



Pergamon

Journal of Management 2002 28(3) 387–412

**JOURNAL OF
MANAGEMENT**

Governance and Strategic Leadership in Entrepreneurial Firms

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Received 2 May 2001; received in revised form 9 October 2001; accepted 17 October 2001

Corporate governance has been a central focus of strategic management research, particularly the associations among governance structures, strategic leaders, and firm performance. Extant research, however, provides little evidence of systematic relationships in these areas. There are a series of theoretical/conceptual rationales suggesting that such relationships might be more pronounced in entrepreneurial firms. Accordingly, we provide an overview and synthesis of the entrepreneurship literature addressing the intersection of governance and strategic leadership with firm performance. The strongest relationships reflected in this literature are consistent with a resource dependence perspective of the firm. We conclude with several suggestions for advancing research in this important domain. © 2002 Elsevier Science Inc. All rights reserved.

Entrepreneurial studies command an increasing share of management-related research. Attention to entrepreneurial firms, however, has not been accompanied by a concomitant increase in frameworks uniquely suited for conducting research in these domains. [Shane and Venkataraman \(2000: 217\)](#), for example, provocatively noted that entrepreneurial studies have not provided a framework to facilitate the discovery of empirical phenomena “not explained or predicted by conceptual frameworks already in existence in other fields”. Based

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on their summary of the current state of research, they encouraged management scholars to “join [them] in the quest to create a systematic body of information about entrepreneurship” (224).

Implicit in examinations of entrepreneurial firms is the role of organizational leaders, as these are the individuals responsible for the creation of goods and services and the leveraging of market opportunities. We provide what we hope is a modest step towards a systematic treatment of governance and strategic leadership in entrepreneurial firms. For us, this area of investigation provides a productive focus, as it allows us to concentrate on those individuals directly responsible for firm performance, chief executive officers (CEOs), top management team (TMT) members, and boards of directors (e.g., [Dalton, Daily, Ellstrand & Johnson, 1998](#); [Finkelstein & Hambrick, 1996](#)). We also include discussion of another group uniquely relevant to entrepreneurial firms, venture capitalists.

We believe directed attention toward strategic leaders in entrepreneurial firms is especially promising, as the relationship between these individuals and firm performance may be most notable in this specialized organizational context. As noted by [Daily and Dalton \(1992a\)](#), entrepreneurial settings provide a venue where the impact of governance structures and strategic leadership are likely to be most pronounced. Consistent with that perspective recent research has found that the board size/firm performance relationship is stronger for smaller, as compared to larger, firms ([Dalton, Daily, Johnson & Ellstrand, 1999](#)).

While there are many angles that could easily be explored in the entrepreneurial literature, one of the more important foci is that which explores the antecedents to entrepreneurial firm performance. Consistent with this focus, our review of governance and strategic leadership will address those studies that have relied on performance as a dependent variable. Investigation of the intersection of governance/strategic leadership and firm performance promises to inform the ongoing debate regarding whether strategic leadership “matters” (e.g., [Day & Lord, 1988](#); [Waldman, Ramírez, House & Puranam, 2001](#); see also [Rowe, 2001](#) for direct application to the entrepreneurial context). At the crux of this debate is the extent to which firms’ leaders exert a significant influence on firm outcomes or whether these leaders “have minimal impact on performance” ([Day & Lord, 1988](#): 453). If, as previous research has suggested, leadership matters most in the entrepreneurial context, this should be evident from the general body of entrepreneurial firm research addressing the governance/strategic leadership/performance relationships.

Defining the Entrepreneurial Firm

At the outset it is important that we define the boundaries of our review. The definition of an entrepreneurial firm has been the subject of considerable debate (see, e.g., [Gartner, 1990](#); [Low & MacMillan, 1988](#); [Sharma & Chrisman, 1999](#)). A cursory review of “entrepreneurial studies” illustrates the multiple ways in which researchers have conceptualized the entrepreneurial firm. These range from a high-growth firm to an owner-managed firm to a founder-run business (see, e.g., [Carland, Hoy, Boulton & Carland, 1984](#); [Daily & Thompson, 1994](#); [d’Amboise & Muldowney, 1988](#); [Handler, 1989](#); [Kirchhoff & Kirchhoff, 1987](#) for excellent discussions of this issue). Inconsistency in the treatment of what

constitutes an entrepreneurial firm may have clouded empirical and theoretical advances in the field as it is difficult to synthesize across studies where there is little commonality in firms' defining characteristics.

Sharma and Chrisman (1999: 11) recently addressed this problem with their efforts "to systematize the use of terminology in the field of corporate entrepreneurship". Their review focuses specifically on corporate entrepreneurship, yet it provides a fundamental step toward definitional consistency across entrepreneurial studies. Definitional consistency is important for theory development and for enabling researchers to aggregate empirical findings across studies, a central step toward building a base of knowledge applicable to entrepreneurial firms.

It is important, then, that we clarify the definition of entrepreneurial firms on which we will rely. Our review is consistent with the concept of independent entrepreneurship. Sharma and Chrisman (1999: 18) have defined independent entrepreneurship as "the process whereby an individual or group of individuals, acting independently of any association with an existing organization, create a new organization" (see also, Low & MacMillan, 1988: 141). For purposes of determining whether a specific study is appropriate for our review, we elected not to adopt a specific selection criterion by which "new organization" would be operationalized. Given the variability in how entrepreneurial firms are defined in prior research, only a small subset of the extant research that purports to examine entrepreneurial firms would be captured using any arbitrarily chosen age-related or other selection criterion. We prefer to be more inclusive in defining the domain of entrepreneurial firm research. Thus, we regarded any study in which the researchers defined their samples as comprised of independent entrepreneurial firms as appropriate for our review. More specifically, the studies on which we focus include those relying on empirical tests of linkages between firm performance and elements of governance and/or strategic leadership, where the firm was created and operates outside the context of a previously established organization. Differences in how particular studies operationalize entrepreneurial firms are noted whenever such differences are judged as having significant theoretical import.

