The Board of Directors as a Strategic Resource in Small ICT Corporations

By: Håkan Malmberg and Jonas Nordquist, 2001
Executive Summary

Title: The Board of Directors as a Strategic Resource in Small ICT Corporations

Authors: Håkan Malmberg and Jonas Nordquist

Tutors: Anders Nilsson
Assistant Professor
Dept. of Business Administration and Management
Blekinge Institute of Technology
Sweden

Sanjay Goel
Assistant Professor
Dept. of Management Studies
University of Minnesota-Duluth
USA

Course: Master thesis in Business Administration

Department: Department of Business Administration and Management
Blekinge Institute of Technology, Sweden

Problem: Overall: From where does small ICT corporations derive their competitive advantage?
Specified: Is the board of directors a strategic resource that contributes to a corporation’s competitive advantage?

Purpose: By applying different perspectives we strive to explore what influence boards of directors could have on a corporation’s competitiveness and development. In other words, we attempt to explore the board of directors as a strategic resource in small ICT corporations.

Method: We describe the view at the board of directors in ICT corporations by using an interdisciplinary and explorative method. The thesis is based mainly on secondary sources, such as theories and research. We have as well collected primary data through interviews with venture capitalists, CEOs, and board members.

Findings: In the thesis we have discussed from a wide variety of perspectives if boards of directors in small ICT corporations could be considered as a strategic resource, contributing to the corporation’s competitive advantage. We have found they contribute with broad knowledge, experiences, and skills that the founder, venture, or the top management team is not likely to possess by their own. The board further contributes with the skill to explore and adapt the corporation strategically to the rules, opportunities, and threats in the environment. The board helps the corporation with structural configuration, turning it from a venture start-up to a professional organization. Thus, it seems to us that a board of directors has the capability and potential to help entrepreneurs obtain a competitive advantage. This by advising them in the nurture of valuable, rare resources that are difficult to imitate, and that these resources can have a vital positive impact on the corporation's competitive advantage.

Therefore, we emphasize that the boards of directors could be a strategic resource for small ICT corporations.
Definitions of Key Concepts

**Corporation:** A joint-stock company; public limited- and private limited company.

**Small corporation:** Is used as a concept for young corporations (not older than approximately 2 years) with a potential and declared intention to grow and expand. Number of employees, not more than 30, however since these corporations grow fast this is not a vital delimitation.

**Competitive advantage:** A corporation has a competitive advantage when it is engaging in activities that increase its efficiency or effectiveness in ways that competing firms are not, which gives rise to the product/service offering costumers greater value.

**ICT:** Corporations which *main* businesses are Information and Communication Technology products and services.

**Strategic resource:** A resource that enables a corporation to craft and implement strategies which improve the corporation’s efficiency and effectiveness, and that exploit opportunities or neutralize threats in the competitive environment.
Preface

Our interest in strategy and decision-making lead us to look through past literature for a subject to our master thesis. During the search for a suitable topic we discovered that few of the books we have read during our academic studies explicitly talk about the board of directors. When strategic management and leadership are discussed in business literature it is often done by talking about the role of management, senior managers, and top management teams, but quite seldom about the board of directors. This lack of separation between the top management team and board of directors we think is peculiar, since these two groups have quite distinguishing responsibilities and roles in the governing of a corporation. Those few times the board of directors is discussed in literature it is so often done with large corporations as starting point and perspective. Therefore we found it interesting that we had not came across more research about the board of directors in small and growing corporations. This especially if considering the great number of small venture corporations in the economy. In addition, we thought the increased interest among researchers for strategic management and decision-making in high-technology corporations, and the growth of the IT industry, should have resulted in a larger number of literature. From this observation we got the idea to investigate the boards of directors in small ICT corporations to find out whether or not these boards is a breach from boards in large corporations. Thus, do the writings about large corporation’s boards of directors apply to boards in small ICT corporations?

Reading advice

We think some reading advice could be in place to make the thesis more comprehensible and easier to read. The thesis sets off with a discussion about the economy and business environment of today. In this initial chapter we discuss whether boards of directors within the IT industry face other prerequisites and circumstances, in comparison to boards in more traditional corporations. After this problem-discussion an account of how we have conducted the research will follow. We have chosen to present our research by categorizing it into six perspectives, beginning in chapter five. Throughout the thesis we uses an anecdote about six blind men who try to describe an elephant none of them have seen. Based on this anecdote we have given our perspectives different names, such as Mr. Corporate Governance and Mr. Strategy. These men represent mainly secondary data – theories, past research, and statement-, only in Mr. Discussion we present primary data from interviews of CEOs and board members. A worth mentioning risk as we use much secondary data, is that we might not be able to validate all data through our empirical study. This is of importance since some theories may be based on how the object might be and thereby give a normative picture of it. The reader should have this in mind as it can affect the outcome of the thesis.

Why six men?

In the early phases of this thesis we interviewed some experienced board members and CEO:s to get empirical data of what goes on in the boardrooms. Together with our initial review of literature we found some subjects and factors that seemed to be essential to
look further into. We then continued to collect data and information about these subjects. When we felt we had covered a rational amount of the different aspects, we tried to find a suitable way to present our findings. It turned out to be six perspectives, followed by an overall analysis and conclusion. Some of the perspectives will for sure be more worthwhile for the academically inclined; other will appeal more to practitioners. Some people will probably consider that we could have chosen some other perspectives, added or reduced a few. However, it is always a tricky trade-off to choose what to include, what to exclude, and when to stop writing. Although, it is our hope the thesis will contribute with some knowledge and insights to the discussion about managing and governing small corporations.

Acknowledgement

We have put a lot of effort to turn our idea into a thesis worthwhile reading. However, without some people’s help, our efforts would not have been sufficient to carry out this work. We owe many thank-yous, to the people we have interviewed and to those who have helped and supported us during the work with the thesis. Special thanks we owe to our tutors Mr. Anders Nilsson and Mr. Sanjay Goel whose knowledge, support, and commitment have been very valuable to us. Without them our expedition would never have found the way through the wilds.

Thank you all for your help, advice, and support

Ronneby, Sweden; Fall 2001

Håkan Malmberg

Jonas Nordquist

Håkan Malmberg
+46 (0)42 228546
hook.malmberg@delta.telenordia.se

Jonas Nordquist
+46 (0)42 298104
nordquistjonas@hotmail.com
# Brief contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Wilds of Competitive Advantage</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>The Expedition - Out in the Wilds</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>The Problem Discussion - Setting the Agenda for the Thesis</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Methodology - How We Will Proceed from Idea to Written Text.</td>
<td>20</td>
</tr>
<tr>
<td>5</td>
<td>Mr. Legislator - The Board from a Legal Perspective</td>
<td>30</td>
</tr>
<tr>
<td>6</td>
<td>Mr. Corporate Governance</td>
<td>32</td>
</tr>
<tr>
<td>7</td>
<td>Mr. Past Projects - The Board as a Strategic Resource in Small Corporations</td>
<td>56</td>
</tr>
<tr>
<td>8</td>
<td>Mr. Strategy - The Strategic Viewpoint of how Competitive Advantage is Created and the Board of Directors’ Contribution</td>
<td>79</td>
</tr>
<tr>
<td>9</td>
<td>Mr. Strategic Management - Strategic Management for Small and Growing Corporations</td>
<td>104</td>
</tr>
<tr>
<td>10</td>
<td>Mr. Discussion - Interviews with People</td>
<td>117</td>
</tr>
<tr>
<td>11</td>
<td>Closing Analysis - What have Changed?</td>
<td>124</td>
</tr>
<tr>
<td>12</td>
<td>Conclusions - The Team and the Greenhouse</td>
<td>131</td>
</tr>
<tr>
<td>13</td>
<td>Concluding words</td>
<td>140</td>
</tr>
<tr>
<td>14</td>
<td>References</td>
<td>142</td>
</tr>
</tbody>
</table>
## Contents

1 **The Wilds of Competitive Advantage** .......................................................... 1  
2 **The Expedition - Out in the Wilds** .............................................................. 2  
2.1 THE ELEPHANT AND THE SIX BLIND MEN OF OURS .................................... 3  
3 **The Problem Discussion - Setting the Agenda for the Thesis** ...................... 5  
3.1 AN INTRODUCTION TO THE BUSINESS ENVIRONMENT ................................. 5  
3.2 THE COMPETITIVE ENVIRONMENT OF TODAY - HAVE THE RECENT DEVELOPMENT IN THE IT INDUSTRY REALLY ALTERED ANYTHING? .......................... 6  
3.2.1 There is a new economy! .............................................................................. 6  
3.2.2 And the winner is...! ................................................................................... 7  
3.2.3 The age of the intangibles? ......................................................................... 8  
3.2.4 The scope of the new economy and age of intangibles in the thesis .......... 10  
3.3 OUR FIELD OF STUDY - THE ICT INDUSTRY .................................................. 11  
3.3.1 What is an ICT corporation? ....................................................................... 11  
3.3.2 What are the differences? ........................................................................... 11  
3.4 CONCLUSION AND MAIN MOTIVES FOR CHOOSING THE ICT INDUSTRY ......... 16  
3.5 THE BOARD OF DIRECTORS - COULD THEY BE THE ANSWER TO THE COMPETITIVE ADVANTAGE RIDDLE? ................................................................. 17  
3.5.1 The boards of directors: Who are they? ....................................................... 17  
3.5.2 Do they make any difference? .................................................................... 17  
3.5.3 The director’s role in strategy development ............................................. 18  
3.5.4 The end of the beginning ............................................................................ 19  
4 **Methodology - How We Will Proceed from Idea to Written Text** ................ 20  
4.1 MODE OF PROCEDURE - HOW WE PRACTICALLY CONDUCTED THE THESIS ..... 20  
4.2 THE STARTING POINT FOR THE THESIS: A CONCRETIZED PROBLEM DISCUSSION ABOUT HOW WE LOOK UPON THE FIELD OF STUDY ........................................ 21  
4.3 THE CHOICE OF KNOWLEDGE MODEL ............................................................ 22  
4.4 FOR WHOM DO WE WRITE - WHICH ACTOR PERSPECTIVE DO WE HAVE? .... 22  
4.5 THE PURPOSE OF THIS THESIS .................................................................... 23  
4.5.1 The need of data - how to tap the sources on information ............................ 23  
4.5.2 The different ways to gather information and data ................................... 24  
4.6 THE INFLUENCE OF OUR FRAME OF REFERENCE AND PERSPECTIVES ......... 27  
4.7 THE MEMBERS OF THE EXPEDITION - THE SIX BLIND AND BRAVE MEN OF OURS .......... 29  
5 **Mr. Legislator - The Board from a Legal Perspective** .................................... 30  
6 **Mr. Corporate Governance** ............................................................................. 32  
6.1 ACADEMIC THEORIES .................................................................................... 32  
6.1.1 Contract theory .......................................................................................... 32  
6.1.2 Analyses of the theoretical perspective of corporate governance ............. 38  
6.2 THE CORPORATE GOVERNANCE CONCEPT ............................................... 39  
6.2.1 The CalPERS story ..................................................................................... 39  
6.3 CORPORATE GOVERNANCE AND CULTURE ................................................. 40  
6.4 CORPORATE GOVERNANCE AND THE TASK OF THE BOARD OF DIRECTORS .... 41  
6.4.1 The boards role in corporate strategy ....................................................... 42  
6.4.2 Why does not everyone succeed? .............................................................. 44
6.5 Analysis .......................................................................................................................49
6.5.1 Corporate governance and competitive advantage ...............................................49
6.5.2 Criticism of corporate governance .......................................................................50
6.5.3 Concluding analysis of corporate governance ....................................................51

7 Mr. Past Projects - The Board as a Strategic Resource in Small Corporations ...56
7.1 The Idea of Board of Directors ..................................................................................56
  7.1.1 The truth of board of directors of today in small corporations .............................58
  7.1.2 Which attributes characterize a good board of directors? ..............................59
  7.1.3 Which role do a good board of directors have in a corporation? .....................60
  7.1.4 Outside assistance in small corporations ..........................................................63
  7.1.5 Required competences for the board of directors ..............................................68
7.2 Analysis: Mr. Past Project Answer to the Competitive Advantage Query ..............72
  7.2.1 The board's contribution to a small ICT corporation's survival and success ..........72

8 Mr. Strategy - The Strategic Viewpoint of How Competitive Advantage is Created and the Board of Directors’ Contribution ...............................................79
8.1 Introduction - The Evolution of Strategy .................................................................79
  8.1.1 Strategy in the field of business .........................................................................80
  8.1.2 Moving from outside to inside the corporation ..................................................82
8.2 The Resource Based Perspective ............................................................................83
  8.2.1 Introduction to resource-based theory ...............................................................83
  8.2.2 Premises of the resource-based theory and the environmental models .............83
  8.2.3 Key definitions ..................................................................................................84
  8.2.4 Competitive advantage and sustained competitive advantage ............................85
  8.2.5 Firm resources and sustained competitive advantage ..................................88
  8.2.6 Firm resource heterogeneity, immobility, and sustained competitive advantage ....89
  8.2.7 Valuable resources ............................................................................................89
  8.2.8 Rare resources ..................................................................................................90
  8.2.9 Imperfectly imitable resources .........................................................................90
  8.2.10 Substitutability .................................................................................................92
  8.2.11 Durability .........................................................................................................93
  8.2.12 Appropriability ................................................................................................94
  8.2.13 Competitive superiority ..................................................................................94
  8.2.14 Summing up .....................................................................................................94
8.3 Analysis .....................................................................................................................95
  8.3.1 Evaluation of the boards as a resource - Could they be a strategic resource that influences an ICT corporation’s competitive advantage? ..........95

9 Mr. Strategic Management - Strategic Management for Small and Growing Corporations ........................................................................................................104
9.1 The Value of Strategic Management .....................................................................104
  9.1.1 Strategy as a context .........................................................................................104
  9.1.2 Strategy as a process .......................................................................................107
  9.1.3 Strategy as an outcome ....................................................................................109
  9.1.4 The modes of small businesses ......................................................................109
  9.1.5 Analysis of the strategic management .........................................................114

10 Mr. Discussion - Interviews with People ................................................................117
10.1 The view of the board members ................................................................. 117
  10.1.1 The interviewed board members ....................................................... 117
  10.1.2 The role of the board of directors .................................................... 117
  10.1.3 The competence of the board ............................................................. 118
  10.1.4 Issues of importance for small corporations ..................................... 119
10.2 The view of the CEO: ............................................................................. 120
  10.2.1 The CEO's role .................................................................................. 120
  10.2.2 The role of the board of directors ..................................................... 120
  10.2.3 The competence of the board .............................................................. 120
  10.2.4 What is the difference between a good and bad board ..................... 121
  10.2.5 Analyze of the research .................................................................... 122
11 Closing Analysis - What have Changed? ................................................ 124
  11.1 The travel book ...................................................................................... 124
  11.1.1 The idealistic thought of the board of directors ................................ 125
  11.2 Concluding words of the closing analysis ......................................... 130
12 Conclusions - The Team and the Greenhouse ........................................ 131
  12.1 The board's contributions as a strategic resource .............................. 131
  12.1.1 The overall conclusion ..................................................................... 136
  12.2 Concept formation .............................................................................. 137
  12.2.1 The foundation of the concept ........................................................... 137
  12.2.2 The Boards of directors and the concept of a team ....................... 138
  12.2.3 The board of directors - Small ICT corporations own Greenhouse ... 139
13 Concluding words ...................................................................................... 140
14 References ................................................................................................. 142
1 The Wilds of Competitive Advantage

--Introduction--

There is a prevailing query whose answer has been sought for by many people. The query read as follows; why do some corporations perform better than others? The query’s origin probably dates from the day in history when the second corporation was founded. From that day on, have many expeditions (people, investors, managers, philosophers, researcher, and politicians, to name a few) been out there in the wilds and participated in the quest for an answer to this comparative analysis. They have all made an effort to explore the wilds, i.e. to enlighten, analyze, and find a satisfying solution to this query. As a result of all these expeditions different scientific fields have emerged, each with their own perspective, explanation, and solution. To mention some of the major fields there are the field of marketing (Kotler), management (Mintzberg), entrepreneurship (Schumpeter), strategy (Porter, Ansoff) and economics (Keynes, Friedman). In other words, the long history, the importance, and the interest for the query have resulted in a plentitude of studies and theories. Therefore it is fair to ask whether or not there are more to study and explore about this subject. Firstly, there is probably no simple and exact answer to this question, since the complexity of the question makes it impossible to understand all the ties and connections, cause and effects, and relationships that exist. Secondly, the answers given have often proven to be elusive, according to Kimberly and Zajac (Hambrick D. (ed), 1988). Consequently, no one has yet found a satisfying answer. This being particularly valid when one considers the circumstances these days with rapid technological development and the high degree of uncertainty on the global market. Further, even nowadays we witness corporations in all industries that goes into liquidation, while others perform well and earns a profit well above the industry’s average. For us it therefore seems reasonable that there are some white spots, unexplored wilds, left on the competitive query-map to explore and map out.

The purpose with the opening paragraph is to give at brief introduction of the subject and our starting point in the thesis.
The board of directors as a strategic resource in small ICT corporations

2 The Expedition - Out in the Wilds

THE BLIND MEN AND THE ELEPHANT
By John Godfrey Saxe (1816-1887)

It was six men of Indostan
To learning much inclined,
Who went to see the Elephant
(Though all of them were blind)
That each by observation
Might satisfy his mind.

The First approached the Elephant,
And happening to fall
Against his broad and sturdy side,
At once began to brawl:
“God bless me but the Elephant
Is very like a wall.”

The Second, feeling on the tusk,
Cried, “Ho! What have we here
So very round and smooth and sharp?
To me ‘tis mighty clear
This wonder of an Elephant
Is very like a spear!”

The Third approached the animal,
And happening to take
The squirming trunk within his hands,
Thus boldly up and spake:
“I see,“ quoth he, “the Elephant
Is very like a snake!”

The fourth reached out an eager hand,
And felt around the knee,
“What most this wondrous beast is like
The board of directors as a strategic resource
in small ICT corporations

Is mighty plain,” quoth he:
“Tis clear enough the Elephant
Is very like a tree!”

The Fifth, who chanced to touch the ear,
Said: “E’en the blindest man
Can tell what this resembles most;
Deny the fact who can,
This marvel of an Elephant
Is very like a fan!!

The Sixth no sooner had begun
About the beast to grope,
Than, seizing on the swinging tail
That fell within his scope,
“I see,” quoth he, “the Elephant
Is very like a rope!”

And so these men of Indostan
Disputed loud and long,
Each of his own opinion
Exciding stiff and strong,
Though each was partly in the right,
And all were in the wrong”
(Mintzberg et al 1998, p 2)

2.1 The elephant and the six blind men of ours

We will focus our expedition to a particular remotely situated part of the wilds of the competitive advantage query. The place is known as: Where from does small ICT corporations’ derive their competitive advantage? However, since this part of the query is so extensive we need to delimit our field of study further. Among all the available research approaches we have therefore decided that our elephant (phenomenon, entity) of study will be:

*The board of directors’ contribution to a small ICT corporation’s competitive advantage.*

The perspective is how others look upon them and their significance. By others we mean those who have contact with them or are affected by their actions. Our intention is to find out what influence those people considers boards of directors to have on a
corporation’s competitiveness and development. In other words: What significance the board of directors has in small ICT corporations.

To be able to explore what our elephant looks like, we have chosen six blind and very brave men. Each of them we are going to send on their own out in the wilds with the mission to observe the elephant, each from their own perspective, frame of reference, notions, and models.

2.1.1.1 The expedition leaders have the word

On the time schedule for tonight’s lecture is first a presentation of the wilds which the six brave men of ours will travel through. It will include many speakers who each will describe subjects that are related to the expedition. Worth mentioning is a debate about the wilds of today (the business landscape), and a report about the planning and preparation of the expedition (the methodology). Finally, we will end tonight’s lecture with a presentation of the six blind men. The presentation of the six members of the expedition will be kept short, because they will start their journey early tomorrow morning. Before we present the first speaker for tonight we would just wish you welcome back later this year (chapter 5) when each of the six brave men have returned home. One by one, they will then tell you about their experiences and adventures from the travel through the wilds.

- So Ladies and Gentlemen let us present the first speaker for tonight’s lecture: The problem discussion!

Finally, we will end tonight’s lecture with a presentation of the six blind men.
3 The Problem Discussion

Setting the Agenda for the Thesis.

In the opening paragraph of this chapter we will discuss the competitive environment in the economy of today, followed by the issue of competitive decisions and actions in corporations. Finally, before closing this chapter we will outline and concretize our field of study i.e. the board of directors in small ICT corporations.

3.1 An introduction to the business environment

Our high standard of living is created by the economic system. The system consists of many large and small private and state-owned companies, all of them seeking success. The driving force in the economic system is the transactions taking place between the two types of actors; the buyer and the seller. A transaction takes place when the two actors decides to satisfy their needs and wants through exchange. Exchange is the process of obtaining an object of interest from someone by offering something in return. The place where sellers and buyers interact and exchange values is called the market. On the market, made out of the total numbers of buyers and sellers, the actors choose the product and service that best satisfies their needs and wants, given their constrained resources. Since it often prevails a supply surplus on the market, i.e. not a monopolistic market, it creates a competitive environment for the sellers. This competitive environment, by others named the business landscape or business environment, sets the conditions for the corporations to live by, Kotler et al. (1996). Therefore, we begin with discussing the prevailing market conditions, facing the corporations of today.
3.2 The competitive environment of today
- Have the recent development in the IT industry really altered anything?

During the last two decades, we have been witnessing an amazing development of the information technology. From the eighties with five computers worldwide, owned by huge corporations, to today when everybody use, work, and meet the technology in everyday situations. Many are those researchers, authors, politicians, scholars, and practitioners that have described how this major change already today has altered our lives to a great extent. Some think that the new technologies will revolutionize our life while others, for example Kanter (2001) argues that if we look in the mirror we have said the same about past technological innovations. Take for example the television which were said to replace the radio and the teaching machine which were to replace teachers. Even though most of them agree upon that the development of information technology has changed our way of life, they disagree of how and to what extent it has altered our life. For example, have the business environment changed so dramatically that we could talk about a ‘new economy’?

3.2.1 There is a new economy!

We now stand on the threshold of a new age – the age of revolution. In our minds, we know the new age has already arrived; in our bellies, we’re not sure we like it. [...] In this new age, a company that is evolving slowly is already on its way to extinction. Schumpeter’s gale of creative destruction has become a hurricane. Economic integration has blown open protected markets, deregulation has destroyed comfortable monopolies. The Internet has turned bricks and mortar into millstones. (Gary Hamel 2001, p 4)

3.2.1.1 The ardent advocates of the new economy

Some authors, for example Kevin Kelly (1998) and Gary Hamel (2001), have emphasized that the information technology development has reshaped the basics of the business logic. This had lead to new rules, new industries, entirely new products, and new ways for interacting and communicating with customers. As an effect, they mean a “new economy” has been created. Further evidence, according to Kelly, is that the basic economic cornerstones have changed, such as supply and demand, and economics of scale. While the “old” economy strived after creating value through scarcity, the new economy does the opposite through the so-called fax effect. The effect could best be described by the following example given by Kelly; one fax has no or a very little value, but the value of one more is increasing the value exponentially. In other words, the marginal utility is increasing, instead of decreasing, which economic theory has taught us is the normal case. Finally, Kelly argues that communication and not the technology is the driving factor in the new economy. He states that: “Because communication – which in the end is what the digital technology and media are all about – is not just a
sector of the economy, communication is the economy.” Kelly (1998, cover page). Kelly’s view is in a sense quite extreme. The question is whether the described changes will affect the whole economy, as Kelly argues, or just some part of it (or for that sake, any part of it at all). For example, the statement of the “fax effect” is based on the logic that a communication technology has no value as long as only one person uses it. This since communication always at a minimum involves two parts; a sender and a receiver. Therefore, even though the argument used by Kelly is true, it is in a sense self-evident. Because his reasoning is valid even when applied to the very basic form of communication, the use of language. It is not any use speaking a language if you are the only one who understands it, but as the number of people increases, the number of communication-possibilities increases exponentially. Secondly, Kelly assumes that the new product is based on a new technology, which uniqueness makes it not compatible with other technologies.

The question is now if these predictions can stand the test of the opposition’s arguments?

3.2.1.2 The opposition

Wait a minute! Before we rush off the cliff into the future, let’s catch our collective breath and pause for perspective. Many discussions of the new economy take place in a historical vacuum. Mention the Internet, and intelligent people sometimes act as if they have had a portion of their brain removed - the memory. (Kanter 2001, p 4)

Many scholars have made statements similar to Kelly’s, that there is an ongoing shift of paradigms in the economy. But they disagree on what the implications hitherto have been. To the representatives for the more cautious view we could probably include scholars like Peter Drucker (1993) and Kanter (2001). They argue that every generation always tries to put forward evidence that they are living in a more turbulent and interesting time than the generation before them. Further examples worth mentioning are Shapiro and Varian (1999), who argue that Kelly and other authors - with similar view of the information technology’s implications are wrong - regarding the reasoning about the new economy. The subject for their criticism is that although the economy of today has changed, it has not done it so radically that it would justify calling it a “new” economy. The economic rules, logic, and laws remains the same, we just apply them differently. Alternatively: “Technology changes. Economic laws do not” (see Shapiro and Varian, 1999, cover page). So rather than a shift of paradigms they argue that it is only the prerequisites which needs to be adjusted to the new environment.

3.2.2 And the winner is…!

In discussions like this one, there are no right or wrong opinions, no simple yes or no answers. As mentioned initially, scholars seems to disagree about which effects the recent development in the IT industry, and other related high-technological industries, have had on the whole economy. Most of them agree that the information technology have affected the economy, but they do not seem to agree upon if it really has been so
widespread that it has altered the economy and business environment to such an extent that we could talk about a new economy. This kind of disagreement in discussions often arises due to differences of opinions, for example the perspective on what you hold for facts, explanations, and driving factors. In this case the question is, if the changes in the environment have been created by the technology, or the other way around. This kind of causality related problems are often subject for discussion when trends and general issues of development are analyzed. Most often the reason is that cause and effect problems is so hard to analyze, due to the causality of a phenomenon is very complex. Take for example the ups and downs of the stock market. Often the causality is not linear, rather circular which makes them even more complex to understand. Examples of this kind of problems are the everlasting issues of: who came first, the chicken or the egg, and if the invention is a solution to a problem, or a solution looking for a problem. This latest issue has been the sad destiny of many great inventors throughout history since their inventions in the beginning were not perceived as anything useful. Not until long afterwards have the surrounding realized the innovation’s value. For example, the Wright brothers had no luck when trying to sell their invention, the concept of the airplane, since no one then saw any use of it.

The other main reason for the disagreement, besides the complexity of issues like this, could be that it is often very hard to try to analyze and forecast something which is still in its infancy. By this, we mean that most of the literatures have been written during the last decade extensive growth phase of the IT industry. To create a comprehensive picture some further perspective might be needed, which the current shakeout in the industry and economy is a colorful example of. Further, even though some claims that it is still too early to talk about a new economy, very few would disagree that the development in IT and the focus on production and distribution of information and knowledge have brought about, have affected many businesses. If we instead see the keen advocates of the new economy as visionaries who tries to convey a picture of what the near future has in store. Then, their message and arguments become more a forecast about how the recent development will continue to develop in the future rather than a description of the present state of the economy. Therefore, as often in this kind of literature and debates, it is not only two camps of opinions and views but also a matter of perspective.

Our only conclusion is that the economy and business environment has been influenced and affected by the development in of the information technology. Some claim the affects have radically changed the economic rules, logic, and laws of the whole economy and talks about a new economy, while others mean that it is just a few sectors this have happened in, rather than the whole economy. One sector where a major development in the economy has been seen is the service sectors. The intangible products’ and assets’ importance has increased in the world economy and today, the service-sector constitutes a far larger share of the total production value in the economy than just a decade ago. This change has most likely had a great importance for our field of study, the board of directors.

### 3.2.3 The age of the intangibles?

Intangible capital is nothing new. It has been around since the first day a salesperson established a good relation with a customer. However, then it was known as goodwill (Brooking, 1997). During a long period of time was the industrial society the prevailing
The board of directors as a strategic resource in small ICT corporations

paradigm. According to Rohlin et al (1994), it was characterized of the industrial production process; an idealistic way of how rational and effective production was organized and controlled. Furthermore, there were clear financial objectives and control-systems in which the human being was seen as a part of the production. Other keywords for the industrial society were capital, materialism, and the standard of living. In the beginning of the sixties visionary people began to talk about the “post industrial society”. During its development, researchers had many names for it, but are today probably best known as: ‘The new economy’ or ‘The information society’, where knowledge and information are the most important and prevailing resources.

The economic development of the last two decades, and in particular the one of information technology, have given us both the possibility and the tools for reaping the benefits of intangible products such as using IT to share and analyze knowledge and information. Today it goes more or less without saying that intangible assets are an important factor for most corporations and their strive for achieving competitive advantage (Brooking, 1997). According to Drucker (cited by Pemberton & Mcbeath 1995), Birchall & Lyons (1995), and Robbins & Duncan (ed. Hambrick, Donald C., 1988) has capital been replaced by knowledge as society’s basic production resource. Today the market economy organizes the economic activities around information rather than physical goods as in the industrial age. Furthermore, Peter Drucker shows in his book “The Post-Capitalist Society,” that “knowledge is replacing capital as society’s basic resource and that a market economy organizes economic activity around information” (Pemberton & Mcbeath, 1995 p 4). Even more importantly, he shows that nowadays are most organizations’ field of business the production and distribution of knowledge and information, rather than the manufacturing, inventory, and distribution of tangible products. Therefore it seems fair to argue that future-companies are characterized by the perception that knowledge is the most crucial success factor. The substance in the future-corporation is therefore to a great extent in the employed key persons’ competences and in the corporation’s customer relations (Stevrin, 1991). The implications of this are that the way of business change (Haynes and Hendrick, Lawless & Gomez-Meija, eds. 1990), for example since the product is based on services, they will be consumed simultaneously as they are being produced. Additionally, the customer is often directly involved in the development of the end product, this because a service has to be customized and is dependent on the environment it will interact with.

Even though most scholars agree upon that we have entered a post industrialized age, the so-called the new economy, some claims that in practice it is still the industrial age’s business values and rules that dominates. This according to Rohlin et al (1994) who argue that the industrial age’s major values are still valid in the new business setting. Especially they claim that the areas of corporate strategy and usage of resources, the operative business and the way of conducting businesses, organization and management is still the prevailing way of steering corporations. This is also highly affecting the use and view of intangible resources, according to Brooking (1996), who argues that today’s corporations do not know which intangible resources they have. Consequently they neither know the value of them, nor how to manage them properly. The importance of attend to this deficiency is getting very vital, especially considering that the information-based sector already occupies 15% of the total U.S. economy (Kelly 1998 p 3).

Just as the discussion about the new economy, there was also a discussion in the beginning of the service sector’s development about the current and future significance
of the intangible products (services) and intangible assets (human & intellectual capital). Both camps has its own’s ardent advocates. Some scholars claim they will marginalize the tangible products role in the economy, while others declare against this because they mean it is still too early to say. Our concluding opinion is that the advocates for the intangible assets, just like the ones for the new economy, overemphasize the intangible assets’ importance in today’s economy. This is the case at least if we analyze their research-results through the scope of the current business setting, because some scholars more or less claim that intangible products and assets will be the one and only ‘thing’ in the new economy. Of course has the focus on production and distribution of information and knowledge affected many businesses, but still we to a great extent manufacture the information and knowledge with the purpose of enhancing the tangible products. However once again, if we see the keen advocates as visionaries, who tries to convey a picture of what the near future has in store, then their message and arguments become more a forecast about how the recent development will continue to develop in the future. Therefore, in a long-term perspective it might be true that the age of the intangible assets are to come, especially if we take into consideration how the recent development of the service sector have been lately (it is well-documented that it counts for a larger and larger part of the total production). Therefore, as often in these kinds of literature and debates it is not only two camps of opinions, but also a matter of perspective.

3.2.4 The scope of the new economy and age of intangibles in the thesis

The significance of the new economy and intangibles can be discussed backwards and forwards, perhaps much due to the reasons given above. Despite the advocates’ and opponents’ disagreements about these two phenomenon, the debate point to the conclusion that the economy and business environment have been influenced and affected by the development of the information technology. In some sectors this change have been more noticeable compared to others. The ICT industry is probably the sector where the influences and affects have been the most apparent. We therefore initially see this industry as the most valuable to direct our thesis towards, which we will motivate in the following chapter.
3.3 Our field of study - The ICT industry

3.3.1 What is an ICT corporation?

To define what characteristics that constitute a high-tech/IT corporation could be quite problematic and hard to do. Because today it is possible to claim that almost every corporation has some part of their businesses which contains information technology or other high-tech elements. The crux with this definition-issue was discovered already in the late 1980’s when Ungson (eds. Lawless and Gomez-Meija 1990, p 111) wrote the following statement: “Defining high technology has been a bit problematic because the term has been broadly used to describe technological-related and emerging industries”.

Barney (2001) is another scholar who has commented the issue and in addition has given an insightful analysis of the cause to the problem. Firstly he alludes to the difficulties with theoretically stipulating appropriate boundaries of a particular industry. Because of this problem, Barney (2001) considers the decision of which firms to include and which to exclude becomes too arbitrary. Secondly, to be able to define an industry’s boundaries, a certain level of stability in technology and competition is needed. Barney (2001, p 8) considered this assuming static view was inappropriate in the beginning of the 1990’s, and as he emphasized:

Even more inappropriate in the twenty-first century, when traditional industry boundaries are being destroyed and when competition can come from numerous sources, not just from firms within the well-defined boundaries of an industry.

The business of corporations such as Volvo and Pharmacia & Upjohn are indeed involved in high technology and information technology. For example Volvo cars has its own IT section who delivers IT solutions, the question is if they are in the high technology, IT-, or Car- industry? A way to handle the problem is to further delimitate the industry; for example corporations within the software or Information and Communication Technology- (henceforth abbreviated ICT) industry. We have chosen to delimitate our thesis to just look at the ICT industry, because this enables us to get a more precise perspective and focus.

We define ICT corporations as: companies which main businesses are Information and Communication Technology-products and services.

3.3.2 What are the differences?

ICT corporations are highly affected by the changes the new economy and the age of the intangibles have given rise to. This is the main motive for us to choose this industry. Moreover, these corporations conduct businesses which could be argued to be among the strongest driving forces in the “new economy”. Because, as was noted by Porter a long time ago (1980, cited by Lawless & Gomez-Meija, eds. 1990, p 111): “High-technology industries are primarily driven by changes in technology that permeate all facets of the organization, this since while the capital-intensive industries face similar challenges in introducing new technologies into their products, changes are nearly not as extensive nor
The board of directors as a strategic resource in small ICT corporations

as revolutionary as they are in high-technology”. So even though the business environment has changed across most industries, it is probably most noticeable in the high-technology industry. The tendency that high-technology industries distinguished from other industries in terms of growth rates, technological diffuseness, and internal structures, was also noticed all back in the end of the 1980’s. See for example Ungson (eds. Lawless and Gomez-Meija, 1990). Other main distinguishing characteristics are highlighted by McNaughton (2001) who states that in comparison to traditional industries it has been facing a higher level of uncertainty and change, both technologically and strategically, and shorter and shorter product life cycles. These two main characteristics will now be investigated deeper, starting with the shrinking product life cycles.

3.3.2.1 Shrinking product life cycles – the all time problem

The discussion about that the product life cycles becomes shorter and shorter is nothing new. This because, already in the mid 80’s it was noticed that high-technology corporations’ products and services have shorter product life cycles compared to corporations in traditional industry, which Kotler illustrated 1985 (eds. Lawless and Gomez-Meija 1990, p 111) when he wrote:

The period of time between innovation and product delivery is relatively short, 3 - 5 years, with two years being not at all uncommon, and seven years being extremely long. In contrast, the product life cycles dishwashers and steels extend from 12 - 15 years.

McNaughton (2001) is in other words in good company when he today put forward the opinion that corporations in the high-technology industry have needed to learn how to shorten the development-process time and the time to market. Besides this, they needed to learn how to deal with the strategic uncertainty and pace of technological change. To illustrate how this development has escalated since Kotler’s observation 1985, we have chosen to quote two of the leading corporations in the ICT industry of today; Nokia and Microsoft. First, Nokia one of the leading telecom corporations normally calculates that a new cellular phone-model will have a product life cycle of three months. One additional example that puts this issue on the edge is given by another of the ICT industry’s giants; Microsoft. Now afterwards they have acknowledged that the success of the program Windows 95 hung on a single thread, since it was totally dependent upon the first three months sales figures (Carlsson 1997).

As the examples above have shown the extent and effect of this problem is merciless: it strikes big as well as small corporations. The reasons for this merciless problem are several, but the main thought seems to be the one put forward by McNaughton (2001). He argues that the reason to why the products’ life cycles become shorter and shorter is mainly due to accelerating pace of technological innovation.
The board of directors as a strategic resource in small ICT corporations

3.3.2.2 Strategic uncertainty and technological change

*The gap between what can be imagined and what can be accomplished has never been smaller* (Gary Hamel 2001, p 10)

Many scholars have put forward the opinion that corporations in the high-Technology industry faces a more turbulent environment, a higher level of uncertainty and change, both technologically and strategically when compared to traditional industries. See for example McNaughton (2001), Hamel (2001) and Kelly (1998). Like the discussion about product cycles getting shorter and shorter, there is also an ongoing discussion since the mid 80’s that the technological development has created a more turbulent and ever-changing competitive environment. Already in 1983 Riggs observed this tendency that high-technology industries face higher level of strategic uncertainty. To exemplify he mentions that "the transistor and the integrated circuit at the time of their inception, literally rendered existing technologies obsolete, and, in so doing, radically changed the basis of competition in the high-tech industry" (see Lawless and Gomez-Meija 1990, p 111). This tendency has also been observed by Kotler who in 1985 stated that: “Project innovations in high-technology create new markets when place into commercial applications. In this context, the pervasiveness of high technology products distinguishes them from other consumer and industrial products” (see Lawless and Gomez-Meija 1990, p 111). So when Bill Gates said that: “Microsoft is always two years away from failure” (Hamel 2001, p 11) it was not an overstatement about the competitive environment facing the corporations of the twenty-first century. Rather it was an insightful analysis of the consequences when the economic laws and logic is applied to the new economy, particularly the ICT industry. Because, as Gates said, it is not just the product life cycles that becomes shorter, but the strategic life cycles as well (Hamel 2001). The statement from Gates seems to be reasonable when considering it through the scope of Hamel (2001, p 7) who, somewhat rhetorical, claims:

> In the age of revolution, opportunities come and go at light speed - blink and you have missed a billion-dollar bonanza. […] We are witnessing a Cambrian explosion of new competitive life forms. Never has incumbency been worth less. Schumpeter’s\(^1\) gale of creative destruction has become a hurricane. Economic integration has blown open protected markets, deregulation has destroyed comfortable monopolies. The Internet has turned bricks and mortar into millstones.

