**SME growth trajectories, transitions and board role portfolios: a critical review and integrative model**


## Abstract

This article presents a novel framework integrating a dynamic states approach to firm growth and a portfolio perspective of board roles. In our framework we highlight four typical firm growth states aligned with primary board roles to guide firms effectively through the transitions associated with each state to reach a new equilibrium. The particular contribution of our framework is that it takes SME heterogeneity into account, while capturing the dynamic nature of these states which are reached along non-linear, non-sequential and non-deterministic transitional pathways, as well as incorporating reverse and counterintuitive trajectories between states.



## Keywords

Transitions, SMEs, board role portfolio, dynamic states

## Introduction

A large and growing literature relates to the governance of small and medium firms (SMEs), with extensive debate over the value and contribution of boards of directors and their roles in this context (Boxer et al., 2016; Gnan et al., 2015; Wilson et al., 2014). Much of this debate considers board value from a static perspective. However, the question of board value and contribution is more complex when considered in circumstances of dynamic change. Recent studies have attempted to address this question by researching board roles in conjunction with small firm growth paths and the changes experienced over the course of their existence (Bonn and Pettigrew, 2009; Filatotchev et al., 2006; Perrault and McHugh, 2015).

Two key issues arise from this debate. The first issue relates to an almost exclusive use of life cycle models to match board roles with SME growth patterns (Bonn and Pettigrew, 2009; Lynall et al., 2003) and transitions accompanying growth (Filatotchev et al., 2006; Perrault and McHugh, 2015). The focus on growth and life cycles implies unidirectional, deterministic patterns of development and ignores the complex realities that most firms encounter, such as erratic growth, turnaround situations and reversals due to decline or other negative impacts (Perrault and McHugh, 2015). The second issue concerns the highly heterogeneous and dynamic nature of SMEs (Delmar et al., 2003; Empson, 2010; Phelps et al., 2007), making it difficult to encapsulate theoretically their governance needs in a comprehensive model.

These issues indicate the need for a broader conceptualisation that reflects more adequately the complexities associated with small firm heterogeneity and dynamics, in addressing the question of how SME boards can add strategic value. The novel framework we develop in this paper provides a more complete specification of both board and firm characteristics associated with transitional dynamics through growth and transformation. While recognizing the overlap of board roles, as well as the need for boards to perform more than a single role, our model highlights the most valuable board role for each transition we depict. To ground our framework, we review and build on two streams of literature relating to board roles in smaller firms, and SME growth and development models.

Numerous firm life cycle models exist (Greiner, 1972; Phelps et al., 2007; Quinn and Cameron, 1983). Among these, stages models continue to attract strong research interest despite substantial criticism in the firm growth and life cycle literature (Becker et al., 2015; Delmar and Wiklund, 2008; Levie and Lichtenstein, 2010). Researchers have endeavoured to overcome the criticisms of life cycle models with terminology that avoids misleading biological connotations implied by the stages metaphor, a linear deterministic view, and a focus solely on growth. Patterns of change and firm evolution have been better expressed as "dynamic states" than as "stages of growth" (Levie and Lichtenstein, 2010). Furthermore, an understanding of the dynamics which trigger transitions between states adds greater relevance to models of firm evolution (Brown and Mawson, 2013). However, these dynamic states have not been encapsulated in a single model because of small firm heterogeneity.

SMEs differ from large firms and also from each other (Daily and Dalton, 1993; Huse, 2000; Lynall et al., 2003). While for SMEs solid analytical dimensions are necessary for building a comprehensive model that embodies their heterogeneous nature, problems of definition and measurement continue to challenge researchers (Bouckenooghe et al., 2007; D'Amboise and Muldowney, 1988; Tan et al., 2009).

In response to these definitional and measurement issues, Torrès and Julien (2005) challenged the specificity paradigm with regard to the heterogeneity of SMEs, classifying them within a single expanded scheme that captured simultaneously many small firm attributes. This scheme focuses on the nature of SMEs rather than their size. Torrès (2003, 2006) had earlier introduced the proximity concept to reinterpret the specificity paradigm. Together, these works contribute two novel concepts: proximity and denaturation, which are used to describe both the nature and dynamism of small firms. Proximity refers to the nature of firms represented by "the small businesses concept": small size, centralised management, low levels of labour specialisation, intuitive and short-term strategy, simple and informal information systems, and serving a local market. Denaturation describes SMEs that have "de-natured"; that is, they have moved beyond the nature of "the small business concept" and have come to resemble the larger firm, exhibiting characteristics such as formalisation of systems and processes, diversification of the business, and internationalisation of markets (Torrès, 2003, 2006; Torrès and Julien, 2005).

We ground our framework in Levie and Lichtensteins' (2010) conceptualisation of firm development, as well as Torrès' (2003, 2006) and Torrès and Julien's (2005) small firm heterogeneity models, in presenting four typical dynamic states experienced among SMEs. Successful transitions between these states are facilitated by redefining the board's function as a portfolio comprising four primary board roles. Previous research has presented discrete board roles in conjunction with firm stages. Our framework indicates that strategic value is contributed by the board when various roles are played concurrently, but with particular emphasis on the role most relevant to the requirements for navigating through the transition and transformation to a given new state. The portfolio notion promotes the idea that a board selects the combination of control, service, strategy (Hillman et al., 2000; Huse and Zattoni, 2008; Zahra and Pearce, 1989) and mediation (Blair and Stout, 2001; Lan and Heracleous, 2010) roles that are consistent with the firm's circumstances (Bonn and Pettigrew, 2009; van Ees et al., 2009).

From a theoretical standpoint the framework we develop in this paper specifies more fully the dynamism and complexity associated with board roles in conjunction with SME developmental pathways than has previously been presented in this literature. Our framework is novel in that we elaborate both typical and counterintuitive transitions between states. In this way we contribute not only to board role and firm growth literature but also to governance practice in SMEs since potentially our framework offers some guidance to firm leaders for successful navigation through these transitional crises and challenges. From a methodological standpoint, our conceptual framework has several implications for future research. We thus conclude the paper with suggestions for research based on these implications, to test empirically and further develop the theoretical framework.