Delineating Firm Performance

There is an additional area where a lack of consistency is apparent—what constitutes firm performance (e.g., Brush & Vanderwerf, 1992; Dalton, Todor, Spendolini, Fielding & Porter, 1980; Venkatraman & Ramanujam, 1986). Some researchers, for example, have suggested that sales growth "is the most important single indicator" of entrepreneurial venture performance (Ensley, Carland & Carland, 2000: 68; see also, Chandler & Hanks, 1993 for related discussion). While we agree that sales growth is of fundamental importance to the entrepreneurial firm, our examination of the relevant literature suggests four central performance categories of interest. We would note that the organizing framework we propose represents four distinct, but not mutually exclusive, performance categories. The categories include: (1) the financial performance of the firm, including both accounting and market-based measures (e.g., Brush & Vanderwerf, 1992; Chrisman, Bauerschmidt & Hofer, 1998; McDougall, Covin, Robinson & Herron, 1994; Murphy, Trailer & Hill, 1996; Zahra & Bogner, 2000); (2) the performance of the firm at the initial public offering

(IPO) (e.g., Certo, Covin, Daily & Dalton, 2001; Finkle, 1998; Prasad, Vozikes, Bruton & Merikas, 1995; Stuart, Hoang & Hybels, 1999); (3) the growth of the firm (e.g., Covin, Slevin & Heeley, 2000; Ensley et al., 2000; Ostgaard & Birley, 1996; Slevin & Covin, 1997; Weinzimmer, Nystrom & Freeman, 1998); and, (4) the survival of the firm (e.g., Boden & Nucci, 2000; Westhead, 1995).

We would also note that our grouping of performance indicators in this manner does not necessarily suggest intra-category homogeneity. While it is true, for example, that the “financial performance” category is comprised of commonly used variables, there is no consensus about what exactly constitutes “financial” performance. Included in the category, for instance, are studies that have relied on return on assets (ROA), return of equity (ROE), return of sales (ROS), liquidity, gross sales, sales per employee, debt-to-equity ratio, and share returns.

Financial performance represents one of the more commonly accepted performance metrics. Interestingly, firm growth is a complementary, if sometimes conflicting, performance indicator *vis-à-vis* financial performance. While firm growth may be an overarching performance goal for an entrepreneurial firm, it sometimes comes at the cost of financial performance (e.g., profitability). Firm survival is another fundamental performance metric for the entrepreneurial firm given the high rates of business failure within the early stages of a firm’s development. We also include IPO performance as a special category of performance as it is unique to the entrepreneurial context. Many IPOs are guided by their founding entrepreneurs/entrepreneurial teams (Certo et al., 2001).

Governance and Strategic Leadership Do Matter

An implicit assumption in governance/strategic leadership/performance relationships is that the choice of various governance structure options and leaders *could* be associated with firm performance (e.g., Dalton et al., 1999). A key question driving this rationale is the extent to which a firm’s leadership can actually implement strategic change in order to enhance financial performance. As noted by Dalton and Kesner (1983: 736), “This assumption is questionable, particularly in large organizations. The sheer number of persons involved, the complexity of the organization, and the variety of vested interests both inside and outside the company represent potential constraints to successful change strategies.” Finkelstein and Hambrick (1996) concur noting that the combination of ambiguity, complexity, and competing stakeholder demands in the large firm may compromise decision-making discretion and effectiveness.

The suggested constraints on leaders’ ability to significantly impact firm outcomes are further emphasized in the literature on organizational crises and turnaround. A central theme is that organizational leaders exert a strong influence on organizational processes and outcomes primarily when the firm faces a crisis such as financial decline (see Dalton et al., 1998 for an overview). It is in this context that the need for effective leadership may become most apparent, as firms’ leaders attempt to return the organization to financial stability (e.g., Daily, 1994; D’Aveni, 1990; Hambrick & D’Aveni, 1992).

Entrepreneurial firms may present an additional context where leadership/performance relationships are most salient. In contrast to the perspective that leadership is necessarily

constrained in organizational settings, there are several aspects of entrepreneurial firms that facilitate leaders' ability to affect change and performance. It has been observed, for example, that CEOs and directors are less constrained by organizational systems and structures in smaller firms (Daily & Dalton, 1992a, 1993; Eisenhardt & Schoonhoven, 1990; Meyer & Dean, 1990). The size of the firm is also a factor in managerial discretion; specifically, officers are more likely to be influential in smaller firms (Finkelstein & Hambrick, 1996). Also, the smaller firm may facilitate power and more narrowly focus firms' planning, core knowledge, and environmental scanning processes (Baysinger & Hoskisson, 1990).

In the following sections, we provide overviews of the areas in which an examination of governance/strategic leadership in entrepreneurial firms may be productive. For instance, CEOs in these firms are often the individual who founded (or co-founded) the organization (e.g., McConaughy, Walker & Mishra, 1998). We also include venture capitalists in our review. While many entrepreneurial firms will not have exposure to venture capitalists, for those that do, venture capitalists can significantly impact firm performance. Also, venture capitalists are a relevant stakeholder for the entrepreneurial firm as they often impose various forms of governance on firms in which they hold equity (e.g., Bruton, Fried & Hisrich, 1997). Consistent with the strategic leadership and governance literatures, then, we include overviews of CEOs/founders, CEO duality, TMT members, boards of directors, and venture capitalists.

As we discuss each of these topical areas, we will note relevant sample characteristic information. We do this to help place each study in the context of our review. The literature addressing governance/strategic leadership with firm performance provides relatively few studies; therefore, we have erred on the inclusive side. Where the sample is likely based on entrepreneurial firms, but there is some doubt we provide sufficient context for the reader to make an independent judgment of the applicability of a given study.

CEOs/Founders

While the literature reflects no consensus regarding whether corporate leadership "matters", there is little disagreement that the most powerful executive position is that of CEO (e.g., Harrison, Torres & Kukalis, 1988; Norburn, 1989; Pearce & Robinson, 1987). Attention to CEOs as distinct from other top management members is, in part, attributable to their legitimate hierarchical status in the organization (e.g., Astley & Sachdeva, 1984; Hambrick, 1981). It is the CEO to whom all other organizational employees are ultimately accountable. As importantly, however, CEOs exert a unique influence on organizational processes and outcomes (e.g., Daily & Johnson, 1997; Pfeffer, 1992; Roth, 1995).

While the research examining the performance impact of CEOs in large firms is decidedly mixed in its conclusions (e.g., Daily & Johnson, 1997; Finkelstein & Hambrick, 1996), relationships of that kind may be most apparent in the entrepreneurial context, especially in the case of founder CEOs (e.g., Bruton et al., 1997; Cooper, Gimeno-Gascon & Woo, 1994; Daily & Dalton, 1992a). Begley and Boyd (1986, 1987), for example, noted that CEOs of smaller firms tend to occupy a position of unique influence, serving as the locus of control and decision-making. Also, there is a substantial body of research in entrepreneurship addressing the implications of leadership by founders vs. non-founders (Chandler & Hanks,

1994; Daily & Dalton, 1992a; Rubenson & Gupta, 1996; Willard, Krueger & Feeser, 1992). This may be a particularly interesting area of examination as there is rarely the equivalent question (i.e., Is the CEO the founder of the firm?) for larger, more mature firms.

