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Knowledge and Accountability: Outside's Directors'contribution in the corporate value chain

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Innovation Policies for Small and Medium Size Enterprises in Asia: An Innovation Systems Perspective

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Abstract

In this article we position outside directors´ contribution in the corporate value chain. Our objective is to show how outside board members may contribute to value creation through knowledge and accountability. We will also provide tools for outside board members to make contributions. The directors are accountable to balance the interest of various sets of stakeholders. It is their responsibility to use their knowledge to create values throughout the whole corporate value chain. Novel heuristic approaches to board accountability are presented. Accountability is discussed in relation to board role expectations, and we introduce a board role taxonomy. This taxonomy is related to the various parts of the corporate value chain. The value chain approach shows various requirements to the knowledge and competency of the outside directors, and to the inner working of boards. The article also presents frameworks for evaluating and analysing actual board behaviour. Board evaluations are tools that may help develop board knowledge and accountability to fulfil outside directors´ value creative potential.

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KNOWLEDGE AND ACCOUNTABILITY: OUTSIDE DIRECTORS' CONTRIBUTION IN THE CORPORATE VALUE CHAIN

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Abstract

In this article we position outside directors´ contribution in the corporate value chain. Our objective is to show how outside board members may contribute to value creation through knowledge and accountability. We will also provide tools for outside board members to make contributions. The directors are accountable to balance the interest of various sets of stakeholders. It is their responsibility to use their knowledge to create values throughout the whole corporate value chain. Novel heuristic approaches to board accountability are presented. Accountability is discussed in relation to board role expectations, and we introduce a board role taxonomy. This taxonomy is related to the various parts of the corporate value chain. The value chain approach shows various requirements to the knowledge and competency of the outside directors, and to the inner working of boards. The article also presents frameworks for evaluating and analysing actual board behaviour. Board evaluations are tools that may help develop board knowledge and accountability to fulfil outside directors´ value creative potential.

CONSULTANTS OR DIRECTORS – A VALUE CHAIN APPROACH

Considerable evidence has shown that boards of directors often act as management consultants rather than agents monitoring management on behalf of external shareholders (Lorsch and McIver, 1989; Mace, 1971). The seminal work of Myles Mace more than three decades ago showed that it was a myth that board set objectives, hired, fired and compensated the CEO, and asked discerning questions (Mace, 1971). In reality boards most often only were rubber stamping managerial decisions, or at best acted as consultants for the management by providing advice and counsel. The gap between myths and reality was largely due to various institutional forces, emerging from managerial and class hegemony, and which provided a social context favouring continued managerial dominance (Lorsch and McIver, 1989; Useem, 1984).

Despite recent developments and trends in corporate governance, boards seem still to function very much as consultants for the management. During the late 1980's and the

1990’s we experienced the evolution of the shareholder supremacy paradigm that led to the introduction of nominally independent board members (Monks and Minow, 2004). The expected role of these barbarian-like board members was to ratify important decisions and to create value for shareholders that in relation to the firm in most cases were distant and faceless – and sometimes also heartless. However, recent research has found that the observations by Mace are still true, and various institutional forces uphold a managerial hegemony (Ocasio, 1999; Westphal, 1998; Westphal and Khanna, 2003; Westphal and Zajac, 1994). Furthermore, we have seen a renewed attention of the boards’ contribution to value creation throughout the whole value chain, and not only to external stakeholders through value distribution (Huse, Minichilli and Schøning, 2005; Taylor, 2001). In this situation knowledge and accountability becomes important key concepts to understand as they are vital both for enhancing the actual effectiveness of boards as well as a source of confidence for stakeholders as to what goes on in boards.

This article is about the knowledge and accountability of outside directors, and their contribution to value creation. Accountability is about embedding actual board behaviour in relation to board role expectations (Huse, 2005). The fiduciary duty of boards of directors in most constitutions is to do what is best for the company (Monks and Minow, 2004), and various coalitions of stakeholders, including various groups of shareholders, may have different board role expectations (Blair and Stout, 2001; Huse and Rindova, 2001). Accountability in this perspective means balancing and meeting the interest of various stakeholders, which is a process of active inquiry and engagement extended over time (Roberts, McNulty and Stiles, 2005). The consequence and responsibility for the individual board members will thus be to use their knowledge and skills to create value for the company and not only for certain coalitions of stakeholders.

