



BOARD CHAIRMANSHIP AND INNOVATION IN GROWTH ORIENTED FIRMS: OPENING UP THE BLACK BOX OF LEADERSHIP IN THE BOARDROOM

Daniel Yar Hamidi - daniel.yar@hb.se
UNIVERSITY OF BORÅS
Jonas Gabrielsson - jonas.gabrielsson@circle.lu.se
LUND UNIVERSITY

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ABSTRACT

In this paper we aim to create a framework for the promotion of innovation through effective board chairpersonship in growth oriented firms. Team production theory is applied to provide a conceptual foundation for understanding the value creating potential of boards within the boundaries of the firm and its operations. Thereafter, we employ a case study approach using empirical data based on interviews with a selection of experienced board chairpersons. Our findings result in a tentative framework that identifies core activities of effective board leadership organized and managed by the chairperson of the board. Interestingly, some dimensions in this context are identified as prerequisites for effective boards, but do not directly promote firm-level innovations. Other dimensions were regarded as core activities contributing directly to the creation of innovation. While the prerequisites for effective boards were related to issues such as structure, processes and culture, the prerequisites for innovation promoting boards were primarily activities related to the cognitive aspects of the board's work.

Keywords: CorporateGovernance, chairmanship, innovation

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Abstract

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Keywords: Boards of directors, corporate governance, chairpersonship, innovation, growth

Introduction

Literature and research has long emphasized that growth-oriented firms often benefit by actively using their board of directors to support their capability to promote innovations and compete effectively in the marketplace. Past studies show, for example, that boards can extend the strategic network of firms and contribute with new ideas and perspectives on how to develop the organization (Borch and Huse, 1993, Gabrielsson, 2007, Gabrielsson and Politis, 2007). A board can also be of particular value in helping explore and exploit market opportunities and facilitating new product development strategies (Zahra et al., 2000, Borch et al., 1999).

The strategic leadership provided by the board has in several empirical studies been acknowledged as a main potential contributor to the promotion of innovation and renewal in firms. However, there is up to date little theory available informing about how behaviors and processes is associated with effective leadership in the boardroom (Yar Hamidi and Gabrielsson, 2012). This a consequence of the fact that research has been much guided by theoretical and methodological approaches that treat the inner workings of boards largely as a black box (Gabrielsson and Huse, 2004, Huse and Gabrielsson, 2012).The dominant tradition in past research on board leadership has been embedded in agency theory conceptions of the firm (Fama and Jensen, 1983), which emphasize the need to increase the independence and integrity of board members and their ability to monitor managerial and firm performance. When debating the issue of

board leadership, this stream of research has focused on examining performance consequences resulting from when the same individual occupy the CEO and the board chair position simultaneously, which in the literature is referred to as CEO duality. Critics argue that a dual leadership structure may seriously compromise the board's ability to undertake its responsibilities and set its own agenda (Daily and Dalton, 1993). However, a dual leadership structure has also been argued to signal strong leadership to external constituencies and to provide a centralized spokesperson in the organization (Covin et al., 2001). Thus, a dual leadership structure with the CEO acting also as the chairperson of the firm seems to bring both advantages and disadvantages to the firm. However, while this academic debate provides valuable insights into the performance consequences of a dual leadership structure the issue of CE duality is of relatively limited relevance outside the Anglo-American corporate governance system. Adding to this, the focus on a dual leadership structure in much of the academic literature on boards of directors has led to a general lack of theory and models that address how to support innovations and imprint an entrepreneurial culture in the organization through effective board leadership (Taylor, 2001, Huse and Gabrielsson, 2012). Thus, there is little attention in scholarly research about what kind of board leadership practices that may influence a firm's capacity for innovation, change and renewal - despite the potential value of such systematic knowledge for both our theorizing and for practice.

Against this backdrop, the overall objective of the paper is to create a framework for promoting innovations through effective chairpersonship. To provide a conceptual foundation for the value creative potential of boards and the role of the board chairperson in this process we go beyond agency theory conceptions of the firm (Jensen and Meckling, 1976) and instead we apply team production theory (Huse and Gabrielsson, 2012). This theoretical approach emphasize that any assessment and planning for innovation in the firm must consider creating sufficient incentives for all contributing parties to engage and invest in the innovation process (Kaufmann & Englander, 2005). Ultimately, this is a task for the board of directors since innovation cannot be delegated to any single function or lower level in the firm. An important prerequisite, however, is that the board has the capacity to carry out this task, which calls for a need of effective team leadership in order to turn a group of independent board members into an interacting and collective team (Huse and Gabrielsson, 2012). In line with this argument, we build on the idea that effective board chairpersonship is critical in order to unleash a board's full value creating potential in firms.