Several studies have focused explicitly on the entrepreneur (e.g., Becherer & Maurer, 1997; Cooper et al., 1994; Van de Ven, Hudson & Schroeder, 1984) or the founder (e.g., Begley, 1995; Chandler & Hanks, 1998; Ginn & Sexton, 1990) as a key determinant of performance. The entrepreneur/founder is, by definition, the individual (or one of the individuals) who created the business. Other studies have relied on the owner–manager (e.g., Chaganti & Schneer, 1994; Kotey & Meredith, 1997; Walsh & Anderson, 1995), the new venture CEO (e.g., Bruton et al., 1997; West & Meyer, 1998), and the “lead” entrepreneur, one of a team of founding entrepreneurs, who clarifies the firm’s vision and crafts the strategy for the team to execute (e.g., Ensley et al., 2000).

Empirical investigations of the relationship between founders and firm performance comprise three categories. First, research has examined the relationship between whether the CEO is also the firm’s founder and firm performance. Also, research has focused on the relationship between founder personality characteristics, values and beliefs, skills, experience and education, and behaviors and decisions (Chrisman et al., 1998) and firm performance. Lastly, there is some research combining elements from both categories. Each is reviewed in the following.

Founder Status and Firm Performance

A small but important body of research has explored the direct impact of founder status on firm performance (e.g., Begley, 1995; Certo et al., 2001; Daily & Dalton, 1992b; Jayaraman, Khorana, Nelling & Covin, 2000; Willard et al., 1992). This research tests the assumption that founders matter by comparing the performance of founder-led firms with the performance of non-founder or professionally-led firms. Begley (1995), for example, surveyed 239 CEOs whose firms were members of the Small Business Administration of New England. He reported that the founder-managed firms in his sample had higher ROA than the non-founder-managed firms. No differences were reported for additional performance variables—growth rate, debt-to-equity ratio, and liquidity. Similarly, in a study of 155 *Inc.* firms, Willard et al. (1992) found no differences between founder and non-founder managed firms across 11 different accounting and market-based measures. Based on the premise that an organization’s demands of its general manager will evolve as the organization proceeds through its life cycle (Flamholtz, 1986), Daily and Dalton (1992b) examined whether founders had a positive effect on financial performance among firms with sales of less than US\$ 10 million, and a negative effect for firms with sales greater than US\$ 10 million. Relying on a sample of 186 small corporations, they, too, found no differences for price-earnings ratio, ROA, or ROE. In contrast, Jayaraman et al. (2000) analyzed stock return data for 47 founder-led firms and a matched sample of 47 non-founder-led firms. While they noted no significant main effect, they did find a positive relationship between founder status and a 3-year stock holding period among the smaller and younger firms, as well as a negative relationship for founder status among larger and older firms. These results, in concert, provide little evidence of a positive relationship between founders and firm financial performance or growth of the firm.

An additional study included a focus on IPO firm performance. In an examination of 368 IPO-stage new ventures, Certo et al. (2001) reported that founder-managed IPO firms experienced more underpricing (the difference between a firm's stock offering price at the time of an IPO and the stock's closing price the first day of trading) as compared to non-founder-managed IPO firms. Their finding suggests that the investment bankers who set the initial offer prices of founder-managed IPO firms discount such firms relative to non-founder or professionally-managed firms, or that first-day investors particularly value the presence of a founder as the IPO firm's CEO and are willing to pay a premium over the opening stock price. We were unable to identify studies focusing on the founder/firm performance relationship that relied on firm survival.

Founder Characteristics and Firm Performance

The vast majority of entrepreneurship research examining the founder/performance relationship has assumed that the CEO is the founder and explored the relationship between individual founder characteristics and firm performance (e.g., Chandler, 1996; Chandler & Hanks, 1994, 1998; Chandler & Jansen, 1992; Cooper et al., 1994; Cooper, Ramachandran & Schoorman, 1998; Doutriaux, 1992; Ensley et al., 2000; Honig, 1998; Kotey & Meredith, 1997; Lin, 1998; Lussier, 1995; Murray, 1996; Rubenson & Gupta, 1992; Sapienza & Grimm, 1997; Westhead, 1995; Westhead & Birley, 1995; Westhead & Wright, 1998; Westhead, Wright & Ucbasaran, 2001). The founder characteristics line of research represents the single most studied area that we identified, with the relationships between particular founder characteristics and firm performance a primary focus (e.g., Chrisman et al., 1998; Cooper & Gimeno-Gascon, 1992; Low & MacMillan, 1988; Wortman, 1987).

Certain founder characteristic variables have yielded relatively consistent results with entrepreneurial firm performance. Parental background, education, experience, entrepreneurial orientation, and age are founder "variables that have garnered impressive empirical or theoretical support" in terms of their acknowledged abilities to predict entrepreneurial firm performance (Sapienza & Grimm, 1997: 7). Even within this relatively limited set of variables, however, substantial variation in empirical results can be found. In an examination of 227 independent, high-technology start-ups, for example, Westhead (1995: 11) reported that "founders with management experience in their last organization prior to start-up were more likely to be associated with a non-surviving business." Conversely, the breadth and depth of a founder's managerial experience was found to be positively associated with venture sales and earnings in Chandler's (1996) study of 134 new ventures in the state of Utah. In contrast to both of these studies, Cooper et al.'s (1994) longitudinal study of 1053 new ventures representing all major industry sectors and geographic areas in the US revealed no relationship between the level of a founder's management experience and firm survival or employment growth.

The results of this stream of research can be characterized as inconclusive and non-cumulative. In response to the diversity in findings, Chandler and Hanks (1994) have suggested that founder competence is a more promising predictor of performance than are founder characteristics. Of the founder characteristics having received significant research attention (e.g., personality characteristics, values and beliefs, skills, experience and education, and decisions and behaviors), research into founders' decisions and behaviors may

prove most promising. Consistent with this view, Westhead and Birley (1995) observed that founder human capital variables were not predictors of employment growth among 408 new ventures in Great Britain. However, growth was strongly impacted by “the *strategic decisions* which owner–managers make, such as the choice of industry and market niche, financing, suppliers, and customers” (26, italics in the original). In short, founder effects on performance may manifest with research focusing on what founders “do” rather than on what founders “are”. Studies that rely on IPO firm performance also hold considerable promise, as this performance measure is not represented in this stream of research.

Founder vs. Non-Founder Characteristics and Firm Performance

A third stream of founder effect research has explicitly defined and tested the posited linkage between founder status and firm performance. This research recognizes that differences in founder status are associated with differences in individual-level characteristics variables, and that these characteristics in turn affect performance. As such, this stream of research tests a key premise implicit in our review—that founders do matter to an entrepreneurial firm in ways that impact firm performance.