In this article we will position outside directors´ contribution in the corporate value chain. Our objective is to show how outside directors may contribute to value creation through a value chain analysis. We will also show how outside directors through responsible use of their knowledge and skills may help align board role expectations and actual board task performance, and thus create accountability. By doing so, the article contributes in various ways. First, we approach various board roles from a value chain perspective. A value chain perspective views organizations as a sequential process of value creating activities, which if aggregated can provide synergistic benefits and enhanced organizational capability (e.g., Porter, 1985). This is a novel approach to understand outside directors´ contribution as board roles most often have been studied from contingency or stakeholder perspectives. The article shows that outside directors at the same time may have various roles. This gives implications with respect to the selection and composition of board members and the structuring of the inner workings of boards. Second, we have a particular focus on how outside directors may contribute to value creation and not only to value distribution. We show how outside board members contribute through resource provision, knowledge sharing, mentoring, decision-making, evaluation and negotiation. Finally, we present a board evaluation framework that addresses both accountability and knowledge of outside directors.

The article proceeds in four sections. In the first section we position various board roles and board role theories. Various perspectives and focuses are used. Main board roles are split into six categories. These are output control, behavioural control, decision control, networking, advisory roles and strategic leadership. In the second section we discuss the fit between various roles and different parts of the value chain. The value chain is divided into resource provision, operations, innovation, decision-making, implementation, and value distribution. The third section contains a presentation of obstacles for outside directors to make contributions on boards. Knowledge and competencies of the outside directors are linked to requirements across the value chain. In the fourth section we present a board evaluation framework that is useful for developing the accountability of outside directors. The article ends with a concluding summary of the major implications of our approach.

BOARD ROLE TAXONOMY

Board roles can be seen from both external and internal perspectives. Board roles from external perspectives are most often called control roles, while the roles from internal perspectives are called service roles (Forbes and Milliken, 1999; Huse, 1993; Mintzberg, 1983). The idea of distinguishing between external and internal perspectives has its background in the assumed conflict of interest between various coalitions of stakeholders, among which the conflict between external and internal actors has got the most attention (Daily, Dalton and Cannella, 2003). The emphasis on differences in perspectives will be less important when the conflict of interest is not obvious. This is one of the arguments in stewardship theory (Davis, Schoorman and Donaldson, 1997).

External perspectives are about how firm-external stakeholders can use or benefit from the boards of directors. Boards are often seen as agents for external stakeholders, and their role will often be related to control (Fama and Jensen, 1983). However, sometimes it may be difficult to make clear distinctions between who are the actors external or internal to a firm. Shareholders are often considered to be the most important external stakeholders, but the list of external stakeholders may include customers, suppliers, competitors, the society, and various regulatory authorities and their representatives. Employees and unions are sometimes considered to be external stakeholders, in particular when there may be conflicts of interests between the employees, and the executive team. Agency theory, including common agency theory and agency-stakeholder theory, has given the most contributions in understanding the board from external perspectives (Eisenhardt, 1989; Hill and Jones, 1992). This has led to calls for greater board independence and an emphasis on increased outside director participation to ensure effective accountability.

Internal perspectives are about how firm-internal stakeholders can use or benefit from the boards of directors. Boards are from internal perspectives considered to have service or consulting roles (Mace, 1971; Hillman, Cannella and Paetzold, 2001). The CEO and the top management team are in most cases the main internal stakeholders. In the list of internal stakeholders we may also find the families of the executives, and other with close psychological and financial ties to the CEO and the top management team (Kosnik, 1987). Furthermore, in many cases owners have internal perspectives. This is particularly the case in family firms, many small firms, and firms with concentrated ownership (Gabrielsson and Huse, 2005). Various strategic management theories, including resource dependence theory (Pfeffer and Salancik, 1978) and the resource based view of the firm (Barney, 1991), contribute to understand board roles from firm-internal perspectives. Here, board members are expected to contribute through their personal and professional qualifications by assisting the CEO in determining objectives and in shaping the values and identity of the organization and networks.

In the board role taxonomy we combine various focuses with the two perspectives described above. The three focuses used are internal, external and strategic. The board may have a focus on how the firm relates to the external environment (external focus), what takes place inside the firm (internal focus), and it may focus on decisions having impact on the long-term and short-term development of the firm (strategic focus). Six main board roles can be displayed in the board role taxonomy. The theoretical rationale and examples of empirical studies relating to each of them are presented in Huse (2005). The taxonomy is presented in Table 1.