## Review of Literature

### *Board roles in SMEs: a portfolio approach*

Many theoretical perspectives have been applied to board roles in SMEs. The wider corporate governance literature identifies a variety of different roles that boards of directors may adopt in decision-making. Those of control, service and strategy have emerged as the principal board roles (Zahra and Pearce, 1989). Foremost among the variety of theoretical perspectives are agency theory, resource dependency theory and institutional theory (Gopinath et al., 1994; McNulty and Pettigrew, 1999; Zahra and Pearce, 1989). Stakeholder theory and team production theory have indicated a fourth board role of mediation among multiple stakeholder coalitions with divergent and/or competing interests (Blair and Stout, 2001; Lan and Heracleaous, 2010; van Ees et al., 2009).

*The control role of the board*. The board’s control role is consistent with the conformance (also referred to as accountability or compliance) dimension of corporate governance

(Hilmer and Tricker, 1994; Short et al., 1999). Derived from agency theory, this role is organised around the generic concept of the board's monitoring function (Huse, 2007). As the main role, it emphasises hiring and firing executives, as well as financial control and monitoring performance (Adams et al., 2010). The board's control activities include controlling the firm's financial performance, monitoring the firm's strategies, appraising the CEO's behaviour and the executive team's performance, as well as defining executive remuneration policy, and nominating and/or dismissing executives and/or directors.

*The board's service role*. The service role draws primarily upon resource dependency theory, considering the board to be at the frontier of the organisation (Pfeffer and Salancik, 1978). In the service role the board makes three main contributions: (1) legitimisation (Hung, 1998; Huse and Zattoni, 2008), (2) external linkage and resource provision (Hillman et al., 2000) and (3) information gathering, advice and counsel (Davis et al., 1997; Muth and Donaldson, 1998). The service role may contribute toward decision quality and therefore affect long-term firm performance.

*The board's strategic role*. According to Zahra and Pearce (1989), this role includes encouraging discussion and constructive debate, evaluation and, potentially, initiation of strategic proposals. In the strategic role, directors are able to make a strategic contribution to the firm from their professional expertise and experience, in the formulation, refinement and evaluation of strategies. In addition to helping articulate the firm's mission and setting the guidelines for implementation and control of strategy, boards acting in a strategic role will also make a key contribution at critical points when major decisions are made regarding, for example, mergers and acquisitions, divestment, re-structuring, or diversifications (Zahra and Pearce, 1989).

*The mediation role of boards*. More recently, greater attention has been paid to the relationship between firms and their stakeholders, which has favoured the emergence of the fourth governance role of mediation (Blair and Stout, 2001). Legal perspectives on corporate governance (Coffee, 1988; Lan and Heracleous, 2010) and team production theory (Blair and Stout, 2001; Kostant, 1999) help explain why corporate boards should adopt a mediation role and function as independent arbiters among corporate constituents with a vested interest in the entity. Boards are designed also to play an intervening or mediating role between the enterprise and society and to help resolve and balance competing claims on the corporation (Corbetta and Salvato, 2004; Demb and Neubauer, 1992).

*The portfolio approach to board roles*. The four board roles (control, service, strategy and mediation) represent aspects of the board's overall governance function. While a specific orientation or emphasis is indicated with each of the four roles, respectively, the boundaries between each are less distinct in practice. Rather than seeing the board's roles in an organisation as the sum of the four single roles, we argue for a portfolio approach as proposed by Demb and Neubauer (1992) and adopted by Jonsson (2013). Each individual board selects a set of tasks most appropriate to the firm's needs, from among those involving monitoring and control, guidance and support, strategy formulation and implementation, and arbitration and mediation. The portfolio approach is consistent with a strategic contingency view of the board's role where involvement in directing the business will vary over time (Bonn and Pettigrew, 2009; Johnson, 1997; Lynall et al., 2003), as well as across the company's evolution (Aguilera et al., 2008; Astrachan et al., 2002; Charkham, 1994). According to Zahra and Pearce (1989: 298) "… boards are expected to perform qualitatively different roles at various points in the [firm's] life cycle". Board role adaptation is thus relative to changing firm circumstances (Jonsson, 2005; Lynall et al., 2003), which are reflected in the growing demands on the board (Huse, 2007) and the nature of modern businesses.

We suggest, thus, that as a strategic decision making group (Forbes and Milliken, 1999), boards of directors may need to adapt to both changing circumstances in their firms' environments (Levie and Lichtenstein, 2010) and their internal complexity (Markarian and Parbonetti, 2007). Boards may also adopt a pro-active role in the transition process, leading and even initiating strategic change for the firm (Bonn and Pettigrew, 2009; Filatotchev et al., 2006; Johnson, 1997).

*Life cycles: from growth stages to dynamic states*

While stages theory and organisational life cycle (OLC) models have dominated firm growth debates for more than five decades (Churchill and Lewis, 1983; Greiner, 1972, 1998; Kazanjian, 1988, 1990), current thinking has moved away from the idea of a fixed linear sequence of growth stages to a more multi-dimensional concept of firm states (Delmar et al., 2003; Levie and Lichtenstein, 2010).

*Growth stages*. A plethora of stages models exist in the OLC literature (Greiner, 1972, 1998; Scott and Bruce, 1987; Kazanjian, 1990) but there is little consistency either in the number of elements that define these models or their constitutive components. In their 2007 review of this literature Phelps et al. identified 33 distinct models that provide a set of common premises and underpinning assumptions about organisations, but which lack integration. While in the early years of its development the OLC literature was largely conceptual and descriptive, models have gained increasing sophistication in their conceptualisation of growth (Brown and Mawson, 2013; Phelps et al., 2007). Nevertheless, stages models have been criticised for being linear, unidirectional, sequenced and deterministic (Andersen, 2008; Empson, 2010; Levie and Lichtenstein, 2010). Most describe only internal issues of growth. Criticisms include a lack of specificity regarding the “life stage” concept (Aldrich, 1999; Hanks et al., 1993), and a dearth of empirical foundations for many of the studies (Drazin and Kazanjian, 1993; Levie and Hay, 1998; Miller and Friesen, 1983).

Studies (Bailey and Grochau, 1993; Rutherford et al., 2003) have found that stages do not appear to be correlated with the chronological age of the firm. In order to avoid deterministic, linear associations, Aldrich (1999) substituted the term firm “life course” for “life cycle”. Lack of clarity and consensus also exists regarding the number of stages in the firm’s life cycle and what exactly determines a stage or phase, as well as its typical duration. In addition there is a lack of convergence around a common model.