Chaganti and Schneer (1994) provide an example of empirical research in this area. Relying on a sample of 345 small firms operating in four northeastern states, they studied a series of research questions designed to explain entrepreneurial firm performance. Consistent with Begley’s (1995) findings regarding the superior profitability of founder-led firms, results indicated that owner-started firms realized significantly higher ROA than both buyout and family firms. This finding was primarily attributable to the unique management patterns operating in firms employing this mode of entry. Based on their results, they concluded “that performance and management patterns vary across mode of entry as does the effectiveness of strategic management patterns” (244).

Two studies examined whether governance structure choices are mechanisms through which a CEO’s founder status may influence firm performance (Daily & Dalton, 1992a, 1993). Daily and Dalton (1992a) explored the impact of founder status on several governance structure choices—CEO duality, number of outside board members, and percentage of outside board members—among *Inc.* 100 firms. These governance structure choices were also tested as predictors of firm performance (ROA, ROE, price-earnings ratio). No founder effects on the governance structure choices were observed, nor were any direct founder effects on firm performance reported. Conversely, relying on a sample of 186 small corporations Daily and Dalton (1993) found that founder-led firms had greater incidence of CEO duality and lower numbers and percentages of outside directors. They also found that the board composition and size were significantly related to firm financial performance.

Walsh and Anderson (1995: 1) explored whether “the individuals who establish a small business differ from those who continue on the management of a previously established business; and (2) [whether] these differences affect the employment performance of the firm.” The results, based on a sample of 113 small firms operating in Ireland, revealed that firms’ founders, relative to non-founders, were significantly more innovative in their problem-solving styles. However, no relationships were uncovered between problem-solving styles and employment level or growth for either founder-led or non-founder-led firms.

Overall, research on the relationship between founder status and performance is relatively sparse and equivocal. Both main effects and contingent effects for the founder status/firm performance relationship have been noted. The majority of the research has focused on financial performance, with evidence of the positive impact of founders on entrepreneurial firm performance evident for financial performance, firm growth and firm survival. The relative scarcity of research in this domain, coupled with the equivocal findings, however, suggests the need for additional empirical exploration.

CEO Duality

CEO duality (whether the CEO concurrently serves as board chairperson) constitutes a focus unique to publicly-traded entrepreneurial firms. Competing theories characterize the CEO duality/firm performance literature (see, e.g., Dalton, Daily, Ellstrand & Johnson, 1998 and Finkelstein & D'Aveni, 1994 for extended discussions). Many observers believe that the dual board leadership structure seriously compromises the independence of the board (Baliga, Moyer & Rao, 1996; Dalton et al., 1998). Former Securities and Exchange Commission (SEC) commissioner, Richard C. Breeden, characterized CEO duality as the “George Patton model of governance—one person with all the authority” (Dobrzynski, 1993: 69). The tenets of agency theory would suggest that such centralized leadership authority will lead to management domination of the board and result in poor performance (e.g., Eisenhardt, 1989; Fama, 1980; Fama & Jensen, 1983a, 1983b; Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Alternatively, organization theory and stewardship theory suggest that centralization of authority, as is found with the dual structure, will be associated with higher firm performance. Among the many benefits of CEO duality are clear lines of reporting authority, a centralized organizational spokesperson, and communication of strong firm leadership to external constituents (see, e.g., Dalton et al., 1998; Donaldson, 1990; Finkelstein & Hambrick, 1996).

Relying on a sample of entrepreneurial firms, Daily and Dalton (1992a), examined the relationship between CEO duality and firm financial performance among *Inc.* 100 firms. For both accounting-based performance measures (i.e., ROA, ROE) and market-based performance measures (i.e., price-earnings ratio), they were unable to establish an association between CEO duality and financial performance. Similarly, in an examination of IPO-stage firms, Certo, Daily and Dalton (in press) found no relationship between CEO duality and IPO underpricing. A related study relying on small corporations found no relationship between CEO duality and firm financial performance, whether relying on accounting (ROA, ROE) or market-based measures (price-earnings ratio; Daily & Dalton, 1993). These authors also found no relationship for firm growth.

In sum, the literature demonstrates no evidence of a CEO duality/performance relationship for entrepreneurial firms. As noted, the central concern with CEO duality is the potential for managerial domination of the firm. In an entrepreneurial firm where the CEO is often the founder, this tendency would seem to be even more problematic. The entrepreneurship literature, however, does not sustain the proposition that CEO duality is systematically related to firm performance. This evidence, however, is based on a very small number of empirical studies.

Top Management Teams

TMT research experienced a renewal in the late 1980s following what [Daily and Schwenk \(1996: 185\)](#); see also, [Finkelstein & Hambrick, 1996](#); [Hambrick, 1989](#)) described as “nearly two decades of relative inattention to the role of senior executives in corporate outcomes.” The preponderance of empirical work in this area has focused on TMT demography or TMT heterogeneity/homogeneity and the relationships with valued corporate outcomes such as innovativeness and firm performance (e.g., [Kilduff, Angelmar & Mehra, 2000](#); [Simons & Pelled, 1999](#)). A focus of this work, too, is the impact, if any, that top managers have on firms’ financial performance (e.g., [Finkelstein & Hambrick, 1996](#); [Thomas, 1988](#)).

Much of the TMT work emanated from [Hambrick and Mason’s \(1984\)](#) conceptualization of the upper echelons perspective. The central thesis of their work is that certain demographic profiles of TMT members will be associated with organizational outcomes such as strategies pursued and financial performance. They proposed that demographic variables such as executives’ age, firm tenure, and educational background provide important insights into their cognitive predispositions. While TMT research has been criticized for its reliance on demographic variables that proxy for cognitive processes (e.g., [Lawrence, 1997](#); [Pettigrew, 1992](#)), researchers continue to build on this tradition of integrating demographic with process variables (e.g., [Pelled, Eisenhardt & Xin, 1999](#); [Waldman et al., 2001](#)).

Relatively little of the available TMT research has focused on TMT members in entrepreneurial settings (e.g., [Weinzimmer, 1997](#)). This is unfortunate, as [West and Meyer \(1998\)](#) have noted the importance of research focusing on teams, as compared to individual entrepreneurs (see also, [Gartner, Shaver, Gatewood & Katz, 1994](#); [Kamm, Shuman, Seeger & Nurick, 1990](#)). Many entrepreneurial firms rely heavily on a team-based approach to leadership ([Eisenhardt & Schoonhoven, 1990](#); [Ensley et al., 2000](#); [Feeser & Willard, 1990](#); [Roure & Madique, 1986](#)). Reliance on a team provides access to a diversity of resources and skills not typically captured in a single entrepreneur (e.g., [Aldrich & Zimmer, 1986](#); [Cooper et al., 1994](#)).