Table 1 Taxonomy of board roles

	Firm external perspective Control roles	Firm internal perspective Service roles
External focus	Board output control roles	Board networking roles
Internal focus	Board behavioural control roles	Board advisory roles
Strategy focus	Board decision control roles	Board mentoring roles

- *Board output control roles*. Boards acting on behalf of external stakeholders and having an external focus will most often concentrate on output control. The main interest of these stakeholders will be how firm outcomes meet their needs or objectives. Usually they will either be stakeholders or shareholders that use the markets for control, and the board members will spend limited time in board commitments. These stakeholders will abandon the firm if firm outcomes are unsatisfactory. The output control role also includes how various stakeholders supervise and negotiate the distribution of values from the firm.
- *Board networking roles*. Boards acting on behalf of internal stakeholders and having an external focus will often have resource dependency roles (Pfeffer

and Salancik, 1978). These involve networking, lobbying and legitimacy roles (Borch and Huse, 1993; George, Wood and Khan, 2001). People controlling or influencing resources that are important to the firm may be co-opted or selected as board members. The board can in this respect be seen as a linking mechanism between the firm and its external environment. Hence, outside board members may help the firm initiate and maintain control over critical relationships, assets and contacts.

- *Board behavioural control roles*. These board roles take place when external stakeholders use the board to control top management behaviour and firm-internal issues. The board of directors can in this perspective function as an information system for external stakeholders to monitor managerial and firm performance (Fama and Jensen, 1983). This kind of control is more time consuming than output control, as board members needs to be involved in a wide array of activities, such as developing compensation and reward systems, appraising executive and firm performance, and other ways of holding managers accountable to the firm's various stakeholders to ensure the future survival and success of the enterprise. The focus is on how things are done or performed rather than on the final outcome (Baysinger and Hoskisson, 1990).
- *Board advisory roles*. Board members may in practice function as consultants to the management, and may themselves provide various kinds of knowledge and competencies (Castaldi and Wortman, 1984; Mace, 1971). The board of directors, and especially outside directors, can in this respect be considered as a bundle of strategic resources as they can provide advice and counsel in areas where in-firm knowledge is limited or lacking (Gabrielsson and Huse, 2005). Offering board membership to knowledgeable persons may be a way of binding valuable resources to the firm. Resources should, however, be important, imitable and non-substitutable (Barney, 1991), and the inclusion of persons as board members providing such resources may provide the firm with sustainable competitive advantage.
- *Board decision control roles*. From a firm-external perspective and with a decision or strategic focus, a main contribution of board members is their ability to introduce independent considerations prior to decision-making. From this perspective it is generally advised to separate decision management from

decision control (Fama and Jensen, 1983; Fiegener, 2005), where boards are expected to be involved in activities such as performing high-level reviews of strategic plans and budgets, ratifying and monitoring strategic decisions, and following up important deadlines. Firms can in this respect exercise decision control, protect the assets of the firm, and allocate resources to projects and procedures necessary for responding to changes in the marketplace.

- *Board mentoring roles*. From an internal perspective and a decision or strategic focus, board members are expected to mentor and stimulate the management in strategic decision-making, including that of formulating and implementing important decisions (Davis et al, 1997). Boards are hence not only a ratifying decision making body, but they also take part in raising the issues and defining and formulating the problem context (McNulty and Pettigrew, 1999). Mentoring roles may in this respect create a mutual understanding of organizational goals and a shared vision that help to coordinate action and enhance the quality of learning efforts in the organization.

BOARD ROLES AND VALUE CREATION: A VALUE CHAIN PERSPECTIVE

Recent literature has readdressed the role of boards in the whole value chain and not only in the final value distribution part. A main promoter of this perspective is Taylor (2001) that wants a move from "Corporate governance to corporate entrepreneurship". According to Taylor, the drive for short-term profits put too much focus on value distribution rather than enhancing the prosperity of the business throughout the whole value chain. Instead, value creation is found in firms where executives and outside board members together views every activity in the value chain as a potential source of competitive advantage. In line with this value chain perspective, we contend that the key to boards' contribution to value creation lies in the degree to which board members, individually and collectively, are able to effectively fulfil the various board roles (Huse, 2005). This is illustrated in Figure 1. In the figure we also see how the various phases relate to the different board roles presented above.