Our paper contributes to existing theory and research in at least three ways. First, we develop the team production theory approach in relation to the governance of entrepreneurial firms. Past research on boards has primarily been embedded in agency theory conceptions of effective boards, which emphasizes the formal leadership structure in the board. Following this theoretical tradition, the critical issue of board leadership

has been reduced to a question of whether the CEO should be removed from the chairperson position or not. The few studies that have been conducted on the process of board leadership have on the other hand been largely descriptive and without strong conceptual foundations. To develop the field we use team production theory (Huse and Gabrielsson, 2012, Kaufman and Englander, 2005) as our conceptual foundation for understanding the role of the board and their potential to add value in firms. Second, our paper also contributes to actionable knowledge of how to organize and implement effective board chairpersonship in growth oriented firms. Such growth-oriented firms often operate in complex and turbulent environments which in turn call for a need of responsive governance structures that can aid their development and growth (Zahra, 1996, Sanders and Carpenter, 1998). Our study will in this respect present a theoretically embedded and empirically grounded framework addressing how to promote innovation, renewal and growth through effective board chairpersonship in firms. Third, we will be addressing the methodological dilemma of the board research by using case study approach enriching the methodological diversity of research on board of directors and it's leadership.

The rest of the paper is structured as follows. In the next section we discuss contemporary literature and research that address strategic leadership and governance in small entrepreneurial firms. Thereafter we present our methodology section with information about our case study design. After this we present our results together with a discussion of how

these results contribute to contemporary literature and academic debates on board leadership. The paper ends with a summary of our main conclusions together with implications for theory and practice.

2. Literature review

Innovation

Innovations are today as the very lifeblood of firms as it creates products and markets that open up for future revenue streams. Adding to this, intense competition and rapid technological development in many industries requires that firms are ready and capable to respond and adapt to changes in their environments. Consequently, there is a pressure put on firms to become more innovative by continuously pursuing new products and services as well as developing new and more efficient production processes to help increase internal productivity. As such, the prioritization of innovation within firms is increasingly important for their long-term competitive performance and survival. In this paper we focus on innovations at the level of the firm, where it can be defined as the generation and/or adoption (or use) of new ideas or behaviours in organizations (Rogers, 2003, Gopalakrishnan and Damanpour, 1997). As such, we focus on the pre-diffusion aspects of innovation¹ where a new

¹ By this, we mean that we are interested in the early generation or adoption of innovations in organizations (Burns and Stalker, 1961; Thompson, 1965), rather than the subsequent diffusion of innovations among buyers (Rogers, 1965).

idea could be a new product, service, process, market, organizational structure or an administrative system.

The vastly acknowledged importance of innovation has put the issue of how to effectively generate and adopt innovations as a top strategic priority in many firms that plan for sustainable growth and survival in an increasingly global and competitive market. To do this, there is a need to appoint dedicated resources and implement leadership practices to cope with associated challenges and to oversee innovation along the whole value chain. Hence it is reasonable to interpret innovation as a strategic task for top level decision makers and in particular boards of directors (Taylor, 2001, Huse and Gabrielsson, 2012). The next section will thus connect how innovation is related to the corporate governance structure of the firm.

Corporate governance, team production and innovation

From a corporate governance perspective, firms can be seen as market-making economic entities that generate income in return for consumer satisfaction. Their existence is dependent on on-going relationships - or *contracts* - between owners, employees and suppliers that, as a collective act, make continued resource investments in the going concern. Top-level decision makers within the firm are faced with two economic problems with respect to corporate governance: first, how to allocate input resources to maximize income, and second, how to distribute the surplus from the firm to satisfy resource providers. Failure to develop systems and policies to govern these processes in the firm may seriously

compromise its ability to compete effectively and thus, in the longer run, survive as an economic entity.

A firm can be envisioned as consisting of a potentially broad constituency of stakeholders (Belloc, 2012), where strategically important stakeholders can be defined as those who contribute with firm-specific assets to the firm (Blair, 1995). Firm specific investments (such as financial resources, knowledge, competence etc.) are made by stakeholders who give up their control over the invested resources in the hopes of sharing the benefits from team production (Blair and Stout, 1999). Thus, all stakeholders including shareholders, employees, and creditors have a “stake” at risk in the firm. In this context the responsibility of the firm to find incentives and mechanism for all contributing parties to provide incentives for continued firm-specific investments is a core and important task for its governing body (Belloc, 2012).

When decision makers face the challenge of innovations, three elements of the innovation process can be identified (Belloc, 2012): 1) specificity of investments, 2) uncertainty about outcomes, and 3) impossibility of anticipating future returns. These elements imply difficulties when trying to achieve complete contracts² that specify all possible states of the world

² A complete contract is an important concept in many academic debates about corporate governance. Originating from economic theory, the main argument is that if the parties to an agreement could specify their respective rights and duties for every possible future state of the world, their contract would be complete. There would in

and contingencies. Thus, in a real world situation with incomplete contracts a so-called hold up problem could arise where some stakeholders who contribute with firm-specific assets may opportunistically withdraw some or all resources from the collective act to gain extra benefits from the context in a bargaining situation (Belloc, 2012).

The discussion above suggests that the governance of the firm must consider the incentives and challenges that face all stakeholders who invest in the innovation process. In this context, finding mechanisms that lead to higher firm specific investment in innovation processes by all stakeholders becomes central (Belloc, 2012). Consequently, the innovation process is a collective act and any assessment and planning for innovation in the firm must consider creating sufficient incentives for all contributing parties to engage and invest in the innovation process. This perspective will thus be the overall understanding and aim of the work of board of directors in this context in contrast to the dominant perspective of agency theory that stipulate the control of the management as the primary task of the board of directors (Daily et al., 2003).