In one of the few examples of empirical work in this area, [West and Meyer \(1998\)](#) investigated the relationship between TMT consensus and firm performance among entrepreneurial firms operating in high-growth industries. Their work is especially important as it incorporates the process-oriented approach, relying on primary data obtained via surveys and focused interviews. [West and Meyer \(1998: 397\)](#) noted that for the high-growth firm, disagreement among TMT members is likely to “have a profound [negative] impact on firm performance”. Firm performance was measured as the sum of top managers’ answers to three performance-related questions. One of these questions focused on performance relative to an ideal, with the remaining two questions focusing on performance as competitive advantage.

[West and Meyer \(1998\)](#) found that consensus on the CEO’s articulated goals and means was negatively associated with perceived performance. These results held most strongly for secondary, as compared to primary, means and goals, as well as for firms in their early life cycle stage. The authors noted that these results are opposite previous research findings and in contrast to conceptualizations of the importance of consensus. These findings among entrepreneurial firms may differ from more traditional organizational settings for a variety of reasons. The authors propose that a central reason is that consensus on goals and means may

be viewed as less important for firms where emerging growth opportunities, as compared to historical preferences of the CEO, are more salient (West & Meyer, 1998).

These findings may also illustrate the potential limitations of a CEO, as compared to a team, dominated approach to leading the entrepreneurial firm (West & Meyer, 1998). Should CEOs prove relatively narrow in their perspectives (e.g., Meyer & Dean, 1990), they may fail to seek the input of top managers. The loss of TMT perspectives on firm goals and means may result in a mismatch between the firm and its environment, leading to lower firm performance. Rather than attempt to force agreement among TMT members, the firm appears to be better served when a diversity of opinion is offered and multiple combinations of goals and means are considered. This conclusion is consistent with that of Ginn and Sexton (1990) who found that small business growth is significantly related to an owner's willingness to delegate decision-making authority.

In a related study relying on the demographic approach, Weinzimmer (1997) built on the concept of constructive conflict in an examination of the relationship between TMT characteristics and firm growth. Weinzimmer's sample included small firms and a control set of larger firms. While the sample is not a concise fit with our focus on entrepreneurial firms, given the paucity of entrepreneurial team/performance research, the focus on firm growth as the dependent variable, in conjunction with firm size, warrants its consideration. Weinzimmer found that functional heterogeneity among TMT members and TMT size were positively correlated with firm growth for the smaller firms, with functional heterogeneity positively related to firm growth for the larger firms as well. These findings suggest that large TMT members are more important, with respect to firm growth, for smaller firms. This is consistent with the anticipated benefits of the diversity of perspectives and resources that a team, as compared to a solo entrepreneur, can provide to the entrepreneurial firm. Similarly, Siegel, Siegel and MacMillan (1993) found that functionally balanced entrepreneurial teams were positively associated with entrepreneurial firm growth (see also, Roure & Madique, 1986).

Feeser and Willard (1990) also investigated the impact of TMT size on firm growth. While recognizing the potential downside to larger teams (e.g., slower decision processes), they proposed that larger TMT members would better enable firm growth. As we have discussed, larger teams have the potential to provide greater depth of skills, abilities and experiences. The authors focused on high-technology firms and compared *Inc.* 100 firms with a matched set of low-growth firms in the same industries. They, too, found strong support for the benefits of larger TMT members in relation to firm growth (see also, Cooper & Gimeno, 1992 who noted a positive relationship between founding team size and subsequent performance).

The small body of empirical research focusing on TMT members in entrepreneurial ventures yields valuable insights into the association between TMT members and entrepreneurial firm performance, as measured by firm growth. Cooper and Daily (1997; see also, Ensley et al., 2000) have noted that the concept of "team" is particularly well suited for entrepreneurial research, as many entrepreneurial ventures will have been founded by a team, as compared to an individual. Entrepreneurial ventures with strong growth prospects are most able to accommodate multiple founders. As importantly, firms on a strong growth trajectory are more likely to require the multiple skills found within a team setting (e.g., Vesper, 1990). Establishing an effectively functioning TMT is therefore critical to the success of an entrepreneurial firm (Timmons, 1994). The consistent findings with regard to

firm growth are encouragement for researchers to expand consideration of performance indicators to include financial and IPO performance, as well as firm survival.

Boards of Directors

There is a distinguished tradition of conceptualization and research relating various aspects of boards of directors to a variety of corporate outcomes (see, e.g., Dalton et al., 1998; Finkelstein & Hambrick, 1996; Johnson, Daily & Ellstrand, 1996; Zahra & Pearce, 1989). It would be fair to conclude, however, that the vast majority of boards of directors research has focused on large-scale, traditional organizations (e.g., *Fortune* 500 firms) as compared to entrepreneurial firms (Dalton et al., 1998; Ranft & O'Neill, 2001).

A dominant focus in boards of directors research is the relationship between board composition and firm performance. The underlying premise of the vast majority of this research is that greater board independence will be positively associated with firm performance. This research is largely built on agency theory and addresses the role of the board in shielding shareholders from managerial self-interest (see, e.g., Fama & Jensen, 1983a; Jensen & Meckling, 1976). Independent directors, directors with no personal or professional relationship to the firm or firm management, are believed to be more effective in protecting shareholders' interests, resulting in higher firm performance (e.g., Dalton et al., 1998). The entrepreneurial firm, where, as we have noted, the founder is likely to maintain a strong presence, may benefit from the external oversight provided by the independently structured board.

An additional area of investigation is the relationship between board size and firm performance. Here, the focus is primarily on the ability of directors to provide access to resources otherwise unavailable to the firm. This line of research is consistent with the resource dependence perspective (e.g., Pfeffer & Salancik, 1978; Provan, 1980). Greater numbers of non-management (often referred to as outside) directors provide the potential to create linkages between the firm and its environment. As noted by Pfeffer and Salancik (1978), firms with greater needs for effective linkages with the external environment should have larger boards. The entrepreneurial firm provides a context where larger boards may prove beneficial.

There is a growing body of literature devoted to examination of these relationships in entrepreneurial settings (e.g., Borch & Huse, 1993; Fiegner, Brown, Dreux & Dennis, 2000; Fried, Bruton & Hisrich, 1998; Ostgaard & Birley, 1996; Rosenstein, Bruno, Bygrave & Taylor, 1993; Stuart et al., 1999). We identified several studies consistent with our focus on the relationship between the board and firm performance. As with the general body of literature (see, e.g., Dalton et al., 1998, 1999), studies devoted to examinations of these relationships in entrepreneurial firms have yielded inconsistent findings.

