THE IMPACT OF BOARDS OF DIRECTORS ON FAST-GROWTH FAMILY FIRMS: A COMPARISON OF HIGH, MIDDLE, AND LOW PERFORMERS

Nancy Upton, Hankamer School of Business, Baylor University, PO Box 98005, Waco, Texas 76798. 254.710.1011, Nancy_Upton@baylor.edu
Samuel L. Seaman, Hankamer School of Business, Baylor University, PO Box 98005, Waco, Texas 76798. 254.710.4551, Sam_Seaman@baylor.edu

ABSTRACT

Current research of corporate governance supports the notion that company performance and financial integrity can be affected by Board of Director size, composition, and intensity of activity. For example, investigations of Board composition have reported that the inclusion of outside members on Boards of Directors may be related to improved growth rates and enhanced financial performance (Dalton, Daily, Ellstrand, & Johnson, 1998: Scherer, 2003). The presence of outside board members has also been linked to enhanced, strategic planning (Malone, 1989; Nam & Herbert, 1999).

When board members participate in the strategic decision-making process, the result is often better corporate financial performance. Rue and Ibrahim (1995), for example, have found a significant relationship between family firm performance and board member involvement in the approval of capital expenditures, the evaluation of top-level management performance, and the planning of managerial succession. Nevertheless, most family firms have no formal board structure and many opt not to include outsiders on their boards.

The family business literature suffers from a lack of research on the relationship between board composition and company performance. There has also been a scarceness of debate amongst experts with regards to the efficacy of outsiders. It is not surprising then, that many researchers and family business owners have called for more analyses of the possible correlations between board composition, corporate performance, and corporate growth (Johannisson & Huse, 2000).

In this paper, we have investigated board composition and/or practices and their relative impact on growth and performance within a rich sample of high, middle, and low performing fast growth family firms. Firstly, we have explored the effects on performance of board size, presence of outsiders, and ratio of insiders to outsiders. Secondly, we have attempted to profile the "ideal board of directors" based upon the associations between important board practices (including approval of capital expenditures, assisting with the development of business plans, conducting reviews and approving management's business plan, evaluating planned vs. actual performance, reviewing CEO performance, and setting compensation benchmarks). Finally, we have provided practical commentary on the implications of our research for family firms that may be considering board composition and practice.