The fact that any investment in innovation is risky may make potential

other words be no gaps in the terms of the contract. However, because it would be unreasonably expensive and virtually impossible to write a complete contract, contracts used in the real world are usually incomplete. When a dispute arises and the case falls into a gap in the contract, either the parties must engage in bargaining or the courts must step in and fill in the gap.

stakeholders refrain from investing in an innovation process *ex ante*. The firm, as an *ex post* mechanism of governance may on the other hand provide a partial solution to this problem by its own governing system (Belloc, 2012, Blair and Stout, 1999). If the firm is a mechanism of governance, then there is a need to delegate the task of balancing the interests of all stakeholders to some mediating hierarchy who is responsible for the strategic direction and performance of the firms. Ultimately, this is a task for the board of directors since it cannot be delegated to any single function or lower level in the firm.

Board leadership and innovation within the team production approach

In a team production approach to corporate governance the board of directors is conceptualized as a mediator between value adding stakeholders who invest firm specific resources, thereby making it possible to create value for the firm (Huse and Gabrielsson, 2012). In this context, the board of directors will function as a mediating hierarch that balances potential conflicting interests between stakeholders (Blair and Stout, 1999, Kaufman and Englander, 2005). The team production approach, thus, expect boards of directors to be knowledgeable and cooperative teams with the ultimate goal of leading the corporation by coordinating activities (Gabrielsson et al., 2007).

To work as an effective team, however, the board chairperson must take an active role as a leader in the boardroom (Cascio, 2004). Hence, the team production approach underlines the need for skilled and competent board chairperson that can turn a group of independent board members into an

interacting and collective team (Huse and Gabrielsson, 2012). This is a process that challenges traditional theories and models previously used to understand board leadership and effective boards. Past research on boards in firms has primarily been embedded in agency theory conceptions of the firm (Fama and Jensen, 1983). This theoretical tradition emphasizes the formal leadership structure in the board where the issue of board leadership is reduced to a question of whether the CEO should be removed from the chairperson position or not. Those few studies that have been conducted on the process of board leadership have on the other hand been largely descriptive and without strong conceptual foundations. Thus, there is limited theory and models that address the value creative potential of boards and the role of board chairperson in promoting firm-level innovation.

In the rest of the paper, we will continue to explore the issue of how to promote innovation through effective board chairpersonship in firms. Given the current state of the field, and in line with our interest in contributing with development at both theoretical and empirical levels, we will employ a case study research design. This largely inductive methodological approach will allow us to collect and analyse qualitative in-depth empirical data aimed to enrich and provide detail to contemporary literature and research on board leadership, which in turn allow for further elaboration and creation of theory and hypotheses on the topic.

3. Methodology

The work of boards of directors are a notoriously inaccessible research setting (McNulty and Pettigrew, 1999, Huse, 2000) which explain why most research on boards have been based on secondary data collected from various publicly available reports about large publicly held companies (Yar Hamidi and Gabrielsson, 2012). In line with our aim to contribute to a small but growing area of research that is poorly conceptualized we choose to employ a case study approach. This approach is often considered as useful for building theories in new and emerging topical areas where development is needed at both theoretical and empirical levels (Eisenhardt, 1989, Yin, 2013).

Operationalization and interview protocol

We began the empirical part of the study by demarcating our empirical area of interest. In line with previous literature and research (Covin et al., 2001) we operationalize small to medium organizations where owners and other strategic leaders are interested and willing to grow and expand business operations as the context for this study. Next step was deciding on how to collect empirical data relevant for our study. At this stage we designed a preliminary interview protocol inspired from existing bodies of work in the area. The interview protocol contains questions related to the generation and adoption of innovations (Rogers, 2003, Damanpour, 1991) and how this is connected to board governance and board leadership in the context of growth oriented firms (Huse, 2000, Covin et al., 2001, Huse and Gabrielsson, 2012). The first version of the interview protocol was

tested in a pilot interview with a board chairperson matching our inclusion criteria. Based on this test the interview protocol was then adjusted and finalized for five coming interviews.

Sample

We relied on the principle of theoretical sampling (Yin 2003) to identify cases that could provide meaningful and relevant data. This general principle is well in line with our case study approach and its goal to make analytic generalizations based on our findings.

Two inclusion criteria guided the process of identifying cases. First, the main owners of the company should have explicitly expressed and communicated their intention to grow the company to the board of directors and the chairperson. Second, as we are interested in the practice of chairpersonship and the actual work and behavior of the chairperson we choose to conduct interviews who are board chairpersons and who have extensive prior experience from management positions and board work. Third, the respondent should be an externally recruited board chairperson without any controlling posts in the company.