In response to criticisms of stages models, current thinking has thus moved away from the idea of a fixed linear sequence of growth stages to a more multidimensional concept of dynamic states, where crises or issues can occur at different points and may recur throughout the firm’s growth trajectory (Brown and Mawson, 2013). As firms increase in size and complexity and managers face various sets of dominant problems that will change over time and in relation to different stages in a firm’s growth, both directors and executives need more sophisticated capabilities and greater flexibility to adapt their role (Jawahar and McLaughlin, 2001; Kazanjian, 1988; Phelps et al., 2007).

Stages of growth models have been found to be poor predictors of the particular problems businesses face at given stages (Phelps et al., 2007). A further criticism of stages models is that they imply an inexorable positive progression to a point of “arrival” through a “latent mechanism that governs the formation, growth, transformation, and maturity stages” (Stubbart and Smalley, 1999: 279). There is little empirical evidence to support this contention. In this regard it would appear that the biological analogy for stages models is unhelpful and possibly misleading (Phelps et al., 2007). Conceptualisations have been developed based on clusters or sets of problems not linked by sequential stages

(Kazanjian, 1988; Phelps et al., 2007), but instead as states of firm growth (Levie and Hay, 1998).

*Dynamic states*. Increasing criticism of the OLC approach and its inability to address the growth paths has culminated in a “terminal assessment” of stages theories by Levie and Lichtenstein (2010). In their assessment of more than 100 growth models, Levie and Lichtenstein (2010) challenged two major propositions: first, that businesses, like organisms, develop through a specific number of stages and, second, that stages represent an inherent programme of development. Levie and Lichtenstein (2010) suggest moving forward by building on complexity theory concepts, thus considering the firm as a complex adaptive system, and its evolution as a navigation through dynamic states reflecting the continual tension between stability and change that characterises entrepreneurship. The dynamic states approach thus provides a more compelling model which considers the nonlinear dynamics of businesses’ development and growth, “increasing their fitness within their changed environment” (Levie and Lichtenstein, 2010: 331). A dynamic state is defined as a “network of beliefs, relationships, systems and structures that convert opportunity tension into tangible value for an organisation’s customers/clients, generating new resources that maintain the dynamic state” (Levie and Lichtenstein, 2010: 336).

In the dynamic states framework firm growth is not a predictable sequence of stages characterised by increasing size and age, nor is it a foreseeable sequence of problems to be resolved. Rather, it is more complex, discontinuous and unique to each firm although recognisable challenges are encountered at critical inflection points during growth as a result of internal or external stimuli (Brown and Mawson, 2013; Levie and Lichtenstein, 2010).

Based on a process theory of emergence which explains how entirely new states come into existence – for example, through new ventures – the dynamic states approach assumes that over its lifetime a firm will likely experience a series of configurations. This approach aims to reflect an optimal relationship between a firm's business model and its environment. Instead of focusing on the number of specific life cycle stages, this argument concentrates on questions of when a given dynamic state and associated business model is viable in certain knowable environmental conditions, and how various transitions between dynamic states are related to those conditions (Levie and Lichtenstein, 2010).

However, small firm heterogeneity has hampered capturing these dynamic states in a single model. Furthermore, this approach does not capture the forces that underpin a transition from one state to another, as firms change their growth trajectory (Brown and Mawson, 2013).

*SME heterogeneity*

Two analytical concepts of proximity (Torrès, 2003, 2006) and denaturation (Torrès and Julien, 2005) more adequately model the large heterogeneity in SMEs. The concept of proximity defines SMEs in terms of the traditional classical model – that is, small size, powerful/central owner manager, simple organisational structure, informal information systems, ad hoc strategy and close geographical markets. Conversely, the concept of denaturation represents forces that may propel SMEs toward what Torrès and Julien (2005) termed the "anti-small business" concept, an idea similar to that of the "professional small business" (Flamholtz and Randle, 2007; Dekker et al., 2015).

*The concept of proximity*. The SME literature identifies, explicitly or implicitly, different forms of proximity that characterise SMEs according to key features or specificities (Torrès and Julien, 2005). For this paper, we posit that shareholding, ecological and hierarchical proximity as well as organisational maturity are central to governance and organisational problems in SMEs. These four attributes help to qualify the relationships between ownership and control, as well as between the firm and its primary stakeholders. Shareholding proximity is where a firm's shares are concentrated among a few internal and/or external shareholder owners. Because of their ownership proximity, shareholders may be informed directly by the managers and are often sufficiently knowledgeable about the firm's business. In family firms (Corbetta and Salvato, 2004; Ward, 2001), as well as entrepreneurial and venture-backed businesses (Garg, 2013; Rosenstein, 1988; Sapienza et al., 1996), strong personal relationships are shown to increase the flow of information, reduce information asymmetry, and enable greater control by shareholders over strategic decisions.

Ecological proximity builds on the spatial proximity described by Torrès (2003), extending it beyond its geographical dimension. The idea of ecology emphasises the nature of the firm's relationships rather than physical distance. This concept describes SMEs that are embedded in a close and relatively narrow operating environment which includes local markets, banking and financing institutions, business associations, political and administrative bodies, and communities, from which the firm obtains its key resources. Strong links often characterise relationships between the SME owner-manager and key actors in the firm's competitive and institutional environment. Demands from key stakeholders are communicated directly to the firm through close stakeholder relationships and integrated into the decision making process, filtered through the CEO's perceptions. Based on the firm's dependencies on stakeholders the management process is informal and fundamentally relational (Torrès, 2003).

The concept of hierarchical proximity (Torrès, 2003) refers to the centralisation of management style and structure and denotes the focal role of the founder/manager. Various studies in the SME literature have identified the strengths and weaknesses of this type of proximity regarding its impact on firm performance (Castaldi and Wortman, 1984; Daily and Dalton, 1993; Osborn, 1991). Nevertheless, the CEO's contribution to the SME's processes and performance is considered central (Castaldi and Wortman, 1984; Osborn, 1991; Torrès, 2003). Whether the executive is the owner or a professional manager he or she is, most often, the key link between internal and external organisational stakeholders.

Organisational maturity (derived from Torrès (2003, 2006)) expresses the notion of maturity rather than chronological age, and relates to the firm's levels of formalisation and operational capability (Belt et al., 2009). This concept describes a relatively immature SME characterised by centralised power and control and low levels of labour and task specialisation; employees are recruited on a personal basis; the firm has simple management and information systems and favours implicit, intuitive, short term strategies. Conversely, a relatively mature SME is highly decentralised, with a formalised organisational structure and formal management systems, a complex information system and elaborated strategy processes (Dekker et al., 2015; Torrès and Julien, 2005).

