relationship between board member diversity and the two primary functions (monitoring and the provision of resources) of board members. Furthermore, small firms can enhance performance through appropriate member composition in differing ways than large firms.

Keywords: Firm size, Board composition, Resource Dependency theory, Agency theory

INTRODUCTION

The past few decades have led to great expansions in technology and available data. With that said, the vast benefits of these sources also come with some drawbacks, particularly in board of director research. A great deal of this research has focused on large firms (e.g., Anderson & Reeb, 2004) leaving us, as a field, somewhat speculative as to the various impacts that boards of directors and boards of advisors may have on small firm performance. The board may in fact play different roles in small and large firms due to differences in monitoring and resource provisions, therefore it is necessary to consider the integration of these theories (e.g., Agency Theory and Resource Dependence Theory) (Hillman & Dalziel, 2003) as they pertain to differences in firm size. As small firms may be resource constrained (both in information and tangible resources), finding and compensating a board may present difficulties. Due to these reasons, amongst others, the following manuscript attempts to answer a handful of questions related to this gap in the literature. First, could small firms benefit from different board members more or less than large firms? Second, does firm size have implications on board monitoring and the provision of resources?

To assess these questions, this manuscript utilizes prior information on board composition as an antecedent to board member diversity. Firm size is then described as having a moderating effect between board member diversity and the functions of a board. Next, this paper extends on prior research through the integration of Agency Theory (AT) and Resource Dependence Theory (RDT) (Dalziel, Gentry, & Bowerman, 2011; Hillman & Dalziel, 2003) to better explain the dual board functions, monitoring and the provision of resources, respectively. The results ultimately lead to a final proposition suggesting a means for small firms to enhance firm performance through strategic board member selection.

This research contributes to the literature in three primary ways. First, it is of interest to the collective body of board of director research to better understand differences between large and small firms. Because small firms have been somewhat neglected in this body of work, this manuscript addresses the need to advance the discourse as pertaining to various firm sizes. Secondly, as developed through the integration of two theories and various aspects of boards of directors, attention is drawn to more careful consideration of board selection in small firms. Lastly, this research provides practical means for small firms to enhance performance. Because an overwhelming majority of firms are small (U. S. Census Bureau, 2012), this issue applies to the great majority of businesses in which the effectiveness of the board is a socially complex phenomenon both within the firm and with external constituencies.

THEORETICAL OVERVIEW

Agency Theory and Boards

Essentially, AT utilizes "alternative governance structures to mitigate the agency conflict" (Kochhar, 1996: 715) and is used to identify the problems that may occur as managers, rather than owners oversee business operations. As Eisenhardt (1989) points out, the agency problem occurs when principals and agents have different desires while at the same time are embedded in a context presenting difficulty for principals to verify agent behavior. To minimize these agency problems, two governance mechanisms are emphasized: incentive compensation and governance structures (Davis, Schoorman, & Donaldson, 1997; Hillman & Dalziel, 2003; Jensen & Meckling, 1976).

The emphasis of this research, as it pertains to AT, will focus on monitoring, being that monitoring the structure and composition of the boards of directors is a primary function marrying AT and boards. Here, stockholders can use boards of directors as a mechanism for monitoring executives (Fama & Jensen, 1983). Many researchers (e.g., Baysinger & Butler, 1985; Daily, 1995) have given preference toward independent outside directors to make up board composition in order to better satisfy the monitoring function. Such a scheme suggests insiders would not act independently and therefore compose a board weaker in monitoring management whereas nonaffiliated directors provide stronger monitoring as the disincentive to monitor is removed (Hillman & Dalziel, 2003). Although AT is the most widely used theory when focusing on boards of directors (Dalton, Hitt, Certo, & Dalton, 2007; Hillman, Withers, & Collins, 2009; Johnson, Daily, & Ellstand, 1996; Zahra & Pearce, 1989), much of the AT literature on boards of directors has undertaken samples of large public companies to analyze the monitoring mechanism (e.g., Lane, Cannella, & Lubatkin, 1998; Nyberg, Fulmer, Gerhart, & Carpenter, 2010). However, this is not the boards' only application, albeit perhaps being the most straightforward. Boards can also monitor firms in smaller private organizations, a focal point of this paper.