We targeted respondents based on identifying companies that during the last years had a track-record history and evidence of innovation-driven growth. Some of these companies were fully owned family businesses while others were partially owned by investment companies. In the process of finding respondents and collecting data we followed the principle of saturation (Glaser and Strauss, 1967). Our final sample of respondents consists of five individuals with board member and board

chairperson experience from growth oriented firms. All chairpersons were externally recruited without an employment or any permanent or ongoing operative tasks in the firms on which boards they are serving. In a few firms the chairpersons are appointed by investment companies that have acquired shares in the company while in others they had been invited to the board by the owner families or entrepreneurs to help the firm achieve their growth targets. We provide a general overview of our respondents in Table 1.

The main source of data was face-to-face interviews with the five board chairpersons according to the criteria described above. The pre-structured interview protocol provided an overall frame for all interviews. However, as we did not aim to test any hypotheses, the interviews were conducted with an open mind to enable exploratory and inductive theory building (Eisenhardt, 1989). Thus, our interviews were semi-structured and flexible enough to ensure that the discussion was staying as close as possible to the lived experience of the respondents.

At the core of our attention in the interviews was their experience of the generation and adoption of innovations directed by the boards of directors and under the leadership of the board chairperson in companies matching our definition of growth oriented firms. However, during the interviews the informants were also asked to tell about their life and work as manager and board member in situations that related to our area of interest.

An illustrative chart with some definitions and conceptualizations based

on theories about the generation and adoption of innovations (Damanpour and Daniel Wischnevsky, 2006, Rogers, 2003) were used to make the discussion more vital and invite the respondent to reflect and describe what kind of innovations he has been involved in, see appendix.

They were also asked to move beyond their current work in the firms they were serving on currently and instead identify a wider range of events and learning situations that could be relevant for our area of inquiry, which then could be targeted for further questioning. Thus we were more interested of the chairpersons and their experiences of innovation driven board work as the case for our study than any of specific firm they were or had been serving its board of directors.

Table 1: General description of respondents

	Alex	Burt	Chandler	Douglas	Ephraim	Figaro
Age	68	52	57	70	58	72
Educational background	Legal	Engineering	Engineering	Engineering	Economy	Engineering
Main industries	Banking, production, professional services	Textile, chemical production, service	Production plants, metal, services, finance	Metal, production plants, Professional Services	Construction, production plants	Software, production plants, professional services
Gender	M	M	M	M	M	M
Number of engagement	13	8	17	7	21	9
As chairman	5	4	6	2	4	5

The interviewer interacted with the respondent in the discussion by actively asking questions to verify his understanding and sometimes also answering questions from the respondent. This iterative and largely open-ended interview process enabled us to get a rich and comprehensive understanding of issues related to the promotion of innovation-driven growth in their role as chairperson and board leaders.

The duration of the main interviews varied from case to case, but typically ranged between 45 minutes to 1 hour. All interviews were recorded and subsequently transcribed to enable systematic analysis. In addition, a number of follow-up telephone interviews were conducted to supplement with missing information and to verify and crosscheck factual data. We also used information from a wide range of other sources to utilize the full potential of a case study design. These sources include annual reports, press releases and articles from newspapers

Method of analysis

Our procedure for analysing the empirical data we have collected can be described as a systematic process of theory building (Eisenhardt, 1989, Yin, 2013). In this process, we move from specific observations to detect patterns and regularities to finally end up in some general conclusions and tentative propositions. The core of our analysis is represented by the lived experience of the respondents verified by information collected from other sources. The whole process was guided by our goal to have a rich and relevant dialog with our respondents about our particular area of inquiry.

The data analysis was initiated simultaneously with the data collection, which often is recommended by qualitative researcher (Glaser and Strauss, 1965). This was done with analyzing the first case as a separately standing entity. The input was used to start identifying building blocks in an empirically grounded framework for promoting innovation through effective board leadership in entrepreneurial firms. At the same time we started thinking and noticing how these patterns might relate to existing theory (Eisenhardt, 1989, Glaser and Strauss, 1965). As cases were added we made additional within-case analyses followed by cross-case analyses to establish if observations were unique to the individual case or if they represented a trend across the cases on one or several parameters of interest (Miles and Huberman, 1994). This process continued until the final case was analysed and compared with other cases.

4. Results and discussion

Based on the case evidence, we could identify certain different levels of contributions regarding board work. Some general characteristics were regarded as important as the basic building blocks for effective boards but not directly promoting firm-level innovations. Other characteristics were regarded as core characteristics contributing directly to creation of more innovative firms. Often these core activities were related to the cognitive engagements of every member of the board.

In the process of systemizing and structuring the case evidence we were inspired by Herzberg and his two-factor theory of motivators and hygiene factors (Herzberg, 1966). In his seminal work, Herzberg proposed a theory

based on a classification of factors relating to job satisfaction into two categories, motivators and hygiene factors. The theory proposes that there are some factors in the workplace that create job satisfaction while a set of other factors may result in job dissatisfaction. The general idea behind the theory is that satisfiers and dis-satisfiers are not on a continuum where one increasing factor resulting in the other factor decreasing. Among other things, the theory suggests that managers should understand and work with both sets of factors to achieve job satisfaction. Analogously, we were able to identify factors that our case evidence suggested as a necessity to have in place, i.e. hygiene factors in order to build a well-functioning board of directors. We call these factors *enablers* since these factors enable the board to establish an active and effective work style for the board of directors. Further, other factors and characteristics for board of directors are identified that may directly contribute to the development of innovation in firms. These last mentioned category is comparable to what is described as motivation factors by Herzberg (Herzberg, 1966). We will refer to these factors as *energizers* since they will boost the board to perform over and above ordinary levels of performance and thereby contribute to innovation in the firm.