*The concept of denaturation*. Denaturation is a concept introduced by Torrès and Julien (2005) to account for the heterogeneity observed among SMEs. The denaturing context is where one or more of the characteristics associated with small-sized firms are radically different, theoretically, from those usually associated with small firms situated in their "natural" or classical SME context. Except for their smallness, denatured firms may resemble large firms in their management methods, differing from the small business model in their ownership, leadership and organisational characteristics.

Examples of denaturing contexts that contrast with the classical model include small businesses operating in global markets (born global firms) which require decentralised, formalised strategic, reporting and coordinating systems, and task diversity. High technology firms also exemplify denatured SMEs since their capital needs typically require external funding, whether from venture capital or public investors, thus exhibiting altered shareholding proximity. Mature family SMEs whose ownership is in the hands of later generations may exhibit denaturation when they rely on professional managers (Dekker et al., 2015; Ward, 2001). Thus, denaturing of ownership proximity refers to the alteration of ownership concentration through opening up the firm to venture capital (VC), private equity, or public investment. The denaturation of ecological proximity refers to a firm's operational environment which extends beyond the local context characteristically associated with the classical small business. Increased dissociation between ownership and management and the use of salaried professional managers as senior executives relates to the denaturation of hierarchical proximity.

The process of denaturation can be bi-directional in that some firms may experience re-naturation of one or more of their characteristics (shareholding, hierarchical, ecological and/or organisational). This reversal process may occur through management buyouts or “going private”, the return of the founder or owner to head the firm, or strategic refocusing and/or restructuring.

The two analytical concepts of proximity and denaturation provide useful means for elaborating on Levie and Lichtenstein’s (2010) dynamic states approach. We argue that the four forms of proximity are especially relevant to SME governance.

## A new conceptual model of boards in transitioning firms

*Dynamic states and key dimensions of firm evolution*

From the firm growth and organisational studies literature and building on the proximity-denaturation framework, we select four states in which an SME may typically exist during its life course: new venture/start-up, high growth, plateaued growth, and professional management. These states are depicted along four axes (see Figure 1) as transitional but non-directional and non-sequential positions. A firm may move in any direction between states over the course of its life and stabilise within a given state for a relatively short or long period of time.

*Insert Figure 1 Here*

*New venture/start-up*. The initial state is typical of start-ups and new ventures where the entrepreneur plays a central role in both the firm's ownership and management. Characteristically firms in this state show a high level of proximity on all dimensions except the maturity dimension. Within these settings, SMEs resemble the classical small firms to which Torrès and Julien (2005) refer as "naturated". Simple organisational structure, informal communication, a sense of "family" and co-operation among the organisation's members, as well as high member commitment to the firm (Miller et al., 2008) and personalised leadership (Flamholtz and Randle, 2007), are typically characteristic of firms navigating this state.

*High growth.* In this state high growth occurs mainly through access to external resources, although growth triggers may be exogenously, endogenously or co-determined (Brown and Mawson, 2013). While organisations in this state may be relatively immature, ownership may become more dispersed, and the firm less dependent on close relationships with the immediate ecological environment. The entrepreneur continues to play a key role within the firm, especially in strategic decision-making, even when professional managers are appointed. Successful technological and born global firms are typical examples of this state. Entrepreneurs in firms entering this state are generally highly motivated to pursue a growth strategy requiring the involvement of external financiers through debt and/or equity funding. While such firms exhibit limited formalisation of their management, they continue to be entrepreneurially-oriented with a clear focus on developing their market penetration through extending product lines, as well as diversifying their customer base and/or their geographical markets.

*Plateaued growth*. Firms in this state may exhibit limited growth aspirations or potential. The typical fully-established SME operating in a mature and competitive environment, as well as owner-managed mature firms, are such examples, which may range from high to moderate shareholding, hierarchical and ecological proximity. Where proximity is high, owners continue to play a central role in the firm's management. Firms in this state also continue to operate in a narrow ecologically proximate environment and maintain strong personal relationships with key stakeholders (customers, suppliers, bankers and community representatives). Plateaued firms with more dispersed shareholding show distinctive features of organisational maturity with the coexistence of both newly introduced formal systems and persisting informal processes. To maintain their financial independence, owners and/or family managers pay considerable attention to stability and financial performance as key success indicators.

*Professional management*. SMEs in this fourth state, while remaining limited in size, take full advantage of their increased organisational maturity as well as increased separation of ownership and control. In these firms, professionalisation includes formalised governance and managerial functions, as well as internal information, financial control and reporting systems (Dekker et al., 2013, 2015; Flamholtz and Randle, 2007). Firms in this state operate in a more expansive environment requiring a continual trade-off between organisational constituents and their possibly conflicting demands.

All transitions will involve a re-definition of both the firm's dominant logic and the business model supporting its operations (Levie and Lichtenstein, 2010). Such transitions may be triggered by challenges from the external environment such as market maturity or increasing competition in the firm's core business from factors in the internal environment such as new product or service innovations, or the exit of the founder, or a combination of such factors. Resolution of these challenges and crises and successful transition to a new state may involve, for example, product or market diversification, the formation of alliances, spin-offs, new subsidiaries and divisions, or changes in ownership through takeover, merger or acquisition, management buy-out (MBO) or buy-in (MBI). Radical re-configuring of the business model and re-structuring, downsizing, turnaround and changes in top management may also be required (Brown and Mawson, 2013). Not only will dynamic capabilities and adaptive capacity be essential managerial requirements, an effective board will also require the necessary competences to guide the firm successfully through these transitions. Table 1 presents the four states and their specific characteristics as well as the main challenges associated with reaching each state.

*Insert Table 1 Here*

Much of the SME governance literature has been dedicated to high growth and technological start-ups confronted with transitioning from an entrepreneurial/founder manager to a professional management state (Gedajlovic et al., 2004; Zahra and Filatotchev, 2004; Zahra and Hayton, 2005). However, high growth firms represent only a small proportion of new ventures, many of which never achieve spectacular growth. Most SMEs have modest growth aspirations and remain small (Fraser et al., 2015; Levie and Lichtenstein, 2010; McKelvie and Wiklund, 2010). Nevertheless, they will undoubtedly be confronted with governance challenges and transitions associated with dynamic change during their existence (Brown and Mawson, 2013).

*The conceptual model*

We extend the thinking on SME governance in a comprehensive model (Figure 2) which incorporates this new conceptualisation of the dimensions of ownership and management as well as the operating environment and organisational maturity.