Figure 1 Board roles and the corporate value chain

Corporate value chain

Resources	Operations	Innovation	Strategic decision-making	Imple-mentation	Value distribution
Board networking roles	Board advisory roles	Board mentoring roles	Board decision control roles	Board behavioural control roles	Board output control roles

Board roles

The illustrative figure, although very simplified, has merits for our purpose. It shows that board members simultaneously need to balance both accountability and knowledge. The accountability dimension is emphasized through the need to balance and meet the interest of various coalitions of stakeholders (Huse and Rindova, 2001). The knowledge dimension is emphasized through the need to actively use their knowledge and skills to effectively support the creation of value (Forbes and Milliken, 1999; Gabrielsson and Winlund, 2000). However, the concepts are not fully developed, and the relations between the value chain phases and board roles are more complex than what is illustrated.

The first phase is that of securing and providing resources. A firm depends on various kinds of resources that to various degrees are controlled by the external environment (Pfeffer and Salancik, 1978). Board networking roles, including the whole range of managing resource dependencies, may be of particular importance in this phase (Borch and Huse, 1993; Hillman et al., 2000). The second phase is called operations. Operations refer to the operating core of the firm and may include production, sales and marketing, finance, law, and general management. Board advisory or consultancy roles where board members can assist the CEO in determining objectives, and in shaping the values and identity of the organization may be of particular importance in this phase (Castaldi and Wortmann, 1984). The third phase is called innovation. Innovation may be considered as the development of products, processes, the organisation and markets (Huse, Neubaum and Gabrielsson, 2005). This can include radical change, which implies fundamental changes in the activities of the firm, but in most occasions it takes place through incremental modifications with only marginal departures from existing practice. Innovation can be seen as fundamental processes of knowledge creation which is affected both by the closeness of relationships and the relatedness of knowledge (Noteboom, 2001). Mentoring and advisory activities may in this setting create a mutual understanding of organizational goals that can coordinate actions and enhance the quality of learning efforts in the organization (Davis et al, 1997). The board mentoring role with its emphasis on building mutual trust, friendship and reciprocity may hence be particularly important in the innovation phase.

The fourth phase is called strategic decision making. Strategic decision-making involves making decisions that are important for the long term development of the firm (Andrews, 1981). In this boards have an important role in performing ratification and control of strategic decisions (Fama and Jensen, 1983; Johnson, Daily and Ellstrand, 1996). Then there is decision implementation. With respect to implementation, the boards have a behavioural control role include that of evaluating past decisions, and monitoring executive and firm performance (Baysinger and Hoskisson, 1990). Finally, we have the value distribution phase. This phase includes decisions of how corporate results or assets should be allocated to various stakeholders. Corporate social responsibility (CSR) considerations can also be included. Board output control roles and negotiations are important in this phase (Huse and Rindova, 2001).

Understanding board roles from a value chain perspective can help us understand that board members may play several roles at the same time (Roberts et al, 2005). In the same way, their contribution is strongest when it animates all parts of the organization. This means that thinking of board members as *either* monitors or collaborators, which is derived from assumptions of firm-external and firm-internal perspectives as opposite viewpoints, can be regarded as a largely unproductive line of inquiry. Instead, contrasted against firm-external and firm-internal perspectives and internal and external strategic focus, we get complementary views on how outside board members may contribute to value creation through balancing knowledge and accountability. Consequently, when it comes to understanding board roles from a value chain perspective outside directors can be expected to contribute to value creation both by supporting executives in their leadership of the business and by monitoring and controlling executive conduct.

Understanding board roles from a value chain perspective goes beyond the arguments that board roles primarily depend on contingencies, such as the firm's life cycle, including crisis (Huse, 1998; Lorsch and McIver, 1989; Lynall, Golden and Hillman, 2003), company size (Gabrielsson and Huse, 2005; Huse, 2000), ownership structure, including ownership type and dispersion (Johannisson and Huse, 2000; Zahra, Neubaum and Huse, 2000), industry and industrial environment (Huse, 1990), national, geographical and cultural differences (Aguilera and Jackson, 2003), and CEO tenure and characteristics (Shen, 2003). However, the context may have an impact on how the contribution in various phases should be balanced. The value chain approach is still novel, and there are needs for empirical investigations.