The analysis results in identification of four building blocks that can be seen as fundamental elements in a tentative framework aimed at understanding how to promote innovation through effective chairpersonship in firms. These building blocks include the creation and

active use of structures, processes, culture and cognition in the endeavor of a board chairperson to create an effective board of directors and contribute to boosting innovation and renewal in the firm. In essence, enablers are basic building blocks for a chairperson to set the stage for effective board work. These include establishing activities, and frameworks related to structure, process and culture which nurture and enable an effective board work. The energizers are on the other hand characteristics of the board work sponsored by the chairperson that trigger innovation in the firm by engaging board members in discussions that expand their knowledge base and challenge their cognitive frameworks. The framework is illustrated in Figure 1 below.

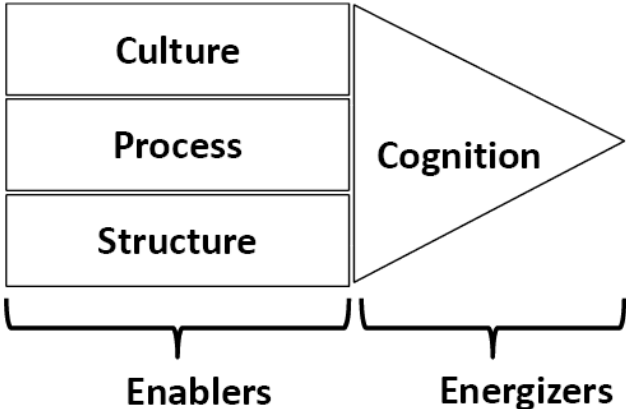


Figure 1: Building blocks for effective chairpersonship

The case evidence suggests that effective structures, processes and supporting culture for teamwork must be in place for a board to be able to perform its task properly. However, to contribute to innovativeness of the firm a board needs to use all its embedded competence through constructive cognitive work and exchanges of knowledge and experience

between management and the board as well as between board members themselves. The chairperson of the board has the prominent task to ensure that all building blocks presented in Figure 1 are developed and in place and to secure the excellent climate for fruitful cognitive conflicts and knowledge exchange.

A wide range of activities and techniques are mentioned and referred to by our chairmen respondents as important factors in their work and role as chairperson. However, they regard to some of these as prerequisites to establish an effective board work in the first place. It is more about having appropriately organized meetings and a work style that ensure and enable high-quality discussions and a fine decision making climate to contribute to the development of the growth oriented firm by the board of directors. These enablers put the ground for an efficient board work and enable the board to actually engage in cognitive work and endeavors. A more in depth description of what kind of features and aspects are included in every building block of innovation driven board leadership will follow here.

Structure

It seems that it all starts with building and deciding for a well-defined and functional structure for the board work according to our informants. This will put the base for a constructive output of advice and decisions from the board of directors for the firm. It is about having clear instructions for the board to work with relevant questions regarding renewal of the firm affairs and operation. The structure is not to restrain

the board from developing new solution or act according to new contingencies but to create a stable platform to work on.

As Douglas, one of our respondents (names are fictive in this presentation), explains it with an example of what could be on the agenda regularly:

“At the board meetings we had these questions [development projects] on our agenda quarterly, and we had a follow up on several projects running parallel”

Board instructions should give the members of the board a good idea about how many meetings the board will have during the fiscal year. What overall topics will be discussed during each meeting and how current projects and activities of the firm will be followed up and discussed at the board meetings are other examples of useful instruction for the board.

Meeting agendas decide for which questions specifically will be discussed in each meeting and are decided by the chairperson of the board. These should therefore include clear and pertinent instructions for reporting about firm`s key performance indicator and bring up other important aspects for the firm at each board meeting. Ephraim express his stance as follows:

“..., I just expect it [reporting instructions and information flow] to work well, then again it actually doesn´t work sometimes and that is something that must be taken care of immediately and can be relied on.”

Protocols from meetings are basically the single artifact left by the board after working hard carrying out their duties. Protocols from board

meetings are often regulated by law in its form and appearance. However the most important parts of a protocol are formulation of the decisions made by the board. These are filed in protocols and should be clearly formulated and followed up by the chairperson of the board to ensure that they are without any doubt are the meaning of the board as a collective according to our chairmen. Ephraim summarize this:

“When a decision is filed in a protocol it is a task for the chairperson to ensure that it is what board agreed on and follow up the execution of it. It may sometimes be some reason that makes it [the execution] delayed but it requires a dialogue in the board in that case. Board decision should be respected and imposed. It is what external chairs in this type of company should try to maintain and must do.”