The outcome of the turbulent environment in the new economy is that technological and competitive stability do not exist, according to Barney (2001). This change is likely to be more noticeable in the ICT industry, due to characteristics of the high technology industry. The telecom giant Nokia’s incredible development is a colorful example of how this technological-, strategic-, and competitive instability affects the ICT industry:

---

\(^1\) See further below about creative destruction
The board of directors as a strategic resource in small ICT corporations

Between 1994 and 1999, the number of mobile phones sold each year exploded from 26 million to nearly 300 million. At the same time, the technology changed from analog to digital. Motorola, the world leader in the cellular telephone business until 1997, missed the shift to digital wireless technology by just a year or two. In that sliver of time, Nokia, a hitherto unknown company, perched on the edge of the Arctic Circle, became the world’s new number one. A decade earlier Nokia had been making snow tires and rubber boots: suddenly it was one of Europe’s fastest growing high-tech companies. For Motorola, regaining its top spot will be a Herculean task. (Hamel 2001, p 6)

Kevin Kelly (1998) is another, by now familiar author, who have dealt with this issue. He makes the metaphor that competing in a turbulent environment is like walking in a mountain-chain trying to find the highest mountain. The corporation who gets to a peak at a mountain is the one who evolve its product so it is maximally adapted to the customer environment. Kelly further argues that in the industrial society’s relatively simple environment it was fairly easy to know what an optimal product would look like. Furthermore it was easy for the corporations to identify where on the stable horizon they should position themselves, according to Kelly (1998). This stable competitive environment in the industrial age is described well by Hamel (2001, p 5), that he is an ardent advocate of the new economy we guess is unnecessary for us to point out, and therefore should his prophecies be considered in the light of the oppositions arguments.

Out of the industrial age of progress came a world of industrial giants: Mitsubishi, ABB, Citigroup, General Electric, DaimlerChrysler, DuPont, and their peers. If they happened to miss something that was changing in the environment, there is plenty of time to catch up. The advantages of incumbency – global distribution, respected brand, a deep pool of talent, cash flow – granted them the luxury of time.

The opposite circumstances prevails for corporations in the new economy where it is hard to determine which mountain is the highest and what summit to aim for. Or as Hamel (2001) express it (when he continued the above discussion):

But in a the new industrial order change has changed. […] No longer is it additive. No longer does it move in a straight line. […] In the twenty-first century, change is discontinuous, abrupt, seditious, and a corporation misses a critical bend in the road may never catch up.

Further on one might raise the question if it is a sound strategy to spend a lot of effort with the aim to be the one who reaches the peak of a mountain first. Just to discover that when standing on the summit you realize there are several other mountains which are higher than the one you have aimed for. The continuation of the metaphor is that once you have reached the peak of the mountain you cannot climb any higher. What then could happen, and often does so according to Kelly (1998), is that the corporation will be an expert on a dead-end product or service. This argument is confirmed by several examples where corporations have manufactured the best product just before it demise, for example the Swedish corporation Facit who made the best typewriter ever but stood completely defenseless against the development of the PC. The explanation for their
failures was not that the corporations could not charge a premium price for the perfection, relatively competitors with the same, but inferior goods. It was rather that the specializations had given rise to a lack of perspective which constrained the corporation’s awareness and responsiveness to the environment. When approaching the mountain’s summit they raised their view and saw that the mountain chain contained another higher mountain; the PC, which satisfied the customers’ demands better. This lack of insight can be very devastating in the new economy; due to an outsider can move your mountain “just” by changing the rules. Sadly, there is only one way out, according to Kelly. The corporation has to devolve, i.e. be less adapted, less fit, less optimal. You have to go downhill towards extinction to acquire an opportunity to raise again, so-called “creative destruction” (Schumpeter cited by Kelly 1998). In practice, this is very hard to achieve since the whole organization, from employee to the top management team and the board of directors is working to strive forward and up. Furthermore, to refer back to the Facit case, niche strategies often leaves the corporations with heavy investments in a particular kind of products, which both decreases the strategic maneuverability and the awareness of the environment. To motivate an organization to turn around and start walking downhill with a heavy backpack is not the easiest task to carry out when they for a long time have strived to reach one particular mountain’s summit. So:

Somewhere out there is a bullet with your company’s name on it. Somewhere out there is a competitor, unborn and unknown, that will render your strategy obsolete. You can’t dodge the bullet - you are going to have to shoot first. You are going to have to out-innovate the innovators. Those who live by the sword will be shot by those who don’t. (Hamel 2001, p 11)

3.3.2.3 Additional motives

An other motive for us to focus our field of study to boards of directors in ICT corporations is the increased interest in literature and among researchers for strategic management and decision-making in high-technology corporations (Goel, 2001). Corporate managers, government officials, scholars, and strategy analysts’ attention have lately been attracted by the mutual effects of technology and competitive strategy in corporations, according to Shapiro & Varian (1999). Generally this interaction is considered to be important for the success and even survival of corporations in this industry. A growing body of research has emerged which investigates the various effects technology has in competitive markets. This due to “technology-driven industries assume a large role in national economies, and because technology affects competitiveness of firms and even countries in international trade” (Lawless & Gomez-Meija eds. 1990, p 185), a statement also put forward by Carlsson (2001).

Our tutors Anders Nilsson (assistant professor at Blekinge Institute of Technology, Sweden) and Sanjay Goel (assistant professor at University of Minnesota-Duluth, USA) have also had a major part and influence in our choice of field of study. Finally, has our interest toward the IT industry increased during our four years of academic studies at the Business Administration in Strategic Systems Management Programme at Blekinge Institute of Technology, Sweden.
3.4 Conclusion and main motives for choosing the ICT industry

Based on the review of the literature published about the new information society and age of intangible, it seems fair to argue that there are several opinions about the implications. And as usually when two opposite views is involved in a discussion, both have their points and lacks. However, most of them seem to agree that the society and business environment have changed, more noticeably and to a greater extent in some sectors of the economy in comparison to others. Corporations in this sector are finding themselves operating in a more uncertain environment where it is harder to predict changes in the competition. “Customers are becoming competitors, competitors are becoming partners, and unconventional competition is emerging” (Luftman 1996, p 5).

For the ones that has adapted their business strategies to the new technology, this major change has enabled them to take advantage in the age of the intangibles: Independent of time, place, and space they compete worldwide (Hancock, 2000).
3.5 The board of directors
Could they be the answer to the competitive advantage riddle?

Among all the possible research approaches available for studying how competitive advantage is achieved in ICT corporations (marketing, strategy, organizational theories, etcetera) we have chosen to investigate what significance the board of directors might have. So, why have we chosen to study the board of directors: what indications are there that they are of importance?

3.5.1 The boards of directors: Who are they?

The shareholders meeting is the highest deciding body in a corporation. However, the overall conduct of the corporation is delegated to the board of directors, and they are therefore next to the shareholders meeting the highest deciding body. Boards of directors represent a corporation’s owners, and are before the shareholders meeting responsible for ensuring that the corporation is governed properly between the shareholders meetings. Practically this implies two major tasks: to control and govern the business. The board is responsible for the corporation’s acquired connections, business, resources, and result, (see Arlebäck, 1997, and Malmström & Agrell, 1997). Hand in hand with this responsibility comes the authority and obligation to decide in issues of “great importance and unusual ones”, decisions such as long-term strategic development of the corporation. Boards therefore have a critical role in the governing and development of the corporation. This by “both ensuring a sound strategic planning process and scrutinizing the plan itself with the rigor required to determine whether it deserves endorsement, that the corporation is managed effectively” (Steinberg and Bromilow 2000,p 48). Consequently, most scholars agree upon that the fundamental responsibility for a board of directors is to set the strategic direction for the corporation.

Based on their legal significance and responsibility, the board of directors can be described as a large, elite, and episodic decision-making group that face complex tasks pertaining to strategic-issue processing. (see Forbes & Milliken, 1999 citing; Butler, 1981; Jackson, 1992; Milliken & Vollrath, 1991). Another good description is given by Farma and Jensen who have described the board as the “apex of the firm’s decisions control system” (1983:311 cited by Forbes and Milliken 1999).

3.5.2 Do they make any difference?

Strategic decision-making is the process by which top management makes its most fundamental decisions. Strategic decisions are ‘important, in terms of the action taken, the resources committed, or the precedents set’

(Mintzberg et al., 1976, cited by Das, T.K. & Teng, Bing-Sheng (1999)

Considering the importance of the board’s tasks and role in the governing and development of the corporation, it seems to be a fair starting point that how the board of directors attends to their responsibilities and obligations would have great significance for the corporation’s result and development. Because, legally the boards of directors are
The board of directors as a strategic resource in small ICT corporations

responsible to the shareholders for controlling and governing of the corporation, both operationally and strategically. With the strategic plan they signal to the shareholders that; “Among all the paths and actions we could have chosen, we have decided to go in this direction and rely upon these particular ways of doing business” (Strickland 1998, p 2). In other words, based on available resources and the competitive environment, they have made the decision to choose a strategic direction that offers the best opportunities for the corporation. This is further supported by the fact that the board of directors is the highest deciding body in a corporation. Since they are the top of the corporation’s decision system, they make decisions regarding issues of “great importance and unusual ones”, such as long-term strategic development for the corporation. Issues highly related to a corporations result and competitive advantage. Considering their importance Kimberly and Zajac (Hambrick D. (ed), 1988) find it surprisingly that little has been written about how the structure and behaviors of a board affects the corporation. If this depends on that the issue is of none importance or just that it have not received the attention it deserves, we could not judge.

3.5.3 The director’s role in strategy development

If the conclusions above are agreed upon, then what implications do this have for corporations (firstly how the new economy & the age of intangibles have affected the economy, and secondly, the significance of the board in ICT industry). Pemberton et al, (1995) states that for being successful the corporations need to obtain a relevant understanding of the nature of information as a resource, a credible and comprehensive understanding of information technology, and a management technique to govern it. The board of directors, who are responsible for the long-term development and the strategic decisions, needs to consider this new business setting. Prior to the role for a traditional board was mainly to protect and guarantee the growth of the owner’s capital. In this role, the strategic planning was the board’s responsibility, i.e. how to organize the corporation’s resources in the most efficient way, to achieve competitive advantage through economics of scale. However, the value in the new economy’s high tech corporations is derived from intangible strategic resources such as knowledge and information, rather than the tangible resources and manufacturing. The implication that follows is the need to adopt the strategic thinking to this new setting of ‘rules’. Due to this focus on knowledge resources, the board of directors’ role in strategic decision-making is to leveraging the intangible capital rather than tangible ones. Though the strategic resources of a high tech corporation is of a vague and amorphous nature they will be harder to govern in comparison to traditional manufacturing industries. In the words of Morgan (1999, p 15):

On today’s boards, directors are being forced to accept and practice higher standards; they must think very carefully about how theirs companies are directed and governed. Under the vociferous scrutiny of shareholders and inquisitive journalists, boards members can no longer accept the passive role of simply endorsing managements decisions and proposals, they must take responsibility for strategic direction and ensure that all issues that impact the company’s performance are effectively addressed.
Further signs that the boards on ICT corporations is of interest to study is given by Lawless & Meija (1990) who claim that high technology firms faces unique management challenges as they compete in industries that are at the forefront of new approaches to strategic management. So even though the question whether or not the board is important for the development of the corporation is nothing new, we see that the boards on ICT corporations faces other prerequisites and lives in an other reality than boards on traditional corporations does. The question then is if the ICT industry, due to its technological intensiveness and ever-changing characteristics, requires other skills besides the traditional ones (such as business experience, networks of contacts, specialists or generalists etcetera).

3.5.4 The end of the beginning

To conclude, the purpose of this initial discussion was to outline the business setting, the prerequisites, and the conditions in the ICT industry. Derived from this, what implications does it have for the concept of board of directors and their contribution to a corporation’s competitive advantage? As we have illustrated above is the board of directors per prevailing definition a strategic resource. This thesis is questioning its relevance under the described circumstances. The thesis is therefore trying to explore what the board of directors contributes with, that could justify them being a strategic resource.

To investigate this, within the scope of the competitive advantage riddle, is our purpose, delimitation, and field of study for this thesis.
The board of directors as a strategic resource in small ICT corporations

4 Methodology
How We Will Proceed from Idea to Written Text.

Theories are nets cast to catch what we call “the world”: to rationalize, to explain, and to master it. We endeavour to make the mesh even finer and finer. (Popper, 1959:59 cited by Priem & Butler 2001b, p 1)

Introduction

The quotation above we think is a good metaphor describing the process of writing a thesis, and the importance of methodology when doing so. In the beginning, we have an idea, a conception, of a phenomenon and how it would be like out there in “the world”. After that, we then try to figure out how we should approach “the world” and how to catch this conception/phenomenon. To be able to do that we need a basic understanding of the phenomenon, this to know what kind of net cast that would be the most appropriate one and how to construct it. Past conducted research and theories make out a basic net, out from which we endeavor to make our mesh even finer and more suited to our purpose. Hopefully, we finally have caught what we intended to.

Writing a thesis is in other words a process that takes a wide variety of skills in demand, all from theoretical knowledge of the subject to the skills of interviewing and writing. With all the respect to these skills importance the most crucial knowledge and skill is probably the knowledge of methodology. Insight in this field is a necessity to ensure that the result of the research corresponds with the initial intended purpose, i.e. that we have caught what we intended to and that the result actually is reliable. Therefore, we will next discuss how we have done the thesis and thereafter we will discuss those aspects of methodology that is of importance for our thesis.

4.1 Mode of procedure - How we practically conducted the thesis

The work with this thesis started with a general background research. We began the background research with a literature review to see what the fields of management and strategy had to say about boards of directors, and particularly boards in ICT corporations. In the initial literature and information review, we chose to search online databases like ABI, EBSCO, Brint.com, and BizEd after articles about the boards of directors. We also looked through past course-readings and some of the ‘famous books’ within business administration. Thereafter we had a meeting with our tutors and

---

2 Even though it was originally meant to describe what a theory is.
The board of directors as a strategic resource in small ICT corporations

presented a draft to a preliminary problem discussion. The work then proceeded with more directed information search and some initial interviews, in order to get a picture and overview of the phenomenon, the board, that we attended to study. After this six to eight initial weeks, we had a little less vague apprehension and understanding and we could therefore start a new round of literature research. This time it was more directed towards some fields which we in the past literature review had found to be suitable as starting points. We began with the field of corporate governance and the legalization of corporation (public limited company, plc). We also interviewed venture capital companies, incubator/isolette companies, and start-up centers. The purpose with these initial interviews was to get their view of the boards’ role in small ICT corporations. From that point on we in gradual stages searched for new perspectives to view the board from. Each added perspectives got it specific contents since we wanted to maximize the differences, i.e. to explore as many aspects and characteristics as possible (for further details about our selections procedure we refer to the coming methodology paragraphs). The selection of corporations and persons to interview was mainly based on corporations that we and our tutor thought could be of interest. We chose to interview two persons in each corporation, the CEO and one member on the board. The purpose with this was that we could create a “mini-case” of each corporation. Further, it also made it possible to get two perspectives on each corporation’s board of directors. The interviews had more a character of discussions rather than interview, since we just had some opening questions to initiate a discussion with the person. The questions were also a kind of checklist, so important questions in the interviews were not forgotten by us. To the analysis and conclusions, we brought those exposed and found characteristics that added something new, or was contradictive and as well those which explored further descriptions to those found by other perspectives.

This was a short practical description of how we have accomplished this thesis. Next follows a part which is more directed towards methodology.

4.2 The starting point for the thesis: A concretized problem discussion about how we look upon the field of study

The development and change in the business-setting, which we have outlined and discussed above, have lead to corporations are finding themselves living in chaotic environment characterized by high uncertain, complex, fragmented and ever-changing environment where markets shift, technologies proliferate, competitor multiply and products become obsolete almost overnight (Nonaka 1991 cited by Eneroth K. 1997, Stevrin 1991). One of the main driving forces behind this, as we and others see it, is the development of the information technology which have changed the business environment and the society, to such an extent that some calls it the new economy/the information society. Another major driving force of the past years economic development is the intangible products’ and assets’ increased importance in the world economy. Today the service-sector constitutes a far larger share of the total production value (GNP) in the economy, than just a decade ago. This change has most likely had a great importance for our field of study. Taken together with the last ten years development in the information technology, what does this then imply for boards of directors? This change is likely to have altered the prerequisites for the boards of
The board of directors as a strategic resource in small ICT corporations

directors to a great extent. As we see it, this logically requires that to be successful the corporations need to be very keen on observing and adapting to changing circumstances, such as new emerging technologies. As a consequence, corporations in the IT industry, whatever size, has to learn how deal with shorter product life cycles and technological and strategically turbulence. Moreover, to continue to be successful as a corporation the business setting has evoked a need to reduce uncertainty, which forces most organizations to work with strategic planning and thinking on a continuously basis. The requirement and skills of those responsible for the strategic decisions and the overall development of the corporation, in most cases the board, have therefore increased. For example the ability to learn, the skill to predict the market development, and implement suitable strategies, could be given as examples of characteristics that are vital in this ever-changing environment.

4.3 The choice of knowledge model

The problem discussion suggests that the prerequisites in the economy have changed. This new prerequisites have created a particular “reality” for the ICT corporations.

As we see it, our perception about the concept board of directors must therefore be revised and overlooked since the reality the concept describes may have changed.

In this kind of research, there are two optional knowledge models and ways of procedure to choose between: concept analysis or concept formation. A concept analysis often implies to study some theories and then test it empirically on the reality it is supposed to cover and describe. In this kind of procedure, the researcher could be said to be a model-user: he uses theories, models and concepts for analyze, grasp, and comprehend the reality. We have chosen the other procedure, which means we have the reality as knowledge model. This way of procedure means we look upon the reality and then create a concept, which describes this reality. With concept formation, we use the reality as a model, we work and strive more after understanding and describing the reality, by searching after and exploiting what characterizes the reality, rather than explaining it. This should then give rise to the creation of a concept of the reality.

What do we hope to generate with this chosen procedure and whom do we write for?

4.4 For whom do we write - Which actor perspective do we have?

Each model and concept has its specific field of application since it has been made with a specific purpose. Therefore we need to classify the purpose with a model, i.e. what type of model it is, before we could use it. Generally, a model is made to be used by two types of actors’, or two methods of application: the model-maker or the model-user. Further a model could be divided upon field of application: should the model be used to describe, understand, or explain something (Ingemund & Wiedersheim, 1994).
The board of directors as a strategic resource in small ICT corporations

Since we strive after model formation we have chosen to apply the model-makers perspective. We write for the knowledge creators, i.e. people doing research and others who strive after understanding and making models of the board of directors in small ICT corporations. With our explorative procedure we strive after describing rather than explaining the board. Therefore, we could not give deeper explanations; just descriptions of the reality we study.

4.5 The purpose of this thesis

What do we attend to do, what will the thesis generate?
It is our purpose that this thesis should generate a concept, or model, of the board of directors as a strategic resource in small ICT corporations. With strategic resource we mean:

The board of directors’ contribution to a small ICT corporation’s competitive advantage.

As said earlier we - by applying different perspectives - strive after to find out what influence the board of directors could have on a corporation’s competitiveness and development. In other words: What significance the board of directors has in small ICT corporations. Our purpose could therefore be described as:

By describing the look at the board of directors in ICT corporations, with an interdisciplinary and explorative method, we attempt to describe them as a strategic resource in small ICT corporations.

To explore this, within the scope of the competitive advantage riddle, is our purpose, delimitation, and field of study.

4.5.1 The need of data - how to tap the sources on information

Our research question and purpose creates a need of data. We then need to have a method for finding and collecting this data and information, which should help us to understand and answer our research question. What need of data does our research questions then create? In our problem discussion, we came to the conclusion that one explanation to the competitive advantage query could be the board of directors. Then, if we should be able to consider the board of directors in small ICT corporations as a strategic resource, what kind of questions do we then need to ask? We are of the opinion that if the board of directors should be regarded as a strategic resource, we must explore which influence/contributions a board of directors could have on a corporation’s competitive advantage. Given this research-question what need of data arises?

As we see it, we need to collect data that enables us to view the reality (the board of directors) from as many perspectives as possible. One reason for this we consider the anecdote: The Blind Men and the Elephant, tried to convey: If we are to describe a reality we need to assure that we view it by a way that allows us to achieve a good
overall picture/understanding of it. The logic behind this is that since we strive after achieving a description of the reality, in other words to create a concept, we need to collect data in a way that explores a maximum different qualities of the reality. Thereby, it is possible to create a concept which gives a comprehensive description of the reality, being as close as possible to the whole reality. Next we will therefore discuss how to collect the data we are in need of.

4.5.2 The different ways to gather information and data

4.5.2.1 The choice between a qualitative or quantitative method of research

According to Patel and Davidsson (1994), is the characteristic of what we want to know about the object we study the determining factor for which research method to use. The reason is that the research methods differ in many aspects. Thus depending on the type of research, respectively method (qualitative or quantitative) has its pros and cons and therefore being more or less suitable for usage.

Our purpose is to explore what significance the board of directors has in small ICT corporations, more precisely described as: What do they contribute with that could justify them being a strategic resource, which are likely to affect the competitive advantage of the corporation?

We have chosen to use a qualitative method to gather the data we are in need of. To motivate this we will now outline the main characteristics and the differences between the qualitative and quantitative method. What type of phenomenon each research method is the most applicable for measure and capture is discussed as well.

4.5.2.2 The characteristics of the quantitative method

“The quantitative method measures the amount of a particular quality. Thereby it can only stipulate common qualities between the two phenomenon, since its aim is to find quantitative differences, i.e. that one of the phenomenon has more or less of some quality which both of them must posses for a quantitative method should be useable (to find an answer to the research question)” (Eneroth, 1984). The foundation of the quantitative method is therefore that the phenomenon, or “the world”, are understood and explained by solely measure the relative quantity of some chosen quality, i.e. to apply a model to the reality it is about. Consequently, Eneroth (1984) argues that for having any validity a quantitative comparison must concern one and the same quality. Further on, for being applicable the researcher must be able to pick those particular qualities of the phenomenon that are likely to explain the aspect they are interested of, i.e. the purpose with the research. Since we consider there to be different signs that the current concepts of board of directors may not be valid to explain the reality of boards of directors in the ICT industry we could not use these concepts to explore our research

3 How the problem and purpose of the research is formulated.
question. Therefore, we do not regard that the answer to our research question could be explained by measure the amount of some particular quality. Thus, it seems like a quantitative method are not applicable in our case. If it should have been possible we would have needed a model/concept, created with the model-user perspective, which had found some particular qualities that we could apply to our phenomenon.

4.5.2.3 The characteristics of the qualitative method

The qualitative method attempts to find some quality that not both of the phenomena’s possess, and as well are typical for the one having it, according to Eneroth (1984). Thereby the qualitative method assumes that each phenomenon constitutes a unique combination of qualities that the other phenomena lack and seeks to uncover these qualitative differences. In other words, the qualitative method aims to expose a phenomenon’s particular qualities because its conviction is that it will explain the phenomenon. According to Ingemund & Wiedersheim (1994) the qualitative method therefore results in the formation of a concept about the reality it studies. Additionally Eneroth (1984) claims the main problem with a qualitative method to be to find those qualities that together constitute the uniqueness of a certain phenomenon. Due to this, a qualitative research is often explorative by its character.

Explorative
According to Eneroth (1984), an explorative research does neither aim nor try to test and measure to what extent a certain quality is represented by the studied phenomenon. On the contrary the purpose with an explorative qualitative method is to detect as many different qualities as possible, in order to collect maximally different data. To be able to achieve this the researcher needs to use methods that will expose him to as many varieties of the phenomenon as possible. Therefore we often have to do a strategic selection of the sources we tap on knowledge, this to increase the probability that we will expose as many as possible different characteristics. The reason why an investigation is conducted with an explorative character is that the researcher believes the problem/question of issue most adequately could be answered by view the phenomenon from an overall perspective (Patel & Davidsson, 1994). The connecting thought between the qualitative method and explorative research is that they consider the phenomenon is most adequately understood by view it from an overall perspective, which inclines trying to find as many as possible differences (qualities). The meaning of this could be described by the different implications the conception of representative selection have in the two research methods. For the quantitative method, it implies the need to collect data$^4$ that are representative for the phenomenon it studies, whilst it for the qualitative method and as well for the explorative one would result in the collection of an amount of redundant information. In other words, when already found qualities are beginning to appear in other objects, i.e. we have a quantity that is more than one of one and the same quality, then we could say we have collected maximum different data. This since the purpose with a qualitative explorative research is to maximize the differences, i.e. explore as many different qualities as possible.

$^4$ For the quantitative method the conception representative collection of data means the collection of an amount/quantity of the same qualities.
The board of directors as a strategic resource
in small ICT corporations

A qualitative and explorative method seems applicable since we are interested in uncovering what specific qualities the boards of directors have, which could justify them being a strategic resource that have a positive influence on the corporations competitive advantage.

4.5.2.4 Being confused? Here is some help!

To conclude, one could summarize the differences in the following way: Whilst a qualitative method search after qualities typical for a phenomenon and thereby separates it from the others, the quantitative method means that the typical characteristics, which make it different (i.e. the explanation of a phenomenon), are to be found in the quantity of a particular quality. Therefore, the first and major aspect that separates these methods is how the researcher practically chooses to gather the data and the method for analyzing it. One further major difference between them is their view of the world. According to Patel and Davidsson (1994), is the foundation of the qualitative method to view the world and the phenomenon from an overall perspective. That is, each destitute quality of the phenomenon is regarded as just one aspect of the whole “world”. Consequently, researchers using a qualitative method aim to continuously explore as many of the phenomenon’s qualities as possible (Eneroth, 1984). This comprehends well with the actor perspective and the purpose with our thesis.

4.5.2.5 Mode of procedure - how to do the selection

Above we said that: “the purpose with an explorative qualitative method is to detect as many as possible different qualities, thus to collect maximally different data. To be able to achieve this the researcher needs to use methods that will expose him to as many varieties of the phenomenon as possible. Therefore we often must do a strategic selection of the sources we tap on knowledge, this to increase the probability that we will expose as many as possible different characteristics”. How could we then do a selection that is maximally varying? Does it not require previous knowledge about our research question?
- Yes it does, therefore we have chosen perspectives gradually as the thesis have progressed. We therefore have had a continuous selection as new knowledge-needs have been discovered. Thereby we have been able to choose new perspectives, which partially are different in comparison to those that already are a part of the selection, and at least have some level of contact with the past chosen one.

Above we said that strategic selection requires knowledge, apprehension, and awareness about the phenomenon we are about to study. Further, we have above said that it is important to consider which purpose and perspective a model was created for since it affects our selection of information-sources and which data we perceives as valuable as well. Beneath this lays our frame of reference and perspectives, which is our collected knowledge, apprehensions, attitudes, and etcetera. What influence does then our frame of reference have?

5 With the expression: positive influence we mean that the board could both be a resource which supports and strengthen existing competitive advantage, and as well a source for achieving/creating competitive advantage.
4.6 The influence of our frame of reference and perspectives

When we have collected this amount of data about the reality we are about to explore, we need to have a method which will help us to analyze this data so an answer to our research question could be found. In our case, we need to pick those exposed qualities, explanations, and descriptions of the board that will describe this reality and allow formation of a concept. The theoretical perspective is about this (Eneroth 1984): to choose which type of data to go on with and which data that we need to pass through our ‘net’ (to reconnect the citation from Popper: ”Theories are nets cast to catch what we call “the world”: to rationalize, to explain, and to master it”). In other words, we need to choose a theoretical perspective which is our perception about which type of data that is important. Thus, according to Eneroth (1984) the theoretical perspective steer our attention against some type of data and pass by others. Therefore, before we discuss the different theoretical perspectives we need to discuss the influence of our frame of reference since it is our unconscious net cast.

As we described above, about which actors perspective to choose and the importance of understanding the purpose a model/concept was made for, it is also important to consider our frame of reference. As Ingemund & Widersheim (1994, p 12) say: ”Perspective, model, objects, and problems is personal in the sense they are influenced by knowledge, skills, values, attitudes, and what is going on in our surrounding”. In other words they are influenced by the investigators frame of reference. Further, in concepts’ formations and model-making the frame of reference acts as a filter, because we perceive the data we have collected through our frame of reference. The frame of reference could be said to be our explicit or implicit mental models of reality. Anell and Wilson (2000, p 1) mean that these mental models: allow us “to perceive certain aspects of the world, which are thought about, talked about, and acted about, while others are either left un-seen, as blind spots, or if seen, are considered irrelevant or insignificant, and therefore not worth thought, talk, and action”. Therefore they mean that our mental maps and models of the world produce the sense and non-sense we experience in life. However, the relationship between our frame of reference/mental models and our understanding of the worlds is a two way process. Our frame of reference do not only affect what we experience, our experiences also work the other way and produce our frame of reference, mental maps, and models. Logically Anell and Wilson conclude that these constructions of the world are inter-subjective, shared by many but not by all, which means that a group of people who share experiences could be a sub-world within a greater world. To exemplify we could take a widespread example from organizational research. Research conducted have found that occupational groups, for example marketing and production people, may not perceive, experience, understand, and describe things in the same way. Put in the same way with a well-known expression: “they do not talk the same language”.

Our frame of reference do not only affect or perception and limit our understanding, it also creates barriers between groups. This is often refereed to as the process of sense and non-sense-making. This process is also at work in research since there are different disciplines/sub-worlds in the academic world. Anell and Wilson (2000) mean that exchanges across these boundaries are rare, which might be detrimental to the progress
The board of directors as a strategic resource in small ICT corporations

of knowledge creation. What effect and importance will this have for our field of study and choice of methodology?

Anell and Wilson (2000, p. 1) mean, “competition mainstream thinking about competition emanates from neo-classical economics and that the contributions from research in other disciplines, such as business administration, have been meagre indeed”. Therefore was one motive for us choosing to view the board of directors from many perspectives as we thought that an interdisciplinary method would be the best way to ensure that we would detect as many as possible different qualities, thus to collect maximally different data. And, as the anecdote about the blind men and the elephant emphasize, depending on with which perspective and frame of reference we look upon the elephant, we perceive it differently. Therefore we have as earlier said, chosen six blind and very brave men which will explore what our elephant looks like. Each of them we are going to send by their own out in the wilds with the mission to observe the elephant, each from their own sub-world, perspective, frame of reference, notions, and models.

That was our last guest speaker for tonight’s lecture. So Ladies and Gentlemen, it is now time to call upon the expedition leaders who will end tonight’s lecture with a presentation of the six blind men.
The board of directors as a strategic resource
in small ICT corporations

4.7 The members of the expedition
- The six blind and brave men of ours

Through an elaborate and careful recruiting process we have chosen the following six men:

Number 1. First man out into the wilds will be Mr. Legislator. What we consider makes him to a particular qualified member is that he has published a book, *The corporate law*, which have had a significant influence and importance on the work of boards of directors. Another reason is that he tries to update his book to reflect the development of the board practice.

Number 2. When Mr. Legislator returns home we will send out Mr. Corporate Governance. On his list of qualification stand a long and faithful service in behalf of all shareholders. Through his long service he has set the guiding principles for the boards of directors agendas.

Number 3. Is Mr. Past Projects. This is a man who has a wide experience of board of directors and their importance for small corporations success and survival. He has worked with governments, scholars, and as well with corporate founders and owners, and tried to achieve understanding of how to develop corporations. He will hopefully be able to use his past experience to describe and understand the new reality.

Number 4. On number four’s business card stands the name Mr. Strategy. Expert at evaluating competitive advantage, how to out-compete competitors, and how to plan for achieving goals and visions.

Number 5. This man is a close relative of Mr. Strategy and his name is therefore Mr. Strategic Management. He has profit by his relative’s work by teaching people how to do the things Mr. Strategy tell them to do. Therefore he meets those people that struggle with securing that the corporation will live through the next assault-attempt by the competitors.

Number 6. The last member of our expedition will be Mr. Discussion. Instead of telling people what to do, as Mr. Strategy does, or telling them how to do it as Mr. Strategic Management does, he is an experienced therapist. He is especially skilled in listen to people and get them to consider and reflect upon their lives. His role in our expedition is that he will hopefully be able to speak those people we may meet during our journey through the wilds of the competitive advantage query

This is our six blind and brave men, each selected strategically based on their qualifications. It is our hope that each of the six blind men’s observations will have explored one part (quality) of the elephant, and that their stories of the journey will be worthwhile for you to read.

Happy reading, Your sincerely
/The expedition leaders
5 Mr. Legislator - The Board from a Legal Perspective

First out of the six men is the Legislator. By viewing the board of directors from the legal viewpoint he hopes to explore what the legal description of what a board of directors is and the significance for the performance and conduct of the corporation, we will begin this formal (the company law (ABL)) demands that a board has to follow in Sweden.\(^6\)

The board of directors is next to the shareholders meeting the highest deciding body in a corporation. It is responsible for the corporation’s acquired connections, business, resources, and result. The corporate law does make a dividing line between the operative and strategic responsibilities. So, even though the board has the overall responsibility for the corporation, is operative responsibility delegated to the CEO (AbL §8:3 §8:25). The board of directors is thereby legally responsible for overseeing the performance of the CEO and management (Young et al, 2000). This division of work requires that the board of directors is able to govern the corporation and control that the operational business is managed properly by the top management team. Therefore, have the legislators put a mutual responsibility through an obligation at the board to provide the CEO with guidelines and instructions. Then the other way around, where the CEO has an obligation to provide periodical reports and other relevant information to the board. To furthermore specify the responsibilities for the board of directors, they are entitled to decide in issues regarding decisions of “great importance and unusual ones”, such as long-term strategic decisions. The decision making process itself is also regulated. The board of directors has to have at least half of the votes of the board members to be able to make a decision, but obviously the more votes a proposition receives the more authority is acquired in the board’s action and in their decision making.

As said before the shareholders meeting is the highest deciding body (AbL §9:1), and they are the ones who appoint the board of directors as well the auditors. The auditors are a control unit for the shareholders meeting and are assigned to monitor the CEO’s and the board of directors’ actions so it complies with the mandate given to them (AbL §10:3). A problem that can occur is that a member of a board should represent all shareholders but might have been appointed by a certain owner- or stakeholder- group in the corporation. A conflict between these is neither morally nor legally allowed (AbL §8:20).

---

\(^6\) Most of the interpretations of the corporate law (ABL) are from Arlebäck (1997) and Malmström & Agrell (1997).
The company law in Sweden leaves quite a lot freedom of choice for the corporation to decide what demands and obligations the board will have. The formal criteria are for example that the candidates for the board have to be allowed to conduct businesses (AbL §8:9) and a candidate can at the most be appointed for a period four years at time at the board (AbL §8:10). Then it is up to the board to decide what kind of experiences, knowledge etcetera that is needed for a favorable development of the corporation.

To conclude, Mr. Legislator has on the one hand put a heavy responsibility on the board of directors, but on the other hand left a lot of ‘open areas’ in the legislation where the board can choose both how and to what, the board could be used for. Even if the corporate law is very freely stipulated, when considering the discussion in the problem discussion about the turbulent environment, some questions emerge about whether it still is in force. Is the corporate law legislation dynamic/flexible enough to reflect the changes in an industry, for example the ICT, and as well relationships over industry boundaries? This seems to be a fair question to ask due to laws most often are created reactively, and not proactively. Changes in the legislation, changes in existing laws or the stipulation of a new one, often occurs when a situation has been known to the legislator, or as in general terms often said “Everything is allowed as long it is not forbidden”. However, in this case it works the other way around. There might be conditions in the ICT industry that make the current corporate law work as a brake block, instead of supporting the actors in the economic system and in the society.
6 Mr. Corporate Governance

Introduction

In this part Mr. Corporate Governance will explore the board of directors through his perspective. The chapter is divided in two sections. The first section is an introduction of the academic theories that are attempts to explain the board of directors’ role and basic drives. These theories are well established and there have been written a lot about these theories. We know it is probable that we have missed some essential research. The second section in the chapter will have a more practical/empirical character, which means that the material is mainly based on studies of the corporate governance subject. For those familiar with the subject there will be materials from both before, during and after the so-called corporate governance movement. For those of you not familiar with the subject, corporate governance looks at the resources needed to get a successful board rather than scrutinizing the role and the drives of corporate governance.

6.1 Academic theories

6.1.1 Contract theory

Contract theories are a generic term for theories which argue that human relations can be seen as contracts. This since in human relations just like contracts, is the rights, criteria for evaluation and compensation given. These attributes are preceded by negotiation and afterwards followed by supervision and control (Collin 1990 cited by Kärreman 1999). Most of the following theories (agent-, transaction cost-, and resource dependency-theory) originate from this perspective. To make the view more tangible, the corporation could be compared to an arena (or market) for contracts where individuals emerge together. One example is stockholders which through this perspective is viewed as contract owners, whose rights and duties are defined by negotiations at the time of the contract’s construction.

6.1.1.1 Agent theory

The agent theory is the ruling research theory used in evaluating the relationship between the board of directors and the top management team (see Donaldson 1990). The core of agent theory is the relation between the principal and the agent (Farma and Jensen, 1983; Jensen and Meckling, 1976, cited by Young et al 2000, p 279). This relationship implies that one party (the principal) hires another party (the agent) to perform some task. The agent is given the authority to act on the behalf of the principal,
The board of directors as a strategic resource in small ICT corporations

in this case representing the principal in the decision-making process (Jensen and Meckling, 1976 cited by Young et al 2000). In legal terms and as well in the everyday life commonly more known as a letter of attorney. Put differently in the words of agent framework, the boards of directors “[…] serve as a surrogate for the corporation’s owners; the CEO is the board’s agent” (Baysinger and Hoskisson, 1990; Farma and Jensen, 1983 cited by Young et al 2000, p 279).

One of the agent theory’s main assumptions is that if the decision-makers in a corporation do not both have executive power and are risk carrier, there will be problems in the decision-making (Farma 1980 cited by Kärreman 1999). The theory suggests that this mode of decision-making (when the management is not the owners of the corporation) can imply a non-favorable situation due to different interests in the corporation development. Therefore the theory suggests that this constellation cannot maximize the utility for the two parts and thereby not for the whole corporation either. However, is the separation of ownership and management an empirical observation of objectively character and do not imply anything negative for the governing of the corporation, according to Kärreman (1999). Therefore, the agent theory instead tries to put forward an explanation why this separation works effectively, instead of visualizing shortcomings in the organizational form.

The first explanation of importance for the agent theory is the view of ownership. The theory states that ownership is of no importance and instead the corporation is viewed as a meeting place with both written and unwritten contracts (Farma 1980 and Jensen and Meckling 1976 cited by Kärreman, 1999). An additional implication is that the agent theory does see the corporation as neither an entrepreneur nor gathering of individual, rather a place where goal is created through the process acquiring good mix of different kinds of contracts. The risks involved, that it implies investing, are taken for the opportunity to be able to get a piece of the profit in corporation. However, compared to other contract owners, such as employees, are the owners not a prioritized stakeholder, because legally are employees, banks etcetera compensated before the owners. Consequently there is a risk that when it is time to compensate the owners there might not be any resources left for them. Therefore, according to agent theory is risk takers, i.e. the owners, the most dependent part on the decisions made in a corporation. In compensation for risk-taking, they are offered an executive post for example in the board of directors. From this post they are able to monitor and control the corporation and thereby get a greater insight in the corporation compared to other contract owners.

The second main explanation the theory gives is that the separation of ownership creates a unique kind of decision process. This process can be divided into two functions; decision control and decision management. The decision management is the one to stipulate the business plans for the corporation, and the decision control is the one to decide if these plans are suitable for the corporation. If adding this to the risk-taker discussion above, it will imply that the agent theory suggest that it will also lead to a decision-system where the decision-management and control are also separated (i.e. the risk-taker and decision-maker is separated). The agent theory claims that this constellation can imply costs due to supervision and organization of contract possessed by agents with conflicting interests (Farma and Jensen 1983 cited by Kärreman 1999). The control function of the board is of great importance because if the control function is not effective, the decision-management could make decisions without considering the interests of the risk-takers or even against their interest. Therefore, to be effective it also
The board of directors as a strategic resource in small ICT corporations

implies that the decision-levels have to be separated. Adding the organizational perspective, most organizations have a hierarchically configuration to a greater or lesser extent. If adding the separation argument, it would imply that the function of control is superior the management one. However, who carries out the control function, the agent theory considers being irrelevant. The theory emphasize only that it have to be carried out by somebody, according to the agent theory, some type of form or top management, a board of directors, or other group constellation. This because the agent theory argues that it does not have to be composed of risk-takers, but with people from the top management and outsider individuals especially skilled in decision-control.