*Insert Figure 2 Here*

*Transitioning from new venture to high growth*. The small new venture is typically characterised by high proximity, highly concentrated ownership (comprising family and affiliates) and a simple management structure. Its internal systems will be largely informal and accountability will be mainly to internal stakeholders. The entrepreneur's willingness to grow (Mckelvie and Wiklund, 2010) and market and competitive conditions (Brown and Mawson, 2013) may favour a high growth strategy that requires access to external resources. The main focus of SMEs transitioning from new venture to high growth is on gaining a sustainable strategic position. To achieve the entrepreneur's aspirations, the firm needs to develop its organisational knowledge and skills (Zahra and Filatotchev, 2004) but it also needs access to important external resources (Daily and Dalton, 1993; Lynall et al., 2003) such as financial capital and technologies to extend its product lines, as well as diversify its customer base and develop its market position (Churchill and Lewis, 1983; Flamholtz and Randle, 2007; Greiner, 1972). Such expansion adds complexity, making the management task both more demanding and more important (Bonn and Pettigrew, 2009). In this transition the SME needs to assure increased operational reliability (Flamholtz and Randle, 2007). Greater emphasis is placed on financial planning and cash management to sustain growth (Flamholtz and Randle, 2007).

While firms entering this state exhibit limited formalisation of their management they continue to be entrepreneurially-oriented with a clear focus on developing their market penetration. During this transition, raising external finance through equity (business angels, venture capital or other business partnerships) or debt (banking, customers or vendor funding) is likely. This may involve the appointment of outside directors to the board. A major board focus will be on assisting with addressing strategic and financial issues (Sapienza et al., 1996) and overseeing strategic decision-making (Garg, 2013; Rosenstein, 1988; Sapienza et al., 1996).

Boards involved in transitioning from a new venture to high growth will play a key part in determining the firm's response to greater external complexity. The board's strategy role will be emphasised in this transition where directors can contribute to decision-making and provide key expertise to complement management skills (Daily and Dalton, 1993; Garg and Eisenhardt, 2013; Sapienza et al., 1996).

After a period of high growth, firms may face a downturn in market conditions with intensification of competitive forces, or severe pressure on the firm's resource-base to address a growing market (Brown and Mawson, 2013; Garnsey et al., 2006). Garnsey et al. (2006: 7) consider that new ventures "lacking [financial] reserves" may experience "dangerous consequences" of rapid growth. Whether following a bankruptcy filing or a voluntary retrenchment strategy, firms in these situations will experience a reverse transition and will need to return to a start-up state of re-creation if they are to survive.

The major challenge will be to reposition the firm in a viable market niche and redefine its business model through product/service restructuring as well as resource reconfiguration.

For successful transitioning through these circumstances, inputs from board members in strategic decision-making may include redefining the business scope and selecting the products and services as well as the market niches to address. Conceivably, the board will need to critically review and possibly reformulate the firm’s mission statement. Where firms have experienced a major failure, the board may need to complement its strategy role with a substantial investment in its service role. In these firms, a breakdown of trust among major stakeholders may require a major effort by the board to re-legitimise the firm and guarantee their commitment and contribution to the re-creation process.

An example of this transition is Tadpole Tech (Garnsey and Hefferman, 2005). Six years after start-up in the mid-1980s, Tadpole Tech transitioned to high growth based on a niche market providing specialist computer boards to computer companies and production of the SPARC notebook. After listing on the UK stock exchange in 1992, an attempt to enter a broader market with a new product, the P1000 notebook was unsuccessful. Over-optimistic sales forecasts combined with an unfamiliar and unexpectedly difficult market to penetrate, as well as shipping delays on the SPARC product resulted in a dramatic decline in sales and profits. Faced with a cash crisis the company was forced after four years to return to a start-up state and a critical need to redefine its products and markets.

*Transitioning from new venture to plateaued growth*. As we have noted, entrepreneurial growth studies tend to focus on high growth firms and many new ventures achieve only limited growth (McKelvie and Wiklund, 2010). Not all entrepreneurs aspire to, or have the capability for, continued growth (Brown and Mawson, 2013; Fraser et al., 2015; Delmar and Wiklund, 2008). For example, when compared to owner-operated firms, family firms have been found more frequently to adopt conservative strategies, favouring business stability and guaranteeing employment and/or careers for family members (Miller et al., 2011). Conservative strategies may limit access to external resources and thus limit growth opportunities. Based on its internal resources, the SME may grow by focusing on limited market niches, building customer loyalty rather than acquiring new customers. The entrepreneur's priority is on strengthening financial independence and increasing the firm’s legitimacy in its local environment. In this state, the small business will be accountable to a limited number of external stakeholders including important customers (Miller et al., 2008) and possibly community leaders. Ownership continues to be concentrated among a few shareholders or family members, while the management team remains small and aligned with strong founder leadership and an informal, personalised management style.

During this transition, the founder's power is strong and the board's contribution is primarily through its service role in assisting the entrepreneur by advising, counselling, mentoring and acting as a sounding board (Ward, 2001). The board in this role will support decision making by legitimising both the founder and the firm within the external environment. Whilst the firm's focus is on developing by relying on its internal resources, directors will also emphasise their service role, helping the firm build linkages and key relationships with important stakeholders such as suppliers, customers and the local community.

SMEs transitioning between the new venture and plateaued growth states are typically found in mature and competitive traditional industries. The plateaued growth state may be relatively stable and firms may remain in this state for extended periods of time. For some family firms this state can extend for a generation or more.

Company M (Lou and Caspersz, 2010) is an example of this transition from new venture to plateaued growth. Founded in Australia in 1967 as a local sub-divisional land contractor with five employees, the company experienced a predictable but limited period of growth lasting for more than two decades after having grown to become a well-established firm in the construction industry.

After years of relative stability and moderate growth, firms may experience renewed high growth triggered, for example, by an injection of venture capital, or they may face deterioration in their competitive and/or financial situation due to intensifying competition or weakening economic conditions. Restructuring the firm necessitates market repositioning and redefining other key elements of its business model. This rebirth process requires a breadth of entrepreneurial skills from the strategic leaders to identify new opportunities and secure resources and capabilities most applicable to the new business model. In this situation, the board will focus on both its strategic and service roles.