Instructions and policies for the CEO and the firm in general, regarding information and reports to the board meetings, are important to have in order to create a good structure for boards work. These should be screened by the chairperson of the board. Reporting should also include more aspects of the operation than just the financial reports in order to learn about firm’s possible renewal for the board. Douglas put it this way:

“I do not think it is enough with quarterly economic reports. We need to set other parameters and include suitable KPIs. I think for example that one must be able to follow product renewal and it may be internal, or it may be the customer’s perspective to see how they may impact on this [product development].”

This structure seems to be very much expected to be in place but chairpersons working with family firms express a willingness to help the family/entrepreneur owners to put this structure in place if necessary. Burt, a skilled chairperson with both experiences from family firm and positions as external CEO had his own solution into all boards he is serving on:

“I use mine template for the agenda in all boards I lead. First we have the basic information briefed, then ... I have all important items for a board to consider regarding renewal in the firm on this agenda template of mine and adjust it to the current status of the firm.”

Processes

With a functioning structure for the board work in place it seems like our chairpersons focus on having some important processes integrated in the board work as well. This aims to make it possible for the board to contribute to renewal and development of the firm. This includes at least four core processes.

Processes to coach the CEO, work with continuous follow ups, adequately summarizing of board discussions and concisely formulating decisions of the board and sharing the leadership of the boards with other board members in order to better integrate and use the available human resources at the board are important processes to develop for the chairperson.

Coaching the CEO or the owner entrepreneur is mentioned and clearly emphasized during the interviews. This seems to be a very important part

of the work of the chairperson. This is especially the case in family or entrepreneur driven firms. Lack of experience and a focus on the operative activities in the company by these individuals make it difficult for them to manage a growing firm or a resource demanding innovation process with specific needs of competence.

Figaro, a business angel and experienced chairperson, explain it for us:

“..., as chairperson it is a question of pushing the CEO into right direction. Get him to understand what must be done. It is important that while the firm is growing and more and more employees are coming in the CEO learn to share duties instead of asking for total control and start delegating responsibility to others.”

Chandler goes as far as seeing the chairperson as an educator and explains:

“I believe that it [helping the firm to innovate] requires a very specific process. To educate the entrepreneur! to get him to dare create resources [for innovation]. Ensuring [him/her] that, limited liability company form is a good thing because you only risk the firm’s property [and not the family wealth].”

Excellent *follow up* routines on projects in the firm and choosing and formulating pertinent follow up inquiries are at the core of the responsibilities for the board of directors and its chairperson. This is understood as the most effective way to have managers’ attention on the right tasks. By unequivocal follow up on important tasks the board can secure the execution of its decisions.

Chandler also brings up the importance of steering by accurate and relevant enquiries for the follow up of projects and growth targets of the firm:

“It is important and feasible to have some relevant criteria for follow-up. For example, we are affirming product renewal by following up sales statistics on newly developed products instead of the entire sales in some firms.”

By doing that the board create incentives for the management to work with projects with higher risk factor which otherwise would be turned down by them.

Summarizing board’s discussions and formulating decisions seems to be clearly expected from a chairperson according to our informants. A chairperson should also be able to bring all members of the board to consensus about the result of a discussion. It is also expected that the chairperson after formulating the content of any decision taken by the board and ask all members to give their position and view point on the matter and the formulation of the decision before it is filed in the protocol for board meeting. Burt gives us his advice:

“But much [of a chairperson’s role] is about keeping the discussions open and ongoing, keep up the meeting’s agenda, make sure everyone on the Board is heard and have their opinion [expressed] Since it is the Chairperson’s role to boil this down to a summary I think the chairperson could make a summary of the discussion and formulate a decision.

Further, our informants expressed a very pragmatic understanding of the

chairperson's role as the leader of the board. Since chairmen of SME:s often are on the board with family owners and owner entrepreneurs their role seems to be more of moderators enjoying great trust from the owners than someone decides the agenda in detail and push the meeting to one á priori decided direction.

Ephraim expressed this standpoint in very words:

“Usually it [the leadership] is very unpretentious. There is no leadership [in formal leading sense], I do not see it [my chairpersonship] as [formally] leading others, but I see my role more as a catalyzer or maybe somehow someone who moderates the meetings to make them as effective as possible.”

Also Chandler talks about trust and confidence as a very central aspect in the relation between the chairperson and other members of the board and the owners. This relation gives the chairperson the authority to lead the meetings but seems also to be based on mutual understanding, consensus, trust and collaboration in its core. As expressed by Chandler:

“Yes, chairpersonship in this kind of companies [small and medium growth oriented firms] is about great trust between the chairperson and the owners. It is by trust building in the board and letting board members lead the discussions when they might be the most knowledgeable in the board that the chair may convince the owners to move towards some direction. This may include investing in risky innovation processes.”

This ability means that the chairperson are able to execute *shared leadership*, which is about letting the most knowledgeable individual run

the discussion and put the firm and the current issue in the core of the discussion and not any static position of a chair or any other position.