CREATING ACCOUNTABILITY: KNOWLEDGE REQUIREMENTS IN THE VALUE CHAIN

We will in this section focus on creating accountability. This requires that board members are capable of contributing with their personal and professional qualifications throughout the whole value chain. In this section, we do so by discussing the main limitation for outside directors to make contributions.

A board's ability to contribute to value creation is critically conditioned by its composition (Baysinger and Hoskisson, 1990). Boards are often composed of both inside and outside directors. There are no clear or common definitions with respect to what is meant by an outside vs. an inside director (Daily, Johnson and Dalton, 1999; Gabrielsson and Huse, 2005). However, for our purpose definitions should be compared to how we in the previous section presented internal and external perspectives. Usually an outside director is defined as a person that is not a member of the top management team of the firm. In the English vocabulary we find the distinctions between executive and non-executive directors as terms relating to inside and outside directors. Persons being financially or psychologically dependent of the top management team, including families of the top management team members, are usually considered to be insiders (Kosnik, 1987).

What are the obstacles that may hinder outside directors' contribution? The main argument based on a shareholder value point of view has been the lack of independence among board members (Monks and Minow, 2004). The argument is that CEOs control the appointment of board members and populate it with current or former executives and friends that do not want to ask discerning questions for respect of the CEO. In line with this perspective, corporate governance reforms has argued for increasing the proportion of outside directors on boards (Monks and Minow, 2004). Outsiders are often also called independent board members, but not all outsiders can be considered to be independent because being truly independent set requirements to detachment, incentives and various power relationships.

Another concern or element in the discussion of independence is that outside board members often suffers from a lack of time, something which has been discussed by Mace (1971), Baysinger and Hoskisson (1990) as well as by others. Board members are often serving on multiple boards in addition to their regular occupations. This gives them limited time for their various board assignments and reduces their ability to critically review managerial proposals sufficiently. Without proper preparations there is a risk that valuable time is spent on discussions about figures rather than facts, which in turn risk leading to an insufficient working style in the boardroom. Insufficient working style in the boardroom is moreover a major argument in Demb and Neubauer (1992) and also to some extent in Forbes and Milliken (1999).

The discussion above brings up an additional issue. The general argument from a shareholder value point of view is that there is a need for independent and detached outside board members. But a value chain analysis would rather suggest that independent and detached outside board members risk damaging the creation of long-term accountability (Taylor, 2001). The trade-off costs, in terms of reduced involvement, and the lack of firm-specific knowledge and understanding that comes from reduced involvement, may hinder the embedment of actual board behaviour in relation to board role expectations. Being truly independent may hence reduce an outside board member's contribution to a minimum since it would imply an almost complete distance and detachment from any relations with the firm. This means that independence rather should be conceptualized as a behavioral construct, where independent directors have the integrity to ask challenging and discerning questions

(Demb and Neubauer, 1992; Gabrielsson and Winlund, 2000), something which opens up for the possibility of outside directors to be “independent but involved” (Roberts et al, 2005:15).

It should be noted that the optimal balance between independence and involvement is complex and hard to specify, due to the risks of becoming trapped into the vicious dynamics of accelerating cycles of collaboration or control (Sundaramurthy and Lewis, 2003). This means that boards who are increasingly engaged in independent control, to the exclusion of collaboration and knowledge-sharing with the management team, risk being trapped in board-management polarization and suppressed stewardship. Similarly, boards who are increasingly engaged in collaboration, to the exclusion of independent control, risk suffering from group think and strategic persistence. However, by embracing and successfully balancing both approaches a board of directors can facilitate continuous learning and development (Huse, 1993; Sundaramurthy and Lewis, 2003).

There are various obstacles for board members to effectively contribute in the various parts of the value chain. We argue that different knowledge and competencies are needed to make contributions in the various steps in the value chain and the corresponding board roles that influence these steps. Based on our value chain analysis, we recognize needs for:

- Resource providers
- Advisors
- Mentors
- Decision-makers
- Evaluators
- Distributors and negotiators

The roles can be played by different board members, and some board members may play more than one role. However, boards can only fulfil its full value creating potential by collectively securing that all roles are simultaneously performed. It is thus a challenge to recruit and develop board members that, independently and collectively, can utilize their knowledge and skills to align board role expectations and actual board task performance, and thus create accountability (Huse, 2005).