Two studies have noted a positive relationship between boards and financial performance. Relying on *Inc.* 100 firms, Daily and Dalton (1992a) found a positive relationship between both the number and proportion of outside (non-management) directors and price-earnings ratio. Similarly, relying on a sample of small corporations Daily and Dalton (1993) found a significant relationship between three aspects of boards of directors (number and proportion of outside, non-management directors and board size) and three indicators of firm

financial performance (ROE, ROA, price-earnings ratio). These authors interpreted their board composition and board size findings as consistent with directors' service and resource roles (see, e.g., Johnson et al., 1996 for an overview of board roles).

Finkle's (1998) examination of biotech firms undertaking an IPO revealed mixed support for the resource dependence perspective. He found no relationship between board size and performance, as measured by the initial offering size or aftermarket performance, but did find that certain categories of affiliated directors were associated with a larger initial offering size. While Finkle interpreted these latter findings as consistent with agency theory, we believe that these findings may be a better reflection of the benefits of establishing linkages between the firm and its environment. Venture capitalist board members and directors associated with reputable underwriting firms were associated with larger IPO offering size.

In another examination of IPO-stage firms, Certo et al. (in press) found independent, outside directors positively and significantly related to IPO underpricing. This is opposite the anticipated relationship. Because, as we previously noted, underpricing represents wealth that the initial shareholders fail to retain at the time of the IPO, this indicates a negative relationship with what would be considered traditional (financial) performance indicators. Based on these findings, the authors concluded that board composition does not serve as an effective signal of firm quality at the time of IPO. They further suggested that the presence of independent, outside directors appears to be more beneficial for underwriters' clients, and not the IPO firm's initial shareholders. Certo et al. (in press) also found that larger boards were associated with less underpricing. As with the previously noted studies demonstrating a positive relationship between board composition and firm performance, the authors suggested that this board size finding is consistent with the resource dependence perspective. They suggested that investors may view larger boards as an indication that the IPO firm has access to a wider range of potential resources (e.g., access to capital and raw materials).

In another analysis, Rosenstein et al. (1993) surveyed CEOs of firms having received venture capital financing. A section of the survey asked CEOs to rate their firm's performance relative to competitors. The authors then analyzed this performance information in relation to the number of venture capitalists serving on the board. Contrary to the perspective that venture capitalists would bring a unique set of resources to the firm, the authors found no significant performance differences as a function of the number of venture capitalists on the board of directors. Other studies have also found no relationship between board composition and firm performance. Ford (1988), for example, surveyed CEOs and board members of *Inc.* 500 (privately-held, entrepreneurial) firms and found no relationship between outside board members' and CEOs' assessments of the importance of the board of directors with regard to the firm's overall success.

While the findings are mixed, these studies, in concert, suggest that boards of directors' composition and size are important for firm financial performance and that board composition is associated with the market's response at the time of IPO. It is interesting, then, that CEOs and board members do not necessarily perceive the performance benefits of the board, as indicated by the Rosenstein et al. (1993) and Ford (1988) studies. Given the relatively modest amount of work in this area, additional research attention suggests great promise for better understanding the importance of the board for entrepreneurial firm performance.

Based on the absence of studies focusing on firm growth and survival, a focus on these performance indicators may prove especially informative.

Venture Capitalists

Venture capital has been one of the driving forces behind the successful commercialization and pace of introduction of unproven technologies over the past two decades (Barry, 1994; Jeng & Wells, 2000; Manigart & Sapienza, 2000). While venture capital plays a relatively modest role in the overall scope of the formation and growth of entrepreneurial firms, venture capital financing fills an important void in start-up financing of high-risk ventures, as other forms of financing are often unavailable to these firms (Jeng & Wells, 2000; Sahlman, 1990). A venture capital firm serves the role of financial intermediary in a market where lenders and borrowers find it costly to get together. These costs are due to adverse selection and moral hazard problems, and the cost of administration, information gathering, and search efforts (Jeng & Wells, 2000). As demonstration of its importance, the venture capital industry has grown dramatically in the past two decades (Gompers & Lerner, 1996). Research in this area, however, had been largely descriptive and somewhat atheoretical (Sapienza, Manigart & Vermier, 1996).

Survival rates of venture-backed firms are higher than for the general population of new ventures (70–80% vs. 10–20%; Timmons & Bygrave, 1986). This is, in part, explained by the selectivity demonstrated by venture capitalists in funding less than one percent of proposals received (e.g., Hall & Hofer, 1993; Megginson & Weiss, 2001; Zacharakis & Meyer, 2000). Despite this selectivity, there is wide dispersion in the performance of venture-backed firms (e.g., Amit, Brander & Zott, 1998; Dorsey, 1977; Huntsman & Hoban, 1980; Sahlman, 1990).

Many venture-backed entrepreneurial firms are neither clear successes nor failures. These become what are euphemistically referred to in the venture capital industry as the “living dead” (Ruhnka, Feldman & Dean, 1992). The highest-ranking cause of living dead situations is management weakness (Ruhnka et al., 1992). Replacing management, an action often initiated by venture capitalists, positively impacts performance in these firms. Such action is also consistent with the general propensity toward monitoring and control demonstrated by venture capitalists.

Venture capital involvement is especially relevant with respect to IPO firm performance. As noted by Sahlman (1990), the majority of returns for venture funds are earned on companies that eventually go public (see also, Stevenson, Muzyka & Timmons, 1987). Venture capital involvement in an entrepreneurial firm can serve as a powerful signal to potential investors at the time of IPO (Barry, Muscarella, Peavy & Vetsuypens, 1990; Megginson & Weiss, 2001). Venture capital backing has been associated with lower underpricing and underwriter compensation (Megginson & Weiss, 2001). Not only do venture capitalists provide value through direct funding pre-IPO, they are also associated with lower IPO costs.

While not the focus of our review of governance/strategic leadership with firm performance, we would note (as indicated in the previous section) that venture capitalists not only commit capital, but also participate directly in the governance of their portfolio companies,

vis-à-vis the board of directors (Barry et al., 1990; Rosenstein et al., 1993). One of the most significant actions a venture capitalist can take as a board member is to replace the CEO (Bruton et al., 1997; Rosenstein et al., 1993). Venture capitalists commonly structure their contracts such that they have the right to appoint and remove members of the management team (Gompers & Lerner, 1996). In one of the most extensive examinations of CEO dismissals by boards of directors on which venture capitalists serve, Bruton et al. (1997) found that replacing a CEO typically has a strong positive effect on performance. Their results are consistent with Ruhnka et al.'s (1992) finding of a positive performance effect when replacing CEOs of living dead firms. Lerner's (1994) examination of the impact of a change in CEO indicated that venture capitalists investors added 1.75 board members between financing rounds when the CEO was replaced, vs. an average increase of only 0.24 between rounds in which the CEO was not replaced. Thus, the board monitoring activities of venture capitalists appear to intensify as the need dictates. These research studies are consistent with the work of Barney, Busenitz, Fiet and Moesel (1989) who found that high agency and business risks were associated with the employment by venture capitalists of more elaborate governance structures for monitoring and control.