Culture

Next level to develop in the board work is the creation of an including culture to foster constructive discussions and nurture generosity in the board. It then will make it possible to run effective meetings with results that could be based on the competence inside the board room. The chairperson is expected to guide and educate other board members, management, and owners to act with generosity at board meetings and share their knowledge with their co directors.

Effective meetings are after sought and are supposed to be a result of good chairpersonship and well-integrated structure and processes according to our informants. Effective meetings are often referred to in different ways but there are many stories about good and bad meetings. The ideal ones are those when the agenda has being thorough and each point on the agenda has been raised properly and timely. Furthermore, everyone should have been sharing their ideas with others in the meeting.

This is what we would label as *generosity* regarding the board directors and it is mainly about sharing own perspectives at board meetings contributing to the discussion by own perspectives and experience. This seems to be something that the chair of the board must promote and establish as the culture of the board. Chandler gives us an example:

“He [a director in one of my boards] had an absolutely fantastic manner at the board meetings. He could listen and then when he was done with his

own thinking he uses to ask for the floor and then he share his perspective very generously with other directors. Without being afraid of losing his face in the discussion or being criticized for what he has to say he just shares his ideas very generously.”

This is also very much connected to the next act of culture namely *integrity*. Integrity is mentioned as an important characteristic of any board members and their behavior in our interviews. The chairperson is supposed to be a role model for all members of the board when Chandler expresses his idea about a valuable board member.

“There are two very important things to look for in a director. It is extensive experience [...] and great integrity.”

The chairperson is expected to be animated by the idea of renewal of the firm and to generously share his ideas with others by our respondents. Douglas tells us about the importance of how the chairperson approaches the question of innovation and renewal in the firm:

“You must be animated by the idea of renewing the firm. It’s probably not all directors who are inspired by it and understand the consequences of it. I can very well imagine that many directors see themselves as the Chairperson that should be constricting and controlling instead of being proactive, I think so!”

This culture building seems to be perceived with great importance to make the board an entity with unitary and significant contribution to the firm. A *cohesive* board with generous members that share their ideas with each other is a more fitted board to contribute to innovation and the growth

oriented firm. A board that adopts these characteristics is expected to be more supportive towards managers and spend resources in development of firm's strategy than otherwise.

Although these three aspects, structure, process, and culture are appointed as important ingredients of a functional board they do not seem to be considered to be adding direct value to renewal or innovation processes in the firm. These are though more of "hygiene factors" for a functional board and must be presence to put the foundation for the board to carry out its task and to guide and advise managers effectively.

Cognition

Although these three building blocks of board effectiveness are appraised by our informants, they recognize only experience and knowledge of the chairperson and other board members as crucial factors for an innovation driven board. Furthermore the ability of the board of directors to engage in strategy development using the competence of all members is brought up as an important factor.

Creating discussions and promoting cognitive conflicts are supposed to be prime tasks of the chairperson to encourage innovation in the firm.

Ephraim suggests often use of "why" in dialogue with the management as a provocative way in order to understand the firm's processes and get new perspectives:

"Why do you do so? Doing it [asking why] the right way will evoke many thoughts and you can really think about, why do I do so? And of course, as usual, the answer can be that it has always been done this way!"

The chairperson is also expected to bring about new ideas and suggest potential new markets and/or new solutions etc. Burt put it this way:

“That's the problem [why they do not develop the firm]. They are happy and satisfied with what they have..., they maybe seek and develop new products, but it is very much the same as the competitors all the time because they cannot find new sources of ideas. Managers of SMEs and owner entrepreneurs are not successful finding new patterns, they don't know how or where to look for renewal or to implement new influence in or product development in their firms.”

Chandler discusses this and gives examples and suggests challenging question and behavior as a desired manner for the chairperson:

“If you do not agree, then you must surely raise your voice!”

Integrity and daring to oppose seems to be an important part of the chairperson's task. By being outspoken and frank and keeping your integrity intact you will also take the best out of the board and encourage other member directors to give their contributions he suggests:

“Yes, and you make others to share and work hard. A board can have the world's top consultants as board members, but if they are not sharing their ideas and knowledge based on their experiences and their network and their assessment nothing will happen. Nothing happens! This passivity will deceive the board to believe that management's proposals are the right suggestions for the firm. Sometimes, management proposal are the best suggestions, great then! But there is rarely any ideas that are so complete and so well developed that you cannot tweak or change a little

more so that it will be better than you have thought of from the beginning. That is exactly what a board should do!”

All the chairpersons in our study identify their knowledge sharing and experience as the exclusive and unique source they offer the managers and the firms they are serving. When they feel they cannot add new ideas or suggest new solutions to the management perspective they will question their own contribution and may leave. Ephraim shared an example:

“If we take company A, I was with them from the time we had a turnover of ninety to about two hundred and six, million, and there was a strong growth over three years. There, I took an early discussion with the owners about the situation that we are now in a phase where we are faced with that a set of new questions which I do not really have any own experiences about. I have been with other companies which have faced these questions but I have not been involved as a Chairperson, so I think you should look around for someone who can complement my role. ..., so I left and we parted as friends, half a year after I had raised the question.”