Resource Dependency Theory and Boards

Given firms work in an open and interacting environment (Thompson, 1967), they are situated in a context full of uncertainty and interdependence (Knight, 1921; MacMillan & Katz, 1992; Pfeffer & Salancik, 1978). It is here where managers have the ability and obligation to attempt to control for this uncertainty and to reduce various dependencies. Gaining and maintaining power is focal to reducing dependency. Emerson (1962) provided the groundwork for the concept of power dependence which was later applied in the organizational setting to control for resources (Ulrich & Barney, 1984).

Studying boards of directors through a RDT lens leads to great benefits and many studies have asserted that RDT has provided for a better understanding of boards through theoretical and empirical analysis[2] including topics such as board size and composition (Johnson et al., 1996; Pfeffer, 1972). Directors with access to various resources provide valuable impacts at the firms in which they sit (Boyd, 1990). These resources are not one-dimensional and in fact, can be broken down into a number of subcategories. Pfeffer and Salancik (1978) provide insight to the four primary ways in which directors add value to organizations. These include: advice, legitimacy, and access to information and resources. These categories, as applied to small and large firms will be further differentiated later in this manuscript. Notably, more recent research follows this trend. Hillman and colleagues developed a taxonomy also suggesting directors provide varying degrees of expertise and resources in RDT roles. (Hillman, Cannella, & Paetzold, 2000).

[2] Institutional Theory may indicate that boards are assembled to manage legitimacy (Suchman, 1995). We note this importance and consider IT to be subsumed under RDT in the present context.

Although some point out the limitations of RDT (Casciaro & Piskorski, 2005), it has stood the test of time providing a sociological theoretical underpinning and explaining a great deal in strategic management. The RDT presence in corporate governance is quickly approaching the prominent AT perspective. While each theory provides a unique perspective, the collaboration of the two provides a more complete lens to view the role of the board of directors.

RDT and AT

Hillman and Dalziel (2003) were seminal in integrating these theories as they pertain to corporate directors. They differentiate the two functions of corporate directors by underpinning the monitoring function in AT and the provision of resources function in RDT. Others have also more recently integrated these theories for various governance purposes. Arthurs and colleagues (2009) focus on mitigating the agency and resource dependence challenges and examine governance mechanisms when firms enter the IPO stage based on their resource dependencies. Amongst other conclusions, they find that when ventures are dependent on key entrepreneurs, firms seek directors with greater start-up experience and a higher level of contingent compensation (Arthurs, Busenitz, Hoskisson, & Johnson, 2009). By also integrating AT and RDT, Callen, Klein, and Tinkelman (2009) find that the theories are complementary yet address different components of nonprofit performance, but with the caveat that RDT produces stronger statistical results. This section is not to provide an entire literature review, but rather emphasize the seminal work of Hillman and Dalziel (2003), while also providing the work of like-minded scholars more recently merging these two theories with emphasis on corporate governance. This manuscript looks to follow suit in a similar integrative fashion yet in a different context with greatest emphasis toward small firm board composition recommendations.

FORMAL PROPOSITIONS

Firm Size

Firm size is a dimension of the meta-analysis conducted by Dalton and colleagues (1998). Although they focus more specifically on the influence of the insider versus outsider board member, they explicitly note that firm size is important. Through the lens of firm size, it is suggested that a larger firm would mask the impact that a board might have (Dalton, Daily, Ellstand, & Johnson, 1998; Dalton & Kesner, 1983). However, larger firms have great complexity and hence potentially greater uncertainty. Under the RDT umbrella, this may increase the need for desired relationships to control for these complexities and uncertainties (Zahra & Pearce, 1989). In their meta-analysis (Dalton et al., 1998), they continuously point to the complexities that arise in dealing with larger firms, not only from the RDT perspective, but also from an agency perspective as CEOs may try to carefully control the information given to the board.