In a comprehensive review of venture capital in the early 1990s, Timmons and Sapienza (1992: 430) provocatively commented that "the area of venture capital research currently providing the greatest controversy is the issue of whether or not venture capitalist firms add value beyond the capital supplied." The bulk of more recent studies comparing accounting or market data between venture-backed and non-venture-backed firms suggests that venture capitalists do, in fact, add value. However, the results of studies that have surveyed venture capitalists and entrepreneurs on their perceptions of value added (e.g., MacMillan, Kulow & Khoylian, 1989) have yielded inconsistent results. Also, there continues to be much debate on whether venture capitalists add value appropriate to their level of reward. Within the limited partnership legal structure of most funds, venture capitalists serve as general partners and traditionally put up one percent of the capital and receive 20% of the profits (Fried & Hisrich, 1992). The venture capitalist does appear to matter, but how much and at what price remains to be determined.

Discussion: An Opportunity Lost

In our introductory section, we reviewed the continuing discussion of whether governance/strategic leadership in its several forms (e.g., CEOs, TMT members, boards of directors) is, in fact, associated with firm performance (Dalton et al., 1998, 1999; Finkelstein & Hambrick, 1996; Rowe, 2001; Waldman et al., 2001). The current state of the debate is nicely captured by Finkelstein and Hambrick (1996: 20; see also, Daily & Schwenk, 1996 for an extended discussion): "As intuitively reasonable as it may seem, the idea that top executives hold great sway over organizational outcomes is not universally held." Conclusions of this ilk are largely based on evidence from large, mature firms. Our review proposed at the outset that relationships between governance/strategic leaders and firm performance should be more robust in entrepreneurial settings (e.g., Dalton et al., 1998, 1999).

There are an imposing variety of theoretical rationales to sustain the perspective that entrepreneurial settings provide a more fruitful venue for governance/strategic

leadership/performance relationships. One of the more compelling rationales involves the notion of managerial discretion. Hambrick and Finkelstein's (1987) seminal work in this area suggests that it is the discretion of strategic leaders that will ultimately inform the decisions they make, the allocation of funds in support of those decisions, and the actual implementation of those initiatives. Without such discretion, strategic leaders are constrained, more imitative, less likely to pursue innovative strategies, and unlikely to marshal sufficient support from critical constituencies if they did (Hambrick, Geletkanycz & Fredrickson, 1993). Finkelstein and Hambrick (1996: 31) specifically noted that the size of the firm may be an important indicator of reduced executive discretion: "Large, mature firms . . . are not easily changed. Their top executives operate under severe inertial constraints." While Finkelstein and Hambrick did not specifically implicate entrepreneurial firms, it is generally true that entrepreneurial firms are significantly smaller than the large, mature firms on which the vast majority of organizational research is conducted. By extension, then, entrepreneurial firm leaders may operate under less severe constraints enabling them to more directly impact firm outcomes such as performance.

The view that entrepreneurial firm strategic leaders are less constrained by organizational systems and structures and may have far more latitude as compared to their larger firm counterparts is sustained by empirical research (e.g., Baysinger & Hoskisson, 1990; Daily & Dalton, 1992a, 1992b, 1993; Eisenhardt & Schoonhoven, 1990; Norburn & Birley, 1988; Reinganum, 1985). As we previously noted, there was also a recent meta-analysis of board size and financial performance that provided an interesting, and entirely supportive, result underscoring a more pronounced effect for smaller firms. Dalton et al. (1999), relying on 131 samples ($n = 20,620$), reported a significant relationship between board size and financial performance. That effect, however, was much greater for smaller firms. For purposes of our review, that study is relatively coarse-grained. The studies included in their "entrepreneurial/small firm" category are not all entirely consistent with the definition of entrepreneurial firms on which we relied. Even so, it does suggest, based on many samples and a robust sample size, that some strategic leadership variables are, in fact, more highly related to performance for smaller firms. Some of these firms, as we have noted, will be small, *entrepreneurial* firms.

While the extant research is suggestive, much of it will not be directly applicable to the entrepreneurial setting. It is not surprising, then, that a consistent theme in extant entrepreneurial studies is the relative dearth of research examining the posited relationships between governance/strategic leadership and firm performance. At one level, this is surprising since a large body of conceptual/theoretical work underscores the importance of entrepreneurial firms to new market exploration, new product/service development, and job creation (e.g., Birley, 1987; Low & MacMillan, 1988; Reynolds, 1987; see also Gartner, 1985). Barring the inconclusive and non-cumulative research concerning the impact of founder characteristics on entrepreneurial firm performance, however, our review of this literature suggests that little attention has been focused on relationships between governance/strategic leadership variables and the subsequent performance of entrepreneurial firms. Given our argument that the entrepreneurial environment is exactly where these relationships are likely to be demonstrated, we find this to be an opportunity lost.

As our review of the entrepreneurial literature progressed, we identified a body of relevant empirical research. On a number of dimensions, however, this body of research presented

some challenges in terms of its formal synthesis. Rather than relying on a narrative review, for example, we would have preferred to employ meta-analytical procedures that are nearly universally favored for synthesizing a body of research (e.g., Cooper, 1998; Hunter & Schmidt 1990, 1994; Lipsey & Wilson, 2001; Rosenthal & DiMatteo, 2001). Our review revealed several limitations to such an approach. Meta-analytical procedures require consistency across variables. We found, however, that the relevant entrepreneurial literature rarely relied on the same dependent variables. There was not a sufficient subset of studies relying on the same performance indicators (e.g., accounting-based measures, market-based measures, growth, survival, value of firm [or underpricing] at firms' IPO) and the same independent variable (e.g., founder/non-founder, board composition, TMT members) to allow their combination for meta-analysis. In the context of founder experience and performance, for example, Reuber and Fischer (1999: 30) recently noted their frustration with the lack of consistency to which we referred: "there is a wide variety in the measures of experience and outcomes, in the moderating, mediating and control variables used, and in the values placed on particular kinds of experience", and that these factors have resulted in our current inability to confidently make claims about the importance of a founder's experience.

As importantly, our review also confirmed that there is very little consistency in the manner in which researchers have defined the "entrepreneurial firm". While we believe that the studies included in our review are largely consistent with our definition of an entrepreneurial firm as independent entrepreneurship (Sharma & Chrisman, 1999), we have also explicitly noted those few cases where the sample included in a given study may not have been as fully consistent with this definition as we would have liked. Our review, then, highlights the importance of developing consistency across studies in constructing research samples. Only then can researchers begin aggregating the results of the general body of entrepreneurial research, whether that research addresses the governance/strategic leadership/performance relationships or otherwise.