There is very clear emphasis on the cognitive work and effort of the board and the chairperson to contribute to renewal and development of the firms in all testimonies and interviews. Some mentioned repeatedly that when I am not able to create cognitive conflicts or challenge the management or maybe do not have relevant experiences for the firms’ agenda then I take the consequences of it and I would leave, as the example presented above. The four building blocks together with the main dimensions for each building block are illustrated in Table 2 below.

Table 2: The building blocks and their underlying dimensions7activities

Building blocks	Dimensions/activities
Structure	Board instructions Meeting agendas Protocols Instructions and policies
Processes	Coaching Follow-ups Summarizing Shared leadership
Culture	Effective meetings Generosity Cohesiveness Integrity
Cognition	Experience Cognitive conflict Strategy development Knowledge sharing

Conclusions and implications

Our theoretical understanding of boards has been limited by the fact that most of it has come from an input-output model of the board (Pick, 2007, Gabrielsson and Huse, 2004). It includes several attempts to specify characteristics of the board expected to promote greater board independence and resulting in more conservative CEO compensation decisions (Boyd, 1994). Other studies have discussed further issues of the board structure such as inside-outside ratio of the board members trying to relate it to the recruiting of a new CEO (Zajac and Westphal, 1996).

However, what happens in the board processes to create the output discussed remains unknown. In this study we go behind the structural aspects of the board and its leadership and try to unfold the black box of board processes. Organizational scholars have long articulated the need for such an approach (Huse, 2005, Huse and Gabrielsson, 2004). Our study provides important theoretical implications for understanding how board chairperson can add value to the firms on which they serve. First of all, our framework emphasize that innovation driven chairpersonship is based on four building blocks which can be classified as either enablers or energizers. Enablers are the building blocks that ensure the practice of effective board chairpersonship. An effective board of directors will in this respect provide strategic advice and act as a mediating hierarch in order to organize the firm as an economic entity where are shareholders will invest firm specific assets to contribute to the firm. However by developing energizers the board chair will develop the board into an innovation-driven board, which performs over and above ordinary levels of performance. Our findings thus suggest that innovation-driven board chairpersonship is not something fundamentally different from ordinary board chairpersonship aimed at developing a well-functioning board. Rather, innovation-driven board leadership is based on adding energizers on top of ordinary board chairpersonship based on activities that open up and challenge the cognitive aspects of the board's work.

Furthermore, our study underline that the chairpersons ability to utilize other board members knowledge and creating cohesiveness and a culture of knowledge sharing could be more important than the chairpersons own firm specific knowledge and experiences.

In addition to this, we specify and describe the dimensions that relate to each building block. These dimensions are discussed and positioned based on our case evidence and with reference to prior research by scholars in organization and corporate governance research.

The problem of getting access to case studies and informants regarding board work is a bottleneck for conducting research on this subject.

However, we have in this study opened up the black box of boards of directors (Huse, 2005) by approaching board chairpersons in growth oriented small and medium sized firms. Nevertheless, there are some potential limitations with our approach that warrant some caution. One such potential limitation is the gender issue and the fact that all respondents are men. Another potential limitation refers to the issue of ownership whether there are any differences or biases between family firms and those firms with combined ownership between investment companies and entrepreneurs or families. While important we leave it up to future research to delve into these issues.

Despite these potential limitations, we believe our study provides implications for practice. In this respect, we contribute to the practice of board leadership by presenting a process model for how to develop a board of directors based on the building blocks and dimensions identified and

described in this study. This development process could be orchestrated gradually and in a step-by-step manner as emphasized in Figure 2. Using this model as a point of departure, board chairpersons who are interested in innovation driven board leadership may thus use these insights to initiate such a development process.

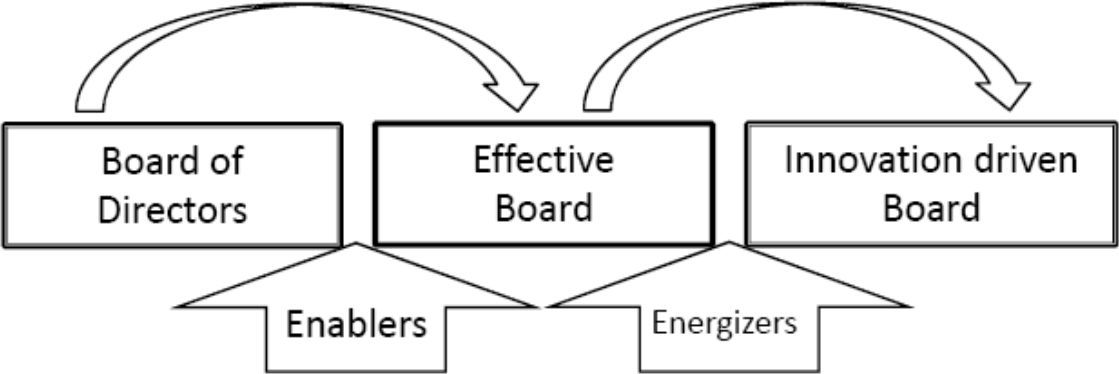


Figure 2: Development from effective boards to innovation driven boards

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