Smaller firms may provide boards with greater influence over the firm (in comparison to larger firms) (e.g., Daily & Dalton, 1993; Eisenhardt & Schoonhoven, 1990). Accordingly, this might lead to more thorough monitoring and better utilization of provision of resources provided by the various directors. From the perspective of board contributions, this may lead smaller firms to more efficiently capitalize on resources as well as more readily adjust their strategies (Dalton et al., 1998). Interestingly, despite this potential for improving firm performance for smaller firm's utilization of board members, little research has been conducted in this area (Bennett & Robson, 2004; Kroll, Walters, & Le, 2007; Nelson, 2003;) and Filatotchev and Bishop (2002) allude to the potentially different governance structures based on firm size.

Small and large firms may face different competitive situations, dynamics, and needs from their board members. For the purposes of this paper, precisely defining small and large firms is not overly necessary. The present concern is directed toward the needs of small firms, and since they have been under-represented in the studies on both governance and boards of directors, the aforementioned and following rationale will hopefully help to build some better practices for small businesses to consider when designing and creating their board of directors (or in some cases, board of advisors).

Board Composition

Board member composition has been studied over multiple decades and has been intensely analyzed to find whether or not differences in composition impact various issues such as performance (e.g., Baysinger & Butler, 1985; Boeker & Goodstein, 1991; Dalton, Daily, Johnson, & Ellstand, 1999; Zahra & Pearce, 1989), ownership structure (Kroll et al., 2007), bankruptcy (Gales & Kesner, 1994), and leadership structure (Dalton et al., 1998) to name just a few. Others have more specifically addressed issues within compositions such as the impact of outside directors (Peng, 2004), balancing family influence (Anderson & Reeb, 2004), shareholder wealth and dividend policies (Schellenger, Wood, & Tashakori, 1989) and so forth. However, because meta-analyses have shown unclear linkages between board composition and performance (Dalton, et al., 1998), this may suggest the need to further incorporate moderating variables such as firm size in order to examine other contextual factors.

Many authors conclude that greater proportions of outside directors lead to more effective boards (Lorsch & MacIver, 1989; Mizruchi, 1983; Zahra & Pearce, 1989), with the term effective implying some form of firm performance. This is a clear case of an AT presence in that outside directors will better monitor CEO and/or top management teams through separating ownership and control (Dalton et al., 1998). Although stewardship theory is not a focus of this manuscript, there is also some support from this theory that in fact, inside directors would actually make for better board members (Davis et al., 1997; Kesner, 1988). Sharing this news however is no way ground breaking and there have been many contradicting studies and little consistency with regard to board composition on firm performance (Dalton et al., 1998). As identified by prior integrative models (Zahra & Pearce, 1989), composition also consists of more than just an inside/outside director comparison. Size and minority representation are also common considerations. Although there have been some differences addressed in prior research, the great breadth and depth of the various composition findings lead to the belief that composition is in fact important, and the board make-up will have an impact on monitoring and the provision of resources.

While prior research has attempted to address board composition via outside versus inside members, one area of board composition worthy of further exploration is the differences stemming from gender. Presently, there are no studies outlining these differences at the board member level despite the extensive literature base outlining differing levels of new venture start-up and resulting firm performance between women and men entrepreneurs (Fairlie & Robb, 2009; Kelley, Brush, Greene, & Litovsky, 2013; Lerner & Almor, 2002). By using gender as a lens to assess board composition, we offer insights into how the strategic planning and business experiences may shed further light on the human capital resource gap between women and men owners (Fairlie & Robb, 2009).