In other words to summarize, the separation is attained and maintained by decision hierarchies where the superior one is controlling the lower one. Secondly the board using its control on the corporation’s most important decisions to “govern” the top management and finally creating motivating settings for mutual control within the organization (Farma and Jensen 1983 cited by Kärreman 1999).

Criticism of agent theory
The criticism of the agent theory has been quite extensive (see for example Donaldson 1990). We have chosen to only mention the most essential of the criticism aimed at the agent theory. Firstly, the agent theory has been criticized from the contract-theoretical perspective (Williamson 1983, 1985, 1996 see Kärreman 1999). Williamson claims that the theory does not consider the affects the capital market could have, when putting together a board of directors, i.e. that the expectations from the capital market leads to that certain people are elected. We do not agree with Williamson since we consider it impossible to separate the principal (the shareholders) and the capital market. The reason we consider them being inseparable is that the capital market is the owners of the corporation, and thereby the same. Additionally, Williamson argues that the agent theory do not take into account the organizations’ history. Williamson emphasize that since history has a great influence of how a corporation is governed and its ability to handle changes in the governing and organizational structure as well, it is an important faultiness, which the agent theory do not take this in consideration. Secondly, agent theory has been criticized for not explaining the differences between big and small corporations in a satisfying manner, in respect of the separation of decision management and decision control. The criticism is based on empirical findings about that in small corporations are the management and control roles often not separated. Thirdly, since the agent theory has contract markets and a single corporation focus as its starting points, it has been accused by organizational researchers and others (see Donaldson 1991) for neglecting the microenvironment and the organizational research conducted. Thereby the agent theory simplifies or even disregards complex factors, such as: the environment, trust, norms, and tradition of contracts. Put differently, the agent theory is considered to have a too narrow perspective since it only deals with the relationship between the principal and the agent, and do not view it in relation to the other important factors.

Lastly, the agent theory has been criticized for being narrow-minded since it only discusses the relationship between decision-control and decision-management (the economic logic behind the constellation of principal and agent). Researchers focused on more human factors, emphasize that it is important to remember that the agent (the people on the board) are individuals which are affected by factors such as personal circumstances pride, fear, reputations etcetera. A more specific example is that the
The board of directors as a strategic resource in small ICT corporations

people in the top management team are working at a market where reputation and past performance could be vital for future management posts (Farma and Jensen 1983 cited by Kärreman 1999).

The implications for the board

Due to different circumstances are often the ownership and the management of a corporation separated. The agent theory suggests that the risk takers’ interests could be secured by an agent-principal constellation (Farma and Jensen 1983 see Kärreman 1999). Therefore the agent theory emphasize that the board of directors- as the risk takers agent- should be the highest deciding body in a corporation. The board of directors, as the apex of the corporation decision and power hierarchy, therefore needs well-skilled people who could secure the governance and control of the corporation. The agent theory does not talk explicitly about who in reality could be an agent, in other words who is suitable for the job. Who is on a corporation’s board vary (the composition of insider, outsider, owners) from corporation to corporation depending on country being empirically studied, due to differences in legislation, culture etcetera (Forbes & Milliken 1999). Nevertheless Forbes and Milliken (1999) and Lynne (1996), as representatives of the agent theory, claim that a high portion of outsiders generally have a positive effect at some board functions (such as financial performance), but on the other hand it could have a negative impact at other board functions, which is outside the scope of agent theory’s rational framework. Therefore you could claim that the arguments of the agent theory’s applicability and validity to be questionable. However, according to Kärreman (1999) is it not important who is a board member as long as they have the ability to exercise the decision control task. It is questionable though if the idea of decision control function and independence works in practice/reality, as Kärreman argues. An example of this is the process of being elected/chosen to a board where some relationships exist, in one way or another, because then the independence can be questioned. Since the theory does not address these issues/processes, it is not enough to explain the functions of a board by solely using the agent theory. Other theories have therefore evolved to which strives to deal with these issues.

6.1.1.2 Transaction cost theory

The transaction cost theory is just as the agent theory based on the contract-theoretical perspective of the corporation and the hierarchy arguments of the board. Despite that the starting points is common for them they have different scope of studies. Whilst the agent theory focuses on the principal–agent relation the transaction cost theory focuses on the transactions between the corporation and its stakeholders (Williamson, 1996, see Kärreman, 1999). The transaction cost theory first emerged 1937 and was formulated by Coase, with the purpose to explain why corporations exist. He came to the conclusion that corporations exists, since economically it is more efficient to have an organizational unit, a market, which handles and coordinates the transactions that take place between buyers and sellers in the marketplace. The logic behind this is that the cost of finding and stipulating the relevant price on the market for a commodity, and to find a seller or a buyer, the so-called information cost, decreases exponentially with increasing number of actors on the marketplace. This reasoning could be applied to understand other kind of relationships where contracts are used and where some exchange takes place. A
transaction cost occurs due to negotiations and adjustments of contracts. The following
two fundamental assumptions also contribute to increase the cost. Firstly, individuals are
bounded rational, they do not always make the most rational choice. Secondly,
individuals are greedy and cannot be trusted to stand up for their part in the contract.
These transactions, the exchange of merchandise at a price, causes costs since the actors
needs to supervise and control that the other party fulfill his commitment according to
the contract. Put in the words of transaction cost theory, the control structure rules and
norms are what protects the current transactions in a competitive environment, according
to Kärremann (1999). If applying the transaction cost theory on a board of directors,
from a stockholder’s perspective, then the board of directors needs to have different
qualifications to be able to handle occurred transaction costs. The transaction costs occur
from the corporation’s relations (transactions) with other actors in the market. If the
stockholders have different prerequisites then they could not be viewed as a
homogeneous unit, rather as actors that have different intentions, objectives, and
behaviors with their ownership in the corporation.

Criticism of transaction cost theory
Most of the contract perspective’s criticism that was aimed at the agent theory’s view on
human relations has also been leveled against transaction cost theory. The narrow-
mindedness in both agent and transaction cost theory (to just focus on those factors that
are of interest for the theory and the disbelief of shareholders being greedy and not
standing up for their part in the contract) has been criticized by Perrow (1986 cited by
Kärreman). He considers it is wrong to not include any positive human behaviors.
Further, Perrow question the main thesis of the transaction cost theory: that
organization-changes are carried out due to a change in the transaction costs. He argues
that rather the main cause for organizational-changes is differences in purposes and
motives by those involved.
Application to the board
The board does not have any specific function in the transaction cost theory as it has in
the agent theory. Through the transaction cost theory perspective is the board’s task to
protect and secure that shareholders investment/money is used in an appropriate way,
that investment decisions are rational and sound (Williamson 1995 see Kärreman 1999).
There are some normative principles regarding the composing of the board of directors
as well. The main principle is that the control in a corporation should be exclusive for
those who supply or finance transaction-specific investments. It requires a hierarchical
structure to protect the transaction-specific investment, according to transaction cost
theory. By hierarchical structure means that the board is superior the corporation’s top
management team. Further, it implies that the shareholder does have ascendancy over
the composition of the board of directors.

6.1.1.3 The Stewardship theory
The stewardship theory strives after finding an answer to the criticism regarding interest
conflicts, which have been leveled against the agent and transaction cost theory. The
theory is influenced by sociology and psychology, and one of its cornerstones is that
managers’ behavior is affected not by one but many factors. The sum of all these
motives leads to the shareholders’ and managers’ interests are coinciding. Behavior motives that might affect the managers are for example; the need to perform well and get appreciation, the satisfaction of making a good job, respect for the leadership and ethics and morals. Therefore the managers will be more of stewards rather than opponents as in the other theories. The stewardship theory is more a theory about managers rather than the board, which is a contradiction to the other theories. As it is assumed that the management by itself works for the interest of the shareholders, the role of the board will then be more of management empowerment rather than control. Furthermore implicitly the theory states that the board of directors should be composed of insiders/managers, in order to minimize conflicts.

**Criticism of stewardship theory**

The stewardship theory says that there are not any controlling need between the board of directors and the top management team. If this is the case, then one might ask what other functions the board have and if a board is needed. This, the theory do not give an answer to. Further, according to the theory, the board should be composed of insiders/managers. Why do you then need a separate unit, besides the top management team?

Criticism has also been leveled against the perspective of the human being. The theory says that the human being is complex and has more drives than its self-interest and greed. In fact, humans are driven by positive factors. To ignore these two negative factors are as equally naïve as claiming the two negative factors rules alone according to Kärreman (1999).

### 6.1.1.4 The Resource dependency theory

If an organization should be able to cope with the needs and demands from its environment, it has to be able to handle the resources that affects the organization. Consequently, to survive, the organization has to secure its resource dependency (Pfeffer and Salancik 1978 see Kärreman 1999). The resource dependency theory is more of an organization theory, which focuses more on the relations between the organization and the environment. Its basic hypotheses is that an organization cannot entirely control the resources it is in need of, and therefore strives to gain as lasting and reliable relations as possible. The drawback is though that it creates a dependency which will reduce the organization’s ability to respond to changes. The theory advocates that leadership in organizations is about handling this dilemma. This because the relationship with its environment, to achieve sustainable survival boards has to a greater or less extent outside characteristic and is therefore suitable to create important relationships according to the theory. This also implies that resource dependency theory has implications for the composition and role of the board of directors. If a board member is member in more than one board (so-called interlocking directorship), he will be a link between these corporations. According to Ornstein (1984 see Kärreman 1999), such link can create mutual benefits for the involved parties by exchange of vital information and a base for inter-organizational coordination.
6.1.1.5 The Stakeholder theory

The corporation’s relationships with its environment are also, just like the resource dependency theory, the starting point for the stakeholder theory. The difference is that the stakeholder theory focus on to what extent the environment (stakeholders) has legitimate demands of influence at the organization. Freeman (1984 cited by Kärreman, 1999) defines a stakeholder as an individual or group that have influence, or is influenced by the corporation’s business. Examples of stakeholders are employees, customers, suppliers, and the state. The essence of the stakeholder theory is to determine and stipulate whom in the environment that is qualified as stakeholder to the organization, and therefore require the organization’s attention. Numerous authors and scholars have presented lists of stakeholders, but the message from the stakeholder theory is that the corporation should manage and look after its relationship with those shareholders that are crucial to the corporation (Brenner 1993, Bowie 1988, Lantry 1994 cited by Kärreman 1999). However, since each corporation is unique it is in the end up to each corporation to delineate and determine who is an important stakeholder. From the stakeholder perspective, it is important for the top management team to consider different individuals’ and groups’ interests and influence on the corporation’s decision-making. Since the board represents many stakeholders’ interests, it is the board’s role to compromise and negotiate between these by stipulating guidelines for stakeholder interest and continuously coordinate these. In addition to this, the board of directors should set the long-term goal (Hung 1998, see Kärreman 1999).

Criticism of the stakeholder theory

The stakeholder theory is a normative theory and explains quite well that discussions on the board are most likely affected by stakeholder opinions (Wang and Dewhirst, 1992 see Kärreman 1999). However, Sternberg (1997 see Ibid) have put forward criticism since the theory does neither contribute with better management principles nor to more successful corporations. Nevertheless, it is a reminder for corporations about their social responsibility and its importance for different stakeholders.

6.1.2 Analyses of the theoretical perspective of corporate governance

The theories above are trying to explain the role and use of the board of directors. It seems like the board is a quite complex phenomena and the theories has obvious problems to explain it satisfactory. We think this problem might occur due to that boards in different environments have different prerequisites. In some industries, for example mature ones, the task for the board is often about gaining profitability through economies of scale in a highly specialized, controlled, and formal organization working in an increasingly stagnating market. This compared to new industries which often are characterized by high uncertainty in the market and have an informal organizational configuration. These two examples highlight the difficulties with trying to generalize the role and purpose of the board. Maybe it could be done, but the risk is that the conclusions would be so trivial it would be of no use. Instead, it would be more interesting to emphasize what kind of characteristics that characterize a well functioning
The board of directors as a strategic resource in small ICT corporations

What resources does the board of directors need in order to be successful? This is what the corporate governance concept tries to ascertain.

6.2 The Corporate governance concept

The corporate governance concept was first developed and applied in the United States. To describe the corporate governance briefly, it is about how to govern a corporation through a shareholder perspective. The board of directors is the owner’s representative to secure their interests (Young et al 2000; Lynne 1996). They are thereby responsible on the owners’ behalf that the corporation is managed effectively. More precisely it is about the relationship between the top management team, the board of directors, and the corporation’s shareholders. However, it does not explicitly say anything about who should govern. Consequently, corporate governance is about the relationship between on the one hand the owners who have invested venture capital, and on the other hand the corporation itself. Bo Berggren (retired chairman of Stora (today StoraEnso)) cited by Rolf H. Carlsson (2001, p 33) described this very well at an OECD seminar in February 1995 as; “There are actually only two externally defined levels – the owners and the concrete operation of a business. How we choose to organize the relation between these two levels, how corporate governance is organized, how accountability is demanded, varies between the countries and is reflected in different institutional arrangements.”

However, since the mid-1980s, boards have often been criticized for not fulfilling their responsibilities which is the core of how the corporate governance movement started. To be able to create a deeper understanding for the development of corporate governance until nowadays, it is vital to have some knowledge of how it emerged from the effort of CalPERS7 (California Public Employees Retirement System).

6.2.1 The CalPERS story

In 1984 Texaco was subject for a possible take-over. The Bass Brothers had acquired a significant minority holding in Texaco with the objective to later make a bid for the whole corporation. The management and board of directors, which were dominated by members that also were involved in the executive management, saw this as a threat to their own positions. To prevent the take-over they bought back the shares from the Bass Brothers at an exorbitant price, a so-called greenmail8 operation. A major owner in Texaco, CalPERS, was very annoyed at this decision, firstly because the deal “robbed” the other shareholders by the reduced net value of the corporation, and secondly that this kind of action was possible to do at all. CalPERS could not do anything about this particular affair, but many argue that this case triggered the whole American Corporate

7 CalPERS was in 1984 one of the major public pension fund and is today the largest one in the USA, with more than US$ 160 billion in total assets.
8 Greenmail: "The practice of buying a large amount of stock in a company in order to threaten to take over control of the company if the stock is not bought back from the buyer at an inflated price. (green (money) + (black) mail), quote from Webster’s Encyclopedic Unbridged Dictionary of the English Language, 1989 edition. Portland House, New York (cited by Rolf H. Carlsson 2001)
Governance movement. The first action taken by CalPERS was to make a resolution that stated that as a long-term investor, they would not accept actions similar to the Texaco case. To be able to do this they used their major influence at the shareholders meetings to force through unsatisfying states of affairs in the stock market and corporations. Besides the Texaco case CalPERS wanted to deal with issues such as, the boards' dependence of management, the competence and appointment of the boards, the boards'/managers' salaries and incentive systems. CalPERS did not settle with just trying to affect the organizations, they begun to work together with two other pensions funds as well, in order to be able to conduct lobbyist activities with the legislators. The purpose was to put forward the shareowner interest in the legal perspective as well.

Furthermore, CalPERS made the strategic decision that they should direct their action at the board level instead of trying to achieve changes in the operating business. To achieve this the board had to be independent from the executive management and the competence enhanced. In 1992, a milestone in this development occurred when the chairman of GM, Robert Stempel, was dismissed due to incompetence. This event, to questioning and dismissing board members and executive management - also known as the boardroom revolution-, is said to have been the starting signal for the corporate governance development in United States of America. A few examples of corporations that were affected are Kodak, IBM, and American Express. Independent research done afterwards have shown that this purge had a positive affect on the corporations' performance. Over time has the method of evaluating the top management developed, and today has corporate governance gained legitimacy for its viewpoints and actions. Finally, every year CalPERS makes a list of approximately ten corporations performing poorer result than comparable companies. These corporations that are selected for action is published on The Focus list, perhaps more commonly known as The Shit List due to that nobody wanted to be on it, and still does not want to be.

### 6.3 Corporate governance and culture

The argument and development of the corporate governance movement shows that a well functioning board of directors is favorable to a corporation. A thing to remember in this concept thinking is that it is affected by the cultural setting. How you govern a company in Japan might be quite different from how you govern in for example Germany. However on the other hand, they say there are some areas that are universal such as knowledge, experience etcetera. So, the similarities in corporate governance are of how to get to success and the dissimilaritys are about how you do it.

Our thesis is written from a Swedish perspective and therefore will not cultural differences be discussed in the thesis. However, is the Swedish perspective important to remember when interpreting the findings. Corporate governance has proven that the styles of governance culture can be put in groups and thereby should the result of this thesis be valid for some other countries as well, such as Denmark (Hambrick, D. C. page 67 and forward, 1988). Some corporate governance authors, there amongst Carlsson, discusses what will happen when corporations work on a global level. What is the most appropriate governance model when acting globally? Will there be a global governance
The board of directors as a strategic resource in small ICT corporations

culture? Due to this relatively new discussion few answers have been given. Therefore will we not address conclusions which involve the applicability to other cultures.

6.4 Corporate governance and the task of the board of directors

The most central issue in the corporate governance development and discussion is the governance issue. As said before the board of directors has been put in the central role to control and govern the corporation on the owners’ behalf. Most scholars agree that one of the fundamental responsibilities of a board in this position is to set the strategic direction for the corporation (Ross 1996, page reference unknown). We will now look a bit closer at the two main tasks that the board of directors have, with the help of the conducted research by Nielsen and Lekvall (1999).

1. The governing function
   a. The board of directors as a strategic resource
   b. From governance to implementation
   c. Governance requires follow-up

2. The controlling function
   a. Controlling essentials
   b. React and act in time

Since these functions are related and dependent on each other they will be treated as a whole in the following discussion.

The main task of the board of directors is to stipulate the corporation’s goal and vision, elaborate the vision, make strategic decisions, give directives and allocate resources, and finally to follow-up the result. Consequently, one of the most important tasks for a board is to work with strategic important issues, i.e. how to govern the corporation in the long-term perspective. A prerequisite to be able to make strategic decisions is that the board is aware and well-orientated toward the surrounding world. That is to be observant at the industry and market development. What threats and possibilities are there? The process to this strategic decision first involves, according to Nielsen and Lekvall (1999), that the board of directors must have clear and measurable goals as starting-point when the corporation’s strategy is discussed. Further on, Wright (2000) argues that all business objectives, at any level in an organization, have to be SMART (Specific, Measurable, Achievable, Realistic and Time based). If an objective is not SMART the corporation will not be able to monitor, measure and control whether or not the business is developing as planned. Therefore is the process of stipulating and adjusting the goals an important task for the board of directors (Steinberg & Bromilllo 2000). The importance with goals cannot be push enough for, because without goals a corporation cannot be governed in a focused way. Additionally, are goals a tool to procure the board of directors and owners demands on the operative management and the employees. One of the board’s most important roles as strategic resource, claims Steinberg & Bromilllo 2000, is to determine and modify the corporation’s goals and strategy. Therefore is the ability to analyze, have an opinion, and to give directives characteristics that is a
necessity for the members on the board. Furthermore, the ability to prioritize what has to be done, what result it should generate, what resources needed and guarantee that these are accessible, are also vital. However, some researchers argue that the board meetings are not a suitable forum for strategic issues and corporate development, according to Steinberg and Bromilow (2000). This because a board meeting is not enough focused since the meeting agenda cover too many other topics. The authors suggest that a “special board level strategy meeting” is needed to handle this shortcoming.

6.4.1 The boards role in corporate strategy

A prerequisite for the board of directors to be a strategic resource is that either their decisions is implemented and generates result, or that they are procuring knowledge and experiences they indirectly guide the operative management and employees in their complex decision making. For the board of directors it is an important competence to be able to combine both an internal and external perspective, since the ability to choose and match the external possibilities with the internal strong resources is important, in order to achieve the stipulated objectives. The members of the board are therefore expected to have past experience and also being well informed about the surrounding environment of the corporation. Further on Nielsen and Lekvall (1999) claim that the board of directors has to be able to focus on the most important aspect, from the corporation’s point of view. The board of directors should have the role as a strategist, in other words guarantee that the strategic decisions taken are rational. The role of the board from a strategic point of view is then to do the right things, while the operative decisions is to do things right (Drucker P. cited by Müllem and Stein, 2000). To gain the ability to do the right things, what resources and capabilities do they need to do this? According to Conger et al (Harvard Business Review 2000) they as a team need knowledge, information, power, motivation, and time.

6.4.1.1 Knowledge

The board of directors’ combined knowledge has to match the strategic demand facing the corporation. Today is the business environment very turbulent and dynamic and in addition to this, it changes and develops constantly. Therefore, Conger et al suggests coping with this, you should assemble a group of members whose skills and background are diverse and complement each other. If the board should not become unmanageable, they should represent more than one area of knowledge, expertise, and skills. The issue whether members of the board should be generalists or specialists has created a dividing line among the corporate governance advocates. Conger et al and Carlsson (1997) has a quite different opinion what is the best way. Conger et al on the one hand argues they individually should be quit e specialized in a few areas, and Carlsson on the other hand, argues that they should be more of generalist because specialist tend to only focus on their field of interest. Finally, Conger et al argues that to be a dynamic board, the people on the board should change in response to the environmental changes. This implies that the board must constantly keep the appropriate breadth and continuity of the experience needed. Forbes and Milliken (1999), who has also observed this “double-edged” sword discussion, adds that knowledge is obviously important in a board, but refers to Jackson (1992) who point at the research that indicates the availability of expertise in a group
The board of directors as a strategic resource in small ICT corporations

does not guarantee the use of that expertise. This has also been observed by Pfeffer & Sutton (1999).

6.4.1.2 Information
For the board to be able to keep its knowledge about the corporation and its business updated, they need access to relevant information and data. This information dependency and function has gained in importance for the strategic work during the last years (Stevrin 1991). Strategic information could for example be: up-to-date information about the competition in key strategic issues and the internal setting (Steinberg & Bromilow 2000). Conger et al (Harvard Business Review 2000) argues that this information should be clear and concisely due to that time is scarce. Further on does Conger et al as well as Steinberg & Bromilow argue that it is important that the information is collected from a wide range of sources, such as outside stakeholder, customers, employees, and by the members on the board itself. This broad spectrum of data also implies that you not only need to check what kind of data it is but, also their sources.

6.4.1.3 Power
When the board has the required knowledge and information, they have to have the authority to act as a governing body, i.e. to be able make the strategic key decisions and get the top management to implement them. Therefore, Pound (Harvard Business Review 2000) claims that to be able to govern a corporation the board (i.e. the shareholders) and the managers must all have one “voice”. However, as we have discussed before it is important that the board is independent to the operative business and thereby is able to have an effectively oversight of the CEO. A CEO that is a member of the board of directors is therefore not suitable, which is possible in private joint stock corporations in Sweden.

6.4.1.4 Motivation
Next, Conger et al talks about motivation. They argue that the right incentives have to be in place to make sure that the interest of the people, in the support of the interest they are to represent, i.e. the shareholders and other stakeholders. The authors argue that the corporations should have reward systems to influence the motivation of board members. A commonly used solution is that the board members have shares in the corporation. Put in its extreme sense, this is done to assure that the directors should own that many shares it would harm them personally if the corporation were underperforming (Golub cited by Conger et al 2000). Our own reflection of this method is, if you have to use the argument of reward and punishment, the board members are not suitable for the task. If you cannot motivate them with some positive methods, rather using punishment, either you do not believe in the human being or the board members are not suited for the task.

6.4.1.5 Time
The final part in Conger’s et al model is time. Due to the relatively few times that the board has meetings it is of great importance that the time is used efficiently. Hence, it is very important that the members come to the meetings well prepared and the meeting is not about gaining information. It should be spent for discussion and decision-making instead. The time issue also has another implication. How many parallel board positions
The board of directors as a strategic resource in small ICT corporations

is appropriate to occupy? Arlebäck (1997) have this discussion and as in many things it depends, but as one of our interview persons put it, fifteen is too much, maybe four or five is suitable (To evaluate the quality of boards Business Week awarded points if a fully employed directors sit on no more than three boards and retired directors on no more than six). If you should be able to be well initiated in the corporation’s operations and development, and to fulfill his/her responsibilities as a board member, it is not enough to just be present at the board meetings. It demands continuous knowledge about the operative business, periodical reports, information about the overall development of products and markets, and finally prepare for board meetings by critically examining and comparing the information given in the light of the goals stipulated.

If a board has been endowed with demanded individuals with suitable and required knowledge, skills, and experiences, a corporation has a resource that could be the difference between success and failure. The board should then act as “a feeler” against the surrounding environment and be a guarantee that the corporation always is ready, in the sense it has the required resources, products, and knowledge. This to be able to adjust to demand- and competition situations (Arlebäck 1997). Further on, to achieve this it is an important characteristic that the operative management is prompting and has high growth and expansion ambitions. Thereby, it is a prerequisite not being involved in detailed decisions for the board of directors, but to be the restraining part. One of Sweden’s most engaged professional board member described this as “My most important task is to say no”.

6.4.2 Why does not everyone succeed?

6.4.2.1 Lack of knowledge and competence

As said above, knowledge and competences have to be continuously developed. If you lack the insight that a certain competence needs to be renewed, or that a completely new competence is needed, it will have serious implications for the corporation’s competitive advantage.

6.4.2.2 Cognitive traps and emotional blockings

In our decision-making processes, cognitive and emotional traps affect us both individually and as a group. However, they are not really traps. It is our way to cope with our surrounding. Because if we always have to have exact answers to everything about our surroundings then we would not carry on for a long time. But in business decision-making does these characteristics not always give us credit. Furthermore, due to its generic and cognitive nature they are very hard to become aware of. We have chosen to make a short summary of common traps in decision-making9.

9 For further reading, we recommend the book “The Psychology of Judgment and Decision Making” by Scott Plous (1993).
The board of directors as a strategic resource in small ICT corporations

The primacy and recency effect
Much of our judgment is affected of how we perceive our environment and how things are presented to us. The primacy effect is that the human being is affected in what order things are presented to us. In research it has been found that things presented early have a stronger influence on us than things presented later on (Plous, 1993). The recency effect works the other way around. In some cases has the final presentation more higher influence than the first one. This can happen in situation where people are to remember things i.e. there is a delay before the decision point occurs. Therefore can decisions be affected in what order the information is presented to the board of directors and how long time it takes to decide in the matter.

Anchoring
Our judgment can be affected by how the question is asked. The information in the material makes us anchor the range of the estimate which will be made later on. An example given by Plous (1993, p 145) illustrates this well:

In front of you is a wheel of fortune. The perimeter is lined with an array of numbers, and after the wheel is given a spin, it lands on 65. You are confronted with the question: Is the percentage of African countries in the United Nations greater or less than 65? Not a matter you have thought much about it, but nonetheless, you are fairly sure that the percentage is less than 65.

What, you are next asked, is the exact percentage of African countries in the United Nation? After some thought, you respond with an estimate of 45 percent. [...] 

Now you are another person, a person who has not yet answered questions about the United Nations, a person for whom the wheel of fortune will land on 10 rather than 65. After the wheel has stopped moving, the researcher asks: Is the percentage of African countries in the United Nations greater or less than 10? More, you say – certainly it must be more.

What is the exact percentage of African countries in the United Nation? After some thought, you respond with the estimate of 25 percent.

This was a real experiment conducted by Tversky and Kahnemann (1974) and they found that the human being made “insufficient adjustment up or down from an original starting value, or anchor”. A “biased” question or information can therefore affect the outcome of an estimate that a board of directors makes for example about the future development of the market.

Status quo trap
Another trap that is related to the anchoring trap is the status quo trap. It emphasizes that the human being tend to anchor in the time dimension just like the anchoring trap do in available information. The trap in question is very common and mostly harmless to us. When a new and uncertain situation pile up in our environment, we first tend to stick to the known instead of challenge the new setting/circumstance. It is like the saying: “I know what I have, but I do not know what I will get”. As the risks involved in the new stetting might be unknown, it is common that the new setting can be perceived that one lack control over one’s situation (Jennings 2000). This can create a feeling that the new setting is perceived as a threat.
The board of directors as a strategic resource in small ICT corporations

In decision-making and management can this behavior be fatal for development of a corporation. In a board’s attempt to make changes in an organization they might fail due to the affected individual might strive against the changes and a needed change in the organization. As the board itself work in an environment that constantly is uncertain and undetermined is it vital that the members of the board are aware of the trap and can handle it well. Otherwise they will not be successful too long, as they will ‘ignore’ important development in the corporation’s competitive environment.

Overconfidence

The odds of a meltdown are one in 10 000 years.
(Vitali Skylarov, Minister of Power and Electrification in the Ukraine, two months before the Chernobyl accident)

The citation above from Plous (1993, p 217) shows that the overconfidence trap is maybe the most dangerous one for our judgment and decision-making. Researches have shown that the human being is overconfident about her skill to estimate something when we do not know the exact answer. Several studies have been made on overconfidence. Firstly, it has been found that overconfidence is greatest near chance level. Secondly, studies have also shown that overconfidence is not linear, i.e. our estimates differ depending on how confident we are. Finally, it has also been found that confidence increase with the amount of information available, but the accuracy does not increase. However, it has been shown that we are not always overconfident. The highest degree of overconfidence is when it regards general knowledge. When it regards expert and continuous judgments where feedback is received, the overconfidence is little or non. Therefore, the implications for the work in the board are a bit like a double-edged sword. On the one hand they are experts in their business to determine market development and competitor analyses, which would suggest low or non overconfidence. On the other hand, they are involved in judgments on a high abstract level which would suggest high overconfidence.

To sum up, all these traps will imply that there are several ways to fail in detecting errors in ones decision-making, which as we said initially, is hard. A board that are aware of its shortcomings in its decision making would therefore be better equipped for situations when such errors are apparent for the decision-making.

6.4.2.3 Organization structure

The current organizational structure of a corporation has emerged from and made to support the existing operating business. This is one explanation why a corporation becomes successful. Today’s structure is fitted for the current specialization and competences, thereby the structure itself can be barrier to identify and develop new competences. For example, a corporation with ‘traditional’ functional structure will most certainly have a hard time to adapt, if the market requires an ad hoc structure due to market development.

The owner can also be a barrier in the organizational perspective. They might not be willing to adapt the business to necessary changes.
6.4.2.4 Arrogance

This phenomenon can be very hard to deal with due to its nature, i.e. to get the involved to listen and understand. The phenomenon is often to be found, according to Carlsson (1997), in corporations that have had a history of success. This success has affected their judgment and ability to detect and change conditions to new demands. Arrogance can also come in the form of the decision-maker’s own abilities. In a test and interview conducted by Adizes (cited by Lagnevik 1989) on managers, some of the managers claimed that they did not have any weaknesses as decision-makers even though the test showed it. When this was put forward in the interview the answer was that the test was not particularly good. Most of the managers that was part of the study confirmed their weaknesses. To compensate their weaknesses they usually involved other people in their decision process. A recurrent comment was that detailed knowledge was not needed as long as you had the overall control and have control of the resources. Most claimed their knowledge in this perspective was sufficient enough.

6.4.2.5 Power and power-relations

Power and power-relations can also be a major problem in an organization. Does the right individual or group have the adequate power and authority they need to make rational decisions? Secondly, who make the strategic decision, i.e. where in the organization is the power to decide located in practice? According to Bachrach and Baratz (1972) many researchers make the wrong assumptions that power can only be observed in decision-making processes. The researchers often disregard the so-called non-decision-making which is described as: by manipulating the society’s most important values, myths, political institutions and processes, they will thereby limit the decisions that will be made. When discussing power theory it is important to remember that power is relative, not possessive, and not independent. The relative part is then, according to the authors, divided in three factors creating what would look like an axiom. First there has to be an interest- or valuation- conflict. Secondly, there has to be a power-relation between the parties. Finally, this power-relation can only be valid if one of the parties has the ability to threaten the others by taking action. Power could then be defined as “the process that will affect others actions with help of (…threats about) serious consequences if refusing to follow the intended politic” (Lasswell and Kaplan cited by Bachrach and Baratz, 1972). Applying this at the board of directors, power will hence affect their decision process and decisions taken negatively. This affect can be divided in two areas:

1. Decisionless decisions – This is where a series of actions more or less leads to a decision. Either is there no formal decision, or prior actions make other options not usable i.e. there is only one way to decide. A commonly used example of this is president Truman’s “decision” to order the atomic bomb strike at Hiroshima, were the technical arrangement had came so far that it was nearly impossible to cancel the operation.
The board of directors as a strategic resource in small ICT corporations

2. Non-decisions – System, organization etcetera tend to be partial, i.e. a sequence of ruling values, opinions, rituals and institutional procedures that systematically or consequently favor some individuals or groups at cost of others. There are several levels of this, but we have chosen to only look at the ones which are adequate for our subject. Today lobbying is the most common used term for this, which can be conducted by either external or internal stakeholders. To describe lobbying more specifically, it is a group putting forward its argument and in some way or another ‘convincing’ the decision maker/s to favor them. Means used in this kind of ‘convincing action’ are threats, harassments, bribes, change the rules etcetera. You could say that lobbying is a collective word which tenor is set by the one using it. It can be everything from putting forward your opinion to threaten to kill the decision maker. So you could say that lobbying is a nice way for saying: the use of power to get ones opinion through. Derived from this, a conceivable implication on the board of directors is that the ‘decision process’ will move away from the boardroom and that the decision-making might not be rational. Most people have probably heard the stories that most of the important decisions are made in the sauna, on the golf course or in the bar.

The use of power in decision processes has another backside as well. It can be misused reaping social and materialistic benefits. As we have written before most corporate governance authors agree upon that power misuse was the starting factor for the corporate governance movement.

6.4.2.6 Struggle for power and politicization

Carlsson (1997) also talks about the struggle for power and politicization which could take place in an organization, as an explanation to why not every corporation achieves a competitive advantage. Example of a situation where this struggle could emerge is when proposals about next year’s budget or strategies is to be decided upon. Our own reflection of this, and to refer to above, it is very hard to run a corporation when the stakeholders (internal as well as externals) have widely differing interests and opinions. In the long run, this struggle for power and politicization cannot continue because it will harm the corporation’s development. Therefore, some part will use its power to reconcile between the different interests and thereby ‘neutralize’ the problem.
6.5 Analysis

6.5.1 Corporate governance and competitive advantage

The corporate governance literature does not explicitly talk about competitive advantage. However, if considering what the theory is about, it implicitly says that if a corporation achieves certain characteristics they have gained something valuable compared to its competitors. However, it does not say how sustained or how unique this might be. The owners and the board of directors have invested capital in a corporation because they think it will be profitable within a certain period. If relating it to competitive advantage, which often is defined as performing over industry average, could we then explore if there exist any correlation between ‘good’ corporate governance and competitive advantage? Assuming that investors are profit maximizing, they will invest in corporations that are considered having the potential to achieve competitive advantage. Then competitive advantage will not be anything unique. So, why are corporations then performing differently? In the field of corporate governance there are arguments that indicate it is hard to achieve competitive advantage, such as getting the right people to the right position, with the applicable skills and knowledge, and motivate them to do a good job. Additional critical factors are that the organization and the employees have the right attitude and are open for changing the ‘rules and traditions’. This will give the competitive advantage higher value and if you have all the qualities that have been discussed you will have a unique competitive advantage.

A success story that often is used in discussions about competitive advantage is Southwest Airlines (Müllern & Stein 2000). The Stanford professor Jeffrey Pfeffer made a thorough analyze and benchmark of the corporation and concluded that they had no benefits regarding the fleet of aircrafts (they used the same as their competitors), its booking system, or other ‘hard’ factors. The differences found by Pfeffer was that Southwest had a strong union and they had fewer employees pro aircraft than its competitors. Further on they ‘turned’ their aircrafts much faster than the industry average. In spite that they do the work faster with fewer employees they have won the ‘tripple-crown’ award (the least delays, loss of luggage, and complaints) nine times which no other airline corporation has done. Even though Southwest Airlines is a traditional corporation it could be used in our reasoning since they build their whole strategy on intellectual capital and the answer to their success lies in the ‘soft’ value not the ‘hard’ ones which is more or less the same in this industry. This case also shows that the internal resources, specifically the strategic ones, are vital to succeed. For example Southwest Airlines views recruiting as a strategic matter, by which means it is vital to get the right employee at the right place. Furthermore is it vital that the employees have the adequate responsibilities and authorities to perform well.
6.5.2 Criticism of corporate governance

A corporation has to be governed in some way or another. One of the major criticisms of the idea behind corporate governance is aimed at one of its cornerstones. Why is it that the owners should have the major influence in a corporation? Langnevik (1989) is one of many that have focused his criticism around this question at issue and as well he raises the question what an owner really is. What is the difference between an owner and a lender, in the sense being entitled to both influence and power of the way a corporation is governed? It all ends up in the discussion why the owner and boards of directors should be the most suitable to have the overall responsibility for a corporation. As the corporate law looks like today, is responsibility and power increasing as further away from the operative business you is. Can it really be optimal from a corporate governance perspective that people who are not employed fulltime at a corporation, and therefore logically do not have the same insight and knowledge of the corporations operations, customers, and competitors, are the ones that have the responsibility for the setting the strategic direction for the corporation? It must be the obvious self-interest of the shareholders, which also implies the board of directors, that the corporation performs as well as ever possible since they have put their money into the corporation. The next question then is which time perspective that should be used when governing the corporation. In Sweden today, there is a debate about the investors’ role and interest in the government process of the corporations they have invested in. The origin of the debate is that nowadays the investors seem more interested in short term revenues rather than governing the corporation with the long-term development in consideration. This short-term revenue interest of the investors is more commonly known as ‘quarter capitalism’ or ‘hyper capitalism’. If this is generally true for investors, what will they then contribute with to the corporation? Considering the arguments above, a discussion about alternative forum for the strategic responsible could be of interest and value. Maybe the board of directors should be tied more to the operative business rather than to the corporation’s owners. This is often referred under the notion as a working board.

Research after the corporate governance movement has shown an overall enhancement of the governance and the performance of corporations. Nevertheless, the questions still remain whether or not this concept of governance could be the optimal procedure to govern all kinds of corporations? Because, is it not likely that the optimal way to govern may be depending on the important characteristics of the corporation, such as size, business conducted, and industry? Applying this to the ever-changing and uncertain environment that ICT corporations live in, what impact might this cause? Making the likely assumption that to cope with the fast changing environment many ICT corporations choose a flat organization with high level of decentralizing in the decision-making process. This with the hope to create a more flexible organization which is better suited to meet the rapid development in technology and the turbulent demand on the market. How does this development affect the board of director’s role? Will it be marginalized due to most of the decisions regarding the governance of the corporation have been moved ‘down’, or is it the other way around, that it will be more important to have a board of directors with an overall and strategic perspective when the organization is more focused at the operative decisions? The discussion about the role of strategic planning in turbulent environment has engaged many strategy researchers. Many has questioned and doubted the importance of strategy, to name some Prahalad & Hamel
The board of directors as a strategic resource in small ICT corporations

(1994 cited by Enroth 1997) said: “As we entered the 1990s, strategy as field of study had fallen on hand times […] Issues of strategy seemed either remote, unimportant or uninteresting to many.” Even though many other researcher such as Eisenhardt and Mintzberg have been looking at this issue Enroth (1997) claims that yet has not the research come to a unified result or theoretical framework. Rather has it within strategic research evolved a larger interest for studying environments which are characterized by a high pace of change (Enroth, 1997). Eisenhardt, (1989); Galunic & Eisenhardt, (1996 see Enroth 1997) calls these environments/settings for ‘high velocity environments’. One other notion is ‘hypercompetition’ (Daveni, 1994; Volverda, 1996 cited by Enroth 1997)

6.5.3 Concluding analysis of corporate governance

Going back to the competitive advantage query. Mr. Corporate Governance does not really discuss the benefits of having a ‘good’ board; rather he focus his attention more at discussing the issue of who should run the corporation. Historically it has been showed that the performance of a corporation is improved with an engaged and professional good board. Moving on, the question then becomes if and why the governance (who govern the corporation) might contribute to the competitive advantage of a corporation, and in our case a focus on what significance the boards within the ICT industry may have.