The resource providers have various networking roles, including legitimacy, contacting and lobbying. The characteristics of the resource providers are discussed in literature using resource dependence theory (Hillman et al., 2000). These board members should have large networks among the groups being the most important for the firm, and they shall enjoy credibility in these groups. Sometimes and for some firms it may be important to relate to financiers, including the banks, sometimes politicians and public authorities, and sometimes to customers, suppliers or competitors. The knowledge needed is more related to who they are than to what they do. The resource provision roles can in some cases be obtained by external consultants, but often it gives more credibility and commitment when this competency is included among the board members.

The advisors may contribute to firm operations by giving advice in issues like finance, market, general management and leadership, law and technical issues (Castaldi and Wortman, 1984). The board members may, from a knowledge based or resource based perspective, through their personal and intangible skills and competencies, be valuable resources for the firm (Barney, 1991). There may be alternative ways of getting these resources, e.g. through consultants in the market or through employment in the hierarchy. These alternatives should be considered. However, including these resources on the board may sometimes contribute to securing resources that may be valuable, rare, non-substitutable and inimitable in a way that may provide long term competitive advantage.

Board members may have mentoring roles for the firm and the CEO, including those of being a sounding board and a discussing partner (Davis et al, 1997). This will involve outside board members that with openness and generosity share their experiences, knowledge and time with the CEO (Huse, Minichilli and Schøning, 2005). Board members with diverse backgrounds and characteristics should involve in creative processes leading to innovative activities in relation to e.g. products, processes, organisation and markets. Board members with experiences from different industries and companies will vary in the problems they have been exposed to, and the problem solving skills they have developed (Rindova, 1999). These conditions will in turn bring greater variety to the problems that the board identifies and the solutions it develops.

Board members are also decision-makers, and the board members must understand the implications of the decisions they are to ratify. The role of boards will normally be to make decisions about issues that are important with respect to size and consequences for the firm (Huse, 1998). There are thus needs for board members that combine integrity, maturity, responsibility and risk-taking behaviour on behalf of stakeholders with both long-term and short-term perspectives. As such, board members can use the expertise they have developed and provide inputs into the cognitive tasks through which strategic decision making is carried out (Forbes and Milliken, 1999; Rindova, 1999).

The behavioural control roles involve that board members have sufficient time, knowledge and independence to evaluate managerial performance. It may be difficult for outside board members, only having part-time involvement in the board and the firm, to be sufficiently informed (Ford, 1988). However, routines should be developed that board-decisions and other external obligations are followed up, including ethical standards, accounting, etc. Board members should prioritise time to be informed about the main products and activities of the firm, major risks, the market situation of the firm, organisation culture, etc. Board members should also have time and opportunity to meet regularly with the top management team.

Board output control roles are important for value distribution. The board members will need to balance the stakes and interest of various internal and external actors. Often they have particular responsibilities to safeguard interest of certain stakeholders or owners, e.g. various family branches in family firms, short-term vs. long-term investors, managerial vs. ownership perspectives, corporate social responsibility and employee issues, etc. However, the fiduciary duty of directors under most legislations is to do what is best for the company (Blair and Stout, 2001), which implies that outside directors are accountable to do what is best for the company and not only for certain coalitions of stakeholders. These roles consequently have implications for board members as negotiators.

We have here presented various requirements that are needed for outside board members to make contributions in the different phases in the value chain. Our focus has been that the lack of involvement may be a major hindrance for the outside board members' ability to maximize the boards' full value creating potential. In the next section we present board evaluation as a system that may make actual board task performance meet board role expectations.