Effective strategic planning may be critical for newly created businesses and vital in the growth of existing firms (Wiklund & Shepherd, 2003). A dynamic planning process can play an important role in predicting firm performance (Brinckmann, Grichnik, & Kapsa, 2010). In addition, prior research suggests that women invest in strategic planning to augment business performance (Lerner & Almor, 2002). While men also engage in strategic planning, the strategic focus of the planning efforts for women may be different than that for men (Gibson, 2010). The planning horizon for women typically spans further into the future, when compared with that of men who are more short-term focused (Sandberg, 2003). These differences in focus are likely to lead to differences in management values between men and women business owners (Carter & Cannon, 1992). For instance, men are more likely to measure the success of their strategies via quantitative measures such as profitability and market position, while women are more likely to measure the success of their strategies more qualitatively, such as personal satisfaction and customer service (Van Aueken, Gaskill, & Kao, 1993). As a result of these differences, the path to business success for female entrepreneurs is likely different than the path experienced by that of male entrepreneurs.

Bennett and Robson (2004) noted that experience, advice, and expertise are consistently ranked as the top reasons board members are asked to serve. Given this, Forbes and Milliken (1999) contend that these experiences shape executive perception. In other words, the decisions made by owners and board members alike, are shaped by one's collective experience.

A review of the literature has identified numerous differences between male and female entrepreneurs, but do these differences also transfer to the board room? We purport that the differences in experiences may lead to different cognitive perceptions for the board member and hence, do transfer. For example, female entrepreneurs have more difficulties with raising start-up capital (Carter & Cannon, 1992) and securing loans (Verheul, Risseeum, & Bartelse, 2002). As a board member, a female with these experiences may be willing to risk less capital for business growth due to perceptions of capital availability. This risk aversion may lead to initially lower returns, however, Robinson (2007) found that women owned businesses are less likely to end in bankruptcy, when compared with the businesses run by men. Johnston (2013) offered support along this line of rationale and concluded that female entrepreneurs, in many instances, exhibit stronger ability in handling workplace pressures.

We included a question in this section, "do these differences transfer to the board room?" Cognitive behavior of any executive, including board members, is influenced by an individual's experience. "Modes of thinking are gender-specific" (Rowley, Lee, & Lan, 2015: 206). Given this journey, the experiences and expertise of the individual will be different for women than for men. Therefore, the perceptions and cognitive behaviors that form the foundation of his or her cognitive processes will influence how an individual views and engages in monitoring and the provisioning of resources. In accordance with RDT, companies should select board members based on the individual's ability to help address the company's needs (Valenti, Mayfield, & Luce, 2010). Given the differences in female and male entrepreneurial experiences, we contend that small firms should consider gender, along with outside versus inside expertise when evaluating board composition.

The composition of the board impacts the characteristics of board members (Dalton et al., 1998; Provan, 1980). Relevant dimensions of board of director diversity can come in various forms such as education, training, and work experience (Zald, 1969), as well as through interlocks (Mizruchi & Stearns, 1988), stakeholder positions (Hillman, Keim, & Luce, 2001), political experience (Hillman, 2005) and so forth. The characteristics that members possess have important implications regarding the capabilities which they may be able to offer a firm. As imagined, these characteristics can make a board more or less diverse and have been fairly well studied and synthesized over the course of the past few decades (Dalton et al., 1998; Johnson et al., 1996; Zahra & Pearce, 1989).

These characteristics play a considerable role in accomplishing their responsibilities involving control, service, and resource dependence (Johnson et al., 1996). Various studies were conducted over the past four decades which helped to identify important board characteristics (Vance, 1968) and beliefs and attitudes (Norburn, 1986) that help to make them more successful (Sonnenfeld, 2002). Ultimately, many would argue that the characteristics may lie in their abilities to monitor and provide resources (Hillman & Dalziel, 2003). Thus, as firms realize that individual members provide various skills, firms will likely attempt to attain properly diverse boards to utilize these varying strengths as pertaining to the firm needs. This is particularly important for smaller firms because they typically have fewer employees, a less diverse workforce, and fewer skills sets. However, creating diverse boards with a combination of inside and outside directors, men and women, and varying skill sets can help boards reduce this gap. Additionally, empirical studies show that this diversity of board of directors is significant for the strategic planning of small firms (Robinson, 1982). While the CEO of a large firm is tasked with the role of leading the firm's enterprise-wide strategy, small business owners are forced to deal with daily operational issues, and any planning that does occur is much more ad hoc. Through the board, a small firm can formalize its planning process, allowing it to achieve better returns (Ackelsberg & Arlow, 1985). Thus, the board of a small firm inherits some of the role traditionally performed by a top management team of large firms, in which, heterogeneity has shown to be positively related to firm performance (Hambrick, Cho, & Chen, 1996). Accordingly, we present the following proposition:

> *Proposition 1: In comparison to large firms, small firms can gain a greater and more impactful access to skills and resources through board member diversity.*

Board Functions

As alluded to in the theoretical development, this manuscript adopts the perspective of Hillman and Dalziel (2003) in that boards take on two primary functions: monitoring through an AT perspective or providing resources through the RDT perspective. However, why does it have to be either-or? As they (Hillman & Dalziel, 2003) eloquently integrated the theories, note that it doesn't necessarily have to be either-or, but that the two theories can work together to provide a valuable alternative to the conflicting camps.

Others have also followed suit in integrating these two theories when it comes to governance (Arthers et al., 2009) and boards (Callen et al., 2009) which is also the lens this manuscript will pursue. The merger of these perspectives allows for an interesting interconnection between the two which better explains what may occur for boards at small firms. Members with access to resources will not only provide the firm with at least some level of access to these resources, but these resources will also influence their capabilities for monitoring. That being, the essence of monitoring is integrated into the resources that these board members have at their fingertips. Meaning, the two are not mutually exclusive albeit we can address them separately in the following sections.

Monitoring

Despite the interrelationship, these two functions may each have their own respective roles pertaining to firm size. Monitoring is the mechanism to help reduce the agency problem. This is also often referred to as the control role (e.g., Boyd, 1990; Hillman, Nicholson, & Shropshire, 2008) and is a fundamental function of each board. Each director is responsible for this at least to some extent. This function looks out for the various stakeholders whom can be separated into many different groups depending on the firm (shareholders, owners, etc.). Because a primary function is to align the investor's interests with that of the manager, incentive pay is often tied to manager compensation to better align interests between the two parties (Garen, 1994). However, are differences in agency problems and monitoring mechanisms in large and small firms more similar or more different?

Monitoring relies heavily on the board of directors (e.g., Hillman & Dalziel, 2003). Furthermore, in larger firms where there are likely more employees, managers, executives and so forth, the monitoring function increases in complexity as there is more personnel to oversee. Additionally, CEOs and managers are less likely to be owners in larger firms. Conversely, the monitoring function differs in smaller firms due to the nature of their ownership structure. Small firms are more likely to have hands-on owners (Reynolds, 2004), have less disconnect between investors and owners due to small bank lending (Jayaratne & Wolken, 1999) and internal funding (Hamilton & Fox, 1998), have compensation plans naturally integrated into firm performance more comparable to other staff (Tice, 2011), and finally, have fewer owners and managed by the owners. Although agency costs are not fully removed in small firms (Schulze, Lubatkin, Dino, & Buchholtz, 2001), there are fewer principal-agent contracts to monitor in small firms. From this, the traditional monitoring role of the board is lessened, which allows the board of a small firm to focus on other strategic issues.

> *Proposition 2: Monitoring functions will differ based on size of the firm such that monitoring will play a lesser role for boards of directors in smaller firms.*

Furthermore, such monitoring plays a smaller collective role in smaller firms, the responsibilities of this function are in fact quite different for directors in small firms versus directors in large firms. For instance, because larger firms are more likely to be traded on various stock markets, monitoring directors who are more knowledgeable in finance and trading will have greater capabilities in monitoring (Xie, Davidson & DaDalt, 2003). Large firm board members who are more familiar of complex structures (e.g., through experience) will also have greater capabilities in monitoring the greater variety of C-level and upper management positions (Kroll, Walters, & Wright, 2008). Alternatively, director members of small firms may have greater monitoring capabilities if they are familiar with the industry in order to benchmark the managing position against that of other similar firms (Rosenstein, 1988). Furthermore, small firm board members familiar with general small business practices and principles will also provide greater monitoring capabilities to these sized firms due to their exposure and valuable experiences in similar capacities. Accordingly, in addition to the greater collective focus on monitoring in large firms, board member specific capabilities may vary and the variance in these capabilities may better lend themselves to a certain firm size.