There are two different kinds of owners within a corporation: active and passive ones (see Kärreman 1999). A basic assumption in the corporate governance theory is that the owners are active and is active in their ownership. This since the passive ownership is not interesting from the corporate governance perspective, due to passive owners is not using their legal rights to influence the governance of the corporation. The active ownership can take different shapes though, depending on the configuration of the owner structure. Nevertheless, it seems like the ruling preference within most of the corporate governance research is that the board act on the behalf of the many owners. However, when Mr. Corporate Governance faces a situation where the owners are few and/or have a large amount of the shares, the situation is suddenly different. A possible explanation to this lack in the theory could be that most of the researches have been done on very large corporations with many owners and stakeholders. Secondly, Mr. Corporate Governance disregards the fact that different owners might imply different contribution as they have different interest with their ownership, and skills. In a corporation with private owners the founder might be the one guiding the corporation’s development. If the ownership of the corporation is to a majority made up by one investment company/venture capitalist and some small private shareholders, then the investment company will be the dominant stakeholder on the board. Furthermore, they would most likely use their legal possibilities to set the agenda of how to strategically run the corporation etc. Power relations within the board then become very central as the board consists of individuals which may have different interests in the corporation. We think this is a thought that corporate governance does not regard in a proper manner. This since it assumes that all shareholders, through their representatives/agents on the board, has the same governing interest and goals in the corporation. This will imply that
The board of directors as a strategic resource in small ICT corporations

the board’s functioning and contribution to the corporation’s competitive advantage is dependent upon the structure of the ownership.

Looking at this from a more conceptual/theoretical perspective the discussion above affects the corporate governance perspective when the structure of owners deviates from this conceptual model. The corporate governance is built around the shareholders interest and that they are the ones governing corporations. The board is the representative of the owner (agent – principal). This basic assumption does however diminish in importance as the shareholders become fewer and thereby larger. This since the agent and the principal becomes the same, and a one to one relation begins to emerge. The thought of the board being the joint link between the owner and the corporation is then no longer relevant. So, from this angle of approach, a huge part of the corporate governance and agent theory loses its importance. Instead will the boards itself become the primary authority within the corporation.

Now as Mr. Corporate Governance move on to what more specifically the contribution of a board is from a corporate governance perspective, he ask you as a reader to keep the above discussion in mind, especially when applied to small ICT corporations.

There are many opinions of what a board of directors contributes with and what their role is, as discussed above. According to the agent theory, the board is the owners’ representative, i.e. an agent - principal relationship. The theory assumes that the owners, for some reasons, could not by their own look after their interest and use their legal rights as well, to influence the governance of the corporation. For example could not all of the shareholders in Ericsson actively express their opinion about the governance of the corporation and look after that the top management team, entrusted with the operational responsibility, fulfill its role. Therefore is a representative, the agent, chosen with the task to look after and represent their interests and rights. Others view the board of directors more as a coordinating and negation body for different internal and external stakeholder interests and opinions, where the stakeholders have unique opportunities for stakeholders to influence the corporation in its decision-making. From this view is it questionable whether the board itself contribute/make any difference to the competitive advantage. Next, after this discussion about the board of directors as a coordinating and negation body, we have the discussion about the board as strategic responsible and a value creating body. As earlier mentioned, corporate governance development have the last decades been characterized by the strive to increase the professionalism and to have a more active and strategic role in the corporation. This emphasize that the board need to have a set of components such as knowledge, competences, and skills to fulfill this responsibility. Furthermore on today’s boards, directors are being forced to accept and practice higher standards; where they must think very carefully about how their companies are directed and governed. Today are boards and corporations under vociferous examination of shareholders, audits and curious journalists. Board members can therefore no longer accept the passive role of simply endorsing managements’ decisions and proposals, instead they must take responsibility for strategic direction and ensure that all issues that impact the corporation’s performance are effectively addressed. However there are contradictory arguments if the board of directors is the best ‘tool’ for this task (see further in the Mr. Strategic Management analyses). In addition to the discussion if the board is the proper forum, there are also disagreements among scholars about how a successful board should be composed and what kind of
knowledge and competences they should grasp. One reason to why this discussion has arisen is that it might be an expression of that different corporations/industries have diverse requirements and needs regarding the competence and skills of their people on the board. Despite what skills needed, a board with the suitable mix of competences will become a valuable resource for the corporation, but not a unique one as pointed out earlier. The question mark to straighten out is then: how valuable. Considering the distance the board has to the operative business and the few hours a board usually work with a corporation, it is maybe a better investment to hire a consultant or expert instead to gain this knowledge, because the outcome becomes the same or even better. This because he/she could be hired fulltime, or as many hours that is needed, and thereby the corporation have got a resource that would be in place and available the time he/she is needed. Another important difference is that even though a consultant may be hired for working with the strategic issues that from the beginning was on the boards agenda he is still working within the operate business. The question however is if one consultant can posses the suitable broad competences and skills needed, such as business knowledge, strategy etcetera, so it can replace the boards accumulated knowledge.

To put the above discussion on test we continue with a further delimitation against small ICT corporations and their boards of directors. Lagace (2000) argues that ICT corporations are often financed through venture capitalists or private investors. Very often are these financiers in the corporations’ board of directors as well. Thereby the owners work more often and closer to the corporation and the operative business, in comparison to what is common due to that the ownership is spread between many private shareholders. Lagace argues that this implies, due to their financial commitment to the corporation, they are more engaged in the corporation development. The ‘use’ of venture capitalist in corporations however seem to have both pros and cons from the perspective of corporate governance. The discussion about whether or not the board members should be financially dependent – hold serious stakes in the company - we recognize from Conger et al who claimed that is was suitable. In that discussion we said that we disagree with them. However, in this case we think it is a suitable constellation of ‘motivation’ for ventures capitalists; because they invest in corporation and thereby have a more voluntaristic approach from the start.

We continue the discussion about the many venture capitalist in ICT boards of directors by looking at what they contributes with and what significance they may have for a small ICT corporation’s long term development and survival. Firstly and most obviously, venture capitalists contribute with capital to the corporation, just as any owner does. Secondly, as the pace of change and development in the industry and economy would suggest a need of more continuous and closer contact between the owner and the corporation in question. In small corporations with venture capitalist it is suggested that the owners are fewer and in most cases closer to the corporation. Especially if considering the basic assumption as discussed above, of much corporate governance research, where the board is the spokesman for the many owners. Thereby it would be fair to argue that this ownership configuration with venture capitalist working closer the corporation is more suited for the setting in the ICT industry. Thirdly, the venture capitalists can contribute with knowledge and skills that is important and valuable for the corporations they have invested in. Many venture capitalists are often very skilled in entrepreneurship since they have focused their businesses to invest and nurture start up corporations, with the expectation that they one day will be successful so
The board of directors as a strategic resource
in small ICT corporations

the investment will pay back. Thereby they have become proficient at evaluating business ideas, what potential has the idea, and turning the business idea into a professional organization. This implies that the venture capitalist have to have a broad and deep knowledge about both the industry and the corporation (business idea), implying the skill to evaluate and match the strength and weaknesses of the corporation with the threats and opportunities in the industry. This knowledge is often very specific and only applicable to a specific type of industry, which strengthen the arguments to have venture capitalists on the board (since they often delimitate their ownership within a specific industry). Further on are they very skilled in how to nurture new corporations and to develop these to become established on the market. All these skills and knowledge is a prerequisite for the venture capitalist to possess. Because, whether there will be any returns on the invested capital depends on their ability to pick the future cash-cows and sort out those without future potential. The benefit for the corporation is obvious. They will have a very competent person on the board with a suitable and applicable knowledge for the corporation’s long-term development. All this becomes very important from another perspective as well. Starting corporations is always a tricky process, and as that would not be enough, there are several additional factors within the ICT industry that makes this task even more complex and even more problematic. New corporations within this industry often develop completely new products not previous present on any market. This implies several things, firstly the product has to be developed, and secondly, simultaneously must the corporation create their own market, i.e. convince their future customers that the product satisfies their needs better than products on the market today does. For example, why should a corporation buy an expensive computerized business system instead of doing the accounting by hand, which works fine today? When convinced the product is needed, potential customers have to be found and persuaded to purchase the product, with a prototype as the only information to base its decisions on. This process demands both a high degree of timing and a wide and deep knowledge of business and personal networks. Timing is also vital from the aspect that the industry is highly uncertain and changeable. This suggests that a venture capitalist could be a useful board member and owner for small ICT corporations. What is then the backside of the coin?

Firstly, an implication of a board with a large proportion of venture capitalist who works very actively with the corporation is that they continuously question and advise the top management team from their perspective. However it is a very delicate balance not to ‘poke around too much’ (or perceived doing so) in the operative business, i.e. being outside their strategic responsibility. Secondly and lastly, as have been discussed before, there is a risk that the venture capitalists try to maximize the value through a short-term scope on the expense of the long-term development and success for the corporation.
The board of directors as a strategic resource in small ICT corporations

To conclude Mr. Corporate Governance says that in contradiction to the discussion about generalized vs. specialized knowledge his analysis emphasizes a more task-oriented knowledge and skills are suitable in a board within ICT industry. Mr. Corporate Governance says goodbye for now and he hopes he have given you the answer to:

- Why are ownership and the role of the owner crucial for the governance of the corporation?
- What is ownership all about, and what distinguishes ownership from other roles in the corporation process of value-creation and competitive advantage?
- What competence is required to be a value-creating owner?
- How are value-creation contributions made, and how is ownership exercised to be successful?
7 Mr. Past Projects

- The Board as a Strategic Resource in Small Corporations

*The purpose with this part is to present what some past projects and published research has found most noticeable about the board of directors in small corporations.*

Small venture corporations, entrepreneurship, and general innovation capabilities have for a long time been considered as the most important business drivers for economic development. Thereby have the question of how to develop corporations and create an environment that nurture entrepreneurship received a lot of attention from many different directions. For example within economic theory a specific genre called entrepreneurship has been evolved, which particularly studies the development of small corporations. Another example is the different kinds of state/government-initialized projects and programs, like the Small Business Development Center program in USA and “Se till din styrelse” in Sweden (Eng.: Look after your Board). Although they are very heterogeneous considering content and disposition, and in other respects as well, they all share the belief that the entrepreneurs are often in need of help with various tasks. This is due to a lack of sufficient experience or knowledge. The support offered is often courses and advises in business economics, finance and accounting, counseling, and other outside assistance resources. One possible approach to get access to valuable knowledge and experience is to bring in external persons as members of the board.

Next part will deal with the research-question (whether or not a board may be a strategic resource in small ICT corporations), by exploring what past project and research have found to be the value of having an active and engaged board with external/outside board members.

7.1 The idea of board of directors

The corporate law requires that all public and private held corporations must have a board of directors which are responsible to the owners for the corporation's operations. This since the corporation holds the owners capital in trust. The board of directors is responsible for that the corporation, as a trustee of the owners capital, look after the owners interests when important decisions are made. The idea behind the legal requirements is in other words that the organizational configuration with a board of directors securing the owners interests and rights. Scholars therefore most often describe the board of directors as “the formal link between the shareholders of a firm and the
managers who are entrusted with the day-to-day functioning of the organization” (Mintzberg, 1983: Monks & Minow, 1995 cited by Forbes & Milliken 1999, p 491). Another good description is given by Farma and Jensen (1983:311 see Ibid) who have described the board as the “apex of the firm’s decision control system”. Forbes and Milliken (1999, p 491) describe the idea in the following way: “The very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organization exceed the capabilities of any individual and that collective knowledge and deliberation are better suited to this task”. Consequently the people on the board, particularly for large corporations are elected because the owners have confidence in them. This with the respect that they will secure that the corporation is governed and controlled in a proper way, that they look after the owners interest, possess valuable knowledge, knows a lot about the corporation and its situation, and finally that they are engaged and actively supports the corporation’s development and businesses. These initial ideas are most applicable on large corporations with many owners. The idea with a board of directors in small corporations is a little bit different, since there are many differences between small and large corporations, which will be continuously explored throughout this perspective.

One important difference is that often in small corporations the owner is also the founder of the corporation. Normally, the owner is therefore more committed to the corporation, in the sense that he has a closer, active, and more personal engagement and interest in the corporation. He/she is often more concerned about the corporation’s long-term development and survival, rather than the short-term financial return on invested capital. Since the founder often makes his living out of it, and the corporation could be the founder’s lifetime achievement. Additionally it is not any unusualness that the one and same person, or a small group, possesses many roles in the corporation. Often the founder, the owner, the CEO, and the chairman of the board is the same person. Another diversity between small and large corporations is therefore that the owners of small corporations often have a more active role and interest in the governance and control of the corporation. They work actively in the corporation’s top management team, for example as managing director, and could thereby look after their interest by themselves. Another very important idea with a board of directors in small corporations is to support and complement the top management team/the owners, which often implies complementing their experiences and knowledge, this since the top management team is often fewer in number, in comparison with larger corporations. Additionally due to lack of financial funds, they do not have the large corporations possibility to purchase expertise knowledge when needed.

To conclude, the idea with the organizational hierarchy in corporations is that the board of directors, as the owners’ representative, should secure good governance of the corporations and to look after their interest. However, to what extent the boards of directors are involved in the governance of the corporations is not regulated and differs significantly between corporations, because of difference in size, the business conducted, internal states of affairs, and other related issues.
The board of directors as a strategic resource in small ICT corporations

7.1.1 The truth of board of directors of today in small corporations

Successful corporations often have a good board of directors, by which embrace they have the needed experience, knowledge, and are engaged and motivated for the task, according to Nielsen and Lekvall (1999). Despite this, it is commonly known that a large percentage of small corporations do not have any “real” board of directors. Numerous investigations have shown that in most cases the people on the board is made up of the founder and his/hers close friends and relatives. Additionally, past qualitative studies have shown that boards carry out their task with a widely varying degree of attentiveness, analysis, and participation. Because as Herman, (1981, cited by Forbes & Milliken, 1999, p 494) notes: “Some boards simply ‘go through the motions’ of attending meetings and registering votes, without being mentally engaged with the issues facing the board”. However, there are several counterexamples, for example Lorsch (1989 cited by Forbes & Milliken 1999, p 494) found that “there are boards that conduct diligent research on the firm they serve, that participate actively on board discussions”. How serious some boards take their role is described by (Monks & Minow, 1995 cited by Forbes and Milliken 1999) who claims that some board-members even use pocket calculations during meetings and search after additional information on their own. Further on, an investigation conducted by Almi Företagspartner (Eng: Almi Business partner) showed that many small corporations’ board of directors did not have an active role in the governance and development of the corporation. Because, for many founders/owners was the idea to let other people, especially external ones, have an insight and influence over the corporations important decisions and strategy alien to their views of how to govern and steer the corporation. Some even viewed external persons as a threat to the business, and not as anything useful. Therefore were the people on the board just a ‘paper construction’, mainly due to that the owners often perceive the board as just a legal requirement. To break the trend Almi’s project report suggests that the corporation’s first needs help to make an evaluation of the corporation to find out what kind of support and assistance they could be in need of. If the corporation’s current and future needs are known, it is possible to carry out a focused recruitment. With people on the board that possesses suitable knowledge and skills (in the respect to the task confronting them) and are recruited to actively assist and support the corporation, increases the probability for the corporation to perform better and avoid crucial mistakes in the early phases. Then it may change the perception that the board is just a legal requirement, which many small corporation owners have, and instead starting to see the true potential, usefulness and benefits of an active board. However, if this perspective should answer our research question at this point, the answer would likely be: - No, the board is usually not a strategic resource, but it could be. So, to be a valuable and strategic recourse for the corporation, what attributes does it require a board to possess?
7.1.2 Which attributes characterize a good board of directors?

*Understanding the nature of effective board functioning is among the most important areas of management research on the horizon.*

(Forbes & Milliken 1999, p 502)

It may seem to be a tough challenge to raise the question of what a good board and good governance is. However, several institutes, magazines, and companies annually present ranking lists and evaluations of how boards of directors have fulfilled their task. For example have the pension funds in USA, a major player on the financial market, developed techniques to make professional measurements of boards functioning and performance; see Byrne (2000) and Carlsson (2000). Their interest of board performance is obvious because they administer a huge amount of capital. Since they often hold a majority post of the stocks, they have had a great influence in the development of governance principles. Nevertheless is as Byrne (2000, p 144) says: “measuring the effectiveness of a board by how it lives up against these kinds of guidelines is not without controversy.” Because as John C. Wilcox (Bryne 2000, p 144), maintains: “The most important governance standards cannot be externally measured, they include qualities of character, values, the willingness to take an independent stand, and other personal factors that are highly visible in the boardroom but invisible from outside.” Despite these difficulties, Byrne (2000) argues there are three different attributes which characterize a good board, and as well can be used to evaluate corporate boards performance.

- **Independence:** A good board works independent and secures a good, objective, and rational governing process of the corporation. For a board to qualify being independent, Byrne (2000) states that there should be no friends or cronies to the CEO on the board. Another requirement is that crucial panels like the audit panel should not contain insiders. He also argues that cross-directorships are taboo since it could put members in a position where they own each other’s obligations.

- **Quality:** The board meetings should include real and open debates which are founded on information and facts. If the decision process should be rational, the directors need to be familiar with the circumstances in the field and the operational issues the managers’ deals with.

- **Accountability:** Directors ought to hold serious stakes in the company. They should also be prepared to challenge under-performing CEOs. That helps align their interests with those of the shareholders. In the evaluation Byrne refers to more points were awarded if a company did not offer pensions to directors and if the board stands for election every year. Points were also given to boards that met at least four times a year and those whose audit committees met at least three times annually. Boards that assess their own performance also won points.

---

10 See for example the CalPERS story in the corporate governance perspective.

11 Vice-chairman of Georgeson Shareholders Communications Inc., a proxy advisory firm.
The board of directors as a strategic resource in small ICT corporations

So even if it is hard to measure what a good board and good governance is, there are some attributes that could be considered as important and valuable to a board of directors in small corporations. If a board is characterized of these attributes, the likelihood for good governance increases, and even if adopting good governance, this does not guarantee total success, as Charles Elson (law professor and board member) says. “But good governance gives you protection when things go wrong. In the long run, that will pay out,” see Byrne (2000, p 148). Finally, of course the most adequate and important test of a board’s contribution, functioning, quality, and effect is the long-term performance of the corporation. The question is then how to measure the cause and effect relationship between board functioning and a corporation’s performance? What do a good board of directors do, which are the tasks and roles they have in the corporation and how does it affect the corporation’s performance?

7.1.3 Which role do a good board of directors have in a corporation?

What role and tasks boards of directors have differs significantly from corporation to corporation. Nevertheless, scholars have put forward some basic roles and function that could be applicable to mainly all boards.

Firstly, scholars and experts agree that one of the most fundamental responsibilities of governing boards is to set the organizations strategic directions, according to Kanter (2001). Another sign of its significance is the fact that we have come across this in the other perspectives. Due to our explorative research we will not discuss the boards involvement in the strategy process from this perspective, since we consider the other perspectives to have covered (or will do so) the most relevant aspects. The reason is that we strive to explore as many characteristics of the phenomenon (the boards) as possible, in other words to show the perspectives’ differences.

Secondly, Young et al (2000 citing; Pfeffer 1972; Kaufman et al., 1979) considers that corporate boards have two primary roles; linkage and administration. The linkage role is about establishing relationships between the corporation and the external environment. This relation-building role is of great importance because “these relationships are often used for the procurement of inputs that organizations require to survive”(see Young et al, 2000, p 281). In the other main role, the administrative one, the boards concentrate their attention and time on overseeing the performance of the top management, and in particular the CEO, according to Kaufman et al. (1979, cited by Young et al 2000). As said earlier boards role and function differs and Young et al mean that: “While boards are generally responsible for fulfilling both roles, in a given industry or industry segment isomorphic pressures may result in one role being emphasized over the other” (Young et al 2000, p 281). This since the conditions and issues of importance differ not only between industries, but from corporation to corporation as well.

The relational roles of boards of directors are closely related to the linkage role and are presented by Lynne (1996, p 2). She emphasizes that through the members of the board “the corporation acquires resources that enable it to decrease the uncertainty of its environment, thus increasing its chances of survival”. In these resources she includes: advice, coordination with its external environment, information access and exchange, support through identification with the corporation, status and legitimacy within relevant
The board of directors as a strategic resource in small ICT corporations

communities, and monitoring and control. Resources obtained for the corporation through board memberships are more precisely identified as follows:

- Coordination with its external environment;
- Informational access and exchange;
- Support through identification with the corporation;
- Status within some community;
- Legitimacy in the eyes of relevant audiences;
- Advice based on the background and skills of;
- Monitoring;
- Direction

She also claims that it requires a combination of inside directors and “non-independent” outside directors if the board should effectively perform some of these relational roles. The discussion about insiders versus outsiders will follow this section. In other words, the people on the board provide a number of resources for the corporation. Lynne (1996) mention four valuable resources: Firstly, through the board members the corporation get certain types of resources, such as legitimacy, identification and support, status, and coordination, which Lynne (1996) considers the corporation cannot simply get hold of in other ways. This because, “some of these sources, such as legitimacy, are inextricably en-twined with board membership itself” Lynne (1996, p 9). Secondly, the board as an organizational institution has some unique characteristics which make it a particularly suitable forum for the exchange of information, coordination, and direction to the corporation. Thirdly, as organizational form, the board of directors is unique in a sense that it provides a flexible instrument for the corporation to acquire the resources it is in need of. What makes this uniqueness particularly important in the ICT industry is that the business environment constantly changes, with opportunities and threats arising and diminishing in the blink of an eye. This requires the top management team to always be available and can give their immediate attention to arising issues. Lynne (1996) argues that since management does not always know in advance what advice to contract for or what information would be useful, the board is very valuable since it continuously is in place and available to fill needs as they arise (at least in the ideal case). Fourth, and finally, Lynne emphasize that granting board memberships is a traditionally accepted way for a corporation to receive valuable advice. Further she sees a clear difference between the corporation’s top management team and the board: The corporation often fears that its CEO and other members in the top management team will decide to change work and offer their competence elsewhere, motivated by monetary compensation. In contrast, board memberships are viewed favorably as a mean for a corporation's CEO to gain experience through interacting with knowledgeable individuals on business problems facing other corporations. In conclusion, the board of directors provides a valuable, and often unique means for the corporation to acquire a number of relational resources, including coordination, information, support, status, legitimacy, advice, monitoring, and direction.

Another important role and function of the board of director is to ensure that the decisions-making processes are conducted with consideration to the different stakeholders interests. Nielsen and Lekvall (1999) argue that one of the thoughts behind
The board of directors as a strategic resource in small ICT corporations

The organisational structure of corporation\(^{12}\), is that the board of directors should guarantee a more balanced and sound view of the corporation’s current situation and future development. This thought is shared by several of the authors’ whose books we have read. For example Steinberg and Bromillow (2000, p 48) states that: “What do effective boards do? They strike a balance based on a clear distinction between the role of the board and that of management, where the board provides oversight and strategic insights, while avoiding “micromanaging” or dramatically slowing the strategic decision-making process”. Therefore one reason to why the responsibility and work is divided - the board has the overall responsibility for the corporation while the operative responsibility is delegated to the CEO - is to ensure a more objective view. One might ask the question Gordon Donaldson did in Harvard’s Business review (1995 p 4): “Isn’t management best qualified to select the appropriate criteria to evaluate the company’s progress within its industry?” The answer he gives is - no. Donaldson emphasizes that the top management team and the board of directors each have a unique and distinct perspective on strategy. “Managers are charged with turning strategic vision into operational reality. Of necessity, they must focus on one strategic path at a time and pursue it relentlessly to maximize its potential for corporate profitability” (Donaldson, Harvard’s Business review 1995, p 4). An objective and overall view of the corporation’s business and operations is an important factor and reason for why a more rational decision-making process could be achieved, if the board is active, independent and engaged. We quote professor emeritus Robert B. Stobaugh (Harvard Business School) who illustrate this very well:

\[
\text{One thing that's very difficult for management to do is to have the objectivity that directors do, because management is engaged in the nuts and bolts of putting something together. At the end of the process, you're probably less objective than somebody who comes in from time and time and talks with you about it.}
\]

(Quoted from an interview done by Martha Lagace, Staff Writer, HBS Working knowledge HBSWK Pub. Date: Dec 18, 2000, p 2)

Additional roles are presented by Forbes and Milliken (1999, p 492) who focuses on the board’s control and service role (or tasks which is the notion they use). According to them there are some specific board activities/tasks that are critical to fulfill the two roles. For the fulfillment of the control tasks critical activities includes: “decisions regarding the hiring, compensation, and replacement of the firm’s most senior managers, as well as the approval of major initiatives proposed by management”. To refer to Farma, (1980, cited by Forbes & Milliken) and other agent theorists who emphasize that for the board of directors to be effective in this supervisions/monitoring role, it must be independent of management. As we described above, independency is an important attribute for a good board of directors and a requirement for it, in order to fulfill this role. For the other role, the service task, specific activities include: “providing expert and detailed insight during major events, such as an acquisition or restructuring, as well as more informal and ongoing activities, such as generating and analyzing strategic alternatives during board meetings.” Forbes and Milliken (1999, p 492). Forbes and Milliken maintain that for these two roles should be performed effectively, it requires the board members to cooperate. They particularly need to exchange information, evaluate the merits of

\(^{12}\) By corporation, we mean joint-stock company, public limited company and private limited company.
The board of directors as a strategic resource in small ICT corporations

competing alternatives, and reach well-reasoned decisions. The only crux is as they acknowledge: “In practice, it is often difficult for boards to do these things and that on many boards the quantity and quality of substantive interaction are, in fact, minimal” (Forbes & Milliken 1999, p 490). Similar thoughts have Lorsch (1989) and Mace (1986), cited by Forbes & Milliken (1999), who says that directors face many competing demands for their time and must keep carefully budgeted schedules.

As this discussion hopefully has highlighted, boards of directors have, or could have, some important roles to play in the governance of corporations. In this paragraph we also mention that there is a debate about who should be on the board, insiders or outsiders. We also promised that the following paragraph should deal with this issue.

7.1.4 Outside assistance in small corporations

Chrisman et al, (2000) argues that there is plenty of evidence which strengthen the conviction that outsider assistance improves small corporations performance, at least in the short term. The only crux, according to them, is no one has yet been able to theoretically explain why outside assistance has this affect, and without a theory, cause-and-effect relationships and research results are hard to evaluate. They conclude with emphasizing that their research have shown that corporations receiving outsider assistance in early stages will have higher rates of survival, growth, and innovation, even in the long run. One other study was about outsiders’ influence and contribution to small corporations development and survival is the one by Pearce and Zahra (1992 cited by Lynne 1996). In their study, Pearce and Zahra had the hypothesis that corporations facing greater uncertainty in the environment would have a higher proportion of outside directors on the board. To exemplify what an outside members could be, we cite Lynne (1996, p 9):

The corporation could have representatives of its creditors and suppliers on its board. These associations may increase coordination, facilitate information access and exchange, provide advice, and create support for the corporation. The corporation may also have lawyers and investment bankers on its board to provide advice, obtain their support for the corporation, and enhance the status of the corporation.

To explain the reasons behind their hypothesis, Pearce and Zahra (cited by Lynne 1996, p 12) says: “The corporation may add members to the board to ensure a flow of information from its stakeholders, to send messages to stakeholders that the corporation is taking steps to deal with their concerns, and to enlist the expertise of directors to assist the corporation in pursuing new markets and businesses”. Moreover, they claim that outside directors may through their personal network and contacts find and connect the corporation with possible strategic alliance partners, suppliers, customers, and other stakeholders of strategic importance. The findings of their study was that higher level of environmental uncertainty, or unpredictability, were positively related with an increased

13 Who is then an outsider? We have chosen to adopt Mallette’s and Fowler’s (1992, cited by Young, 2000) definition: “Outsiders are those board members who do not work for or have professional relationships with the corporation they govern.”
The board of directors as a strategic resource in small ICT corporations

proportion of outside members on corporate boards. Additionally they made the assumption that “corporate business strategies, which would determine external resource needs, were associated in specified ways with board composition” (see Lynne 1996, p 13). Just as with the other hypothesis Pearce and Zahra found a positive association between “strategies of external growth, increased diversification, and retrenchment with the proportion of outside directors on corporate boards” (Lynne 1996, p 13). The conclusions Pearce and Zahra draw is that outside members provide the corporation with other important relational resources, such as expert advice or business contacts. A study that supports Pearce and Zahra findings is a study of 80 manufacturing firms, conducted by Pfeffer (1986). He found a positive relationship between the proportion of outside directors on corporate boards and the corporations' need for access to external capital resources, as measured by their debt-equity ratios.

Another worth mentioning study that have exposed distinguishes between independent and non-independent outside directors, is the recurrently cited study by Baysinger and Butler (1985, cited by Lynne 1996). The study lasted from 1970 to 1980 and during this period, they investigated 266 publicly traded corporations. This extensive study found: “a positive (though mild) lagged effect between the proportion of independent outside directors on corporate boards and corporate financial performance, although overall financial performance declined after the board became thirty percent independent”, (see Lynne 1996, p 14). The question is then if the ICT industry, due to its technological intensiveness and ever-changing characteristics, show tendencies that the relationship is even more positive than in these studies?

In a survey done by Spencer Stuart, who annually makes the Spencer Stuart Board Index (SSBI), it was found that boards on Internet corporations have many more board’s insiders, see Daum 2000. As discussed above is outside representation on the board an important factor for a board should function and being independent. Therefore it is a very important finding done by Spencer Stuart that: "not only are there many more insiders on these boards, but the few outsiders who are represented are often not truly independent outsiders as we would generally think of them" (Daum 2000, p 48). This because, normally in corporate governance circles, they define/talk about outsiders as board members that represent founders, owners, or management of the company, as outsiders. However, on Internet-boards are these ‘outsiders’ often venture capitalist which have made a substantial financial investment in the corporation and logically therefore have a strong interest in its governance, survival, and success. Daum (2000) means that is common that start-ups often offer seats on the boards in exchange of the financial investments they make. If we look by this question, whether the outsiders on Internet-boards really qualifies as independent outsiders, there is according to Spencer Stuart’s survey a much lower ration of outsiders to insiders in this corporations. In their 1999 years SSBI of S & P 500 boards, the ratio of outsiders to insiders was 3.5:1 while the ratio for Internet-boards was 2.2:1, which is a considerable difference. Daum (2000) mean that unlike ‘the traditional corporations’ the Internet corporations have not yet started to recruit board members with diverse background (which as we have discussed above is important). Daum (2000, p 50) means that: “Rather these boards are very much a reflection of their recently put-down roots. She continues to say that:

It is interesting to note that only one-third of outsiders are active CEOs, chairmen, presidents, and COOs (compared with one-half in our 1999 SSBI). Moreover, while bankers, investment bankers, and treasurers, as a group, represented only a
The board of directors as a strategic resource in small ICT corporations

scant 5% of outside directors in our 1999 SSBI, in our Internet boards survey this group accounted from than one-third of the outsiders on Internet boards. Logically, financial executives plays more of a key role in these start-ups, and many are likely involved from the start of the deal.

This is an interesting finding because, not only does it expose a clear difference between ICT corporations and well-established corporations in traditional industries, but also perhaps even more surprisingly it is completely contrary to the findings from Pfeffer’s study. Pfeffer found a positive relationship between the proportion of outside directors on corporate boards and the corporations’ need for access to external capital resources, as measured by their debt-equity ratios. Based on this we see that there are two alternative conclusions. Firstly, when interpreting these findings it is important to bear in mind that Daum (2000) claims that the few outsiders who are represented on Internet boards are often not truly independent outsiders as we would generally think of them (i.e. the established definition of outside members). Additionally, Spencer and Stuart talk about Internet corporations whilst the other studies talk about high technology corporations, and we in our study talk about ICT corporations. Therefore, we think that one conclusion is that the differences between the Spencer and Stuart survey and the others studies (like Pfeffer’s survey) could be a result of how they have defined outsiders and the corporations the survey is about (often named as the surveys population), rather than actual differences. By population, we mean the object the survey is about (in these studies the boards of directors of different types of corporations). Unfortunately, we have not been able to sort it out, so therefore we think it is important to keep in mind that there is a risk that the different findings could be a question of how the measurements have been made. The second conclusion we think is possible to make is that the boards of directors on ICT corporations (or Internet, high-technology, IT, which definition used) is a breed apart from traditional boards. To highlight this we let Daum (2000, p 49) stand for the conclusion (which we support): “the vast majority of these companies (Public Internet companies) are still very young and have not yet made the transition from insider- to outsider-dominated boards, which would undoubtedly include a more diverse group.” One consequence from this statement is that our concept about board of directors must be revised since it is not in accordance with the reality of boards on ICT corporations.

However we now leave the presentation of past studies, regarding outsider representation on the boards, and goes back to the discussion Chrisman et al, (2000) that there is plenty of evidence which strengthen the conviction that outsider assistance improves small corporations performance, which started this paragraph.

Chrisman et al (2000) emphasized above that their research have shown that corporations receiving outsider assistance in early stages will have higher rates of survival, growth, and innovation, even in the long run. Others who earlier have made similar interpretations are Bird, 1998 (citing Hansen & Wortman, 1989; Stinchcombe, 1965) who points to the fact that corporations are specifically vulnerable in their initial process. Therefore could mistakes and other negative events occurring early in a corporation’s development have long-term effect on issues like survival- and growth potential. Therefore, according to Nielsen and Lekvall (1999), is the main purpose with electing external persons (from here on called outsiders) usually to widen the competence of the board, top management, and as well the whole corporation’s. Further
reasons to bring external people on the board is that agent theory suggests it is reasonable that a high proportion of outsiders will lead to that some aspects of the board’s roles and functioning, such as board effort norms will get better. This since, as Forbes and Milliken (1999, p 491) notes: “outsiders may enhance the effort norms of the board in that they are inclined to conceive of the board’s task as a task separate from and complementary to that of management, whereas insiders may view their governance responsibility as simply an extension of their managerial duties (Mace, 1986, cited by Forbes & Milliken 1999, p 499). However, as he also notes, it could also have a negative impact on other aspects of board functioning, for example the level of cohesiveness on the board.” Thus is the presence of outsiders also plausible to increase the levels of “cognitive conflict on the board”, because as Forbes and Milliken (1999, p 499) puts it: “outsiders share significantly fewer experiences with management and are liable to think more freely with regard to the firm’s goals and the range of alternatives available to it.”

Another reason to why it could arise conflicts on the board is, according to Lynne (1996), that inside directors generally have a higher status since their expertise-knowledge is likely to be more relevant to a broader scope of the issues the corporation have to deal with, in comparisons to outside board members. However, at the same time it is probable that the presence of outsiders on the board will reduce the existence of firm-specific knowledge on the board, because as Forbes and Milliken (1999, p 499) note: “outsiders lack the intimate understanding of the firm’s affairs that insiders possess. Further it is not possible to overlook that they also may have a higher status on the board due to their management position in the corporation's hierarchy.” Finally, they argue that: ”whereas insiders are well acquired and must work together regularly, outsiders have their primary affiliations dispersed across many different organizations and are likely to interact only periodically with insiders or with each other.” (p, 499) This increases the risk for conflicts on the board.

Despite the risk of conflicts on the board, another main reason to have an active and independent board is to be able to establish a constructive discussion between the board of directors, the CEO, and the owners. Nielsen and Lekvall (1999) puts forward the opinion that an active and independent board is necessary for this kind of constructive discussion should be possible: an opinion also supported by ALMI’s project report. In the paragraph: which attributes characterize a good board of directors, we listed some characteristics and one of them was independence. Strong outsider representation on the board is also considered an essential feature of an independent board (Daily and Dalton, 1994; Mallette and Fowler, 1992; Oviatt, 1988, see Young et al, 2000). Agent theorist gives one explanation to this: they claim that for a board of directors to be able to fulfill its monitoring role, the people on the board must be independent of management (Farina, 1980, see Young et al, 2000). From an agent theory perspective outsiders are also more likely than insiders to effectively fulfill their role as overseeing body. Because, as we mentioned earlier, corporate governance ascribes the board of directors the important role to secure an objective, sound, rational, and sound development and governance of the corporation. The reason why outside-board members would carry out the oversight task better than insiders is that their interest are more closely associated with the shareholders (Johnson et al., 1999, cited by Young et al 2000). Further, Young et al (2000, p 280; citing Patton and Baker, 1987) argue, “Insiders will not want to raise sensitive topic of the CEO’s performance because in all likelihood they are beholders to the CEO for their jobs and livelihood”. Young et al (2000) thus conclude: outside board
The board of directors as a strategic resource in small ICT corporations

members contribute to board’s independence and will be more inclined to hold CEO’s accountable for their performance. Further reasons to bring outsiders on the board is that it enables a dialogue between the board of directors, the CEO, the shareholders, and the stakeholders. Nielsen and Lekvall (1999) considered this as important, or even necessary, to bring new ideas, knowledge, and experiences into the corporation which creates and enhances the possibilities to view strategic and important decisions from several perspectives and aspects. This since groups consisting of people with diverse backgrounds are more likely to have access to information and perspectives acquired from the outside of the group (Ancona & Caldwell, 1992 cited by Forbes & Milliken 1999, p 498) and “attempts to pool and integrate these ‘exotic’ contributions may lead to higher levels of cognitive conflicts”. Through our extensive background research we have found this to be a conclusion and idea shared by several authors and research reports. To convey this in a concise, informative manner we quote Harvard Business School’s professor emeritus Robert B. Stobaugh:

Our major emphasis is that the company will be a lot better off, management will be better off, and the stockholders will be better off, if there's constructive engagement between the board and management. By working together as partners, management will be able to use more of the board's knowledge, contacts, and expertise than they would otherwise. One of the purposes of a board of directors is to provide the kind of experience and views that management may not have themselves.

(Quoted from an interview done by Martha Lagace, Staff Writer, HBS Working Knowledge HBSWK Pub. Date: Dec 18, 2000, p 2)

Furthermore, it seems to be the common thought of the referred authors and projects that a constructive cooperation between the board of directors and the stakeholders most certainly will lead to better governance and more rational decision-making in the corporations. Negative aspects with bringing in external persons to the boards is that external persons getting insight into the corporation, is increasing the risk for business secrets are spread to competitors. Another question of issue is the different costs connected with having an active board of directors. However, in the end it seems like the advantages outweigh the disadvantages. To conclude, authors, projects, and small business development programs have found that there are many positive things, which an active/independent board could contribute with. The perceived benefits of an active board seems to origin from the basic concept that the board of directors are responsible for the overall conduct of the corporation, that is to control and govern. To be able to actively support and govern the corporation, it requires that the board of directors possesses the needed skills, competences and experiences.