The Promise of Future Research

Our review also left us optimistic about the promise of future entrepreneurial research. The extant entrepreneurial research, for example, underscores the benefits of diversity among TMT members. This is a potentially important insight as the literature reflects an interest in the notion that many entrepreneurial ventures are team-based, comprised of multiple founders (e.g., Ensley et al., 2000; Weinzimmer, 1997). Even for those firms not founded by a team of individuals, the TMT may prove pivotal in the growth and success of the entrepreneurial venture. This is consistent with the resource dependence perspective. Our review indicates that this perspective may be especially applicable to entrepreneurial firms. This conclusion is based on research demonstrating positive relationships between outside directors, TMT members, board size, and venture capitalists and firm performance.

Dalton et al. (1999) have argued that it is the resource dependence role of high-ranking officers of the firm, board members, and other external linkages (e.g., venture capitalists), not the control role of these constituents, that accounts for the observed associations with firm performance. In the entrepreneurial firm, the resource dependence role may be even more critical than for larger, mature firms. The crucial issue may not be that firms' boards,

or their investors, are able to control the policies, procedures, or practices of CEOs and their TMT members. Instead, it may be the ability of board members, venture capitalists, or high-ranking managers who can provide the firm with access, information, and resources that would otherwise be unavailable to it. Future research in the area of these resource dependence linkages may be particularly interesting, and productive.

Another promising area for future research is the inclusion of research designs not currently reflected in the literature or that have received little attention in the current literature. Longitudinal research designs, for example, are infrequently relied on for entrepreneurial research. We would hasten to note that this is a criticism that could easily be applied to organizational research in general (e.g., [Schwenk & Dalton, 1991](#)). The entrepreneurial domain, however, is particularly applicable for multi-period research. This would enable researchers to trace the development of a firm from its founding to its maturity. Also, these designs would enable researchers to employ sophisticated analytical techniques such as multi-period structural equations analysis. Such designs could not only provide a longitudinal perspective of the relationships of interest but could also inform the discussion of causality.

Researchers may also want to design studies that enable them to employ analyses that test the possibility that some of the strategic leadership/performance relationships are non-monotonic. The next generation of entrepreneurial research may be attentive to the potential for non-linear relationships. Perhaps both low levels and high levels of venture capital funding are dysfunctional. Perhaps board size and some elements of board composition (e.g., number of affiliated directors) have non-linear relationships with firm performance as well. Perhaps both low and high levels of founding team ownership at the time of an IPO constrain the performance of the firm at the time of IPO and beyond.

A focus on the resource dependence perspective would also support research that examines the transitional stages of the entrepreneurial firm. There is a strong tradition of research that examines organizational life cycles (e.g., [Churchill & Lewis, 1983](#); [Clifford, 1973](#); [Hanks, 1990](#); [Whisler, 1988](#)). This research, in part, addresses the transition of a firm from entrepreneurial management to professional management (e.g., [Daily & Dalton, 1992b](#)). A basic premise is that entrepreneurial firms eventually outstrip the capabilities and resources of the founder ([Flamholtz, 1986](#); [Tashakori, 1980](#)). If the transition from entrepreneurial management to some level of greater professionalization, with or without the guidance of the firm's founder, is inevitable for the entrepreneurial firm, attention to the resources that TMT and board members, as well as venture capitalists, can provide to assist in this transition promises to inform the importance of strategic leadership to entrepreneurial firm performance.

A venue where this type of transition may be most salient is for the entrepreneurial firm undertaking an IPO. At the time of an IPO an entrepreneurial firm will have to establish the abilities of firm managers to successfully guide the firm toward future success. Additionally, the IPO firm will be required to institute a board of directors if one is not already in place (see, e.g., [Certo et al., in press](#)). Relying on signaling theory, recent research has demonstrated that larger boards are associated with less underpricing ([Certo et al., in press](#)). We would also encourage researchers to extend such studies by employing resource dependence theory to investigate the potential resource linkages provided through TMT and board members and the relationship to longer-term IPO firm performance.

Future research may also benefit from examining various governance/strategic leadership categorizations in concert. Would the relationship between founder/non-founder and firm performance be different given various levels of venture capital exposure? Would high levels of venture capital have a tendency to constrain, along the arguments suggested by Hambrick and Finkelstein (1987), a firm founder's discretion to a different extent than that of a professional manager? What might be expected with a founder CEO, a high proportion of inside directors, and only modest equity holdings by venture capitalists? Is this a model of effective influence and focused attention to objectives or a recipe for managerial entrenchment and recalcitrance? Tashakori (1980), for example, found that venture capitalists favored replacing founders in order to facilitate the transition from an entrepreneurial to professionally managed firm and enhance firm performance. Related to this, Certo et al. (2001) found that investors discount the value of a founder-led IPO firm, as demonstrated by higher levels of underpricing. They also found that founder-led IPO firms with greater proportions of inside directors experienced less underpricing. This finding is suggestive of the importance of TMT diversity to offset any real or perceived limitations inherent in founder management.

Conclusion

In conclusion, based on our review of the extant literature, we have identified several promising areas for furthering research addressing the relationships between governance/strategic leaders and entrepreneurial firm performance. These include: (1) the need for definitional consistency across entrepreneurial studies; (2) the reliance on theories not currently well-reflected in extant research, most notably resource dependence theory; (3) the advancement of studies that enable the use of sophisticated methodologies enabling longitudinal research and tests of causality; (4) a focus on transitional stages of entrepreneurial firms and how governance/strategic leaders might facilitate effective transitions and firm performance; and (5) the consideration of combinations of governance and strategic leadership variables and how such combinations might facilitate entrepreneurial firm performance.

Our research agenda, while perhaps aggressive, is consistent with Shleifer and Vishny's (1997: 774) observations based on their review of corporate governance research: "In writing this survey, we face a variety of still open questions While the literature in some cases expresses opinions about these questions, we are skeptical that at the moment persuasive answers are available." Across a vast literature of corporate governance in strategic management, finance, accounting and economics, Shleifer and Vishny (1997) concluded that researchers need to know a great deal more about such questions to objectively compare corporate governance systems. Our review of the entrepreneurial literature would suggest that this is the case with governance, strategic leadership and performance as well. We believe that the search for some of those answers may be particularly productive in the entrepreneurial environment. In the same spirit as Shane and Venkataraman (2000) to whom we earlier referred, we invite others to join us in empirically establishing the role of governance and strategic leadership in the success of the entrepreneurial firm.

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