> *Proposition 3: Firm size will moderate the relationship between member diversity and the monitoring demands such that large firms will place greater emphasis on finance and structure knowledge to monitor while small firms will place greater emphasis on industry and small business knowledge to monitor.*

Board members are appointed for different reasons between small and large firms (Coles, Daniel, & Naveen, 2012). The process is more formal in large firms where stock prices may react to the appointments (Shivdasani & Yermack, 1999); and are also more likely to be conducted based on outside recommendations separate from what the CEO and managers may desire (Shivdasani & Yermack, 1999). However, in a small firm, often the owner(s) who manages the firm assembles the board of directors (Vesper, 1990). Under these circumstances, boards for small firms are more likely to be tied to the owner which develops from a smaller circle of possible board members (Mosakowski, 1998). They are likely chosen more for their provision of resources and less for the monitoring capabilities and thus we present the following proposition:

> *Proposition 4: Small firm boards will have less autonomy over monitoring because directors will be more likely owner appointed.*

Provisions of Resources

The provision of resources allows for board members to reduce uncertainty in the firm (Pfeffer & Salancik, 1978). Resources provide firms with access to human capital and network capital. Although perhaps not fully developed, RDT and boards have received notable attention. Hillman and colleagues (2000) suggested the various roles could be broken down into insiders (e.g., firm knowledge), business experts (e.g., expertise on competition), support specialists (e.g., experience in law or banking), and community influentials (e.g., influence, power, legitimacy). (Hillman et al., 2000). The combination of these resources can make board members very valuable to the firm. As mentioned, those board members with greater access to resources may also be networked and interlocked with other board members not only gaining the firm access to resources, but also providing board members with the knowledge to better monitor. Whereas monitoring keeps activities in check, provision of resources can provide a whole new wealth of capabilities (Arthurs et al., 2009). As monitoring was suggested to play a larger portion of the director activities in the larger firm, resource dependence roles may likely represent a greater role in smaller firms.

Proposition 5: The provision of resources function will differ based on size of the firm such that the provision of resources will play a larger role for boards of directors in smaller firms.

All firms need access to resources but the following paragraph posits that smaller and larger firms will have much different needs from these resources. For example, a smaller firm might be very pleased to find out board member X is (or knows) a lawyer that could draft legal documents. This differs from large firm Y which likely has internal corporate attorneys to draft such documents. In smaller firms, directors' capabilities are sometimes used in lieu of recruiting full-time employees (Bennett & Robson, 2004). Cost concerns (e.g., salary and benefits) and moving new associates down a learning curve to help them understand the business could be counterproductive to the business in the short term. Hence, creating an opportunity for the director at a smaller firm to engage with the owner in operating the business alleviates this concern in the short-term. Engaging in operating the business creates an additional demand on one's time for smaller firm directors versus large firm directors, hence assisting the owner by "stewarding" for the business and providing skills and expertise.

Endless applicable examples could be listed, but providing readers with one should give an idea that although resources remain an important contribution made by board members, various resources and specifics about these resources will greatly differ based on the needs that the firm has as dependent on its size. Based on the prior listed fundamental resource areas (Hillman, et al., 2000), small firms will derive significant value from all four areas (e.g., insiders, business experts, support specials, and community influentials) whereas large firms are more concerned with emphasis on business experts (Singh, Terjesen, & Vinnicombe, 2008) and community influence (Huang, Vodenska, Wang, Halvin, & Stanley, 2011).

Proposition 6: Firm size will moderate the relationship between member diversity and the resource demands such that there should be a greater emphasis on networks in large firms whereas well-rounded access to various resources in smaller firms.