14 By stakeholders we here includes both internal and external stakeholders such as the founder, the shareholders/the owner, the top management, the employees, supplier, customers, state and government, and other who have and an interest in the organisation.
7.1.5 Required competences for the board of directors

A recurrent statement throughout this part has been that different authors consider the main value with an active board to be the widened competence and experience they contribute with in small corporations. This view on the board of directors seems to origin from the thought that the top management, the founder, or who else that may govern the corporation, lacks some relevant knowledge, considered the business they run. How usual occurrence and relevant this view of lack of knowledge is in ICT corporations, is not yet possible for us to say anything about. The common thought behind the statements seem to be that it takes a wide variety of skills in demand to govern a corporation, since it is such a complex task. To believe that a single person or a small group in the corporation could possess them all, is therefore not particular logic. A statement made by Forbes and Milliken (1999, p 496) could illustrate this, and at the same time reconnects to the two of the important roles a board of directors have. They said that:

If boards are to perform their control task effectively, they must integrate their knowledge of the firm’s internal affairs with their expertise in the areas of law and strategy. In addition, if boards are to perform their service task effectively, they must be able to combine their knowledge of various functional areas and apply that knowledge properly to firm-specific issues. In both cases board members must elicit and respect each other’s contributions, and seek to combine their insights in creative, synergistic ways.

Since not one corporation is the other one alike, the boards’ agendas is likely to be very dissimilar as well. However, some areas or factors are common for them all. Nielsen and Lekvall (1999) divide these areas, which have an influence on which competences are required for a board to possess, into three groups:

a) The size of the corporation:
The type of competences that a board of directors needs to have in order to govern and control the corporation could be related to the size of the corporation.

b) The complexity of the business:
Factors that affect the complexity of the operation is the development of the production- and the general- technology (is it a well-tried and established technology that all corporations in the industry uses, or is the ability to adapt and to use a rapid development an important factor for competitive advantage?), is it a single business corporation or a diversified one, is the market- and customer- segment wide or narrow, is it a business to customer or a business to business operation, is it a local or international corporation etcetera.

15 Suitable measure and definition of corporate size they do not however stipulate. They seem to be satisfied with saying that the issue of which measure being the most accurate for measure and classify the size of the corporation is worthwhile a discussion. For mention, some possible they take list number of employees, turnover etcetera.
The phase of change in the industry

Depending on the phase and tendency for change in the industry, i.e. if the industry is relatively mature and predictable or ever-changing, different competences of the board is required to be able to analyze and forecast the future. Factors of importance regarding the change in an industry are for example: customer demand, and competition.

Depending on the characteristic of general factors like the ones above, the board needs different skills. Because the board of directors is a group of individuals, the discussion is related to which required competences the individual members of the boards needs to possess.

7.1.5.1 Required competences for the members of the board of directors

Participation of knowledgeable persons in the discussions that take place on the board is by some scholars considered as more valuable than the CEO's request for information, advice, and agreement from each board member, according to Lynne (1996). What competences are then required? Since each board is an unique combination of people, each with their own different background, education, experiences etcetera, it is generally speaking, hard to point out what kind of knowledge a person must possess to be suitable as a member of the board. Thus the following statement by Forbes and Milliken (1999, p 501) seems reasonable: “It is possible for industry-based differences among boards of directors to impact their functioning as groups. Perhaps the best illustration of such differences is provided by the boards of high-tech firms.” If these boards are to assess the competence of management and provide advice on such issues as a firm’s competitive environment, Forbes and Milliken (1999) claims the members must have knowledge and skills that exceed the ordinary requirements of board service (Kotz, 1998 see Forbes & Milliken 1999). In particular, high-tech boards must have firm-specific knowledge that encompasses the technological intricacies of their firms’ products and their production and development (McKenna, 1995 cited by Forbes & Milliken 1999). In addition, they may need additional functional area skills that are specific to high-tech environments, such as intellectual property law. Consequently, the competences and skills needed for members on boards of directors, differ significantly. Nevertheless, there are some common fields the boards of directors are supposed to have an insight in. Forbes and Milliken (1999) claims that boards require a high degree of specialized knowledge and skill to function effectively. He divides the knowledge and skills most relevant for boards to possess into two main dimensions: (1) functional knowledge and skills and (2) firm-specific knowledge and skills. By functional knowledge and skills Forbes and Milliken (1999) embrace the traditional domains of business-related knowledge, such as: accounting, finance, marketing, as well as those domains that are related to the firm’s operations and interaction with its environment, such as law and culture. If the board should be able to live up to its responsibility and role as an elite strategic-issue-processing group the people on the board must possess knowledge and skills in these areas, or at least have access to external networks that can help out the boards in the search and gathering of information needed for the decision-making
The board of directors as a strategic resource in small ICT corporations

process (Ancona & Caldwell, 1988, cited by Forbes & Milliken, 1999). To be able to deal with the strategic issues and set the strategic direction of the corporation, Forbes and Milliken (1999, p 499) argue the people on the board needs firm-specific knowledge and skills, by which he mean “detailed information about the firm and an intimate understanding of its operations and internal management issues”. Another important competence is the board’s ability to use the knowledge and skills that the corporation possesses, i.e. to tap the knowledge and skills available to them and then apply it to the tasks, so called tacit knowledge (Nonaka, 1991 cited by Forbes & Milliken 1999). Another good guidance is given by Almi’s project report. In the report the following competences are listed as requirements:

- Experiences from top management, either as executive or as board member
- Well-experienced in business
- Have a sound judgment
- Wide network of useful contacts
- Special/deep knowledge in some of the fields of:
  a) Economy/Corporate Finance
  b) Issues concerning export/International business operations
  c) Production
  d) Marketing
  e) Experiences from earlier boards of directors
- Have a high personal integrity
- Have time and engagement for the mission

It seems as a reasonable conclusion that even if each corporation’s situation is unique and requires its specific board, there are nevertheless some general areas of knowledge and skills which is a basic requirement for a board of directors to possess, if it should be able to function and fulfill its task. Thus, if those basic and fundamental requirements are not achieved, then it cannot govern the corporation. Hence, it is not a strategic resource and do not contribute with achieving a competitive advantage for the corporation. However, the presented lists of knowledge and skill should of course not be taken as an “absolute truth”, because as said earlier, each corporation faces its unique situation.

It is possible for industry-based differences among boards of directors to impact their functioning as groups. Perhaps the best illustration of such differences is provided by the boards of high-tech firms. If these boards are to assess the competence of management and provide advice on such issues as a firm’s competitive environment, their members must have knowledge and skills that exceed the ordinary requirements of board service (Kotz, 1998 see Forbes & Milliken 1999). In particular, high-tech boards must have firm-specific knowledge that cover the technological details of their firms’ products and their production and development (McKenna, 1995 cited by Forbes & Milliken 1999). In addition, they may need additional functional area skills that are specific to high-tech environments, such as intellectual property law.

Because of these requirements, the presence and use of the boards’ knowledge and skills are likely to figure more prominently in these boards than in most others. These requirements may have indirect effects on board functioning as well, because many
The board of directors as a strategic resource in small ICT corporations

High-tech boards attempt to address these needs by adjusting the demographics of their boards. For example, high-tech firms tend to enhance the firm-specific knowledge of their boards by including a higher percentage of insiders and by favouring younger directors with current technological knowledge over older directors with prestigious appointments (Kotz, 1998 see Forbes & Milliken 1999). Finally, because many high-tech firms occupy industry environments characterized by high levels of growth and product differentiability, the boards of such firms may enjoy higher levels of discretion, thereby exerting a stronger influence on firm performance (Hambrick & Abrahamson, 1995 cited by Forbes & Milliken 1999).
7.2 Analysis: Mr. Past Project answer to the competitive advantage query

Ladies and Gentlemen, during my travel through the wilds of the competitive advantage query I have directed my studies particular against past project. I have made some interesting discoveries about the boards of directors’ contribution to the solution of this prevailing query. I hope you will find my lecture interesting and that you acquire some knowledge and insight into this interesting field. Firstly, I will tell you a story about those corporations that have found an answer to the competitive advantage riddle. It will be a brief and overall analysis of the board’s contribution to a corporation’s competitive advantage. Thereafter I will speak more deeply about some of the major and most important contributions.

The story behind the successful corporations

Corporations that succeed often have a good board of directors, which practice their role as a governing body with responsibility and commitment, at least according to Chrisman (1989). Why so may be, is that effective outside assistance would probably help the corporation to deal with strategic and structural configuration. Those corporations that have received assistance and words of wisdom from their boards will therefore be better prepared to deal with strategic, administrative, and operating problems. Further, according to Nielsen and Lekvall (1999), a top management team with an active and competent board as support is more likely to have the determination and self-reliance needed to take important strategic decisions regarding the corporations next development phase. Additionally, with the assistance of a competent and experienced board the likelihood for perpetrating unnecessary mistakes decreases. Since the early stages of a corporation’s development are the most critical ones, according to McMullan and Long (1990), outside assistance is very valuable. Other things of value an independent, well-functioned, and active board could generate are: increase the profitability, the growth, and development, and lessen the risks. In Almi Företagspartner Blekinge AB: s project report for the project “Se till din styrelse” it is mentioned several reasons why a corporation should bring in external members to the board16:

1. Increased competence in the corporation.
   Since the external board members’ have complementary experiences and contacts from different kinds of industries, the corporation will receive complementary, widened, and increased competence and network of contacts.

2. More effective top management team and directors.
   A competent board will advice and support the corporation’s top management. Knowing that a competent board supports them, also creates increased confidence when they are confronted with important and difficult decisions.

---

16 We have chosen to divide them into three general groups since many of them are of similar character, or connected to each other. Further, we are aware of that many people have presented pros and cons of board of directors, and that those presented by us is just a small fraction of it.

An active board creates the necessary conditions to separate between the role of the owners/shareholders meeting, the board of directors, and the top management team. The board of directors has an important role to fulfill as a supervising instance/part. It is their role to make objective and neutral demands on the top managers, which corresponds with the corporation’s overall vision and objectives.

Therefore we make the analysis that with people on the board that possess suitable knowledge and skills (in the respect to the task confronting them) and are recruited to actively assist and support the corporation increases the probability for the corporation to perform better and avoid crucial mistakes in the early phases. This was the introduction analysis, we will now continue to describe the major contributions. We start with analyzing the value created by the possibility to separate between the function of the top management team and the board of directors, which an active board creates.

**Dividing the task - The basic principle of how to steer a corporation**

As you probably already know, Mr. Corporate Governance, the speaker before me and another member of the expedition, strongly emphasizes that the governing of a corporation should be divided between two separate instances. He means that the governance and control on a day-to-day, operational, basis should be carried out by the Top management team whereas the board of directors should deal with issues regarding the long-term and strategic steering and governing of the corporation. This is an opinion shared by most scholars, and is also our starting point for this analysis. So, as explored earlier, the corporate governance perspective explored and advocates that these two roles should be divided, but what he misses to explain is what the boards more precisely do, and above all: what could an active and engaged board contribute with? Do they contribute with anything that could affect a small ICT corporation’s survival and success? By applying the perspective of different state/governments initialized business development projects and programs we have exposed further reasons why the Mr. Corporate Governance proposed configuration may be suitable for governing and controlling small corporations. Therefore we begin this analysis with an evaluation of Mr. Corporate Governance thought of the organisational structure of corporations. We do this by interpreting the suggestion made by different studies and projects about how to govern, steer, and develop small corporations.

**7.2.1 The boards’ contribution to a small ICT corporation’s survival and success**

**The view of the corporation**

As the anecdote: The blind men and the elephant, by John Godfrey Saxe (see chapter 2) nicely illustrated is the perception and apprehension of a thing very much in the eye of the beholder. Therefore, the view upon a corporation’s situation is very much dependent upon those responsible for the strategic decisions and their frame of reference, professional experience, personal opinion, and so on. During a small corporation first
The board of directors as a strategic resource
in small ICT corporations

hectically, turbulent, and very important years, many decisions is of operational and tactical character. You could say it is more about doing the right things today than draw up plans and visions for the future. One of the main important things we have found that active boards contribute with is the overview, advices, and reflections about the corporations’ current and future situation and development. The reason for this is that the board of directors and the top management team each has a unique and distinct perspective of the corporation’s current situation and the issues of strategic importance. Reasons we have found supporting this statement are several. Firstly, since the managers of the corporation are charged with the day-to-day governing, involving to deal with issues and making decisions about arising questions of operational character. In addition to this, they are responsible for implementing the corporate strategy, turning strategic objectives and visions into operational reality. This is why they focus on implementing one strategic path/plan at a time, securing that it is carried out as effectively and successfully as possible, so the corporation could achieve competitive advantage and earning above industry profitability.

The board of directors on their hand are imposed by the shareholders to provide an overall view and strategic insights of the governance of the corporation. The oversight responsibility requires a broad perspective, because any strategic plan that affects the ability of the corporation to utilize and reach its full competitive potential negatively, both on a tactical and long-term level, requires the corporation’s awareness and consideration. Further, within their responsibility of overseeing they should also guarantee a balanced and sound view of the corporation’s current situation and future development directions amongst the top management team and other managers. This since they, as Mr. Corporate Governance proposes, are not involved in the daily operational work, decisions, and discussions. Thereby they do not need to focus on the operational issues. Then, one might question why the top management team is not the best-qualified one to select the appropriate criteria to evaluate the company's progress and development. A reasonable explanation is that they are the ones working closest, most frequently with the corporation and they interact with its employees, stakeholders, customers, distributors, and competitor’s. Therefore it is very difficult for management to have the objectivity and overview that the board of directors have. Particularly this is applicable in small ICT corporations where the founder perhaps is a person who have come up with a business idea which he strongly and fully believes in. From a practical viewpoint this means that the founder, the employees, and the top management team is deeply involved, and have their hands full with operational and tactical issues of how turning these ideas and visions into reality. In this initial, hectic, and turbulent time this often implies developing a first prototype of the product/service, establishing relationships with crucial stakeholders (such as customers and investors). The first analysis we do is therefore: by focusing on the strategic issues they provide a security for a balanced, sound, and rational view of the corporation’s current situation and future develop direction. Further, they stand for the supervision, insights, and evaluation of the corporations businesses. Based on this analysis we find it logical to assume that the board makes a valuable contribution to a corporations development, survival, and success. Hence we make the conclusion: This perspective considers that corporations need an active and independent board which could take care of the strategically important decisions and securing a sound, rational, development of the corporation. Therefore it is worrying that a large percentage of small corporations do not have any “real” board of directors. If a board should be able to contribute to the above, there are
some basic characteristics/requirements that a board must live up to. We have to come back to this analysis regarding these requirements, because we would like to first highlight other contributions.

Splitting the roles

We think that a short summary and conclusion could be in place before we continue with this analysis since we think it is important and is a good introduction.

It could be said that: in summary, boards of directors can be looked upon as an elite decision-making group that just as the top management team faces and deals with strategic and governing tasks of complex character. Despite this, there is an important difference between the corporation’s board of directors and its top management team. The board is only responsible for overseeing, insight, monitoring, questioning, and influencing the strategy and development of the corporation, and not for the implementation of the strategic decisions, pertaining to the strategy, or for daily decisions, overseeing and managing of the day-to-day administration. If we apply this to the conditions and characteristics of small ICT corporations, described by Mr. Past Project, we know that firstly it is not any unusualness that several of the most important positions in a corporation is possessed by very few persons. This implies that many persons possess more than one position, and therefore there is a risk that the corporation lack people with important experiences and knowledge. Secondly, a large percentage of small corporations boards are not a ‘real’ board of directors, rather a ‘paper construction’. Not particularly surprising past qualitative studies have shown that boards carry out their task with widely varying degree of attentiveness, analysis, and participation. Additional indications that makes this even more considerable is that above we made the analysis that: an important contribution by a board is the overview, advices, and reflections about the corporations’ current and future situations and development, and that one reason for this is that the board of directors and the top management team each has a unique and distinct perspective of the corporation’s current situation and the issues of strategic importance. Then, considering these two findings of Mr. Past Project, we believe that one possible part of the answer to the competitive advantage query could be that small ICT corporations do not have the structure and people with skills and experiences they are in need of to handle current and future problems. This analysis we share with Daum (2000).

A further consequence caused by the lack of a ‘real’ board is that the roles between corporations’ top management team and board of directors are not separated. To exemplify, in small corporations has often the founder/the owner both the position as CEO and chairman of the board. The reasons behind why the roles are not separated, the operational and strategic (meaning that many corporations do not have any real board of directors) are likely to be numerous, and we could not cover them all in our analysis. However, the most logic reasons seem to be that either the corporation lack the financial means to employ additional salaried people, both to the top management team and to the board of directors. Alternatively, since they work actively in the corporation’s top management team, for example as managing director, they could look after their interest by themselves. If the corporation lacks the financial means, then there is not so much more to say about it. In that case, the owners’ work in the organization, then the idea behind the legal requirements (that the organizational configuration with a board of
The board of directors as a strategic resource in small ICT corporations

directors secures the owners interests and rights) is not particularly valid. Since the concept board of directors often implies the description of the boards as the formal link between the shareholders of a firm and the managers, who are entrusted with the day-to-day functioning of the organization, it is as well not applicable on the reality facing small corporations. Hence, it needs to be revised.

However, since several studies claim that having an active and professional board is not a question of money, it rather seems to be a question of opinion and perception of the necessity and value of having an active and professional board. For example, Almi’s project report found that many founders/owners do not perceive a board as anything valuable; they rather perceived the board as just a legal requirement. To explain from where this view originates is perhaps outside the scope of this thesis, but we could describe and analyze some of the explored reasons. One reason might be that as we said above the legislation do not seem applicable on small corporations since the owners are often few and works within the organization. Further on, a widespread opinion amongst scholar and entrepreneurs is that to govern a corporation people with wide skills and business experiences are required. One possible indication could be that this might not be applicable on small corporations. To analyze this seems well-founded because another especially fundamental and basic idea with a board of directors in small corporations is to support and complement the top management team/the owners, which often implies complementing their experiences and knowledge. To help us analyze this we will use two basic characteristics that we have found. They describe the extent of competence needed to govern a corporation, and thereby the need to separate the positions/roles of the top management team and the board of directors.

The board as a source for knowledge, experience, and advise

By using these two factors, we may be able to describe whether small corporations view on boards could be traced to their perception about the competence needed to run a corporation. The first character is the complexity/extent of the corporations business: A small corporation is often a single business corporation with a niche product and strategy. By this we mean that it has a narrow market- and customer segment. This points to that it is less complex to govern corporations of this character, in comparison to large corporations that have a wider area of businesses. Other important factors that affect the complexity of the business conducted are the pace of the production- and the general technology development. In the IT, and ICT industry, and other high-technology related industries, is the pace of development rapid and the ability to manage the corporations technological assets is often considered being an important factor for achieving competitive advantage. In addition to the ever-changing business environment, the rapid diminishing strategic - and product life cycles contributes to increasing the complexity of running and governing small ICT corporations. Making an overall estimation of how complex a small ICT corporation is to govern, from this character, is not easy. Not only is it questionable whether it is possible to generalize and simplify the complexity of all corporations of this kind; small ICT corporations are probably a quite heterogeneous group. It is also tricky to judge whether technological intensiveness implies complexity. Because many founders of high-technology corporations have come up with a business idea thanks to their insight in a technology’s potential and usage. Based on these characteristics, we make the analysis that there are
The board of directors as a strategic resource in small ICT corporations

contradictory factors whether or not small ICT corporations businesses are more or less complex in comparison to traditional corporation (which then could be one explanation why they do not see any use and need of a board of directors since the idea behind the legislation and Mr. Corporate Governance is based on large traditional corporations). Indications that points to this is a less complicated task to govern these small ICT corporations, in comparison to large corporations, is that they often are single business corporations. On the other hand, small ICT corporations faces rapid technological development which points to a higher complexity in comparison to more established and stable industries.

Secondly, the size of the corporation: the competences needed to be able to govern and control a corporation are most likely related to the size of the corporation. Small corporations have fewer employees and thereby a smaller organization, the business conducted is less extensive. Consequently they do not have the large corporations’ needs, resources, or people to possess all the positions we normally associate with a top management team, such as: chief financial officer, chief personnel officer, chief technical officer, and so on. A very important idea considering a board of directors in small corporations is to support and complement the top management team/the owners experience and skills. This since the top management team often is fewer in number, in comparison with larger corporations. Additionally due to lack of financial funds, they do not have the large corporations possibility to purchase expertise knowledge when needed. The analysis we do is that even though a small corporation requires a few numbers of people to run it, due to less complex administration and a more narrow business, it nevertheless requires wide skills and business experiences to be able to properly govern a corporation successfully.

The overall analysis of these two characteristics is that: firstly, it may require fewer people to run a single business corporation, due to less complex day-to-day governing, and that due to the rapid development, the focus is more on a tactical level. The top management team may therefore have time available for these issues, thereby leaving a board without a task. Further reasons why the roles of the top management team and the board of directors are not separated could be the increased requirements, presence, and use of the boards’ knowledge and skills. In small ICT corporations this is likely to be more noticeable than in most other types of boards. An indication of this, which we have found, is that high-tech corporations favour technological and firm-specific knowledge on their boards, rather than general business experiences. This is indicated by a survey which found that ICT corporations tends to favor younger inside directors with up-to-date technological knowledge over older and more experienced outsiders with business experience and wide personal network of contacts (measured in the Spencer Stuart’s survey as the ratio of outsiders to insiders). This points to that the owners of small ICT corporations may view the idea; the board is there to complement the top management team and the owner’s knowledge and experience, not applicable.

Additional contributions to a corporation’s competitive advantage

Firstly, the board should set the strategic direction of the organization. The most agreed upon contribution and responsibility of a board is probably that it should stipulate the strategic objectives.
The board of directors as a strategic resource in small ICT corporations

Secondly, several authors have emphasized that boards have three primary roles; the service, the linkage, and the administration. If the board fulfills these roles properly, they give the corporation several benefits. Specific contributions related to the service role includes: providing expert and detailed insight during major events, such as an acquisition or restructuring, as well as more informal and ongoing activities, such as generating and analyzing strategic alternatives during board meetings. In the linkage role, the board contributes to establishing relationships between the corporation and the external environment. This relation-building role is of great importance because “these relationships are often used for the procurement of inputs that organizations require to survive” (see Young et al 2000, p 281). In the administrative role, the boards concentrate their attention and time on overseeing the performance of the top management, and in particular the CEO. By questioning and advising the top management team, regarding their management of the operational business, they contribute to increase the administrative governance of the corporation. Related to this is the above written about separating the roles and the view upon the corporation’s current situation.

Thirdly, the relational roles of boards of directors are closely related to the linkage role. If the members of the boards are outsiders and have relevant knowledge, experiences, and above all a usable network of contacts, the corporation may through the people on the board obtain resources that could decrease the corporation’s uncertainty about its environment, thus increasing its chances of survival. Examples of relational resources includes: Coordination with its external environment; Informational access and exchange; Support through identification with the corporation; Status within some community; Legitimacy in the eyes of relevant audiences; Advices based on the backgrounds, experiences, and skills of the board members; monitoring; direction & advices. Some of these resources can the corporation not simply get access through other channels because: resources such as legitimacy are inextricably en-twined with board membership itself, see Lynne (1996).

Fourthly, as organizational form, the board of directors is unique in that sense it provides a flexible instrument for the corporation to acquire the resources it is in need of. This since granting board memberships is a traditional way for a corporation to receive valuable advice and devoted advisers. What makes this uniqueness particularly important in the ICT industry is that the business environment constantly changes, with opportunities and threats arising and diminishing in the blink of an eye.

Ending words

Even though we have explored that boards could contribute with several qualities which are likely to influence a corporation’s performance positively, it seems in practise, boards often do not fulfill this potential and that many people do not perceive the board as anything valuable. Then one might ask why this is the case. One explanation might be that the idea of the board of directors was originally developed for large corporations and their circumstances. Thus, it seems that it would be good to revise some of the governing principles so that they board of directors is not perceived as just a legal requirement that is not often applicable in small ICT corporations, due to the ownership structure and other distinguishing attributes. This would be valuable because a well functioning board of directors is a strategic resource that contributes with several valuable things.
8 Mr. Strategy-
The Strategic Viewpoint of how Competitive Advantage is Created and the Board of Directors’ Contribution

8.1 Introduction - the evolution of strategy

When striving to exploit what role and significance the board of directors on small ICT corporations have in the competitive advantage riddle, it could be in place to review the field strategy. This because a long time ago both militarist and scholars - in more peaceful areas - have studied the field of strategy to understand how to conquer and defeat competitors. To introduce the field of strategy we derive the explanation of what the idea of strategy is about from encyclopedia Britannica;

*Strategy*: in warfare, the science or art of employing all the military, economic, political, and other resources of a nation to achieve the objects of war. This is the modern meaning, reflecting the need for general military and economic mobilization for warfare. In the 18th and early 19th centuries, however, when the term first became current, strategy denoted the art of projecting and directing campaigns and the movements and dispositions of military forces in war.

*Strategus*, plural strategi, Greek Strategos, in ancient Greece, a general, frequently functioning as a state officer with wider functions; also a high official in medieval Byzantium. An annual board of 10 strategis was introduced in Athens during the reorganizations of the tribal system under Cleisthenes (c. 508 BC), each of the 10 tribal units being represented in the army by a taxis (“regiment”) led by a strategus […]

Obviously, during a main part of its history, strategy was not about deploying corporate resources (such as steel) to achieve goals like 10% return on investment. Instead, the resources were soldiers and the goal was to win a battle, and defend the nation against some ill-intended invader.
The board of directors as a strategic resource in small ICT corporations

8.1.1 Strategy in the field of business

Beginning as a concept within the study of warfare, strategy was then found useful in the study of economics. The field of strategy, as an academic discipline, is generally considered to origin from the mid 1950s or 1960s, started by a book written by William Newman. While the history of “business strategy” is still in its infancy, the writing on military strategy goes back much further. Actually, Sun Tzu wrote his famous book “The Art of War” some time in the fourth century B.C. One might ask why the field of strategy was applied and is still used in the business environment, i.e. what do they have in common? The field of strategy is about thinking, analyzing, and making plans for the future. This is needed because for most corporations the day of tomorrow implies uncertainty: will they earn enough profit to continue conduct business? It is very few corporation grudge to have such a competitive advantage that their future income stream and profit margin is secured. The understanding of what may be the sources to achieve sustained competitive advantage, and how to create them, has as the query implies become a great field of research.

8.1.1.1 The early years of business strategy

In the beginning, the researchers used the theories of neoclassic national economics (Chamberlin, 1933; Friedman, 1953, see Eneroth 1997, p 29) as a starting point. Particularly the theories within industrial organization were given a lot of attention and focus (Bain 156; Rumelt, 1984; Hill, 1988, see Eneroth 1997). According to Collis and Montgomery (Harvard Business Review, Jul/Aug95) has the field of ‘modern business’ strategy mainly been created from a framework conceived first by Kenneth R. Andrews. In his classic book “The Concept of Corporate Strategy”, Andrews defined strategy as: “the match between what a company can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats).” (see Collis and Montgomery 1995, p 130). Collis and Montgomery (1995) mean that although the power of Andrew's framework was recognized all from the beginning, managers were given few insights about how to assess either side of the equation systematically. Therefore, despite Andrews was the one who established a framework, it is Michael E. Porter, with his book Competitive Strategy Techniques for Analyzing industries and Competitors (Free Press, 1980), who is the one considered to have made the first important breakthrough. We invite Collis and Montgomery (1995, p 130) to give a brief explanation of Porter's work and thoughts:

Porter’s book built on the structure-conduct performance paradigm of industrial-organization economics. The essence of the model is that the structure of an industry determines the state of competition within that industry and sets the context for companies' conduct - that is, their, strategy. Most important, structural forces (which Porter called the five forces) determine the average profitability of the industry and have a correspondingly strong impact on the profitability of individual corporate strategies.

How to define sustained competitive advantage is not easy and the chosen definition will for certain be questionable by others. We have chosen to define that a corporation has a competitive advantage if: it over a certain period of time performs better than its industry competitors.
Porter’s explanation of competitive advantage was to choose the "right industries" and, within them, the most attractive competitive positions. “Because (industry) structure determines performance, we could ignore conduct and look directly at industry structure in trying to explain performance” Porter (1990, see Eneroth 1997, p 29). Although his model did not ignore the characteristics of individual companies, the emphasis was clearly at the industry level, or put differently, it is not the corporations’ operations that determine the performance, rather the industry attractiveness. An author who critically put the real implications of Porter’s theory on its edge is Nelson (1991, see Eneroth 1997, p 31) who said that: “given the same conditions, all firms will do the same thing.”

The starting point for this early research was that the top management team and individual decision-makers acted rational, i.e. with guidance from an overall vision/objectives deploy the resources in such a way that maximal goal fulfillment was achieved. Another basic assumption Bain (1996, see Eneroth 1997, p 29) considers particularly the theories of industrial organization made was: they viewed the corporation as an individual actor, not capable to affect the market and its settings. The only available alternatives (strategies) for the – supposed - rational decision makers were to either choose a low-cost- or niche strategy. By niche strategy Porter (1980) means: “[...] to find a segment/niche in the market for products that are perceived by the customers as different, more valuable, and therefore worthwhile paying a higher price for”(see Eneroth 1997, p 30). The principle behind this idea was that the company was at the mercy of the rules which the environment had determined. Therefore, suitable strategies and strategic maneuverability was predetermined by the environment. The ability to adapt to the external environment was crucial for survival, and was the explanation given why some corporations succeed and others fail.

Speaking about competitive advantage, the ability to adapt to the set of rules, determined by the environments, was believed to be the source for achieving competitive advantage. Quite obvious, scholars supporting this theory had a deterministic worldview, i.e. the environment set the rules, which was a common thought of strategy scholars at this time. Mintzberg et al (1998) therefore groups these early strategy theories into a group, called the environment school. The name of the group alludes to the common thought of adaptation, i.e. the corporation that are best to adapt to the environment will be the most successful. This view they seem to have borrowed from the Darwinist thought of “the survival of the fittest”. From the environmentalists’ perspective, strategy is to understand the “pressures imposed on organizations”, and strategy therefore becomes a reactive process, according to Mintzberg, et al (1998)

The procedure for structuring the research about competitive advantage was for a long period aimed at a single organizational framework. The explanation given to the competitive advantage riddle was: by implementing strategies that used the corporation’s internal strengths to exploit the opportunities in the environment, while at the same time neutralizing the risk that competitors and other external threats take use of the internal weaknesses, the firm would achieve a competitive advantage and become successful. The “field of competitive business strategy” is well-described by one of its most ardent advocates, Michael Porter (see Strickland & Thompson 1998):
The board of directors as a strategic resource in small ICT corporations

Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive research aims to establish a profitable and sustainable position against the forces that determine industry competition.

We let Barney (1991, p 99) end this first part of strategy history, and foremost the environmental models view of how competitive advantage is achieved, with the following statement: “Most research on sources for sustained competitive advantage has focused on isolating a firm’s opportunities and threats (Porter, 1980, 1985), describing its strengths and weaknesses (Hofer & Schendel, 1978; Stinchcombe, 1965; Penrose, 1958), or analyzing how these are matched to choose strategies.”

8.1.2 Moving from outside to inside the corporation

As often with fads, theories, and worldviews they do not elude criticism particularly long. And so was the case for this field of strategy as well. Scholars having criticized the industrial organization theory are likely to be numerous, but the red line through the criticism has been whether the world is deterministic or voluntaristic. In a response to the national neoclassical economic theories’ deterministic, static, and equilibrium worldview of strategy, a research with a different perspective emerges; the capabilities approaches.

When the pendulum swung in the other direction, it did so dramatically. According to Collis & Montgomery (1995), scholars moved their focus from outside (the environment) to inside the company. The starting signal for this shift was the appearance of the concepts of core competence and competing on capabilities. This caused a movement where everyone started to search after company-specific resources and competencies. These fields of research assumed that the roots of competitive advantage were to be found inside the organization. They emphasized both the importance “[…] of the skills and collective learning embedded in an organization” and “the management's ability to marshal them”, see Collis & Montgomery (1995, p 129). Consequently, the adoption to new strategies was considered to be constrained by the current level of the company's resources. Collis & Motegomery (1995, p 130) comments this pendulum swung in the following way: “The external environment received little, if any, attention, and what we had learned about industries and competitive analysis seemed to disappear from our collective psyche”. From this internal resource-based perspective, the resource-based theory emerged as a new, more sober-minded view of the firm and sustained competitive advantage.

Please note that we in this kind of expressions refer to the material we have read and not all that have been published. “The literature of strategic Management is vast- the number of published items over the years is today close to 2,000 - and it grows larger every year (Mintzberg). Therefore, we understand that this may not be a correct view and summarization of the field of strategy.
8.2 The resource based perspective

8.2.1 Introduction to Resource based theory

The resource-based view of the firm bridges these quite separated views. Firstly, like the capabilities approaches, the resource-based view acknowledges the view that “a firm’s competitive position is defined by a bundle of unique resources and relationships” (Rumelt, 1984), and thus provides a balance vis-à-vis environmental models of strategy” (Das & Teng 2000, p 32). However, Collis and Montgomery (1995) emphasize that contrary to the capability approach the RBV theory evaluates the company-specific resources and competencies in the context of the competitive environment. One further important characteristic which they consider the resource-based view shares with the industrial-organization theories is: “It, too, relies on economic reasoning. It sees capabilities and resources as the heart of a company's competitive position, subject to the interplay of the fundamental market forces: supply and demand” (see Collis & Montgomery 1995, p 130). Briefly explained, the research within the resource-based strategy tries to solve the riddle of how sustained competitive advantage is achieved by studying how organizations’ internal resources are mobilized and used in a more effective manner, and whether or not it could be one possible explanation (Eneroth, 1997). A further, good introduction to the resource-based theory is given by Conner (1991, see Eneroth, 1997, p 30) and Collis and Montgomery (1995, p 120). We begin with the initial:

A resource-based approach to strategic management focuses on costly to copy attributes of the firm as sources of economic rents, and therefore, as fundamental drivers of performance and competitive advantage.

The RBV sees companies as very different collections of physical and intangible assets and capabilities. No two companies are alike because no two companies have had the same set of experiences, acquired the same assets and skills, or built the same organizational cultures. These assets and capabilities, determine how efficiently and effectively a company performs its functional activities. Following this logic, a company will be positioned to succeed if it has the best and most appropriate stocks of resources for its business and strategy.

8.2.2 Premises of the Resource-based theory and the environmental models

The basic assumptions of a theory are often the things being examined or analyzed since they provide a good insight of the theory. The resource-based view, just like the environmental models, makes two basic assumptions, according to Barney, 1991. First, the resource-based view assumes that firms within an industry may be heterogeneous with respect to the strategic resources they possess and control. The environmental models on their hand assume that the firms are identical in terms of the strategically relevant resources they control and the strategies they pursue (Porter, 1981; Rumelt 1984; Scherer, 1980, see Barney, 1991). The second assumption Barney (1991, p 101)
The board of directors as a strategic resource in small ICT corporations

explains in the following way: “The resource-based model assumes that these resources may not be perfectly mobile across firms, and thus heterogeneity may be long lasting.” The environmental models on their hand assume that if resource heterogeneity should develop in an industry, it will be very short lived. This since the resources that firms use to craft and implement their strategies are highly mobile. By highly mobile Barney means, they can be bought and sold in factors markets (Barney, 1986; Hirshleifer, 1980, see Barney 1991).

When Barney (1991) comments and analyses the contributions of the environmental models he does it by commenting their assumptions: “There is little doubt that these two assumptions of the environmental models have been very fruitful in clarifying our understanding of the impact of a firm’s environment on performance. However, the resource-based view of competitive advantage, because it examines the link between a firm’s internal characteristics and performance, obviously cannot build on these same assumptions”. This since the assumptions of the environmental models about competitive advantage eliminates the possibility that a firm’s resources heterogeneity and immobility could be possible sources of competitive advantage.

Finally, before ending the introduction we need to define the key concepts of the resource-based theory.

8.2.3 Key definitions

Firms resources: The original definition used in resource-based theory is to be found in the article “Firm Resources and Sustained Competitive advantage” by Barney (1991)19. There he uses Daft’s (1983) definition: “firms resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”(Barney 1991, p 101). To make it easier to grasp all these numerous types of resources, the resource-based theory’s scholars20 usually divides them into three categories: physical capital resources (Williamson, 1975, see Ibid), human capital resources (Becker, 1964, see Ibid), and organizational capital resources (Tomer, 1987, see Ibid). A more practical orientated definition is given by Wickham (1998, p 192) who says, “Resources are things that business uses to pursue its ends. They are the inputs that the business converts to create the outputs it delivers to its customers. They are the substance out of which the business is made”.

The stipulation of which definition is the most appropriate one has been subject for discussion21; see for example Priem and Butler (2001a and b), and Barney (2001). In response to Priem’s and Butler’s critique, Barney makes the following statement; […] I think I would make some changes to the article if I wrote it today, and many of those changes involve the issue that Priem and Butler focus on. […] I would adopt a simpler definition of resources (i.e., resources are the tangible and intangible assets a firm uses to choose and implement its strategies)” (Barney 2001, p 53).

19 By which meaning a concept is used in a theory is of importance. Since the used of concepts affects the interpretation of the theory, and thereby as well, how it is used and applied empirically and academically.


21 Therefore our extensive coverage of the definition of this concept.
The board of directors as a strategic resource in small ICT corporations

As a consequence to Barney’s answer we have chosen to use Collis and Montgomery (1995) definition, which we consider a good mixture of Barney’s (2001, p 120) ‘new’ definition and the three categories mentioned above:

Valuable resources can take a variety of forms. They can be physical like the wire into your house. Or valuable resources may be intangible, such as brand names or technological know-how. Or the valuable resource may be an organizational capability embedded in a company's routines, processes, and culture.

However, even though a firm has a resource in its possession that per definition is a firm resource, i.e. it is either, tangible or intangible, it does not automatically make it valuable. This because not all resources are strategically relevant, it must have an attribute which enables the firm to craft and implement a strategy that improves its efficiency and effectiveness (Wernerfelt, 1984, see Barney 1991). This requirement leads us to the definition of the second elementary concept of the resource-based theory.

8.2.4 Competitive advantage and sustained competitive advantage

Competitive advantage is a frequently used concept within business strategy. Even though most scholars have the same conception of the meaning: they define it differently. This is also the case with the resource-based theory, and therefore we consider the existing differences of opinions and definitions as important to emphasize.

A general introductory definition, however vague, of competitive advantage is the one by Thompson and Strickland (1998, p 134): “A company has competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces.” A more specific explanation is given by Kotler (1996, p 918) when he states: “An advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices”. When Barney published the first article about the resource-based view in the Journal of Management, 1991, he used a definition that could be said to constitute a combination of the previously two given example. He writes: “In this article, a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors” (Barney 1991, p 102). However, this definition has lately been subject for discussion, foremost Priem and Butler (2001a and b) have expressed critic. They suggest that Shoemakers’ definition, “a firm systematically creating above average returns” (1990, see Priem and Butler 2001a, p 35), is more suitable because if it is substituted into Barney’s statement it would imply that: “There might be many approaches, or different resource configurations, that could achieve a particular level of return”, see Priem and Butler (2001a, p35). According to them, this definition implies that the relative difference in the amount of value generated by firms is an essential source for competitive advantage. This is a quite different opinion compared to Barney’s (1991, p 106), which proposes,
“The rarity of the resources used is the elemental for competitive advantage”22. Priem’s and Butler’s opinion, that there might be many approaches to achieve return, is supported by Thompson and Strickland (1998, p 135) who states “There are many routes to competitive advantage: manufacturing the best made product on the market, delivering superior customer value [...] etc.). In response to the critiques, Barney (2001) claims that using the proposed definition, Schoemaker (1990), reintroduces the concept of industry in the discussion about competitive advantage. Barney put forward three reasons why he in the article from 1991 chose to define competitive advantage at firm level, which did not require a definition of a firm’s industry. Firstly, he alludes to the difficulties with theoretically stipulating appropriate boundaries of a particular industry. Because of this problem, Barney (2001) considers the decision of which firms to include and which to exclude becomes too arbitrary. Thereby becomes the calculated average return in an industry quite arbitrary, and in that connection, the research result about competitive advantage will be questionable. Secondly, to be able to define an industry’s boundaries, a certain level of stability in technology and competition is needed. Barney (2001, p 48) considers this, assuming a static view, was inappropriate 1991 and says:

Even more inappropriate in the twenty-first century, when traditional industry boundaries are being destroyed and when competition can come from numerous sources, not just from firms within the well-defined boundaries of an industry. In the new economy it will often be inappropriate to adopt a definition of competitive advantage that builds on concepts assuming a technological and competitive stability that does not exist.