Mechanics Corp, a French precision mechanics company founded in 1974, transitioned in both directions through this state. The company originally specialised in manufacturing mechanical parts for the local textile industry, growing from a new venture to a turnover of around €1.2 million and 10 employees. The owner/manager, his wife and two friends (who owned a textile/clothing business) comprised the board which advised on overall business direction and protecting the firm's reputation. In the early 1990s following a regional economic downturn in the textile industry, the firm's turnover reduced by more than half. From stable plateaued growth the SME faced returning to a new venture state for survival. With the addition of two new board members who brought network linkages to a new emerging cluster in the packaging industry and a specific contact list for this new market, the strategic repositioning returned the company to growth with an increased turnover of €1.5 million and 12 employees.

*Transitioning from high growth to professional management*. In transitioning from a high growth state the firm enters a process of further denaturing (of hierarchical proximity). While shareholding is more dispersed, the relatively entrepreneurial firm (as described by Flamholtz and Randle (2007)) adopts increasingly formalised organisational structures, systems and processes (Dekker et al., 2013). There is greater role differentiation within the firm's structure and a more diffused power base (Dekker et al., 2015; Zahra and

Hayton, 2005). Procedures become more standardised and the firm is more concerned with maintaining its strategic position (Levie and Lichtenstein, 2010).

With greater scale and complexity in the business there is also wider scope for management to pursue their own interests at the expense of shareholders and other stakeholders (Certo et al., 2001; Daily and Dalton, 1993). Therefore agency problems may arise requiring closer board monitoring and control of managerial actions and decisions (Daily and Dalton, 1993; Fama and Jensen, 1983). To navigate successfully to a state of professional management, the board of directors is likely to expand with the appointment of independent directors. In this context increased environmental and organisational complexity require board responsibility for overall performance as well as accountability for asset protection (Hilmer and Tricker, 1994). Thus, during this transition the board will add value to the firm by exhibiting effective monitoring and control (Filatotchev et al., 2006) to mitigate managerial opportunism and reduce agency costs, thereby protecting the interests of outside shareholders and the company's assets (Daily and Dalton, 1993).

While firms undergoing the initial public offering (IPO) process may illustrate this transition, a management buy-out (MBO) or buy-in (MBI) strategy may also feature. Private equity firms and other forms of external investment may also characterise SMEs during the transition to greater professionalisation.

An example of this transition is Company M (Lou and Caspersz, 2010), which, after the lengthy period of plateaued growth referred to above, extended to the second generation in 1984 with the founder's son joining the business as part of a family succession plan. As managing director the son brought new vision and growth aspirations to the business, with diversification stimulated by the acquisition of another firm in 2000. The acquisition and expansion of the business led to rapid growth between 2004 and 2008 and a decision to formalise the company's management and governance structure. Instigated by the son, this decision was based on the owning family's shared vision about future direction and the need to convey to stakeholders an image of the firm as a "professional" business. To manage the growth Company M moved to a divisional structure with three divisions. A formal board was established in 2009 with two independent directors and one family member: the son, as board chair. Annual revenue grew during this four-year period by 24 percent to around $AUD40 million, with staff numbers reaching up to 200 employees depending on the number of contracts. It was the family's shared vision and agreement on a succession plan that facilitated board establishment and consequently enabled the transfer of management control from one generation to the next.

Firms in this state may experience a reverse transition if market pressure toward innovation and growth is strong. As its primary focus, the board in this situation will emphasise the strategy and control roles. In the strategy role the board's key tasks involve searching for, identifying and selecting suitable growth prospects, and ensuring appropriate acquisition and allocation of resources for the new initiatives. New board members with specific skills and expertise to advise management on the chosen growth strategy is signalled for this transition. The board's key control tasks for this transition include ensuring adequate risk management and monitoring progress towards meeting growth expectations.

In such situations, perceived new opportunities for high growth may necessitate challenging the formalisation process and existing organisational culture. Re-allocation of resources into R&D and marketing during this transition will likely shift priorities away from the development of managerial skills and systems. Consequently, an entrepreneurial management style will characterise the emergent firm during this reverse transition, with the board's main contribution being the selection of the most favourable market opportunities to pursue. Strategic control will be essential, with emphasis on the strategy and control roles in the board's role portfolio.

Founded in 1865, UK retailer Timpson diversified from its origins as a shoe manufacturer and repairer and focused on implementing professional management systems and processes when the company listed on the UK Stock Exchange in 1929. After delisting from the stock exchange in 1963 and returning to family ownership in 1983 through an MBO, Timpson experienced new growth, expanding into retail areas such as key cutting, engraving, offset printing and film processing. As its primary focus, the board under this scenario will emphasise the strategy and control roles. The board's key strategy tasks involve searching for, identifying and selecting suitable growth prospects, and ensuring appropriate acquisition and allocation of resources for the chosen new initiative. Of the options Timpson decided to expand into key cutting and engraving, requiring new members on the board with specific skills and expertise such as knowledge of potential markets and optimal retail locations, to advise management on the chosen strategy.

*Transitioning from plateaued growth to professional management.* SMEs may be mature established firms yet relatively simple in their organisational structures and systems. By evolving in a stable environment, these firms are characterised by moderate ownership, hierarchical and ecological proximity. Confronted with external change in the market and/or competitive landscape, or internal change accompanying an IPO, founder retirement or generational transition (Brown and Mawson, 2013), these owner-managed firms will need to become professionally managed (Flamholtz and Randle, 2007; Ward, 2001). In this transition the professionalisation of management may change the firm's relationships with stakeholders and require a greater focus on the claims or influence of a few key stakeholders (Mitchell et al., 1997). Under these circumstances, a mediation role will be emphasised.

Owner control and entrenchment during a plateaued state may impede firm performance and growth and hinder transition to the professionalised management needed by the firm to continue to adapt to a newly dynamic environment. Schulze et al. (2001) highlighted various sources of dispute in privately held family firms that can also further entrench owner-managers, including conflicts between self- and other-member interests which may become contentious among family constituents. In this situation, boards will emphasise a mediating role to withstand the entrenchment of decision-making and control held by an owner and/or founder-manager aiming to enlarge their discretionary power (Shleifer and Vishny, 1989). The board may also play an active role in resolving conflicts between family members and mediating among multiple family branches during the succession process (Bammens et al., 2008).

Third generation and mixed family firms, combined family/non-family-managed firms, co-operatives, and larger mature professional partnerships are examples of firms experiencing this transition where clan and inter-group interests are likely to become significantly divergent. As such, they resemble Torrès and Julien's (2005) denatured firm. As with the transition from new venture to plateaued growth, professionally managed firms may transition and settle into a period of plateaued growth. In this plateaued state there may be an extended period of moderate or low growth. Catalysts for this transition may involve exogenous stimuli such as an acquisition, or endogenously triggered shifts such as de-listing from a stock exchange, or entering an MBO or MBI. A de-listed firm may return to concentrated family or founder ownership or may transfer ownership to a private new owner.