BOARD EVALUATIONS

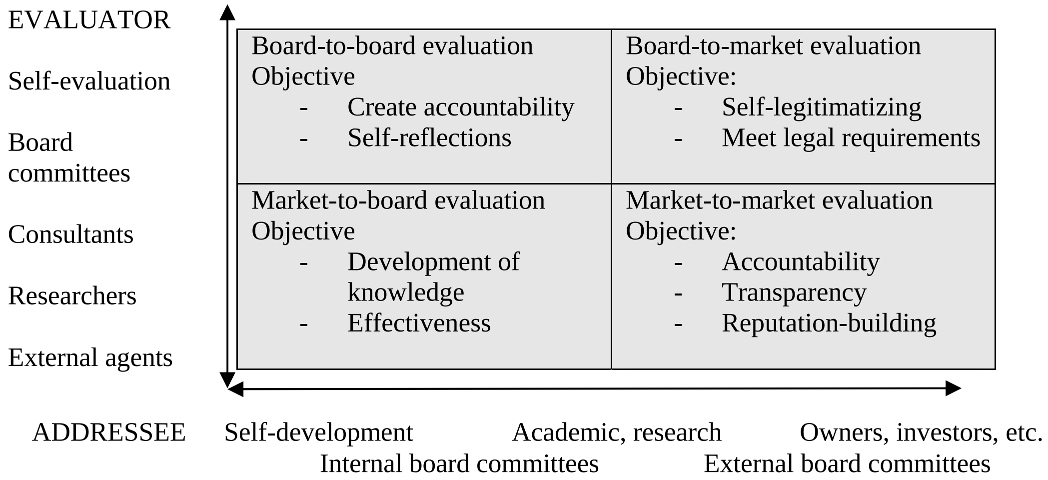
The exercise of power and influence that comes with the position as an outside director is critically conditioned by if knowledge and accountability is effectively mobilized. It is often argued that it is necessary with an evaluation of the accountability and knowledge of board members to maximize the boards' value creating potential (Conger, Finegold and Lawler, 1998). However, empirical studies have showed that board evaluations are far from common practice, and the process of evaluating the whole board is even scarcer than for that of evaluating individual board members (Gabrielsson and Winlund, 2000; O'Neal and Thomas, 1996;). A board evaluation process can in this respect be helpful for defining how various board roles contribute to value creation and to balance and meet the interest of the firm's various stakeholders.

Before starting a board evaluation process four questions should be asked: Who does what, for whom, and how? A board evaluation system will thus consist of these four elements:

- Who: The agents performing the evaluation (self-evaluation, consultants, etc)
- What: The issues being evaluated (accountability, knowledge, etc)
- For whom: The addressee or the stakeholder behind the evaluation (internal stakeholders, external stakeholders, the board itself, etc)
- Why: The way the evaluation is performed (schemes, interviews, observations, etc)

Together these four elements will help meet the purpose of an evaluation. In Figure 2 we illustrate the main elements of this board evaluation system.