Thirdly, since the resource-based logic “takes as its unit of analysis the firm”, Barney (2001, p 48) means it was necessary to choose a definition that was firm dependent, and not industry dependent.

The outcome of this debate is that Barney (2001, p 48) states that, in general, there are two ways to define competitive advantage at the firm level. The first is a modification of the one he used in the article from 1991: ”A firm is said to have a competitive advantage when it is engaging in activities that increase its efficiency or effectiveness in ways that competing firms are not, regardless of whether those other firms are in a particular firm’s industry”. The second definition involves the expectations that the firm’s owners have about the returns the corporation will generate. With this definition, “Firms that generate higher returns than were expected by stockholders (at constant level of risk) have a competitive advantage”. This definition origin from theories about economic rent, Barney (1986) see Barney (2001, p 48).

To stipulate the definition of competitive advantage is not particularly easy which the debate amongst scholars of the resource-based theory have shown. What we think warrants this discussion is that because the two definitions are related, taken together the definition of competitive advantage is more applicable, precise, and stronger. The product received from the combination is the example given by Barney (2001, p 49):

---

22 For readers not familiar with the resource-based theory this criticism may be little hard to grasp since this discussion of the definitions is presented before the theory. However, because it has implication for the whole theory, and its applicability, we consider it be important to present in the introduction.
The board of directors as a strategic resource
in small ICT corporations

“One reason a firm may be able to generate an economic rent is that it is able to increase its efficiency and effectiveness in ways that other firms are not. If expectations about firm returns are based on firms that do not possess this competitive advantage, this competitive advantage can generate an economic rent.”

After reviewed the definition of competitive advantage, we will now continue with the second concept: **Sustained competitive advantage.** The basic definition of sustained competitive advantage Barney used 1991(p 102) was the following:

A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

As response to the discussion about competitive advantage (see Priem and Butler 2001a, 2001, and Barney 2001) and the two examples put forward, Barney reformulates the definition of sustained competitive advantage, so it comprehends the proposed definition. Sustained competitive advantage, has a firm:

According to the first definition, when it is improving its efficiency and effectiveness in ways that competing firms are not and when these other firms have ceased efforts to imitate these activities. According to the second definition, when it creates a sustained economic rent, which includes the ability to consistently exceed the performance expectations of its owners despite that these expectations will be adjusted given a firm’s prior performance levels. (Barney 2001, p 49)

These definitions of sustained competitive advantage include two major aspects. The first aspect, most explicit in the original definition, is that resource-based scholars do not view competitive advantage solely as a firm’s competitive position vis-à-vis currently existing and known competitors. Because, the notion “sustained” includes the risk of new entrants as well the threat they may constitute as potential competitors. Secondly, Barney (1991, p 102) argues that the definition adopted “does not depend on the period of calendar time during which a firm enjoys competitive advantage, rather the possibility for competitors to duplicate the source for the advantage”. With this view, a competitive advantage is not seen as sustainable until it has survived reiterated attempts of others to duplicate it. Barney’s (1991) definition follows the equilibrium-definition used by Lippmann and Rumelt (1982) and Rumelt (1984). According to them, sustainable is a competitive advantage first after efforts to duplicate it has ceased. Other authors have proposed that a sustained competitive advantage is merely an expression for a firm whose competitive advantage have lasted for a certain time, see for example (Jacobsen, 1988; Porter 1985 cited by Barney 1991).

Which definition to adopt mainly depends on which research field the researcher belongs to. However, our opinion is that the best prospect of understanding sustainable competitive advantage has those who consider both definitions. This since in our view the definitions are connected with each other: there is a causality relation between them. The foundation for competitive advantage is the inability of both current and future competitors to duplicate the benefits of the firm’s strategy in use, which has enabled the
firm to improve its efficiency and effectiveness over a certain period of calendar time. An empirical result of the sustainability is the ability to consistently exceed the owners’ expectations of performance (by create a sustained economic rent) and customers and competitors (improved efficiency and effectiveness result in higher perceived value).

The last remark about competitive advantage and sustained competitive advantage is that even though an advantage has proven to be sustained (survived numerous duplication attempts over a long period of calendar time), it does not mean it will “last forever”, or even the following day. Since, unanticipated major changes in the environment/economic structure could make the source for a firm’s strategy (which have been successful and impossible to duplicate), not relevant anymore. Thus, the resource is of no value for the firm because it is not a source of any competitive advantage at all, according to Barney (1991). This structural revolution in an industry, which redefines which of the firm’s attributes that may be a resource, is called “Schumpeterian Shocks” (Barney, 1986; Rumelt & Wensley, 1981; Schumpeter, 1934, 1950, see Barney 1991, p 103). This structural and context sensitivity, that internal resources cannot be evaluated in isolation, because their value is determined in the interplay with market forces, are also highlighted by Collis and Montgomery (1995, p 120). They state that: “A resource that is valuable in a particular industry or at a particular time might fail to have the same value in a different industry or chronological context.” This being particularly valid for small ICT corporations operating in the twenty-first century which have to deal with turbulent market, rapid development in technology, shorter and shorter product cycles, destruction of traditional industry boundaries, and competition from numerous sources.

8.2.5 Firm resources and sustained competitive advantage

Through the examination of the important conceptions, we are now equipped with sufficient knowledge to explore and discuss the role the firm’s resources have in the competitive advantage riddle.

To begin with, it is important to remember that the two fundamental assumptions of the resource-based theory makes it clear that not all resources a firm possesses have the potential to constitute a source for sustained competitive advantage23. Based on the assumptions Barney (1991, p 103) makes the following logic statement that a firm: “[…] in general, cannot expect to obtain sustained competitive advantages when strategic resources are evenly distributed across all competing firms and highly mobile”. This since in an industry where all firms are identical (that is they possess the same resources, or could obtain them from the factor markets), no firm can craft and implement a unique strategy. Barney (1991, p 104) therefore conclude: “Because these firms all implement the same strategies they will improve their efficiency and effectiveness in the same way and thus, it is not possible for firms to enjoy sustained competitive advantage”. From this follows that the search for an answer to the competitive advantage riddle, is most likely to be fruitful if it will focus on a firm resource heterogeneity and immobility.

---

23 See above about the two basic assumptions of the resource-based theory
8.2.6 **Firm resource heterogeneity, immobility, and sustained competitive advantage**

We begin our search with Barney who 1991 said that a resource must have four attributes for being a strategic resource (valuable): 1) It must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm’s environment, 2) It must be rare among a firm’s current and potential competitors, 3) It must be imperfectly imitable, 4) There cannot be strategically equivalent substitutes for this resource that are value neither rare or imperfectly imitable. A further development of Barney’s four attributes has Collis and Montgomery (1995) contributed with. They have developed a number of external market tests which a resource must pass if it should qualify as the basis for the firm’s competitive advantage strategy. The test evaluates five attributes: 1) The test of inimitability, 2) The test of durability: How quickly does this resource depreciate? 3) The test of appropriability: Who captures the value that the resource creates? 4) The test of substitutability: Can a unique resource be trumped by a different resource? 5) The test of competitive superiority: Whose resource is really better?

A short example could be in place to make it easier to follow the coming discussion about the two tests of resource-attributes. To be valuable a resource must constitute an essential part to the production of something customers want, and have a price or another attribute they are willing to pay for (Collis and Montgomery 1995).

8.2.7 **Valuable resources**

Resources cannot be evaluated in isolation, i.e. inside the boundaries of the firm. This because whether they are valuable or not is determined in the interplay with the market forces. “Thus the RBV inextricably links a company's internal capabilities (what it does well) and its external industry environment (what the market demands and what other competitors offer)”, according to Collis and Montgomery (1995, p 120). Therefore the resource-based theory derives the basic requirement from the environment models, (see for example Porter’s extensive research). Advocates of these kinds of competitive strategy model states that a firm could only enhance its performance through implementing strategies that exploit opportunities or neutralize threats in a firm’s environment. From this school of thought we earlier derived the definition of a resource and concluded that: According to the resource-based theory, a resource is valuable when it enables a firm to craft and implement strategies which improve the firm’s efficiency and effectiveness. The other three attributes of a resource may as Barney (1991) notes, qualify them as a source to competitive advantage but, they could only become resources if they exploit opportunities or neutralize threats in a firm’s environment. This discussion highlights the strengths of the resource-based models and how it relates to the environmental models of competitive advantage. The tools created by the environmental models were aimed to help firms specify which of their attributes could be a resource. The tools enabled identification of resources by helping the managers to isolate those attributes that could exploit opportunities and/or neutralize threats. The resource-based

---

24 For example Porter's five-forces- model, The Boston Consulting Group growth share matrix, and The General Electric portfolio planning tool called the strategic business-planning grid, just to name a few famous tools.
theory then add those additional characteristics these resources must possess if they should create a sustained competitive advantage.

### 8.2.8 Rare resources

Rather often, the value of a commodity is related to its scarcity, take for example the price of a barrel of oil, or a famous painting by Michelangelo. Barney (1991) mean that by definition, a valuable resource cannot be widely possessed by several competing or potential competing firms if it should be a source for competitive advantage and especially if it should be a sustained one. The logic behind this analysis is that if a particular valuable firm-resource could be obtained by competing firms then, each of them has the capability to implement the same strategy and exploit the resource in a similar way. Hence, not one firm will achieve a competitive advantage since they are all similar; on the market they offer the same product and customers perceive them as offering the same benefits. However, if the competitive environment is taken into account, it is possible for a number of firms who all possesses the same valuable resource to achieve a competitive advantage. Because as long as the total number of firms implementing the same strategy is less than the firms needed to generate perfect competition, the resource has the potential to generate competitive advantage, (see Hirschleifer, 1980 cited by Barney 1991). However, it will not be a sustained one. Other ways to stipulate how rare a resource must be to have the potential for generating a competitive advantage is a question that many scholars have found hard, see for example Barney (1991) and Priem and Butler (2001a).

### 8.2.9 Imperfectly imitable resources

Barney (1991) proposes that a firm with valuable and rare organizational resources could conceive of and engage in strategies which other firms cannot, because they lack the relevant resources. If a resource is inimitable, i.e. competitors cannot obtain them, then any profit stream it generates is more likely to be sustainable. That inimitability creates a sustained competitive advantage goes more or less without saying, because as Collis and Montgomery (1995, p 120) notes; "Inimitability is at the heart of value creation because it limits competition". Derived from this we could also conclude that: possession of a resource, which competitors easily can copy, could only generate temporary value. In other words, the competitive advantage will not be sustained and long-lived. But unfortunately, even inimitability does not last forever, because eventually competitors will find ways to copy even the most valuable resource. It is often only a matter of time. What could then make a resource hard to imitate? According to Collis and Montgomery (1995): managers can forestall competitors- and sustain profits for a while- by building their strategies from resources that have at least one of the following four characteristics:

1) Physical uniqueness
2) Path dependency
3) Causal ambiguity
4) Economic deterrence

Firstly, physical uniqueness is an attribute which cannot be imitated due to its nature. Examples could for instance be a real estate location or mineral rights. The second attribute is history, or what economists use to call path dependency. Described simply by Collis and Montgomery (1995, p 121) as, “these resources are unique and, therefore, scarce because of all that has happened along the path taken in their accumulation”. Therefore, what further distinguishes the environmental models and the resource-based theory, besides resource homogeneity and mobility is: the environmental models assume that a corporation’s competitive advantage could be analyzed without any notice of history, (see Barney 1991). The resource-based theory, on their hand, implies that the resources the firm possesses are obtained through the corporation’s development over time. With this view each firm’s unique history, the choices it have made, will be a source for a sustained competitive advantage. Because the resources enables the firm to implement a unique firm specific strategy. The sustainability arises due to competitors cannot go out and buy these resources instantaneously. Instead, “they must be built over time in ways that are difficult to accelerate”(Collis and Montgomery 1995, p 121), i.e. history builds up a protection for the original resources and therefore firms without that specific history cannot imitate those resources.

The third source of inimitability is causal ambiguity. Another reason why competitive advantage may be sustainable is the relationship between causal ambiguity and imperfectly imitable resources. Causal ambiguity means that the correlation between a firms resources and the sustained competitive advantage is not understandable for outsiders/competitors. Because, as long as numerous plausible explanations of the sources for sustained competitive advantage exist within a firm (i.e. the link between the resources controlled by a firm and its sustained competitive advantage, remains somewhat ambiguous), and thus which of a firm’s resources to imitate remains uncertain, it will be hard for competitors to imitate it. Casual ambiguity has eloquently been explained by (Collis and Montgomery 1995, p 121) in the following way: “Would-be competitors are thwarted because it is impossible to disentangle either what the valuable resource is or how to re-create it.” When resources with causally ambiguous is exemplified it is often organizational capabilities that are used. Because, as Collis and Montgomery (1995, p 121) say: “These exist in a complex web of social interactions and may even depend critically on particular individuals”. This leads to the next attribute: social complexity.

A firm is in itself a social system, made up by the people. The use of concepts and words like: organizational culture, organizational image, implies that there is some resource or phenomena, which creates this soul, life of the organization. For example, Barney (1991) argues that due to a firm’s competitive advantage is based on such a complex system it is hard to systematically manage, govern, or influence it. Consequently, if a firm’s competitive advantage is derived from resources like this, then the possibility for competitors to duplicate it are very constrained. Social engineering is, as Barney (1991) notes, beyond most firms’ and people’s capability. Many of a firm’s resources are by nature social complex phenomena/systems, for example the influence culture (Barney 1986, see Barney 1991), the interaction between managers (Hambrick, 1987 see Ibid), and a firm’s reputation (Porter, 1980 see Ibid) is all a product of interaction between people.
The board of directors as a strategic resource in small ICT corporations

The final source of inimitability, economic deterrence, occurs when a company prevents a competitor by making a considerable investment in an asset. From a capability view (competence and resource) it is possible for the competitors to replicate the resource, but when the competitive environment is taken into account, the market potential is limited. Therefore inimitability arise even though competitors have the possibility and capability to duplicate the source for the competitive advantage it chooses not to do so since it will not be profitable. Economic deterrence is, according to Collis and Montgomery (1995), most likely when strategies are built around large capital investments that are both scale sensitive and specific to a given market. They illuminate this when they exemplify economic deterrence with the following statement: “For example, the minimum efficient scale for float-glass plants is so large that many markets can support only one such facility. Because such assets cannot be redeployed, they represent a credible commitment to stay and fight it out with competitors.” (Collis and Montgomery 1995, p 121).

8.2.10 Substitutability

All since Porter introduced his five-forces framework have strategist with anxious eyes searched the marketplace for products that could be perceived as a substitute to their firm’s merchandise. Barneys’ (1991) last requirement is a sign of that the resource-based theory is related to the environmental models and takes for example Porter’s work into consideration. If a firm resource should be a source for a sustained competitive advantage the answer to the following question, provided by Collis and Montgomery (1995, p 122), must be no: “Can a unique resource be trumped by a different resource?”.

The resource-based theory tries to answer this question by evaluating the resources that are the foundation for the corporation’s ability to manufacture its product or service. The resource-based theory’s contribution to the competitive advantage riddle is: “for a firm resource to be a source of sustained competitive advantage there must be no strategically equivalent valuable resources that are themselves either not rare or imitable” (Barney 1991, p 111). With strategically equivalent resources, Barney mean that they each can be exploited separately to implement the same strategy. If there were no strategically equivalent resources to those a firm have used to implement its strategy, then this strategy would generate sustained competitive advantage. However, if there on the product market exists strategically equivalent resources, then could current or potential competitors obtain them and implement the same strategies. So, although the procedure and resources used would be different, due to being equivalent, they would enable the competing firms to implement the same strategies and as consequence erode the sustainability the initial firm enjoyed. Therefore Barney (1991, p 111) means that “if these alternative resources are either not rare or imitable then numerous firms will be able to conceive of and implement the strategies in questions, and those strategies will not generate a sustained competitive advantage”. In which form could then substitutability occur? Barney (1991) suggest that it could at least take two forms. Firstly, even though it may not be possible to exactly imitate the resource an other firm uses to craft and implement its strategy, it may be possible to substitute it with a comparable resource and use the same strategy. A good example when this may be the case is given by Barney (1991, p 111): “A firm seeking to duplicate the competitive
advantage of another firm by imitating that other firm’s high quality top management team will often be unable to copy that team exactly (Barney & Tyler, 1990). However, it may be possible for the firm to develop its own unique top management team. Barney (1991) meant that even though these two teams would differ significantly (different people, different corporate culture, different share- and stakeholders) they may be strategically equivalent and thus a substitute for each other. This first form of substitutability leads to the conclusion that when a resource are strategically equivalent to each other, they could not be a source for sustained competitive advantage even though the resource is valuable, rare, and imperfectly imitable. The second form of substitutability has to do with that very different firm resources can be strategic substitutes (see Barney, 1991). For example could the source for the top management teams’ clear vision about the firm’s future be a resource that are very different, but nevertheless substitute for one other. In one firm, it may be a strong and charismatic leader that is the source and in another firm, it may be a well-developed formal strategic planning process. Next attribute to discuss is durability.

8.2.11 Durability

An important attribute of a resource is how quickly it depreciates. The longer lasting a resource is, the more valuable Collis and Montgomery (1995) consider it will be as a source for sustaining a competitive advantage. Because as the attribute of inimitability and substitutability, this attribute also has to do the test, whether the resource can survive the continuous attempts from competitors to understand and duplicate it. How long a resource will be durable have to do with the above described attributes. Other attributes or characteristics influencing the durability are the pace of change and development in the industry. Some scholars have noticed that while some industries are stable for years, others are so dynamic that the value of resources depreciates quickly (see Collis & Montgomery 1995). For example in fast moving technological industries the resource know-how becomes out of date quickly due to rapid development. Quite logically potential imitators may choose not to duplicate the resource even if they have the capability and possibility. The economist Joseph A. Schumpeter was the one who first recognized this phenomenon in the 1930s. His research showed that although an innovation let the innovator and early movers to dominate the market and earn substantial profits, their valuable resources was soon imitated. They were then as Collis and Montgomery (1995, p 120) put it forward: “[…] surpassed by the next great innovation, and their superior profits turn out to be transitory.” The resource based theory suggest that one part of the answer to the competitive advantage riddle is that those who succeed better than others, is the ones who build their competitive advantage on a source that have a durability long enough to let the corporation earn sufficient profit. Because as discussed, most resources have a limited life and therefore the corporation will earn only temporary profit. However, having a competitive advantage that are durable is without value for the corporation if it they could not capture the profit from it.
8.2.12 Appropriability

This attribute states that for being a competitive advantage the resource must enable the firm who possesses it to capture the value the resource creates. As Collis and Montgomery (1995, p 120) notice, not all profits from a resource automatically returns to the company that owns the resource. In fact they mean, “the value is always subject to bargaining among a host of players, including customers, distributors, suppliers, and employees”. If a corporation bases its strategy on a resource that is not finite to them, the corporation could find it hard to ensure that they reap enough of the value the strategy creates. Whether or not a competitive advantage may be sustainable could therefore depend on the ability of the managers to negotiate good contracts with suppliers and distributors, and to claim for example copyright and patents as well. Despite all these attributes, the attribute that put the value of a resource on its edge is the competitive superiority.

8.2.13 Competitive superiority

Lastly, whether a resource may be a source for sustained competitive advantage depends mainly on the demand and perception of the customers. Because what really matters out on the market is whose product/service is really the best. Moreover, as we have said earlier, resources cannot be evaluated in isolation because their value is determined in the interplay with the market forces. A resource that is valuable in a particular industry or at a particular time might fail to have the same value in a different industry or chronological context. Take for example the fashion industry, what may be a resource one year may be worthless a few months later. Therefore even if a corporation possesses unique and rare resources that enable it to craft and implement a value creating strategy, not simultaneously being implemented by any current or potential competitors, (when these other firms are unable to duplicate the benefits of this unique strategy) perfect timing with the market forces is still crucial. Because the resource must have a superior value on the market if it should be profitable.

8.2.14 Summing up

A good closing conclusion of Barneys’ (1991) and Collis and Montgomery (1995) list of attribute-requirements is given by Priem and Butler (2001a, p 24): “Thus, rarity and value are each necessary but not sufficient conditions for competitive advantage, whereas non-imitability, non-substitutability, and non-transferability are each necessary but not sufficient conditions for sustainability of an existing competitive advantage. Managers should therefore build their strategies on resources that meet the five tests outlined above”. To answer the competitive advantage riddle we let Collis and Montgomery (1995, p 120) speak on behalf of the resource-based theory’s advocates: “Superior performance will be based on developing a competitively distinct set of resources and deploying them in a well-conceived strategy”. 
The board of directors as a strategic resource in small ICT corporations

8.3 Analysis

We will start this analysis by evaluating if the board of directors, as phenomenon, could be said to be a strategic resource. Thereafter we will analyze the specific conditions and governing issues facing the board of directors.

The answer to the competitive advantage query

The field of strategy is about thinking, analyzing, and making plans for the future. It is about deploying the organization's resources to achieve objectives. A first clue to the query we get by the early strategists, Andrews and Porter.

Andrew's defines strategy as: The match between what a company can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats). The explanation Andrew gives to the competitive advantage query is that: by implementing strategies that use the corporation’s internal strengths to exploit the opportunities in the environment, while at the same time neutralizing the risk that competitors and other external threats take use of the internal weaknesses, the firm would achieve a competitive advantage and become successful. From this field competitive advantage seem to origin from the top management’s ability to identify and analyze the strengths, weaknesses, opportunities, threats, and then craft and implement a strategy. The corporation that succeeds with creating the best fit/match will exploit the opportunities most efficiently and hence achieve superior performance.

Porter’s explanation is that the structure of an industry determines the state of competition within the industry and sets the context for companies' conduct - that is, their, strategy. Most important, structural forces (which Porter called the five forces) determine the average profitability of the industry and have a correspondingly strong impact on the profitability of individual corporate strategies. The task for board of directors is to evaluate and analyze the industries and position the corporation in favorable positions. The boards ability and skill to find and choose the right industry and craft a strategy that leads to the most attractive competitive positions, implying to find a segment/niche in the market for products that are perceived by the customers as different, more valuable, is the source for competitive advantage. The reasoning and logic of this perception about competition is that the market set the rules and creates the competitive setting. A corporation is in this setting a single player who could not by their own influence, change, or determine the competitive situation. In other words, a corporation could not affect the demand of their product. Earlier we have outlined that the characteristics of the new economy implies that due to its ever-changing setting it is not an easy task for ICT corporations to analyze the overall development, and applied to Porter’s message it must be hard to choose the right industry. The analysis we do is: Firstly, the ability to analyze and forecast the market and the industry is vital for a corporation’s performance. Boards that have the ability to see the corporation’s potential and match it with the opportunities forecasted in the market, will more likely lead the corporation successfully. Therefore the conclusions is that a board’s contribution to a corporation’s competitive advantage is the skill to explore and adapt the corporation
The board of directors as a strategic resource
in small ICT corporations

strategically to the rules and opportunities, i.e. create the strength needed to best exploit the structural forces in the environment.

Common for this early research was that top management team and individual decision-makers acted rational, i.e. with guidance from an overall vision/objectives deploy the resources in such way that maximal goal fulfillment was achieved. Based on this we do the analysis that the cognitive- and decision-making capability of directors is a crucial contribution for a small corporations competitive advantage.

**The capability perspective’s description:** These fields of research assumed that the roots of competitive advantage are to be found inside the organization. They emphasized both the importance of the skills and collective learning embedded in an organization and the management’s ability to marshal them. An organization’s success is by this field scholars considered to be dependent by the company’s capability, consisting of the tangible and intangible resources. Corporations that have achieved a competitive advantage have done so thanks to its possession of unique resources and the management has had the ability to organize them efficiently, rather than the ability to chose the right industry segment. Applied to the last decades, growth in the service sector and the increased attention given to the management of knowledge intensive corporations and intangible asset, we make the following analysis: The understanding of the corporation’s internal capabilities such as information and human resources is an important prerequisite for a board should as strategic resource, contribute to a corporation’s survival. Hence: the skill to manage the vague internal resources in an ever-changing market is therefore a strategic resource that creates competitive advantage.

**The resource based theory’s description:** To answer the competitive advantage riddle we let once again Collis and Montgomery (1995, p 120) speak on behalf of the resource-based theory’s advocates: “Superior performance will be based on developing a competitively distinct set of resources and deploying them in a well-conceived strategy. The resource-based theory believes that sustained competitive advantage is achieved by the organization’s ability to mobilize and use its internal resources in a more effective manner compared to competitors. The RBV theory proposes that the organization must evaluate the company-specific resources and competencies in the context of the competitive environment. This since not all of the resources a corporation possesses could be valuable and a source for achieving competitive advantage. The resource-based theory proposes that a corporation’s competitive advantage is achieved from those internal resources that are rare, non-imitable, non-irritable, and sustainable. Hence we make the following analysis: From a resource-based perspective, the strategic management and governance of a corporation is about the ability to explore and nurture the attributes of the firm’s resources that are costly to copy and that are the sources of economic rents, and therefore, fundamental drivers of performance and competitive advantage. According to the resource-based theory, a resource - read: the board of directors - is valuable when it enables a firm to craft and implement strategies which improve the firm’s efficiency and effectiveness.

Putting together these two perspectives contribution we make the following conclusion: Resources and the competitive environment are both essential in the strategy making process since. Resources represent what can be done by the firm and the competitive
environment represents what must be done to compete effectively in order to satisfy customers’ need.

### 8.3.1 Evaluation of the boards as a resource

*Could they be a strategic resource that influences an ICT corporation’s competitive advantage?*

In this section we will explore how the phenomenon – The board of directors - stand the resource-based theory’s attribute test for being a strategic resource. As analyze-method we are going to use a model from the book: *Does Management Matter – On competencies and competitive advantage* (Barney 1994). The model uses the four attributes from the article: Firms resources and sustained competitive advantage, by Barney (1991). We have altered the model and added three of the external market tests presented by Collis & Montgomery (1995).

<table>
<thead>
<tr>
<th>Valuable?</th>
<th>Rare?</th>
<th>Costly to Imitate?</th>
<th>Efficiently Organized?</th>
<th>Competitive Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
<td>--</td>
<td>--</td>
<td>no</td>
<td>competitive disadvantage</td>
</tr>
<tr>
<td>yes</td>
<td>no</td>
<td>--</td>
<td></td>
<td>competitive parity</td>
</tr>
<tr>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td></td>
<td>temporary competitive advantage</td>
</tr>
<tr>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>sustained competitive advantage</td>
</tr>
</tbody>
</table>

*Figure 1: The VRIO framework for evaluating the competitive implications of firm resources and capabilities*

1) *Is a board of directors a valuable resource?*

According to the resource-based theory, a resource is valuable when 1) it enables a firm to craft and implement strategies which improve the firm’s efficiency and effectiveness, and 2), when a firm’s resource and capabilities enables it to response to environmental opportunities and/or threats. For a board of directors to be a valuable resource it must contribute with qualities that directly or indirectly improve the corporation’s efficiency and/or effectiveness. The thought of a board of directors is that it should generate and analyze the strategic alternatives available for the corporation. In addition the thought
behind the organizational and governing institution “Board of directors” is that it should consist of outsiders. This because the outsiders will bring new ideas, knowledge, and experiences into the corporation, which creates and enhance the possibilities to view strategic and important decisions from several perspectives and aspects. Reasons to this is that groups consisting of people with diverse backgrounds are more likely to have access to information and perspectives acquired from the outside of the group, which implies a wider range of knowledge and experiences. In addition it gives the top management team access to external networks that can help out the boards in the search and gathering of information needed for the decision making process (Ancona & Caldwell, 1988, cited by Forbes & Milliken, 1999). Caldwell (1992 see Ibid) emphasizes that “attempts to pool and integrate these ‘exotic’ contributions may lead to higher levels of cognitive conflicts. If we view “higher level of cognitive conflicts” as a higher likelihood that it will arise a discussion about the strategic decisions, then it becomes a valuable attribute of a board. Because outsiders on the board are viewed by many as a necessity for a constructive discussion between the board of directors, the CEO, and the owners should be possible. This since outside board members contribute to board’s independence and thus the board becomes more inclined (than if it consists solely of insiders, not independent) to question the top management team and to hold CEO’s accountable for the corporations performance. Furthermore, it seems to be the common thought of the referred authors and projects that a constructive discussion and cooperation between the board of directors, the top management team, and the shareholders most certainly will lead to better governance and more rational decision-making in the corporations.

Hence we suggest that a board of directors contributes with, for example, the following valuable things which most likely will exploit opportunities and/or neutralizes threats in a firm’s environment and, improve the firm’s efficiency and effectiveness: a) Increased knowledge and experiences 2) better governance and more rational decision-making in the corporations. Even though this is a short resume, we think that it has been sufficient as evidence for the boards is eligible to be perceived as valuable.

2) Is a board of directors a rare resource?

If a resource should be a source for competitive advantage it must be rare amongst the firm’s current and potential competitors. The question to ask is: How many competing firms possess these valuable resources and capabilities? The logic behind this requirement is that if a particular valuable firm-resource could be obtained by competing firms then, each of them has the capability to implement the same strategy and exploit the resource in a similar way. Applying the test or rareness’ on boards is tricky. Because if we view a corporation’s board as an entity, then we could say that there is only one copy of each board, hence it is very rare. Consequently a board is a rare resource because it is not particularly likely that another corporation should have the exact same board, i.e. consisting of the same persons. However, if we view the board as a group of individuals instead then we could claim that a board of directors is not particularly rare since the directors could be a director on many corporations’ board. Which approach to hold for most applicable is probably a question of personal opinion. We think that most of the descriptions in this thesis points to that the contribution of a board is often at the group level. Even though a single member may occasionally contribute with very
The board of directors as a strategic resource
in small ICT corporations

valuable and rare competence, the boards power and decisions is still rooted in its
function as an entity/group.

3) Is it hard and costly to copy?

For a resource to be a source for sustained competitive advantage it must be imperfectly
imitable. Do firms without a resource or capability face disadvantages in obtaining it, in
comparison to firms that already possesses it? If a resource is not possible to imitate then
the competitive advantage it generates is more likely to be sustainable. This since
without this resource the competitors cannot craft and implement the same strategy and
hence they could not find ways to copy the advantage. Derived from this we could also
conclude that: possession of a resource, which competitors easily can copy, could only
generate temporary value. In other words, the competitive advantage will not be
sustained and long-lived. What things could then make a board of directors impossible
to imitate?

a) Duplication

Could the resources be copied? This applies more to tangible assets since intangible
ones are not possible to copy. Hence, each board of directors is a unique group, which is
impossible to copy. This as it is not legal to clone humans, yet…

b) Substitutions

A firm that tries to duplicate the competitive advantage of another firm by copying that
other firm’s high quality top management team, in our case the board of directors, will
be unable to copy that team exactly (Barney and Tyler, 1990 see Barney 1991). However, it may be possible for the competing firm to develop its own resource, their
own unique board of directors. Barney (1991) mean that even though these two teams
would not be exact copies of each other, rather they will differ significantly; different
people, different corporate cultures, different share- and stakeholders-, they contribute
with the same things, i.e. enable the corporation to implement a strategy which improves
the corporation’s efficiency and effectiveness, and enable the corporation to response to
environmental opportunities and/or threats. Hence even though a resource are not
possible to copy, it may be possible to develop a substitute which are strategically
equivalent to the original resource. If applied to our field, the board of directors, it
implies that different boards of directors are strategic equivalent, hence substitutes for
each other. This leads to the conclusion that no corporation could build its sustained
competitive advantage on this resource, the board of directors. Consequently, the
attribute of substitution has great influence over a corporation’s ability to achieve long-
term profitability, because even though the resource is valuable, rare, and imperfectly
imitable, the competitive advantage will only be temporary since the competitors could
implement the same strategies with a substitute resource or capability.

The economic reasoning behind this first conclusion was focused on the input to a
corporation’s competitive advantage. The other type of substitutability focus more on
the strategic value. That is, very different firm resources/capabilities could be the source
behind a corporations strategies and thus strategic substitutes to each other. For example
could the source for the board o director’s evaluation of strategic alternatives about the
firm’s future be based on a resource that in comparison to each other are very different,
but nevertheless substitute for one other. In a small ICT corporation could the source be
The board of directors as a strategic resource in small ICT corporations

a very visionary CTO or founder and in another firm it may be the board’s well-developed customer relations that enables it to understand their future needs. Hence, the strategic value becomes the same: a clear vision about the future. This leads to the conclusion that when boards of directors contributes with the same things, i.e. enable the corporation to implement strategies to exploit environmental opportunities, they are strategic equivalent substitutes to each other. Hence, the board of directors could not be a resource for sustained competitive advantage, if its contribution is possible to substitute directly (i.e. the board itself) or indirectly (the source for its contribution). Hence, a resource that is possible to copy or substitute could never be a source for a sustained competitive advantage.

c) Social complexity
Many of a firm’s resources are by nature social complex phenomena/systems, for example the influence culture, the interaction between managers (Hambrick, 1987 see Barney 1991), and a firm’s reputation (Porter, 1980 see Ibid), trust, teamwork is all a product of interaction between people. Thereby becomes the organization’s history an important protection against competitors’ attempts to imitate a successful strategy. Because (Arthur, 1984; Dierickx & Cool, 1989, see Barney 1994): Firms are like dirty snowballs rolling through time and space. As they roll through time and space they pick up skills, abilities, and resources that are unique. The outcome is that a corporation’s current competitive advantage is based upon a capability/resource that have been picked up through a long time. In other words the current capability is not built on one day, it is rather a product of the occasions happening on the way, like small decisions. Some scholars therefore mean that the small decisions (the interaction, team play etcetera) are more likely to make a resource hard to imitate, in comparison to large decisions which are easier for competitors to discover and imitate. This implies that even if a corporation’s resource is easy to imitate physically the social complexity could make it impossible to imitate because of causal ambiguity. Causal ambiguity means that the correlation between a firms resources and the sustained competitive advantage is not understandable for outsiders/competitors. Because, as long as numerous plausible explanations of the sources for sustained competitive advantage exist within a firm (i.e. the link between the resources controlled by a firm and its sustained competitive advantage, remains somewhat ambiguous), and thus which of a firm’s resources to imitate remains uncertain, it will be hard for competitors to imitate it.

Therefore: firstly, even if a corporation’s resource is possible to copy physically, the attributes of social complexity, history, small decisions, and casual ambiguity could make it impossible to find out which of the organization’s resource that is the source for their competitive advantage, put differently there may be no single answer/resource to a corporation’s competitive advantage. Secondly, even if a corporation’s resource is possible to substitute it does not mean that it will be possible to implement it or that it will have the same value/effect, due to differences in organizational culture, manufacturing effectiveness etcetera. Applied to the board of directors it implies that even though it is possible to substitute it, the attributes of social complexity, history, and small decisions could make it impossible to imitate the strategic output.
Is the board of directors possible to imitate?
The overall analysis is that a corporation’s board of directors often is possible to substitute as a resource, competing firms could develop their own unique board, and since they are strategically equivalent the board could not be a source of sustained advantage. If we view the competitive advantage as the output from the work of the boards generates, then it could be sustainable due to social complexity or causal ambiguity, implying that a perfect substituted input may not generate the same output. Thus, depending on perspective, the board of directors could be perceived as both a non-imitable resource, and an imitable one. Our opinion is that since the board could be substituted as a resource, and that the output from a board of directors also could be substituted by another kind of source, the board is often not a source of sustained competitive advantage, but a temporary one. To exemplify: a founder of a small ICT corporation that lacks knowledge in an area - say for example marketing and sales - could achieve it from several strategic equivalent sources, such as: consultants, mentors, friends, old collegians, different business advisers, a course, a well skilled top management team, a board of directors, and so on. Thus, the output is despite the source, the output (resource) improved marketing and sales.

4) Durability

The longer a resource is valuable, rare, and not possible to imitate, the more valuable it will be as a source for sustaining a competitive advantage. Whether or not a board may be a durable resource depends on two things: 1) For how long could it survive continuous attempts from competitors to understand and duplicate it? How long a resource will be durable has to do with the above-described attributes of casual ambiguity, social complexity and physical uniqueness. Applied to the board we may say that a board is a source of sustained competitive advantage as long as the competitors’ boards do not make smarter decisions. Implying that as long as the board through its governance and strategic management of the corporation, is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy, then the board is a durable resource creating a sustained competitive advantage.

Hence: To be eligible as a strategic resource, according to the resource-based theory, the members of the board need to be better skilled in making strategic decisions compared to the competitors’ board, i.e. perform over the industry average.
The source for a board’s capability - to make better decisions - needs to be durable as well. Factors that influence these sources are for example the pace of change and development within the industry. Scholars claim that while some industries are stable for years, others are so dynamic that the value of resources depreciates quickly (see for example Collis and Montgomery 1995). For example in fast moving technological industries a board’s knowledge about the competitive-market is a resource that becomes out of date quickly due to rapid development. Hence, in a world of continuous change, like the ICT industry, the board needs to keep constant pressure at upgrading and improving the corporation’s arsenal of resources for the next round of competition. The directors on the board must therefore continually invest in and upgrade their resources, despite of how valuable, rare, and impossible to imitate those resources are today, and use/exploit their value to craft and implement effective strategies, enabling the
The board of directors as a strategic resource in small ICT corporations

positioning of the corporation in an attractive market. Hence, for a board of directors, and all other strategic resource as well, should be a source of sustained competitive advantage, it requires continual reassessment, investments, and upgrading. Then the corporate strategy will improve the corporation’s efficiency and effectiveness in ways that competing corporations are not capable to do. Hence we conclude: Boards that are interested, or show capacity, for continuous learning will provide a competitive advantage to their corporations over boards that do not show such.

5) Appropriability

This attribute states that for being a competitive advantage, the resource must enable the firm who possesses it to capture the value the resource creates. Because not all profits from a resource automatically returns to the company that owns the resource. For example it has surprisingly been shown that patents appear to give only minimal protection against imitation. An important characteristic of a board of directors in small ICT corporations is therefore that they work for the best of the corporation and its long-term survival, this particular important in boards where venture capitalist holds major posts. For further arguments, talk Mr. Corporate Governance and his analysis.

6) Organizational efficiency

Throughout this analysis, we have talked about the importance of the organization’s ability. Organizational efficiency states that for a board of directors to be a source for sustained competitive advantage it needs to be organized in order to support and exploit the corporation’s rare and costly to imitate resources. We see one possible area for the analysis; the board of directors must function well as a group, implying a certain level of interaction between the members and a certain level of cohesiveness and conflicts. For further information, we advise you to speak with Mr. Past Project who is expert in this field.

Hence: depending on organizational efficiency or not, the board may be a source of sustained competitive advantage.

7) The test of competitive superiority: Whose resource is really the best?

The final ultimate test of a corporation’s resource, is the reception it receives from the market. The final market test is therefore states, that for a resource to be a source of sustained competitive advantage, it must be perceived as more valuable by the customers, in comparison to the competitors’ products. Applied to the board it becomes an indirect and final test of their contribution to an organization’s competitive advantage.

Hence: Boards that contribute to improve the firm’s efficiency and effectiveness, and capability to response to environmental opportunities and/or threats, is a source of sustained competitive advantage if other firms an not duplicating this capability. Thus: For a board of directors to be a valuable resource, it must contribute with qualities that directly or indirectly improve the corporation’s efficiency and/or effectiveness.
8.3.1.1 Conclusion of the evaluation

To be eligible as a strategic resource the members of the board need to be better skilled in strategic decision-making compared to the competitors’ board, i.e. perform over the industry average. To do this the board must have a wide range of competencies, prerequisites, and resources.