*Transitioning from high growth to plateaued growth.* A period of plateaued growth may follow for firms after experiencing high growth. This state may involve consolidation at a new level after radical re-configuration of the business model. The board will best support the firm through this transition by balancing all four roles in its role portfolio, emphasising a service role upon stabilising in a plateaued state.

As an example, HealthLan specialises in IT solutions for hospitals. After 10 years of high growth building on customised solutions the company wanted to accelerate its growth. This required the board's help in merging with an industry market leader. Eighteen months later, efforts to align the two firms' incompatible organisational cultures caused the merger to falter. The board decided that HealthLan should demerge and refocus on its core markets. The company spun out of the merger, re-focusing its business on mid-sized hospitals, expecting this strategy to achieve a stable but lower level of (plateaued) growth for HealthLan. To facilitate this transition the board appointed two new directors with information technology (IT) skills and market knowledge of medical practice to guide the development of new customised IT solutions.

The reverse transition along this trajectory describes a rejuvenating firm on entering a renewed high growth state after a (possibly temporary) period of low or no growth or slight decline. This may occur through stimulating the firm's entrepreneurial orientation through a change in the executive team or in board composition (Gabrielsson, 2007). Established family firms with a long tradition of low to moderate growth based on internal resources may open up to external resources such as capital funding or more dispersed shareholding, thus changing their business model and their development pathway. Generational succession in a family firm where a new generation of owners is highly motivated toward growth (Delmar and Wiklund, 2008) may favour this kind of transition. Company M exemplified this transition following the entry of the founder's son into the business in 1984, as referred to above. Companies facing financial distress and filing for legal protection in relation to bankruptcy may also experience this transition with successful turnaround of the business. As with the forward transition in this state, its reverse is aligned with a balanced portfolio of board roles, but the strategy role will be emphasised to drive and guide new growth opportunities.

*Transitioning from new venture to professional management*. A start-up/new venture may transition early to professional management which may be VC- initiated. High technology firms are the most likely to make this transition. The board will initially balance all four roles in the early phase of the transition but the control role will be emphasised as the firm stabilises in its professional management state.

Terapixel in Gabrielsson and Gabrielsson's (2013) study made this transition. Founded in 1990, Terapixel had a global vision from the outset. Its first delivery of photo-masks was to Brazil in 1991 and by the third year after start-up international sales accounted for 50 percent of the total. By 2000 the firm had diversified its global markets and its product portfolio, achieving sales growth totalling €1 million, with staff numbers expanding to 12 employees. Sales peaked at this level and the number of staff began to decline with cessation of opportunity identification after investors introduced new management. The company experienced equipment maintenance problems, difficulties in gaining large global deals, and the loss of major customer accounts. Terapixel was forced to retrench to nearby countries and filed for bankruptcy in 2004.

The reverse trajectory is also possible, where a firm may shift from a professionally managed state to a new venture state through a spin-off. Professional practice firms may follow this trajectory where some of the partners may establish a new start-up practice affiliated with the original firm. Jagersma and van Gorp (2003) describe successful managed spin-out strategies by a Dutch professional service firm. In this case the firm clusters spin-outs into a separate enterprise unit to avoid the new enterprises cannibalising the established business. The professional firm provides a non-executive board chair to guide the new enterprise until it is established. During enterprise development the firm makes official decisions for the spin-out while fostering spontaneous creativity in the new enterprise unit. At the threshold of this transition the board will balance all four roles, emphasising the strategy role while establishing the new enterprise, which may subsequently be taken back into the parent firm, as in the Dutch case.

## Conclusion

In this paper we have developed a dynamic, multi-theoretic and multi-dimensional framework that contributes to theory by integrating literature streams on SME growth with a board role portfolio approach in the corporate governance literature. First, we bring a new perspective to SME growth by developing for the first time, to the best of our knowledge, operational dimensions for Levie and Lichtenstein's (2010) dynamic states approach. Second, we contribute to board governance theory by conceptualising SME board functioning as a portfolio of roles enacted simultaneously by the board but emphasising the primary role most appropriate for the firm's transitional needs.

Our model captures greater complexity and nuance in theories of SME growth and development by depicting multiple transitional trajectories associated with various possible evolutionary dynamic states, including reverse and counterintuitive transitions. While the framework describes six possible bi-transitional trajectories between four typical states, it is logically capable of modelling other trajectories along similar horizontal/vertical dimensions in either/any direction. Accordingly, it overcomes criticisms of other models since it is inherently non-linear, non-unidirectional, non-sequential and non-deterministic. Moreover, the framework allows for SME heterogeneity along dimensions of proximity and denaturation, thereby establishing a more comprehensive, dynamic conceptualisation of both SME development and governance than has previously been presented in the literature.

Our model does not attempt to predict the length and duration of each state. Rather, it suggests critical trigger points (Brown and Mawson, 2013) that signal the emphasis on a specific board role required to help the firm navigate successfully through a transitional phase to a new state. Transitions are decisive periods in the life of companies, bringing significant challenges for boards and management and may cause severe stress at every level of the organisation (Flamholtz and Randle, 2007). Failure to address these challenges may eventually result in the total collapse of the firm (Filatotchev et al., 2006; Greiner, 1972, 1998).

The model has a number of implications for theory and practice and offers a large research agenda. The model indicates more clearly the primary board roles that are most suited to helping the firm resolve the particular challenges associated with dynamic change, various states, the types of transition between them, the nature of the firms and the key dimensions along which they vary in our model but these represent only a few of many possible transitional permutations that could be examined. Other states, firm dimensions and accompanying transitional challenges, as well as the appropriate board role emphases, could also be represented in this type of model. The constructs and dimensions we have selected for our framework represent an initial step in modelling firm dynamism and further empirical work is required to test and confirm these elements.

Our framework potentially provides owners, other key stakeholders and boards of directors of small and growing firms with practical guidance as to the most effective type of governance and applicable board role for a given growth state or transitional path. Such guidance will be enhanced by empirical research that strengthens and validates the framework. A methodological strategy could include case study research to further elaborate and extend the characteristics of each of the states in our model, as well as the relevant director skill sets and board competencies required for the associated board roles for each transition. Case studies would also allow greater in-depth examination of firms experiencing the consequences of trigger events. To substantiate the framework a set of propositions could then be tested using quantitative methods such as structural equation modelling and longitudinal analysis of a wide cross-section of firms' evolutionary pathways.