DISCUSSION

Small business makes up a great deal of the American economy (U. S. Census Bureau, 2012) and hence the implications for this type of research are important and widespread. With attention to board of director members and even boards of advisors, small firms can set themselves up to have better monitors and have access to great and pertinent resources in order to reach their potential whether that be profits, growth, market share, or goals (for non-profit small firms). The combination of these two functions will lead firms to achieve these varying goals. Additionally, management may be positioned to make better strategic actions and decisions by better aligning boards through diversity and relevant experience. Ultimately, addressing these needs will better prepare a small firm for success in comparison to other small firms that more arbitrarily (or less thoughtfully) develop their boards. In essence, comprehensive attention to these potential firm resources (monitoring ability and provisions of resources) can lead to better firm performance. This is not to overlook larger firms and the attentiveness they should give to selecting their board of directors. More so, to note that the selection of each member should be careful and in a manner that can help lead to better performance due to the differing needs of smaller firms. As we also mentioned, small firm board members receive much less (if any) compensation and thus the nature of acquiring talented individuals who can appropriately serve becomes a more challenging but worthwhile endeavor. Therefore, all else equal, small firms which put forth the effort and successfully comprehensively capitalize on both their monitoring and resource provisions will have better performance over other small firms which do not.

Limitations and Future Research

There are a few limitations that should be noted. First, as a theoretical piece, many of the propositions remain untested. Though the suggestions are underpinned in prior research and theory, it is difficult to say what exactly would be the ideal board member and composition for small firms. Secondly, due to the wealth of research conducted regarding boards, RDT, AT, and firm size, as well as stewardship theory, it was not feasible to survey and include all of the literature. Although this manuscript draws attention to differences in size, there is additional literature along with data that would have led to a more comprehensive study as to what small and large firm need from their boards of directors. Relatedly, while it was convenient for us to consider firms as small or large, some limitations (as well as future research) exist due to our dichotomous rather than continuous frame of reference. These are our greatest limitations; admittedly, others are also likely to exist.

Future research could include a more comprehensive look at firm size (i.e., more than two groups). This might lead researchers to find fundamental differences at various levels rather than by simply distinguishing between small and large firms. For example, some studies trichotomize firm size (e.g., Roza, Van den Bosch, & Volberda, 2011), but even this procedure may not catch all of the possibilities and nuances. Additionally, firm size may change over time as a firm evolves out of the start-up phase. It would be beneficial to know more about how board composition changes as firms grow, stabilize, or decline in size and if they conscientiously seek out different types of board members. Our research suggests they should, but knowing more about the results when they do would be helpful to firms that are undergoing size fluctuation. Second, testing these propositions could provide for empirical validity in addition to the prior theoretical rationale. To do so, one could likely obtain data on large firms through secondary data, such as the board analyst database. However, for the smaller firms, surveys or some other means of primary data collection would likely be necessary.

Broadly speaking, the board of director literature within corporate governance has given much greater emphasis to the large firm. It is now time for small firm board research to catch up. Collecting data for the small firms is a necessary step in order for small businesses and entrepreneurs to have a better grasp on their needs from a board of directors or a board of advisors and a means in which they can find greater success.

Practical Implications

The concepts discussed in this manuscript should help lead to a better and more full understanding as to what a firm may need from their board members. The practical implications of this research may present greater advancement for small firms for it is at this level that the board member resources can be better tested in the future. As suggested, small firms may want to pay particularly close attention to the resources each member is able to provide. It is also at the small firm level where many of the board members are often affiliated with the owners which may impact monitoring. Addressing these items and laying out what a small firm needs from their board of directors or board of advisors is critical. Through appropriate planning, small firms may be accordingly provided with greater firm performance.

CONCLUSION

In following suit with others (e.g., Hillman & Dalziel, 2003), the preceding content attempted to theoretically merge AT and RDT as a means to distinguish between board of director functions and address the moderating effect of firm size. As argued, the function of monitoring and function of the provision of resources should be addressed differently based on firm size. Lastly, it is suggested that meeting these demands could help provide for enhanced firm performance while calling more specific attention to small firms. It's with hope that this work leads to the three suggested contributions: address differences in firm size in corporate governance, provide attention to strategic small firm board membership, and offer some practical applications to the many small firms looking to improve performance outcomes.

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