The resource-based theory (Barney and others) proposes that a corporation’s competitive advantage is achieved from those internal resources that are rare, non-imitable, non-irritable, and sustainable. In other words, the theory suggests that ICT corporations with unique and non-imitable resources, i.e. a board of directors, would be better positioned than its competitors in the competitive environment. If the board is viewed as a strategic resource there are several perspectives of how it could be one important resource for achieving competitive advantage. The resource-based theory proposes that a board should be viewed as a strategic resource, because they have a variety of experiences, skills, social capital, and backgrounds (unfortunately we have found in the other perspectives that this is not always the case, talk with Mr. Past Project for further details). Therefore, from the resource-based theory, it might first seem to be reasonable that the board could be perceived as a strategic, unique, and non-imitable resource. However, since we have found that even though it is unique and not possible to copy or duplicate, it is still possible for other corporation’s to develop their own competent and active board of directors, which would be a perfect substitute: contributing with the same resources. Therefore if the board is analyzed as a corporation’s resource vs. another corporation’s board, then it is not particularly different and unique. However, if we focus the analysis on exploring its contribution to a single corporation’s internal development, such as strategic decisions, and competitive advantage then they are a very valuable strategic resource.
9 Mr. Strategic Management -
Strategic Management for Small and Growing Corporations

Introduction

Mr. Strategic Management will explore the board from the perspective of its strategic role and tasks within the corporation, i.e. how to guide the corporation to its goals and visions.

The riddle of the Sphinx:
Who is my customer in the morning, my rival in the afternoon, and my supplier in the evening?

Jack Welch, Chairman of G.E. (Ramu, 1997)

The citation above visualizes that one of the major challenges for corporations today is to develop the capability to anticipate and influence changes that take place in the business setting. When their markets change and become increasingly competitive and volatile, organizations need to revaluate and change their strategies, according to Robbins and Duncan (Hambrick ed. 1988). We have earlier looked at corporate governance which is about how to control the operative business and to strategically govern the corporation. The field of strategic management on their hand is more interested about the “methods” used i.e. how to steer the corporation toward the goals and vision of the corporation. More specifically, strategic management is a process with the product in focus discussing how to best run and develop the business. It involves the overall long-term direction of the corporation, its relationship with the environment, and the configuration of its constituent parts (Markulius et al 1999). Then what builds up strategic management is: (1) scanning and reviewing the environment, gathering information, and making decisions about the stipulation of a strategy; (2) implementing plans, processes and policies proactively; (3) create and conduct evaluation and monitoring (Steinberg and Bromilow 2000). This division of strategic management is depending on different authors though; for example has Strickland (1998) divided this process in five tasks where he divides the first and last step in two. Independent of definition is this a complex and multifaceted task for a board of directors, which involves strategic-issue processing (Jackson 1992 cited by Forbes & Milliken 1999). As
opposed to the top management team, who is involved in the operational issues, is the board in this process responsible for the monitoring and the strategic issues (Farma and Jensen 1983, cited by Forbes & Milliken, 1999).

9.1 The value of strategic management

Strategic management searches for the consistency which will guarantee the long-term survival of the firm.

Maria Yläranta (1999, p 7)

Amongst researchers, at least the ones we have studied, there seems to be the consensus that generally speaking, strategic management have a positive effect on corporation’s performance. Planning will help them to identify threats, opportunities, weaknesses, and strengths. This gained knowledge can then be used to strategically maneuver the corporation in its environment. Another area where researchers often seem to agree is that the effect of strategic management would be a better decision processes and decision-making, both for large and small corporations. Further evidence for this statement which is presented in a study conducted by Lyles, 1993 (Markulius 1999 et al, p 8):

As small business owners adopt more formal planning processes there is a significant increase in the thoroughness of their decision process, the breadth of strategic options emphasized in their business activity, and their overall performance as measured by growth in sales. Thus, small business owners may realize competitive advantage through the use of formal planning procedures to enhance their strategic management process.

Nevertheless is has been discussed whether or not small corporations need strategic management. Michael Porter, cited by Markulius et al (1999, p 8), claim:

I have often heard it said that big companies, the corporate giants, are the ones that need to think about their business strategically. Smaller more entrepreneurial companies by contrast, do not need strategy – they can pursue other routes to business success. In my view, that is exactly backward. Unlike the giants, small business cannot rely on the inertia of the market place for their survival. Nor can they succeed on brute force, throwing resources at problems. On the contrary, they have to see their competitive environment with particular clarity, and they have to stake out and protect a position they can defend. That is what strategy is all about – making choices about how you position your company in the competitive environment.

However, some researchers doubt the importance of strategy and strategic management. A research done by Romanelli (see Markulius 1999) about long-term survival and changes in strategy came to quite surprising discovery. It was not those, as you first might think, who did not change their strategies that survived. On the contrary she found that those who failed had changed their strategy. The question is what conclusion that can be made of this research. It might be the case that those who changed their strategy
The board of directors as a strategic resource in small ICT corporations

did it due to an initial unsuccessful strategy and thereby the strategy could be the reason to the coming failure. Even if the importance and significance of strategy for small corporations is agreed upon, there is nevertheless a question whether the models, tools and strategic management techniques constructed for large businesses is applicable at small ICT corporations. This since there are several distinguishing characteristics between small and large corporations such as small corporations are less structured, family run, have less resources, lack of expertise etcetera. For example have Levin and Travis (Markulius et al 1999, p 9) raised the question whether or not small corporation should use the same models as large corporation. At least they consider the financial models not suitable for small corporations:

Return on equity, return on assets, return on investment, and debt-equity ratios are for measuring the performance of large public corporations. But for small private companies, these measures are unreliable. Textbook methods for judging investment opportunities, like hurdle rates, payback periods, and discounted cash flow, aren’t always useful in organizations that are privately owned. Nor does conventional wisdom regarding leverage and dividend policy necessarily apply.

Above we initially discussed the value of strategic management and more specifically in small corporations and gave arguments regarding why the prevailing strategic management principals are not suitable for small corporations. We will now continue to discuss the management system.

**THE STRATEGIC MANAGEMENT SYSTEM**

![Diagram](image)

Figure 2. The strategic management system (Markulius et al 1999, p22)
9.1.1 **Strategy as a context**

The context of strategy is the different attributes the strategy involves and affects. What competitive-, organizational- and managerial-context are we currently in. The strategy process is then to decide our options and possibilities to achieve a desired goal/outcome. This because we want to affect the competitive context, that we want to compete in successfully.

As emphasized before, planning is a vital part in strategic management. If a corporation plans well, it will experience that a higher level of performance could be reached as a result. This can be noticed by: better financial performance, more control, a better perspective of the competition and the macro environment, and a more effectively integrated organization. The corporation that uses its strategic capabilities well, will have a better possibility than others to decrease the uncertainty concerning the environment and the corporation’s future decisions and action. Thereby they could gain a competitive advantage against current and potential competitors (Stevrin 1991). There are several strategy methods for analyzing the competitive context such as Porter’s five forces, SWOT analyses etcetera, but since these are not in alignment with our subject they will not be discussed further. Next in the Markulius model is the organizational context.

9.1.1.1 **The organizational context**

This context embraces the relationship between the outside and the inside of the corporation. An example of an relationship is when a corporation makes an economic transaction which involves an external part (selling, purchases, lending money etcetera) In this case, the overall objective and value of strategic management is to create and nurture the relationship between the corporations internal and external stakeholders. For those responsible for these relationships, require skills in public relations, communication, and political sensitivity etcetera. A frequently used procedure to create such relationships is to have a network with important individuals and organizations. These are created and nurtured due to that both parties will gain strategic benefits in the strategic management process. An outcome mentioned by Markulius is that the relationship help the corporations to achieve their strategic objectives better than if they should try to achieve them on their own. Further, the personal network can contribute to potential customers and expertise etcetera. As important as the external networks, are the internal ones. The internal relations are useful to obtain awareness about the internal conditions i.e. strengths and weaknesses of the organization. If the awareness and understanding of the organization is good, it can be a tool of developing the organization towards current and future objectives and visions. Organizational development implies changing the configuration of the corporation to a new setting/prerequisite. This to exploit the opportunities in the environment by using its strengths, with the purpose to achieve competitive advantage. This metaphor of an organization as a tool is well described by Perrow (Markulius et al 1999, p 33):
The board of directors as a strategic resource
in small ICT corporations

Organizations must be seen as tools [...] A tool is something you can get something done with. It is a resource if you control it. It gives power that others do not have [...] there are a great many things that one can do with them [...] Considering this quotation, the dynamic character of the business environment, the small business mode, it appears to be a necessity to consider what strategic setting that is adequate to apply in the corporation. According to Markulius et al (1999) successful strategic management from this perspective is the ability to understand the value in aligning the organization’s interest with its environment and key stakeholders. Last is the competitive context is managerial context.

9.1.1.2 The managerial context

The managerial context is about the involvement of management and leadership in the strategic management process. Just as the organizational setting needs to be altered when the environment changes, so must the leadership style, role and methods for being suitable to the situation as well. Consequently it has during a long time been noticed that different leadership and managerial roles exist and function amongst corporations. There could be several managerial roles in a corporation depending on which part of the organization that is in question as well, according to Mintzberg and others. Applying this to the field of strategy, it implies the need to consider the role of the managers/leaders that is most suitable considering the corporations prevailing situation. For example, is it the role as leader, monitor, or resource allocator etcetera that is best used in a specific state of affairs? Continuing this discussion, you could therefore define leadership as: “the ability to engineer the appropriate mix of roles, given the firm strategic interest” (Markulius et al 1999). Because just like the organizational setting it is important to remember that when the environment changes it could require a shift of leadership style.

Applying the managerial context at the board of directors in small ICT corporations it implies the need to compose a board of director that fits their prevailing situation. For example in a corporation that is managed by a top management team consisting of entrepreneurs with general management experience, can the board of directors’ knowledge and skills be a critical resource for the corporation according to Gorman & Sahlman 1989 (see Forbes and Milliken 1999) and Steinberg & Bromillow (2000). Examples of such resources might be advice, coordination with external stakeholders, information exchange and access etcetera. Using these resources, a board can contribute with results that might decrease the uncertainty of the corporation’s environment (Lynne 1996). The best composition of the board group is however not quite clear, if it should consist of inside or outsiders or a combination of these. The board has to be insiders from the perspective of knowledge and outsiders to be able to monitor and control the corporation, but to this dilemma Lynne and other scholars we have encountered, have no answer.

The connecting attribute of these three contexts is their interrelation with the process of the strategic management systems model.
9.1.2 **Strategy as a process**

The process of strategy is firstly about what strategy to choose, to implement it and finally evaluate how well the strategy worked. Furthermore, what expected outcomes that they should generate. Looking closer at this process, Markulius et al claim it consists of:

- Formulation of vision, objectives, morals etcetera, which implies making choices about fundamental values, the corporation’s purpose and relationship to its internal and external environment.
- Implementation activities, which implies identifying and pursuing the means for making changes in the corporation.
- Strategic evaluation, which implies evaluation of activities for strategic changes in the corporation.

This leads to the evaluation of what suitable strategy to choose for the competitive context. Therefore, according to Markulius et al (1999) strategy is both a process and an outcome (see model above). The process of how to get to an outcome is sometime equal or even more important in the perspective of being successful in your business.

9.1.3 **Strategy as an outcome**

Finally the model highlights the value of strategic work. When the process in the above model has reached its final step, there will be some sort of product of the strategic work – a strategy. Its purpose is to set the direction for the corporation to achieve a desired objective in the competitive environment. The strategy is the result of several sub-objectives which results in a plan of how to achieve a superior objective such as a certain market share. This requires policies to guide the employed toward this objective. The strategy makes it also possible to evaluate the corporation’s current achievements. The result of such an evaluation results in a tool to control and revise the development of the corporation.

9.1.4 **The modes of small businesses**

The model discussed above is the foundation when we later on in this chapter will apply the small business setting at three identified modes that small corporations operate in; initiation, take-off and vigilance (Markulius 1999). However it is important to remember that these modes are of a general kind and that the corporations’ competitive strategies are not solely determined by market and technological factors, but also the specific setting the corporation operates in (see Ungson cited by Lawless & Gomez-Meija eds. 1990). Therefore it could be argued that the main idea with the strategic management system is to provide small corporations with concepts and structures to use and support them in the work with maintaining and developing their organization within a particular mode.
The board of directors as a strategic resource
in small ICT corporations

There are several ways to divide the different stages that a corporation goes through during its life cycle. We have chosen to use Markulius et al (1999) definition which is aimed at understanding the strategic implications of the mode rather than the mode’s nature. This because he aims to illustrate the strategic issues in a corporation’s life cycle. For further arguments of the choice of method, we refer to his book.

9.1.4.1 Initiation mode

This mode range from the day you are committed to the business until the day when the corporation begins to break even. Typical characteristics of the mode are: the cash flow is negative, the business is under construction and constant change and improvements. The business begins to have revenues but the operating and fixed costs are too large to be covered by the income. Even though that most work of operational and strategic character is floating together for the decision makers, it is important according to Robinsson and Pearce (Markulius et al 1999), to devote some time specifically for strategic issues. Most of the work to be done is to get a perception of what the competitive environment looks like, i.e. the corporations strengths and weaknesses compared to their competitors. This information should be used when formulating goals and objectives. Furthermore, the information should be used for building a suitable configuration, such as organizational structure, control systems etcetera. Finally, all these have to fit together in order to enable the success of the corporation.

Initiation mode in the emerging industry

The problem with this kind of businesses is that there are few guidelines of how to operate in this industry. The motive given by Markulius et al (1999) is simply that in many cases these businesses are so unique. The major problem is that the new product or service may be a fad and will disappear as quickly as it came, leaving the corporation with a lot of products, but no market to sell them on. Therefore, it is vital in the strategic management process of product innovation and/or start-up, to very carefully consider and evaluate the potentials and possibilities the product will have on the market. Important aspects in this analysis are existing products/substitutes, consumer behavior, and if the market is mature enough for the product. Timing is often the most critical success factor in the initiation mode. For the top management team and board of directors this emphasizes that they must seriously consider the competitive context in the strategic process i.e. the market potentials for their products and the possibilities to earn sufficient profits, is greatly depending on that the timing is accurate (Markulius et al 1999).

The implications for the board

According to Markulius et al (1999) the manager’s abilities, skills, educational background, and experiences plays a major part in the early development of the small organization. Further on they argue that a wide range of skills is needed to be successful. Problems that might occur is that it will be hard to separate the own interests and the corporations since the owners and managers might be the same people. When the corporation is in its starting phase, the structure is under development and most decision
The board of directors as a strategic resource
in small ICT corporations

are made informally and rapidly. A problem with many books we have read is that they
do not make any difference between managers, top management team, and the board of
directors. Many of the problems they discuss are possible to divide between these
instances which would imply a better structure and a higher performance would be
possible. Forbes and Milliken (1999) discuss this issue and state that most entrepreneurs
have a general management experience and therefore could a well functioning board be
very useful to assist the managers in this phase of development in the corporation.

9.1.4.2 Take-off mode

This mode is ranging from the time when the corporation has entered the first major
growth face. Although all modes require some strategic management attention, it is in
this mode particularly important to focus on issues related to growth and how to manage
them successfully. According to Markulius et al (1999), a failure during a major growth
phase can be disastrous for the corporation. This due to growth could have many
implications for both the organization and management which will be under quite some
pressure in this phase such as cash flow and investments. To enter a strong growth
period implies great risks, as well as opportunities for the corporation. Markulius et al
(1999) put forward five strategic issues to consider before going ahead with the growth
phase. Firstly, the timing of the growth phase is crucial to be successful. Secondly, how
are your competitors positioned? Do they plan to grow and what advantages do they
have. Thirdly, in emerging industries even though most corporations have the ability to
grow, some will nevertheless fail. Markulius et al therefore suggest that corporations in
growth industries most carefully must discuss what the growth and expansion could
imply. Fourthly, does the corporation have the relevant and needed resources required
for the growth? Lastly, does the management itself have the competence to run a
corporation in extensive growth?

After the decision-makers have answered the questions above and concluded that the
corporation can grow successfully, they most certainly have to be prepared that there
will still be serious problems on the way. Most of these problems will be tied to the
operative business. The managers can for example expect that there will be a shortage of
cash, and due to more complex business the organization will be more multifacted and
formalizing, planning and control will be vital to manage the situation. Furthermore,
during the whole growth phase it is vital to continuously analyze the competitors and
take responsive action and try to anticipate future strategic actions.

Take-off mode in the emerging industry

In an emerging industry such as the ICT, it is very tempting to become the major player
because the market is new and the competitors few. In many cases, the corporation is
rushing to be the best, biggest, and fastest growing in their industry. However, this
ambition might not always be the best to aim for. Cromwell and Periman (Markulius et
al 1999, page reference missing) claim that this growth strategy may not be appropriate
due to the large uncertainties that are particularly involved with expansion in emerging
industries. Further, perhaps the most important notice they make is that to grow/expand
may not be most appropriate strategy for all small corporations:
The board of directors as a strategic resource in small ICT corporations

[...] Being the “Fastest with the Mostest” has a clear disadvantage as it greatly increases an organization’s sinking-the-boat risk. As Drucker states, it “is very much like a moon shot: a deviation of a fraction of a minute of the arc and the missile disappears into outer space. And once launched, the “Fastest with the Mostest” strategy is difficult to adjust or correct.

Examples of failures like these are very visual in the IT industry at the moment now around the world and in Sweden where fast-growing corporations such as Framfab and Boo.com has serious problems or have even gone bankrupt. The lesson to learn is that an attempt to grow in this industry has to be based on extensive research about of the environmental factors such as: competition, economic development, the internal capability to manage the growth, and the potential on the market/demand for the product.

The implication for the board

An extensive growth phase demands very much of the strategic decision makers, i.e. the board of directors. As written above a little mistake will imply big problems for the corporation. Therefore it is vital for a board to have strong analytical and diagnostic skills to fast and accurately analyze the situation. Further on, it demands a good notion of the business strategies to make the necessary and accurate changes to achieve the desired goal in this very dynamic and ever-changing environment, in which the emerging industry lives in.

On the individual level this implies that the board members have to be willing to take great risks and where the outcome is very uncertain. The fast pace of development and growth also implies that board members should be characterized by a high level of energy and handling pressure well according to Markulius et al (1999). As a group the board always have to be self-critical and admit if the development tends to head towards an unfavorable state, then they need to reconsider if there are better options at hand. It is easy to get in to a situation where it is hard to stop due to the investments made, both monetary and in time (a so-called investment trap).

9.1.4.3 Vigilance mode

This mode is characterized by a period of sustained success and the corporation has become established in the sense of reaching stability and maturity in the business. Financially, the corporation is doing well and has a steady structure. In question of management, it is now characterized by professionalism and experience. Additionally the decision-making is more formal and analytical. In some cases the owner has also left the managing role in the corporation and taken a more supervisor type of role. Looking at the corporations’ business itself, most of them have developed some core competence. Notice that most corporations already have a core competence in the initiation mode but cannot exploit it during sustainable periods according to Markulius et al (1999). In the vigilance mode has the corporation’s procedures, and processes become stable and there are time to be fully devoted to the businesses core activities.
The board of directors as a strategic resource in small ICT corporations

In the vigilance modes there are several strategic options for the corporation of how to proceed with their business. Should they hold, grow, exit current or enter new markets, etcetera. Disregarding the chosen option, the main message of this mode is that the corporation should do what it does best, i.e. implement strategies based on their core competencies, which allows the corporation to exploit its strengths on the market. Hopefully this derives a product that is perceived as the most preferable alternative by the customers. If this is the case the corporation has thereby developed a competitive advantage against its competitors. The competitive environment is also very important to corporations in this mode. However, now it is more focused on monitoring possible entrants, keeping market shares, the overall market development etcetera. In other words business intelligence.

Vigilance mode in the emerging industry

Despite the lack of general guidelines in this industry there is however one thing for certain. Sooner or later there will be a shakeout (Lawless and Gomez-Mejia 1990). The implications of a shakeout are that there is a sharp break in the specific industry, resulting in overproduction and a fierce competition, where some weaker contestants will lose and go bankrupt. A shakeout is part of the maturity process that all industries go through, constituted that corporations move down the experience curve and the customers are looking for stability and name recognition.

Other threats are new competitors. In emerging industries, such as the ICT industry, you cannot rely on the belief that the competitors will come from the industry itself, see Snow and Ottenmeyer (Lawless & Gomez-Mejia eds. 1990). A new technology in some other industry can suddenly make your technology obsolete. An example used earlier in this thesis is Facit, which did not pay enough attention to the emerging PC industry.

The implication for the board

In the vigilance mode the board will have a role as a controlling and monitoring body. The effort done in the earlier stages are now paying off and the business is getting stable. However there is a risk especially in the emerging industry that the success and perceived stability makes the board of directors “blind” to changes in the business environment. The board must therefore always be alert to such tendencies, and actively work to create a curious and open culture in the corporation and within the board. The role for the board in its contribution to the corporation’s competitive advantage is to continuously forecast and evaluate the suitable direction of the corporation.
9.1.5 Analysis of the strategic management

Mr. Strategic management is not as Mr. Corporate Governance talking explicitly about who should make the strategic decisions. The major emphasis is instead aimed at the discussion about how to strategically run a corporation. An important lesson from this perspective is that different phases in the corporate development require different kinds of strategic decision-makers and different approaches to strategic management. Additionally Mr. Strategy makes a difference between different kinds of business environments that the corporation operates within, such as mature, emerging ones. However, we have chosen to only discuss the emerging ones.

The strategic management discusses what characterizes the strategic decision-making and the leadership style within a certain phase. As Mr. Strategic management mainly have been focusing his attention on large corporations, the framing of the question then becomes, if small corporation suitable within this model. In addition, is the concept of the board of directors the adequate forum for strategic decisions? If the answer to these questions are no, then it would not be out of place to question the board of director’s contribution to a small ICT corporation’s competitive advantage.

Without a strategy the organization is like a ship without a rudder, going around in circles.

Joel Ross and Michael Kami (cited by Strickland 1998, p 2)

Most scholars would agree upon that strategy is important both for large and small corporations. Mr. Strategic management suggests that a better conceived strategy and the more competently it is executed, the more likely it is that the corporation will be a solid performer and have competitive success in the market. Nevertheless, the question is if the same strategic recipe is to be used as in large corporations. For the board of directors in its quest to find the path to corporation’s competitive advantage may have to make new and more suitable methods for small corporations’ development. The uncertain and changing characteristics of the ICT industry, which Kelly (1998) described in the problem discussion as ‘walking in a mountain chain’, suggests that a different approach to the strategic management is in place. For example, different kinds of profit measurements and strategies etcetera might be needed to cope with this environmental setting. The time perspective of the strategy process will also be more central as the strategy’s period of validity become shorter. The strategies have to be done and revised faster as well to be useful in the corporation. This leads us to question whether the board is the most suitable part to perform this task, i.e. to be responsible for the strategic development of a corporation. The board of directors involvement in formulating and implementing corporate strategy has been a discussed off and on priory within strategic management. Once again, does the discussion arise whether the board of directors is the suitable forum for this task. The argument goes: in order to be effective, every organization requires not only a clear and unambiguous strategic mission but also the confidence that its top management has the authority and ability to carry it out. A typical board of directors is poorly designed and ill-equipped to provide hands-on product and market leadership (Donaldson 1995). Moreover, according to Strickland (1998) most outsiders lack industry specific experience and in addition to this, they have limited corporate specific knowledge. Can then a board of directors who give the corporation
The board of directors as a strategic resource in small ICT corporations

attention at most once a month for six or eight hours at a time be the most suitable for the task? They can hardly be expected to have the detailed command of the issues and the requisite independent judgment necessary to make compelling proposals to counter those of management. Board members are expected to serve as supportive critics of the strategy in place. Additionally, those who choose to violate the norms of boardroom debate by aggressively and persistently challenging corporate leadership risk finding themselves isolated and, in time, replaced. As a result, outside board members seeking a change in strategy or leadership is relatively few and far between (Donaldson 1995), a finding which is also brought forward by Steinberg & Bromilow (2000).

This would suggest that a traditional board constellation is not suitable, at least not if you perceive the board itself to be a body that should contribute to the corporation’s competitive advantage. This is based on the logic derivation: if the above is true about the board of directors, which of the tasks demands the most skills and competences: the operative implementation or the strategic proactive thinking and development? So as being emphasized by both our problem discussion and the implications for the board within emerging industries, a board has to be the apex of the skills and competences in the corporation to be able to contribute to the corporation’s success and development. The process is accomplished by weighting alternative strategies against each other, estimate risks involved et cetera to guide the strategic development and be flexible to change directions if necessary. This process makes it possible to evaluate and forecast probable developments within the competitive context, and then use this knowledge to make new or review old strategies. If our assumptions about the ICT industry are true, then it is very hard for us - from this perspective - to see the board/boardroom as it is emphasize above: to be a suitable arena for deep and constructive debates about the corporation’s future development and strategies. It would rather suggest the corporation would require a fully committed board which reserves a lot of time for the task. Moreover, one board of directors that is highly competent and skilled in many areas to be able to carry out their task satisfyingly. Further evidence that this is the case; consider Snow and Ottensmeyer statement (Lawless & Gomez-Meija, eds. 1990, p 181) “High technology firms face unique management challenges as increasingly they compete in industries that are at the forefront of new approaches to strategic management. Competitive success for these firms will largely depend on their ability to manage both business strategies and various technologies”. As they suggest, the board of director would be a valuable asset and contribution for the corporation, viewed through this perspective.

As this analysis emphasizes, Mr. Strategic management very much deals with whether or not the board of directors is capable for dealing with the strategic responsibility it has been given by Mr. Legislator and Mr. Corporate Governance. Since the analysis we until now have made, suggests that this might not be the case, the continuation of this analysis will point at some of the strategic consideration the board of directors needs to bear in mind, if they are to fulfill their strategic responsibilities. The board of directors’ oversight of the corporation and the top management teams performance require a broad perspective, and any strategic consequence that affects the ability of the organization to reach and sustain its full, long-term competitive potential will demand board’s attention.

For a further discussion about the director’s role in strategy development see Steinberg & Bromilow, 2000.
The board of directors as a strategic resource in small ICT corporations

Henderson et al (ed. Luftman, 1996) has created a conceptual model, which aim is to help the corporation to visualize and achieve strategic control and thereby create a successful strategic condition that suits the corporation, and hence to satisfy the above stated criteria/wants. A close relation to the value chain thought, created by Porter (1985), is found in the model of Henderson which prominence the value of different activities both internally in a corporation as well externally.

Firstly, a successful corporation has to have good knowledge about the core value of its products (value management). To be able to obtain a valuable and successful product it requires the activities within the corporation to be managed competitively. This process urge the need obtain a good knowledge of customers behavior and their needs and wants, then implement these to achieve a good control structure in order to maintain the competitive position.

Secondly, to support the value management it requires the corporation to have a suitable internal and external governing structure. To be able to obtain an effective organizational structure, both internal as well as the external relations are vital to the organization. These are created and nurtured to gain strategic benefits in the strategic management process. The external governance structure will for example contribute to a better customer knowledge and access to expertise. The internal governance on its hand is to assure that the different activities are competitively governed, i.e. having a good knowledge about the corporation’s strengths and weaknesses. The awareness and understanding of the organization strengths and weaknesses is a prerequisite for steering the organization towards current and future objectives and visions.

Thirdly, the corporation has to have the organizational resources and capabilities to make the task, i.e. human capital with the required skills and capabilities. The organizational capability is the ability to understand the value in aligning the organization with its environment and key stakeholders. This to exploit the opportunities in the environment by using ones strengths, and thereby achieving a competitive advantage.

Lastly, in Henderson’s conceptual model are technological capabilities. To achieve a certain objective it is important to identify, evaluate the current technological capabilities and the need of acquiring new ones, i.e. do the corporation have the adequate hardware and resources to make the task, and if not how will it acquire these.

If using this model properly, the board will achieve strategic control over the corporation. The steps in this model is however neither specific for the high technology industry, nor for the ICT, but what is to learn from it is that to be able to understand and use this model in practice, it will require a board that is very skilled and competent, and who can reserve a lot of time for the task. This is a conclusion that can be made from the scope of fast changing technology and market demands.

The closing words of Mr. Strategy

Mr. Strategic Management concludes his findings from the expedition trough the wilds by saying: that it is not evident that ICT boards are a strategic resource. However, if the board has the right qualities (for the current phase), it enables them to develop and craft a well conceived strategy. In this case, the board will be a significant contribution to the corporation’s competitive advantage, and increasing its chance of survival.
10 Mr. Discussion –
Interviews with People

Introduction

In this part, Mr. Discussion will describe our practical research. We have just like with the theory research tried to get as many relevant views at our field of study, the board of directors, as possible. As we have more of a discussion with the interviewed the text below will at times be a bit straggling. This is our method of how to elucidate the differences in the ‘reality’.

First, the view of the board members themselves will be discussed by Mr. Discussion, followed by the CEOs’ perspective.

10.1 The view of the board members

10.1.1 The interviewed board members

The interviewed persons had very different backgrounds. John\textsuperscript{26} is fairly young, in his thirties. As a profession he is one of the founders to an incubator company, specialized in helping people launch and turn their business ideas into reality, especially business ideas within the IT industry. Therefore, despite his young age, John has been involved in many boards within the ICT industry. Bob, our second interviewed board member, have retired after a professional life as self-employed. He has for a long time been in top management teams and different boards of directors, both in his own corporation and in other large and small corporations as well. The boards he has been in have mainly been within ‘traditional industries’. These differences between them was the reason we selected them since we thought this might explore different views and perspectives of the board and its contribution to a corporation’s competitive advantage.

10.1.2 The role of the board of directors

John considers that the role of the board, during the initial phase of the corporation’s life, is more like a management group in a big corporation where the CEO is the project manager i.e. the corporation is run more like a project. He meant that the board are involved in many matters in the corporation Since so many things happen at the same time during the initial phase of a corporation’s life. Therefore, he said, it is very important that the board takes the time needed for the strategic work, so they could separate the operative issues from the strategic ones, which is what the board should handle. A situation where the same person holds the position as CEO and chairman of

\textsuperscript{26} The names used in this part are fictitious to protect the interviewed persons.
The board of directors as a strategic resource in small ICT corporations

the board, is therefore inconsistent with the thought of the board of directors, i.e. the separation between the operational role of the top management team and strategic role for the board.

Bob, the other interviewed board member, had a quite different perspective at the boards’ work. He claimed that most small corporations often does not see the use of a board, regardless of industry belonging. A board is rather seen as a necessary evil, due to the legal requirements. Therefore Bob means that it is often difficult for the board to get the CEO and management to listen to their advices, regarding for example long-term consequences and profits. Still regardless of this impediment, Bob thinks the most important tasks for a board is to work strategically and with the strategic development. Secondly, he emphasizes that the board should be a ‘speaking partner’ to the CEO, meaning someone the CEO could talk to without restriction, i.e. be a sounding-board for the CEO.

10.1.3 The competence of the board

When we discussed the issue of board members competence they implicitly meant that it is hard to say anything about it, because it all depends on the corporation’s prerequisites. However, they gave some general characteristics of the composition of the board though.

John expressed that it is obvious that the members of the board must have the experience and competences that are suitable for the corporation otherwise it is of no use. Moreover the board should consist of a mix of mature and young people, because the young stands for the visionary and understanding for customer behavior, while the mature members contribute with long business experience and good knowledge of the industry. In addition to this, it is more about recruiting people who have the ability to think strategically and is visionary.

Bob, on his hand, explained that the discussion about whether to be skilled in business or have technical competences changes with the fashion. He said that it changes as successful corporations emerge, and thereby become the preference of how to be successful. He argued instead that much of the work in a board is about people and cultures and therefore it is more important that you find the “right” individuals with the suitable personality, a high commitment and that the personal chemistry works within the board, with the CEO, and other important contacts. If these relations are not positive, it can overturn an else good board. He continued to say that most of the work in a board is not of strategic character, rather tactical. The reason is that in the initial phase of a corporation there are a lot of basic and operative matters to handle. Bob meant that this requires a wide variety of competences, which most often involves a wider area of knowledge and skills than a board by itself could possess. Therefore it is important for the board members to have an extensive personal network, so they could get access to needed expertise. Bob summed up this topic by saying that a board is there to help the corporation to make correct and good decisions. So in reality the board is just a “bunch of advisers”. However it is important to remember that it is not always easy to give good pieces of advise, due to uncertainty or other factors. Therefore is the advice you as board member give sometimes more like a qualified guess rather than an advice.
10.1.3.1 Board competence in the ICT industry

Bob of the interview said that he did not think it was any major difference being a board member in ICT corporations, in comparison to ‘traditional industries’. Those characteristics that distinguish ICT corporations from others is that timing is more central in the strategic work and knowledge about the product as well as more important. John, who does not have much experience of board-work within other industries, claimed that in the ICT industry timing and time to market are very essential to succeed as well as having luck.

10.1.4 Issues of importance for small corporations

Bob, who has a long experience of board work, continued to talk about problems that can occur in small corporations that affect the board work. In small corporations it is not unusual that the CEO and the founder is the same person, which can create several problems. To begin with, the founder might not be suitable as CEO. It is a question of perspective, it is easy that the founder becomes stuck in his/hers vision: “Of course ‘my’ product will sell…” A further problem that can emerge (due to this constellation) is that in small corporations it is one person or a few people who possess the corporation’s core competence. Therefore it can be problematic when the board and the key persons do not have the same opinion. For the best of the corporation Bob claimed that in most cases, the founder is more suitable as a visionary person and developer in the corporation rather than as CEO, and problems like the one above would be avoided.

A common prejudice of the board of directors is that they are advisers “free of charge”. However Bob claimed that this is only partially true. You could divide a board into two groups. To begin with are there the ones that are members of the board because they have invested in the corporation. These are ‘prisoners’ of the corporation due to their investment, and suit the description ‘free of charge’ well. The second group is the ones that are recruited to the board. Formerly the board’s responsibilities and obligations were not much controlled legally. Thereby, it was easy to ask someone to be on the board for a symbolic sum of money. However Bob means that the new corporate law has increased the responsibilities and obligations considerably. The board is nowadays joint and several responsible for the corporation, and in the case the corporation goes bankrupt indemnification could be raised against the members of the board. This makes it both more difficult and expensive to recruit people to a board, especially in a newly started corporation (because the risk of failure is greater). Consequently Bob claims they could hardly be called ‘free of charge’.

Lastly, Bob said that the board of directors is an important “cog” on the way to success for a corporation, and he thinks it is pity that so few small corporations do not acquire a professional board of directors. They would definitely be helped by it.
10.2 The view of the CEOs

The CEOs we interview had quite a different kind of perspective on the board in their corporations. One explaining factor might be that one of the corporations recently had dismissed its board because the owners and management were not satisfied with its work.

10.2.1 The CEO’s role

The CEOs we interviewed, Tom and Julia, were quite experienced in their role although they were fairly young (in their mid thirties and forties). A first similarity between them was the different roles they hold. They were not just a part of the operational business but also founders of the corporations, and one of them was represented in the board as well. Although they did not believe this was problem since both posts includes working strategically and for the best of the corporation. Tom is quite new in the business world, but have a wide experience of starting up new corporations. Additionally, he have studied and worked at a university for a long time. He has two degrees, one in business administration, and one in engineering. Julia has a long experience of working with strategic management in top management teams.

10.2.2 The role of the board of directors

The corporation Julia is CEO for has a very active and proactive board which has a continuous communication with her and the rest of the organization. They have the policy that if the board or someone in the operative business needed each other’s expertise they did not have to go through the CEO. They thought that it just complicated the matter. Additionally, the board had workshops with different themes. In these workshops the board was represented together with the CEO and the affected department manager. Sometimes had people from the operative business been involved in these workshops as well.

The corporation Tom is CEO for had a board which was rather reactive and operational, involved, or as Tom expressed it: they were “poking” around in the business rather than working at the strategic level. Tom means that a board must have confidence in the people in charge for the operative management, otherwise it will not work.

The view on what role the board should have was very similar for the different corporations though. Firstly, the CEOs considered the main task for a board of directors to work strategically and ‘point out’ the strategic direction. Additionally, they should represent the owners and their interests. Finally, the task for the board is also to support the CEO and the top management team when needed.

10.2.3 The competence of the board

The area of competence in the board was discussed extensively during the interviews. The corporations in question had quite different kind of boards. Julia’s corporation had a professional board while the other corporation had a board that was recruited on a local
The board of directors as a strategic resource in small ICT corporations

level. Their skills and competence also differed a lot. The professional board had a competence mix that was suited for the corporation’s need, according to the Julia. They had expertise for example within customer behavior, the Telecom industry, international business, organizational development, corporate finance, and specific industry knowledge. Further Julia claimed that it is important that the board members have and obtain a broad network of contacts. The use of this is to get help with expertise that the corporation might lack. Further this network can open the “doors” to new customers and partners.

Due to the current situation in Tom’s corporation, the competence discussion was more about how the CEO would like it to be, which also was the preference during the recruitment of the new board of directors. Tom thought the most important task for a board is to have competences and past experiences from situations that might occur in a near future for the corporation. This to support the business and make good strategic decisions. Tom did not initially think that knowledge and experience about the industry was particularly important. It became apparent later that this shortcoming in the board leads to discussions and misunderstandings. Further on, Tom added that it is crucial that the board members have knowledge of the industry itself to be able to make good strategic decisions and stipulate suitable goals. What was devastating for the corporation, according to Tom, was that in the old board had experience from traditional industries and municipal businesses. The plans and strategies they formulated were not adapted for the specific conditions in the ICT industry. Secondly, they did not have the ‘right’ personal network for the industry the corporation operates in.

10.2.3.1 Board competence in the ICT industry

The CEOs shared the opinion about the ICT industry being quite different in comparison to the traditional industry. However, they did not seem to have the same opinion what implications it has had for the board.

Julia mentions the industry as being pioneering, and compared it with the railways which back then broke new ground. Due to the fast development in the ICT industry it is important that the board can “raise” the perspective of the business to guide the corporation in this environment. It implies that the board has a good notion of intuition and power of deduction. Put in other words it is more important to have good knowledge about the market and environment, rather than about the operative business.

Tom, the other CEO, also illustrated the importance of “raising” the perspective of the business. However the cause for this was different, because he argued that due to the technical character of the ICT industry, it was important to raise the perspective to see the business-potentials. Further on, it is important to read and keep up with the fast development in the industry, compared to traditional industries. This demands that the board to is open about learning new things, and realizes that old knowledge and competences are not enough, which was the case in the old board in the corporation.

10.2.4 What is the difference between a good and a bad board.

Last in our discussion with the CEOs we talked about what characterizes a good respectively a bad board. The CEOs were quite unanimous in their opinions. A board
The board of directors as a strategic resource in small ICT corporations

should be devoted, motivated, and keen to the corporation’s needs. Furthermore they should critically analyze and question the information they receive to base their decisions upon. Their intention to learn new things is also important. In other words, the board should be professional and serious.

Lastly the CEOs pointed out that this description of a good board might not be the same when the corporation is in the growing or another phase of its life.

A final comment from Tom was that a problem in many small ICT corporations does not “dare” to ask the boardpros to obtain a good a professional board. The founders of the corporations often think they are too expensive to hire. The CEO claimed that this is not true, because these pros constantly renew their “stock” of board commitments. They can often also contribute with a minor sum of capital to the corporation to be on the board and a win-win situation emerges.