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**Figure 1.** Four main states

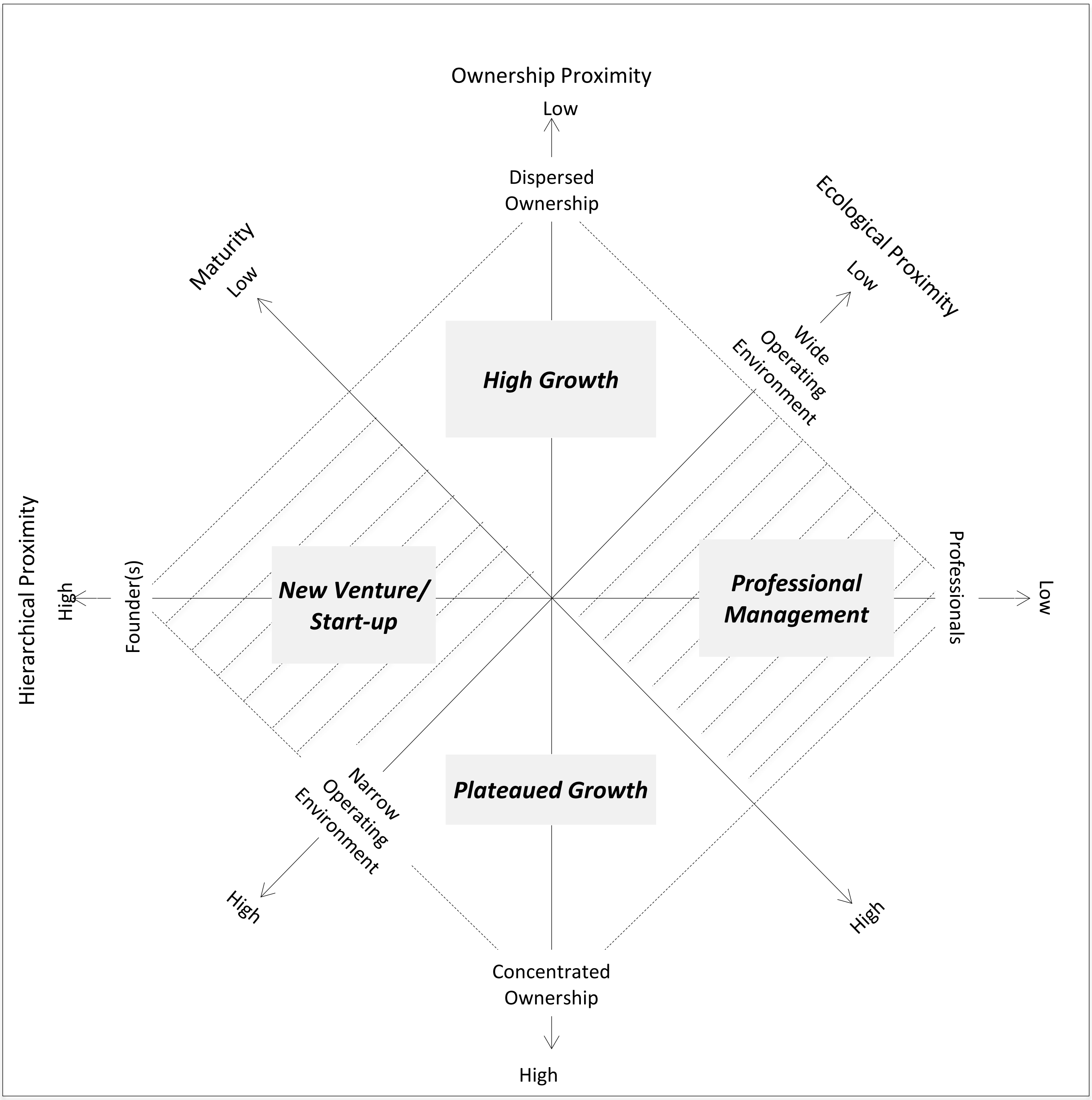

**Table 1.** Four dynamic states and their characteristics

| | *State I*<br>New venture (NV) | *State II*<br>(High) growth (HG)<br>(external resources) | *State III*<br>Plateaued growth (PG)<br>(internal resources) | *State IV*<br>Professional Management (PM) |
|---|---|---|---|---|
| Ownership Proximity | High | Moderate | High | Low |
| Ownership characteristics | Individual/Few owners/Concentrated ownership structure | Extended to dispersed private equity/Public | Few/Family/ Concentrated | Many/Dispersed |
| Ecological Proximity | High | Moderate | Moderate | Low |
| Operating environment characteristics | Narrow/Tight/ Limited | Extending/ Diversifying | Extending and/or diversifying | Wide |
| Hierarchical Proximity | High | High | Moderate | Low |
| Management characteristics | Entrepreneurial/ Intuitive and centralised decision making | Entrepreneur(s) continue to play a key role/Growing management teams with few professional managers | Small teams/Strong founder(s) leadership | Extended Professional Management teams/Decentralized decision making |
| Organization maturity | Low | Low | Moderate | High |
| Organization characteristics | Low formalisation / informal information exchange. Entrepreneurial strategy making | Low formalisation / informal information exchange. Entrepreneurial strategy making | Coexistence of formalised information systems and informal control and evaluation processes. | Formalised management systems/ formalised control and information systems. |
| Main goal | Survival | Growth/Resources acquisition | Stabilization/profit | Optimization/Profit |
| Key challenges | - Identifying market opportunity<br>- Developing products and services<br>- Acquiring customers legitimacy<br>- Acquiring Financial resources | - Extending products lines<br>- Developing market penetration/position<br>- Diversifying customers<br>- Assuring operational reliability | - Focusing on market niches<br>- Building local/ regional legitimacy<br>- Building customers loyalty | - Consolidating market positions and customers loyalty<br>- Arbitrating internal/external growth<br>- Diversifying businesses |

| | | | | |
|---|---|---|---|---|
| | | - Raising external capital/finance | - Strengthening financial independence | - Strengthening financial performance |
| Examples of firms | Inception/Emergence and early development | Innovative and high tech start-ups/Born global firms | (Traditional) SMEs operating in mature and competitive industries/ Owner(s) managed firms | IPOs/second-third generation family business Larger/established mature firms |

**Figure 2.** Conceptual framework