Figure 2 Board evaluations

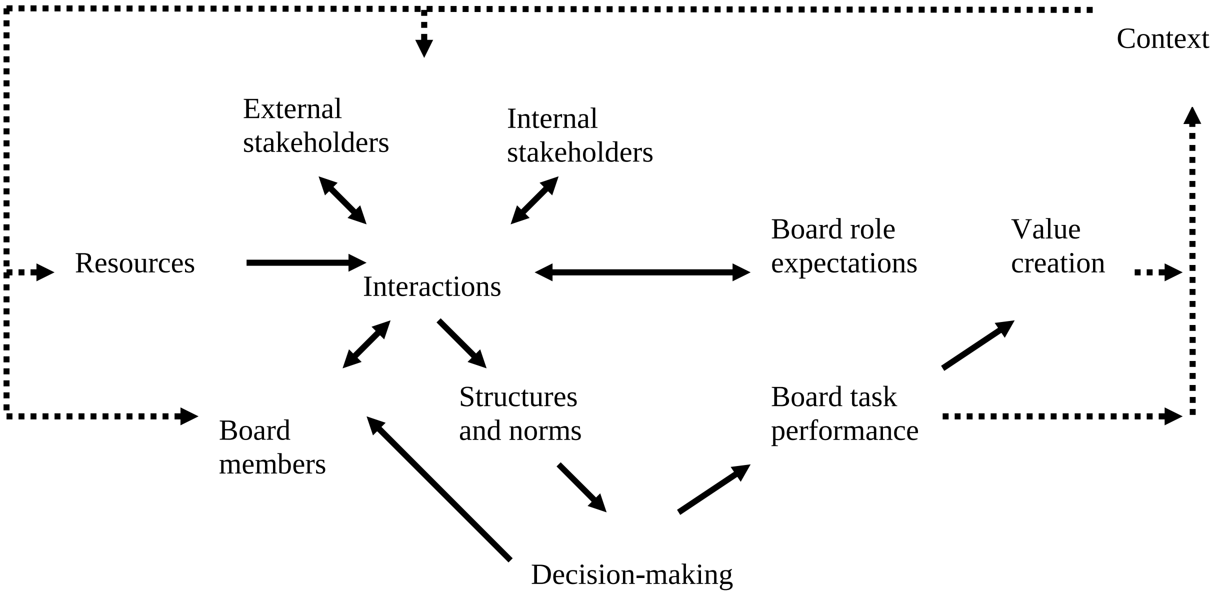


Based on Huse, Minichilli and Schøning 2005

The addressee or the stakeholders are presented on the horizontal axis, and the agents of the evaluation are presented on the vertical axis. The board-to-market evaluation has now become compulsory through various codes of best practices under the heading “comply or explain”. To a large degree it is a self-legitimising approach. A main purpose for the market-to-market evaluation is transparency to meet accountability. Main objectives for market-to-board and board-to-board evaluations are to create accountability and effectiveness. This is done through the securing and development of the knowledge and skills of the board members. It is the responsibility of the individual directors to use their knowledge and skills to create accountability. This may be promoted through a board-to-board evaluation. However, a market-to-board evaluation will be of more help to evaluate the knowledge and skills of the board members than a board-to-board evaluation.

Figure 3 helps defining accountability and the creation of accountability (see Huse, 2005).

Figure 3 The content of board evaluations:
Accountability and the inner working of boards



Based on Huse 2005

Board role expectations are as shown above developed from various theories, including agency theory, stakeholder theory, resource dependence theory and resource based theory (Huse and Rindova, 2001). Different expectations may exist among various stakeholders, including various groups of shareholders. The board will need to balance these expectations. Board task performance refers to what tasks a board actually are performing. Creating board accountability will be to align actual board task performance with board role expectations (Huse, 2005). Various interactions, knowledge and attributes of the board members, board structures and norms, and the board decision-making culture may hinder or secure this alignment. The creation of accountability will include that of selecting, motivating and developing board members and the decision-making culture through board leadership and structures. Figure 3 also helps us identify the main issues that should be included in board evaluations in order to improve the creation of accountability and the active use of board members' knowledge and skills.

A major contribution of board evaluations is to structure the inner workings of boards to align the knowledge and competency of the outside board members with the various parts of the value chain (Conger et al, 1998). The discipline of a formal evaluation could encourage board members to clarify their individual and collective roles and responsibilities and to identify the board's strengths and weaknesses. Through a formal evaluation process, directors can develop a better understanding of what is expected from them, thus helping them to develop and exploit their value creative potential.

OUTSIDE DIRECTORS' AND VALUE CREATION

The objective of the article has been to show how outside directors may contribute to value creation. Outsiders are often considered to bring in different kinds of expertise, networks and perspectives than what already exist in the firm. Through a value chain analysis we identify the contribution of outside board members through their involvement in various board roles. The analysis shows how outside directors, through responsible use of their knowledge and skills, can help align board role expectations and actual board task performance, and thus create accountability (Huse, 2005).

The article contributes in various ways. First, it approaches various board roles from a value chain perspective. This is a novel approach as board roles most often have been studied from contingency or stakeholder perspectives. The article contributes to show that outside directors at the same time may have various roles. This gives directions with respect to the selection of board members and the structuring of the inner working of boards. Second, it has a focus on how outside directors may contribute to value creation and not only to value distribution. Board members can balance knowledge and accountability by being involved a variety of board roles. We show how outside board members contribute through resource provision, advice and knowledge, mentorship, decision-making, evaluation and control, and negotiation and distribution. The identification of these board roles has implications for the selection and composition of board members in order to fulfil its value creative potential.

Boards and outside board members are accountable to the firm as well as to all internal and external stakeholders in creating value throughout the whole value chain. This implies that boards should be composed of persons that have competence to create value in the different parts of the value chain. This also includes various consultancy and advisory roles. We have, however, in this article shown that the requirements for boards are complex. Various obstacles exist for outside directors to make contributions, such as lack of independence, time and expertise. Outside directors have not always sufficient expertise and firm-specific knowledge to understand and evaluate complex firm decisions. A lack of knowledge of firm-specific operations among board members can reduce the board's potential contribution to a minimum. Outsiders are facing various dilemmas with respect to knowledge and accountability. They include the balancing of independence and engagement, distance and closeness, and control and service. In a knowledge based society outside directors cannot limit their responsibility to just that of being consultants to the CEO. Board members have an individual legal and social responsibility to create value for the firm and at the same time balance the interests of shareholders as well as those of a broader set of stakeholders.

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