10.2.5 Analyze of the research

Mr. Discussions is just like the other five perspectives a source in our strive of understanding the board’s significance for a corporation’s competitive advantage. We have seen that the conception of board work in the ICT industry differs a lot, and so does the opinions about it. Some say it is breaking new ground while others say it is not especially different to common board work. Therefore, we have learned from the discussions that the question whether or not the board is a strategic resource is not easy to answer, and perhaps not possible. In some areas, they agree more than in others, but what we have seen is that the trend from the other perspectives - with different and contradictory views and opinions – continue in this perspective. Consequently, it is not possible to say that there is one general explanation existing of the board’s contribution to the competitive advantage. Instead, the first major analysis of the research perspective is that it depends a lot on the specific prerequisite and setting of the corporation in question. Secondly, remembering the discussions from the prior perspectives Mr. Discussion has found several of these perspectives emphasized pros and cons. Mr. Discussion has identified issues such as who should govern the corporation and implications of this, the legal implications, good governance and boards, task and role of the board and lastly power-relations. What does this tell us? This could of course be an interviewer effect. But we do not think that this is the case as it was more of discussions rather than interviews, where we to a great extent aimed to let the interviewed set the agenda of what to talk about regarding the board. Another possible explanation might be that these areas are known problems in ICT corporations today and therefore is an issue of discussion in boards of directors and top management teams. These problems might have become known as the corporations have tried to use a traditional method of working for the boards.

In the discussion about the specific attributes within the ICT industry, we got a somewhat odd response. This as they on one hand said there was not anything different from a traditional but later on, they all expressed the same opinion that it was different. We do not have a logical explanation for this. Nevertheless, the interviewed agreed upon some general things that are of importance for the success of as a board in an ICT corporation. They claimed that there are some factors which have become more central
The board of directors as a strategic resource in small ICT corporations

within the ICT industry’s strategic work, such as timing and product knowledge. In the discussion with the interviewed, we got a sense that there are greater differences in the corporation’s ownership and size rather than industry, which affected the work of the board. As the work within the board’s task will be very different depending on what resources the corporation already has. In large corporations there are already very skilled strategists employed and the board of directors becomes more of a controlling and deciding body. Secondly, different owners might have different interests and visions with their ownership, which highly affects how the corporation is governed.

Mr. Discussion says absent-minded goodbye and walks away again out in the wilds trying to find more people that could help him understand the competitive advantage query.
11 Closing Analysis
– What have Changed?

11.1 The travel book

This is a travel book, a narrative story from the expedition through the wilds of the competitive advantage query. To enable that you are told and informed of as much of the expedition’s findings as possible we have let our six expedition members come here tonight. As storytellers, each one of them has tried to tell you about their findings about the board’s contribution to the competitive advantage. Thanks to them and their stories, it was possible to take you through the wilds of the competitive advantage query. As a result of their stories and descriptions, we have got six different descriptions of our object of study. Now when we have listened to them, all we could reflect upon their findings, what similarities and contradictions are there in their descriptions of our elephant, and could we put the descriptions together and try to make up the whole picture. However, before we call up all the six expedition members to a panel discussion, we have invited Robert Ornstein, author of the famous book *The Psychology of Consciousness* (see Mintzberg et al, 1998), who will talk about the influence of psychology when we try to construct an image in our minds by putting together separate parts.

– Ladies and Gentleman, please welcome Mr. Robert Ornstein.

Each person standing at one part of the elephant can make his own limited, analytic assessment of the situation, but we do not obtain an elephant by adding “scaly,” “long and soft,” “massive and cylindrical” together in any conceivable proportion. Without the development of an over-all perspective, we remain lost in our individual investigations. Such a perspective is a province of another mode of knowledge, and cannot be achieved in the same way that individual parts are explores. It does not arise out of a linear sum of independent observations (1972:10)

We therefore now bring our six blind and brave men together again to a panel discussion with the aim to create an overall perspective. The theme for the panel discussion is: Seeing the whole elephant, what are the combined findings telling us. Can the board be perceived as a strategic resource that is significant for the corporation’s competitive advantage, i.e. is the board of directors the answer to the competitive advantage query?
11.1.1 The idealistic thought of the board of directors

Mr. Legislator sets an absolute demand on the board of directors which implies them to be overall responsible for the performance of the corporation. Being the ones deciding in matters which are unusual and/or of great importance, the significance of their actions is great.

Mr. Corporate Governance has taken the owners perspective. He suggests that the owner is the one having the right to determine the strategic path and development for the corporation. The board of director is according to him the owner’s extended arm, acting on their behalf. The board is in other words the formal link between the shareholders of a firm and the managers who are entrusted with the day-to-day functioning of the organization. For Mr. Corporate Governance the contribution of the board of directors is not really an issue. The board should secure the owners rights and interests. Mr. Corporate Governance assumes that the owners act rational and in the best of the corporation. And if the board acts on the behalf of the owners and in line with the legal requirements, they might contribute to a corporation’s competitive advantage.

Mr. Past Projects focus on the way to success and survival for small corporations by looking at the strategic and structural configuration. For this he has a huge toolbox for the board of directors to use when facing all the hectic, problematic, and vital situation that most certainly will emerge in small corporations, some of which originates from, (alternatively is a consequence of) the other men in the expedition.

Mr. Strategy is aimed at the strategic contribution of the board of directors. He states that a board of directors has to achieve certain prerequisites unlike the other perspective to really contribute to the corporation’s competitive advantage. He claims that they have to be valuable, rare, non-imitable, and efficiently organised.

Mr. Strategic Management is aimed at who should run the corporation strategically. He emphasizes that the board has to be adapted to the phase that the corporation is within. Further the board of director’s contribution is, in their strive to achieve competitive advantage, solely dependent on how efficient they manage and govern the strategies.

Mr. Discussion is almost unprejudiced, as he is out and trying to find the board of directors’ contribution by talking to people involved in the process. His answer is therefore something that will grow forward as time goes by.

Hence, the assumption made by these perspectives is that the board is actively involved in the corporations’ development. This as they suggest that if the composition of the board is of a suitable structure, and consists of members with applicable experiences, demanded skills, knowledge of the corporation’s internal resources, and understanding of the industry, then the board will be able to participate actively and have significance for the strategic decisions taken and the overall development of the corporation.
11.1.1.1 **What confirms and opposes this idealistic approach?**

In reality, we have found that the assumption above seems often to be very wrong, in many aspects.

*What emphasizes the board of directors being a strategic resource?*

The idea behind the board of directors is that the organizational configuration with a board of directors secures the owners interests and rights. The very existence of the board as an institution is rooted in the conviction that effective oversight of an organization is carried out more efficiently with a group of people since their combined capability exceed the capabilities of any individual. Additional motives are that collective knowledge and deliberation are better suited to tasks of this nature. Even though the board has the overall responsibility for the corporation, the operative one is delegated to the CEO and the top management team. This since the corporate law makes a dividing line between the operative and strategic responsibility. Consequently the board of directors is the formal link between the shareholders of a firm and the managers who are entrusted with the day-to-day functioning of the organization. The board of directors is thereby legally responsible for overseeing the performance of the CEO and management.

**The Board’s Unique Perspective**

An active board creates the necessary conditions to separate between the role of the owners, the board of directors, and the top management team. The board of directors has an important role to fulfill as a supervising body. It is their role to make objective and neutral demands on the top managers, which corresponds with the corporation’s overall vision and objectives. The board is therefore supposed to be the one providing oversight and strategic insights, avoiding to ‘micromanage’. This because it implies turning strategic vision into operational reality, i.e. an exclusive focus on the day-to-day business making the current strategy work the best. The board of directors should therefore have the role as a strategist, in other words guarantee that the strategic decisions taken is rational which implies seeing to that from a strategic point of view, doing the right things in the long-term perspective.

That the board is unique in an organizational and governance point of view has been found in several of the perspectives, which emphasizes the board of being the apex of the corporation’s decision body. Thereby they are also the only one in the organization who can question the top management team. So, if the owners appoint a suitable board of directors for this service and control task, they become unique since nobody else can fulfill this role. Furthermore many emphasize that the board of directors has a unique position since they from their outside- and overall- perspective bring new ideas, knowledge, and experiences into the corporation. This creates and enhances the possibilities to view strategic and important issues and decisions from several perspectives and aspects. This since a group consisting of people with diverse backgrounds is suggested to have access to information and perspectives acquired from the outside of the corporation, and consequently therefore provide experience and views
The board of directors as a strategic resource in small ICT corporations

that management would not be able to do. Therefore, it is emphasized that the corporation would be better off as a whole, than it would be otherwise.

This thought presented above, where they suggest the contribution of the board has great significance, is probably true in many cases. But some of the prerequisites that this conceptual thought assumes, is questionable and therefore makes the board of director’s contribution to the corporation’s competitive advantage uncertain. To be a successful contribution to corporation, the board of directors must have a suitable structure, consisting of members with applicable experiences, demanded skills, knowledge about the corporation’s internal resources, and understanding of the industry. This perception of the board strikes a discordant note with the research done, which suggests that they are poorly designed and ill-equipped to provide hands-on product and market leadership due to lack of industry specific experience and limited corporation specific knowledge. Quite serious shortcoming if this is true. Can then boards of directors who are not involved in the operative business more than a couple of hours a month, working in a more or less useless organizational forum, have the required knowledge of the corporation and the industry really be skilled enough to find, exploit, and nurture the corporation’s competitive strengths by crafting a suitable strategy? Especially considering the citation by Keen (1991, page reference missing):

We have learned over the past decade that it is not the technology that creates a competitive edge, but the management process that exploits technology.

11.1.1.2 How is it then in small ICT corporations?

To describe the concept of ICT boards the quotation above becomes central since intangible assets (knowledge and competence) constitutes a particularly important role for ICT corporations’ and other service corporations’ competitive advantage. The substance of an ICT corporation is to a great extent in the employed key persons’ competence and therefore the members of the board must have knowledge and skills that exceed what is ordinary required a board to posses to be able to carry out their role and services. Some therefore claims that on ICT boards in particular, the members must have firm-specific knowledge about the corporation’s products and services. This since if they are to advice the top management team on issues such as a firm’s competitive environment, the people on the board must have technical and business competence that exceeds those possessed by the top management team. To what extent do they then need to know about the corporation’s core competences and technologies? The people on the board needs so much know-how about the technological details so that they can understand the product’s current and future potential and usage. By this we mean that they need to understand the product to such an extent, that they could understand, question, monitor, and control, advise, and steer the corporation. This implies not just knowledge about the technology in use today but as well an understanding and knowledge of the overall technology development. Over the past decades we have however learned as Keen above stated, that it is not the technology that creates a competitive advantage, rather the corporation’s ability to exploit the market potential of the technologies. Consequently, the board of directors must both be able to analyze and evaluate it through the scope of competition (the position the corporation’s product have
on the competitive market), and understand the market potential for the product as well. The people on the board therefore also need to have good business knowledge and experience. Hence, the board could be said to need both understanding about the internal and external circumstances in combination with specific technological- and business knowledge.

Despite the legal requirements, and the idealistic thought of board of directors as an organizational configuration, it is commonly known that a large percentage of small ICT corporations do not have any ‘real’ board of directors. By this we mean that the reality behind the concept is that often one person, alternatively a small group, possesses many of the roles in small ICT corporations. Since a person or small group is often the owner/founder of the corporation and at the same time is involved in the top management team or in the board of directors, they have a very active role and interest in the governance and control of the corporation. Consequently, there is the risk of acting on their self-interest and sticking to their preconceived ideas and goals. When one is on both the operational/tactical and strategic level, there might therefore be difficulties to work for the best of the corporation, in the long-term perspective. This will have a significant implication for the board of directors as concept, as it tips over the thought of the board being the one that are the apex of the corporation’s decision system and contributing with the overall strategic view. This results in that one of the most vital and generic cornerstones is no longer valid.

11.1.1.3 Are ICT boards a breed apart from traditional boards?

Throughout the thesis we have several times explored descriptions which points to boards on ICT corporations faces and acts in a different business setting, in comparison to more traditional industries. The board of directors have to govern and control corporations which is said to live in a highly turbulent environment, characterized by an ever-changing competitive environment that are very close to ‘Schumpeterian Shocks’. Moreover, besides a more turbulent business environment, they have to keep up with the rapid technological development, implying; managing shorter and shorter product life cycles, and shrinking strategic advantages and stability. In addition small start-up firms struggle with many important issues and problems. These include convincing skeptical customers to try new products based on new technologies, transforming a product idea into commercial success, fighting off attacks from larger, better financed competitors for favorable market position, and moving from entrepreneurial to professional management teams. Consequently, in high tech firms, technology and strategy issues require the top management teams constant attention.

ICT corporations and other high-tech corporations can be distinguished from other firms in several important ways. High-tech firms commercialize inventions, spend a major portion of their budget on research and development activities, are stuffed by scientific and engineering personnel, and sell novel products, often to new market segments. Because of these characteristics high-tech corporations face unique management challenges, including how to:
The board of directors as a strategic resource in small ICT corporations

1. Ensure continuous innovations
2. Allocate resources under conditions of high uncertainty
3. Manage professionals
4. Create new markets

In this setting the strategy, organization, and products have to be adapted to suit their future market. Strategic management in this setting therefore requires the skill of how to commercialize new scientific developments. Is there then any evidence for that these requirements have given rise to new prerequisites of boards in ICT corporations, which in turn would imply in the reality the concept that the board of directors grasps needs to be revised? Are the ICT boards really a breed apart from traditional boards?

Because of the increased knowledge – requirements related to more operational and tactical character, the presence and use of the boards’ knowledge and skills are likely to be more notable in ICT boards than in most others. A sign of this is that high-tech corporations, in their strive to enhance the technological and firm-specific knowledge of their boards, tends to favors younger directors with up-to-date technological knowledge over older directors with general technological and business experience (Daum 2001). In a survey done by Spencer Stuart, who annually makes the Spencer Stuart Board Index (SSBI), (we often use Daum, 2001 to refer to the SSBI) it was found that in a number of key areas – size, composition, and compensation- the boards of public Internet companies provide a contrast to those of big company of traditional industry. More exactly: Firstly, Internet boards are much leaner. Daum (2001, p 48) means “the boards of public Internet companies look distinctly different from their traditional, large-company counterparts. They are smaller with a size of only 6 - 7 directors as opposed to 12 on the average S&P 500 boards, according to our annual SSBI survey. In the rapidly changing universe of the Internet, small size may well be an asset when nimbleness and the ability to make critical decisions in the blink of an eye are key elements of success”. Secondly, youth predominates among insiders. The report considers that one of the most striking aspects of IT boards, compared with traditional boards, and is the age of inside directors. Thirdly, “old-timers” are relatively young. Generally outsiders as a group are older than insiders. The average age of outside directors on IT boards was 51 in their report which 10 years younger than the average age of outside directors in the 1999 SSBI. Fourthly, they found that there are many board’s insiders on IT boards. As we in the third perspective have discussed is outside representation on the board an important factor for a board should function and being independent. Therefore it is an very important finding done by Spencer Stuart that not only are there many more insiders on these boards, but the few “outsiders” who are represented are often not truly independent outsiders as we would generally think of them. These outsiders may not represent founders, owners, or management of the company, but are often venture capitalists.

Ending up
Daum means that: many observers are concerned that the lack of some of the governance basics and controls that are generally considered part of the foundation of a stable and successful board. “Many worry that these boards do not have the structure and skills they need to tackle future problems” (Daum 2001, p 50). However she also mean that the new economy may have very different requirements achieving competitive advantage and success and therefore: perhaps not all of the corporate governance
The board of directors as a strategic resource in small ICT corporations

practices so widely embraced by more traditional companies may be needed or transferable, (Daum, 2001). For example, McNaughton (2001) means that managers in small knowledge intense firms most frequently make their decision quickly and by intuition. If we take into account the increased knowledge requirements (related to more operational and tactical character, the presence and use of the boards’ knowledge and skills are likely being more notably in ICT boards). Then it might be as McNaughton (2001) emphasized that one reason to managers in small knowledge intense firms often make their decision quickly and by intuition is that they do not perceive any benefit of former studies or consultations with outsider experts. Another reflection, by ours, is that due to the characteristics of the environment the value of information depreciates quickly, and therefore the top managers do not perceive it as possible to wait the time it takes to consult other persons about the issue in question.

This was our main finding about whether board of directors in ICT corporations really are a breed apart from traditional boards. Although we have found descriptions like the ones above, that have pointed to that there are clearly distinguishing characteristics, we have also found descriptions that speaks against this. Those disagreements, presented in the earlier analyses, is important to consider since whether or not ICT boards is different is a matter of opinion, perspective, and frame of reference.

11.2 Concluding words of the closing analysis

We have described and explored the views our six men have on the board of directors in small ICT corporations. We described the discussions about what speaks for, and what speaks against, the value of having a board of directors. The difference of opinion is in many cases rather a difference of perspective; some describes the contributions of an idealistic board while others refer to the harsh reality. In the idealistic view, the board have the needed competences, skills, and experiences; they are active, motivated, and interested. In the harsh reality the board is a paper construction, people without sufficient knowledge and prerequisites to take an active role and stand.

But if we look past those discrepancy and assumes that a board have all the needed characteristics, what have we found that a board of directors in small ICT corporations contribute with, which could have an affect on the corporation’s competitive advantage?

Thus, what do they contribute with that could justify them being a strategic resource?
12 Conclusions
The Team and the Greenhouse

12.1 The board’s contributions as a strategic resource

The board of directors contributes with the following attributes which are likely to affect a small ICT corporation’s competitive advantage positively:

The board as teacher

The board contributes with increasing the competence.

The board of directors is an intangible resource and a unique source to knowledge and competence. The boards contributes with the following competences: (a) The people on the board have firm-specific knowledge and skills, (b) Experienced in businesses, (c) Have a sound judgment, (d) Wide network of useful contacts, (e) Functional knowledge and skills.

* The board is able to take part with an active role in the strategic decisions and development of the corporation since the directors have applicable experiences, the demanded skills, the knowledge of the corporation’s internal resources, and the understanding of the industry. This mix of competence is the foundation for their ability to: question, advice, steer, and govern the corporation more efficiently than any other instance, people, or a group would be able to.

Hence: High involvement of a board in the strategic decision making processes of the corporation will affect the competitive advantage positively.

* The board contributes with an overall enhancement of the strategic decision-making in the corporation, due to the board members competences, experience, they can evaluate question advise and control and as well make own initiatives based on their background i.e. skills and background.

* A board is a strategic resource if it has knowledge and an intimate understanding of: the corporation’s operations, internal management issues, the corporation’s industry and field of business, to such an extent it could support and advice the top management team.

Hence: High board knowledge of the corporation’s operations will affect the competitive advantage positively.
The board of directors as a strategic resource in small ICT corporations

* A board with know-how and experience of the industry, has the prerequisites to see and analyze the corporation’s potential and match it with the opportunities on the market.
  Hence: The board are likely to lead the corporations successfully.

* The board is a strategic resource due to its capability to act as an intermediary and convey information and knowledge that the corporation is in need of.

* Boards that are interested, or show capacity, for continuous learning will provide a competitive advantage to their corporations, versus boards that do not show such tendencies.

* The board contributes, thanks to their experience, with competence and skills in compensation and replacement of the firm’s top management team. Further, they provide expertise that increases the corporation’s ability to handle major and unusual events of great importance such as: an acquisition or restructuring, generating and analyzing strategic alternatives during board meetings.

* Finally, according to the resource-based view the members of the board need to be better skilled in strategic decisions making, compared to the competitors’ boards, i.e. perform over the industry average.

The board as a communicator

* The board are an ‘information technology’ since they, thanks to their network of contacts, are used for getting access to information, people, and corporations and other stakeholders the corporations could be in need of.

* The board facilitates a dialogue between the board of directors, the CEO, the shareholders, and the stakeholders. As a communicator the board brings or enables the exchange of ideas, knowledge, and experiences between the above-mentioned parts.
  Hence: The board is a strategic resource that creates and enhances the corporation’s possibility to view strategic and important decisions from several perspectives and aspects.

* One major contribution of the board is that the corporation will be a lot better off, management will be better off, and the stockholders will be better off, if there is constructive engagement between the board and management. If working together as partners, the top management team could use more of the board’s knowledge, contacts, and expertise than they would otherwise.
  Hence, a constructive cooperation between the board of directors, the top management team, and the stakeholders will most certainly lead to better governance and more rational decision-making in the corporations.
The board of directors as a strategic resource in small ICT corporations

The board’s perspective on revenues vs. strategic development

* The board of directors should secure a balance in the financial interest, for example venture capitalist and the corporation’s development. This since many ICT corporations offers seats on the board in exchange for the financial investments.
  
  Hence, the board should secure that the decisions made are rational and sound, based on well-deliberated reason with emphasises on the corporation’s development and survival.

The board as Outsider/Insider

* The outsiders on the board contribute with increased competence in the corporation since they have complementary experiences and contacts from the outside, for example from different kinds of industries.
  
  Hence, the corporation will receive complementary, widened, and increased competence and network of contacts.

* Reasons to bring external people on the board is that agent theory suggests it is reasonable that a high proportion of outsiders will lead to that some aspects of the board’s roles and functioning, such as board effort norms will get better.

  * A high proportion of outsiders are considered to be a crucial attribute to an independent board. An independent board contributes with more effective monitoring of managerial conflicts of interest than less independent board does.
    
    Hence: a board with a large ratio of outsiders will make the top management team more effective.

  * A high proportion of outsiders will lead to better governance of the corporation. A board with a high proportion of outsiders creates the necessary condition to separate between the role of the owners, the board of directors, and the top management team. The board contributes with supervising since it is their responsibility to make objective and neutral demands on the top management team.

The Board’s dependence on the ownership

* A board of directors could only contribute, and live up to the legal claims about strategic responsibility, if the owners exercise their ownership actively.

  * The very existence of the board as an institution is rooted in the conviction that effective oversight and governance of an organization is carried out better when the ownership, the operational work, and the strategic responsibility are separated. Otherwise could problems occur, such as it will be difficult to separate the self-interests and the corporation due to the owners and managers might be the same person. These problems could be caused due to small ICT corporations, in their initial phase, do not have the organizational structure into shape, and therefore could not deal with arising issues and problems in an efficient manner. A board of directors makes it possible to divide the tasks between these two decision levels and organizational instances.
The board of directors as a strategic resource in small ICT corporations

Hence: A board of directors is a strategic resource since it enables a better structure of the corporations, which could imply a better chance to good performance and achieving a competitive advantage.

* The current owner structure of small corporations undermines the incitements to acquire a “real” board of directors, implying a high ratio of outsiders. With owner structure we refer to the fact that the management and ownership of a corporation are in general not separated in small corporations.

  Hence: the board of directors lose executive power since it is based on securing the owner rights and interest by overseeing the managers who are entrusted with the operational responsibility. Despite the loss of executive power they may still be a strategic resource. This since even though the role as supervisor is lost they still have left the counseling one.

The board as a strategist

* The board of directors should have the role as a strategist, i.e. guarantee that the strategic decisions taken, are rational. This as it is very difficult for management to have the objectivity that the board has, because management is engaged in the nuts and bolts of putting something together, whereas the board comes from the ‘outside’ time to time.

  Hence: the role for the board from a strategic point of view is to do the right things. Further the board needs to have the confident that the top management team carry out these things the right way.

* Based on their legal significance and responsibility, the board of directors can be described as a large, elite, and episodic decision-making group that face complex tasks pertaining to strategic-issue processing.

  Hence: the board of directors contributes to the competitive advantage by either their decisions is implemented and generates result, or that by procuring knowledge and experiences they indirectly guide the top management team in their decision making.

* To be a source to the corporation’s competitiveness it demands that the board is well initiated in the corporation’s operations and development. More specific it demands continuous knowledge about the operative business, periodical reports, information about the overall development of products and markets, and finally prepare for board meetings by critically examine, compare the information given in the light of the goals stipulated.

* The board contributes to the competitive advantage if it uses its strategic capabilities to decrease the uncertainty and threats from the corporation’s environment and future. Thereby the corporation has gained a competitive advantage against current and potential competitors.

* In a world of continuous change, like the ICT industry, the board needs to keep constant pressure at upgrading and improving the corporation’s arsenal of resources for the next round of competition. The directors on the board must therefore continually invest in and upgrade their resources, despite of how valuable, rare, and impossible to
The board of directors as a strategic resource in small ICT corporations

imitate those resources are today, and use/exploit there value to craft and implement effective strategies, enabling the positioning of the corporation in an attractive market. For a board of directors to be a source of sustained competitive advantage, it requires continual reassessment, investments, and upgrading if the corporate strategy should improve the corporation’s efficiency and effectiveness in ways that competing corporations are not capable to do.

Hence: Boards that are interested, or show capacity, for continuous learning will provide a competitive advantage to their corporation.

* To be successful in achieving competitive advantage the board has to identify and exploit the corporation’s unique resources.
  
  Hence: the board’s contribution to the competitive advantage origin from ability to identify and exploit the strengths, weaknesses, opportunities, threats, and then craft and implement a strategy. The board’s skill to manage the unique resources in an ever-changing market is therefore a strategic resource that creates competitive advantage.

* The above conclusion through the scope of resource-based view is then: The board’s ability to explore and nurture the attributes of the firm’s resources that are costly to copy and that are the sources of economic rents. These become valuable when it enables a board to craft and implement strategies, which will lead to a competitive advantage.

* To conclude: Corporations that succeed often have a good board of directors, which practice their role as a governing body with responsibility and commitment. An effective and well functioning board contributes to a corporation’s strategic and structural configuration. The corporation will therefore be better prepared to deal with strategic, administrative, and operating problems.
  
  Hence: High involvement in the strategic decision-making processes of the corporation will affect the competitive advantage in a positive way.

**The board as advisor**

* In small corporations, strategic decisions could be very critical for the corporation’s further development and survival, such as new product releases. This due to the ever-changing environment they live in.
  
  Hence: High board knowledge of the corporation’s industry and field of business will affect the competitive advantage positively.

* An active board contributes with overview, advice, and reflections about the corporations’ current and future situation and development, as they have their attention split between two worlds at the same time.
  
  Hence: If a board should be able to match the corporation’s potential with the opportunities forecasted in the market, they need to have know-how and experience of the industry and the operative business.

* If a board of directors should contribute to the competitive advantage, they must have the capability of designing and implementing well-conceived strategies that enable the corporations to develop and competitively distinct set of resources and deploy them in a competitive efficient manner, leading to a competitive favored position in the market.
The board of directors as a strategic resource in small ICT corporations

* To fulfill their responsibility the people on the board must as a consequence of the turbulent and ever-changing competitive environment be more active, more engaged, and more competent, to qualify to be on the board, i.e. contributing with valuable advice to the top management team.

* In the case when the board does not have executive power, their major contribution is to provide those in charge with strategic information and advice. This enhances the corporation’s possibility to make even better and more rational decisions which increases the chance of survival and success.
  
  Hence: The board of directors is a unique and valuable source of strategic information.

* To sum up, based on the exposed characteristics of a board, such as competences and experiences, the board have better prerequisites for making and analyzing decisions about timing, the market, and customers.
  
  Hence: the board is a very important strategic resource.

12.1.1 The overall conclusion

We have during this thesis from a wide variety of perspectives discussed if an ICT board could be considered as a strategic resource contributing to the corporation’s competitive advantage.

The thesis started out in the query of competitive advantage, followed by a case whether or not there are a new setting, by some called the new economy, that would affect the role and significance of the board of directors in small ICT corporations. The opinions if this is true are divided, and there is an ongoing debate. Some say it has changed while others claims it has not. Which to hold for true is hard to say; both camps probably have their rights and wrongs. To be able to explore the characteristics of a board of directors, which could contribute to the competitive advantage in small ICT corporations, we thought that an explorative approach (our six blind and brave men) would probably be the best suitable procedure. If that have been the case is hard for us to say; the contribution of this thesis is in the eye of the reader. On our expedition through the wilds we explored some descriptions that claimed that the boards within the ICT industry in a number of key areas - composition, skills, and other factors - provides a contrast to the big corporations in the traditional industry. A woman we meet during the travel said that boards in ICT corporations are a breed apart from their cousins in the traditional industry. She thought that one reason to the differences might be that the new economy has very different requirements for success and perhaps, not all of the corporate governance practices so widely embraced by more traditional companies may be needed or transferable.

Other members of the expedition have run across people and projects that claimed that there are no differences. As often in these cases, we think that there is not one answer, no right or wrong. Because, the perception of a object is very much in the eye of the beholder, his/her frame of reference, interest, and personal

---

27 We think the concept: strategic information, summarize the discussions about the board’s role/function as advisor and teacher (the board members use of skills, knowledge, competence, experiences) to those in charge of the corporation (such as the top management team and founder). The concept strategic information mean: the information which is required, used, and created to make important top decisions.
The board of directors as a strategic resource
in small ICT corporations

situation. However, some of the six blind men of ours have found characteristics that
would suggest that boards of directors contribute to the corporation’s competitive
advantage. Putting these findings together we could say that: if the compositions of the
board is of a suitable structure, and consists of members with applicable experiences,
demanded skills, knowledge of the corporation’s internal resources, and understanding
of the industry, then the board will be able to take part as an active, useful, and
significant member in the strategic decisions and overall development of the
corporation. We need to remind you that found descriptions speaking against them, have
extensive influence. One explanation to the differences could be that some of the
findings are describing the board from an idealistic point of view while other derive their
opinions from the harsh reality.

If we should be obliged to answer the question whether or not a board of directors
contributes to a small ICT corporation’s competitive advantage, the answer would be:

-Yes, the board of directors contributes to a small corporations competitive advantage,
provided that it has the above explored characteristics. This because the initial period of
a corporation’s life is often very hectic, and turbulent, and very important since many
decisions of operational and tactical character is done. Wrong decisions made in this
eyear phase of the corporation’s development, often due to lack of experience and
mistakes, could cause long-term and hard-to-change problems in the organization which
may affect its potential to survive and grow. To manage the initial phase of the
corporation’s life in a good manner and lessen the risk that unnecessary mistakes are
done, it requires people with experience and knowledge within certain functional areas,
such as sales, professional negotiation, corporate finance, and law. Receiving outsider
assistance by an active and competent board of directors in the early-phases can
therefore be extremely important for the corporation’s prospect of achieving competitive
advantage and survival. Because it has been shown that corporations receiving outsider
assistance in early stages will have higher rates of survival, growth, and innovation, even
in the long run.

After this it only remains to fulfill one of our promises to overlook, and if needed, revise
the concept: board of directors.

12.2 Concept formation

In the methodology chapter, we said that the problem discussion suggested that the
prerequisites of the economy have changed. The new prerequisites for the ICT
corporations have created a particular “reality”. Consequently, as we saw it: our
perception about the concept board of directors must therefore be revised and
overlooked since the reality the concept describes may have changed.

12.2.1 The foundation of the concept

Based on our analysis we consider the boards of directors to be a strategic resource for
small ICT corporations. This since they contribute with a width of knowledge,
experiences, and skills that the founder, venture, or the top management are not likely to
possesses by their own. The board further contributes with the skill to explore and adapt
the corporation strategically to the rules, opportunities, and threats in the environment
The board of directors as a strategic resource in small ICT corporations

...and as well help the corporation with structural configuration, turning it from a venture start up to a professional organization. Concluding the board of directors is a unique and valuable source to strategic information for the corporation. Thus, it seems to us that a board of directors has the capability and potential to help entrepreneurs obtain a competitive advantage. This by advising them in the nurture of valuable and rare resources, which are difficult for competitors to imitate and duplicate. Thereby the board of directors could be a strategic resource which has a vital and positive impact on the corporation’s competitive advantage:

Thus, we think the board of directors in small ICT corporations is best described by using two metaphors; the concept of team and the function of a greenhouse

12.2.2 The board of directors and the concept of a team

The perspective of a board of directors to be called team implies by definition that “[...] it is a small group of individuals that complement each other’s competences. They are to work with the same purpose, goals and methodology by which they take a joint responsibility”. The board consists of a number of people that work together for the best of the corporation and its owners, which they by the rules and regulations of the corporate law have a joint responsibility for. Additionally we may add that the group has to be in an organizational context, ”...intact social system that perform one or more tasks within an organizational context”29. The phenomenon: a board of directors, exist due to the corporation and acts in their name and responsibility. Without the corporation’s organizational context; the board does not exist. Moreover, in team theory the assumption is made that the team’s action is greater than the sum of the individuals’ actions30. The very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organization exceed the capabilities of any individual and that collective knowledge and deliberation are better suited to this task. Other important factors in the team metaphor of the board of directors, are that they have to have the ability to solve problems in a group, find the balance between business related knowledge and technical one and lastly function together socially. Therefore, you could argue that both the people and the structure of combined competencies will be unique for that specific corporation.

Hence: The reality we call board of directors could be understood by using the concept of team.

28 Katzenbach and Smith (cited by Birchall and Lyons 1995, p 140).
30 Birchall and Lyons 1995.
12.2.3 The board of directors - Small ICT corporations’ own Greenhouse

A board of directors as a strategic resource has the same function and contributes with the same things as a greenhouse does. The function of a greenhouse is to nurture and create the absolute best prerequisites and environment for the plants to grow in. In this protected environment the prerequisites, created by the greenhouse, gives the plants a growing power they would not otherwise have had. With an active and suitable board of directors, the small ICT corporation have an irreplaceable resource that gives good advice, support the top management team and the whole organization, look after the owners’ rights and interest, secures a good and rational governance, and choose the corporation’s strategic path. The board of directors is in other words a greenhouse that creates the best conditions for growth and survival for the corporation. Further, they have the same function as the glass panes of the greenhouse: They protect the corporation from the damaging circumstances in the environment (a competent and experienced board decreases the risk for perpetrate fatal and unnecessary mistakes), while they at the same time let through sunlight and other attributes essential for growth (through the board the corporation acquires resources that enable it to decrease the uncertainty of its environment, thus increasing its chances of survival). In other words: the board helps the corporation to establish relations with its external stakeholders, reach out to potential customers, and to position the corporation strategically in the market. Finally, the people on the board are like gardeners: looking after and taking care of the plantation: In ICT corporations require the strategic and technological issues the top management team and board of directors attention. The board should be there, around the corporation, available and in place if the corporation needs a good advice, or a hand with some other arising issues. A good board, just like the gardener, helps the corporation with strategic and structural configuration, the process of evolving from a business idea to an established player on their market. Just like the greenhouse and its gardener, the board helps the corporation to grow and to take the next step in its development.

Hence: The contribution of the board of directors could be understood by relating it to the function of a greenhouse.
13 Concluding words

It has been our purpose and strive throughout this thesis to describe the boards of directors and their contribution to small ICT corporations’ competitive advantage from a wide variety of sources, perspectives, and fields of studies. Throughout the expedition we have blended theoretical, academically, rational, and idealistic descriptions with more practical, empirical findings and reflections from the reality. From the idealistic approach, which was our starting point, the board of directors is active, independent, possess the needed skills and competences, and have a significant influence and contributions to the corporation’s competitive advantage. From reality we have been told this is a very rare case, often the board is just a paper construction, a construction to meet the legal requirements. Nothing more.

Is the reality really black or white?
- Is there an answer to the query?

Since the first page of this thesis, we have described different perspectives views upon boards of directors. We chose this interdisciplinary explorative approach since we were influenced by the disposition in Mintzberg et al’s book *Strategy Safari*, and Anell’s and Wilson’s (2000) paper about sense and non-sense in competition as well. They mean that our mental models allow us to perceive certain aspects of the world, which are thought about, talked about, and acted about, while others are either left un-seen, as blind spots, or if seen, are considered irrelevant or insignificant, and therefore not worth a thought, talking, or action. Put differently in the anecdote about the blind men and the elephant: depending on with which perspective and frame of reference we look upon the elephant, we perceive it differently. Therefore, our frame of reference and perspective creates barriers between groups, giving rise to ignorance, non-sense, between people and groups. And as Anell and Wilson (2000, p 1) said: exchanges across academic world boundaries are rare, which might be detrimental to the progress of knowledge creation. Therefore we thought that a board of director’s contributions to a corporation’s competitive advantage could best be described by letting different fields/sub worlds (our six brave men), talk about their view upon the board’s of directors. We think this approach have explored some aspects of the boards, which most of the six brave men have thought about, talked about, and created models about. By enabling exchanges across these boundaries we hope we have been able to explore and find the blind spots: those aspects that some have considered irrelevant and therefore not talked about, while others have perceived them as essential characteristics if a board should be anything valuable. When we brought our six perspectives together, we tried to create the overall perspective Mr. Ornstein earlier said was so important to achieve if we should not
remain lost in our individual investigations. However, we have just looked upon the elephant through six different perspectives, which is just a small fraction of the all existing perspectives. Therefore is our contribution just one part of the over-all perspective.

Time to say goodbye:

A long time ago, two men sat and talked about a query that had teased their mind for quite a while. The query read as follows; why do some corporations perform better than others? Their interests in the query lead to that they started to plan an expedition: An expedition through the wilds of the competitive advantage query. Quite soon after they had met the two men started to talk with other people about their idea and to their joy, people showed a great interest for their planned expedition. From that moment, it took them not particularly long time to get together the needed means. They started to look for suitable members of the expedition, which due to limited time and resources had to be kept down. It turned out that six brave men qualified for the mission. So these six brave and blind men traveled far out in the wilds to look for an elephant which none of them had seen: only got described by the two expedition leaders. Then back home after the long travel they said the following to the expedition leaders:

- The elephant you sent us so far away to search for is very much like a team, - and we think it might function just like a greenhouse, said one of the other men.
Published Books

Arlebäck, Sven Olof (1997) *Styrelsen som resurs – I aktiebolag och ekonomiska föreningar*. Borgås: Svenska Förlaget


The board of directors as a strategic resource in small ICT corporations


The board of directors as a strategic resource in small ICT corporations


Patel, Runa & Davidsson, Bo (1994) *Forskningsmetodikens grunder: Att Planerna, Genomföra, och Rapportera en undersökning.* Studentlitteratur AB, Sverige


The board of directors as a strategic resource in small ICT corporations

Articles


Barney, Jay B. (1986). Organizational Culture: Can it be a source of sustained competitive advantage? The Academy of Management Review; Mississippi State; Jul 1986


The board of directors as a strategic resource in small ICT corporations


Doyle, T.C. Making the right strategic decisions. *VARBusiness*, 5/15/96, Vol. 12, Issue 8

Fitzpatrick, Joyce L. The board’s role in public relations and communications, *NCnb Governance series booklet 15*, National center for nonprofit boards. [http://www.ncnb.org/main.htm](http://www.ncnb.org/main.htm), (no published date found)


The board of directors as a strategic resource in small ICT corporations


The board of directors as a strategic resource in small ICT corporations


Project rapport


Internet sources

ABI/Inform Global [http://proquest.com/pqdauto](http://proquest.com/pqdauto)


[www.regeringen.se](http://www.regeringen.se) Lager och förordning (1975:1385 AbL)

Unpublished sources


Hancock, Martin. Senior lecturer at Anglia Polytechnic University, Great Britain. Lecture-handout from course “Social Aspects of Information Systems”, Autumn 2000.


Published Research

SIFO Research & Consulting: Marknadsundersökning ”Investering i programvara”, gjord åt SAS Institute, maj 2001

The board of directors as a strategic resource in small ICT corporations

Bibliography

Aktiespararna (2001), Aktiespararnas ägarstyrningspolicy – riktlinjer för bättre kontroll och insyn för ägarna I marknadsnoterade bolag, Sveriges aktiesparares riksförbund www. Aktiespararna.se


LaPiana, David A. Beyond Collaboration, Strategic restructuring of Nonprofit Organizations. A publication of The James Irvine Foundation and NCNB. http://www.ncnb.org/main.htm, (no published date found)


The board of directors as a strategic resource in small ICT corporations


