

## **Master Thesis in Business Administration**

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# **Boards' Involvement in Firm Strategy**

How Can a Board be Effectively Involved in Strategy  
Formulation and Contribute to Firm's Successfulness

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*My beautiful and intelligent daughter, Sarah Tughra*

*My handsome and smart son, Elias Mohammad Tughra*

*My charming and clever son, Harres Mohammad Tughra*

**ABSTRACT**

The role of the board of directors in firm strategy has been the subject of debate for a long time. Many researches have been done from different perspectives particularly on this issue.

The purpose of this thesis is to study the role of the board of directors in firm strategy. This study will further investigate on how the board of directors can be effectively involved in strategy formulation for the firms and through this to contribute to the firms' successfulness.

Board of directors is a group of individuals who are elected by the shareholders of a corporation and assigned to carry out certain tasks on behalf of the shareholders to govern the corporation. Some of the main tasks of the board of directors are appointing the Chief Executive Officer, issuing additional shares and declaring the dividends. Board of directors are responsible for defining the strategy for the firms and make sure that it is implemented by the management.

A case study research method is used and four companies from southern part of Norway have been selected for this research. Two of them are in offshore business, one is an educational institute and the last one is a software company. They all are Small and Medium size Enterprises SME.

The research concludes that the boards can be effectively involved in firm strategy if the board directors have relevant knowledge and skills to the firm and have experience from the industry they are in. The board and CEO should have close relations and have frequent meetings. Board diversity is also important because diverse boards will come up with different perspectives, healthy debates and good information for decision making.

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## 1.0 INTRODUCTION

This thesis is written in connection to a master degree programme in business administration at Agder University College, Kristiansand - Norway. The purpose of this thesis is to study the role of the Board of Directors in firm strategy. The research question for the study is “How the boards can effectively be involved in firms’ strategy formulation and contribute to make the firms more successful”. Based on the research question, this thesis will further investigate the involvement of the directors in strategy formulation for the firms and how they can contribute to the firms’ successfulness. In order to have a good insight on the issue, I would like to briefly explain what the Board of Directors is, who they are and what they do.

According to Norwegian laws, The Board of Directors is a group of individuals that are elected by the shareholders of a corporation on its general assembly and empowered to carry out certain tasks and govern the corporation. These powers include appointing chief executive officer (CEO) and executive management, issuing additional shares and declaring dividends. The board is the firm’s supreme executive body. It is responsible for formulating and implementing business strategy on behalf of shareholders and for ensuring that business activities are conducted in a manner that complies with the company laws and other legal requirements. The board is also primary institutional mechanism by which the shareholders render the executives appointed to manage the assets on their behalf accountable for their stewardship (Aksjeloven; Kapittel 6.I and 6.II). A general assembly is the shareholders’ meeting which is the highest decision making authority as well as the shareholders’ organ. The shareholders can practice their authority only on the general assemblies. (Aksjeloven; Kapittel 5.I).

The law further allows that the majority of the employees of a firm can demand one board member and one observant on the board from the employees. These people will be elected among the employees by the employees. This law applies only to the firms which have more than 30 employees. If a firm has more than 50 employees, the majority of employees can demand up to one third of the board size or a minimum of to board member and deputy director on the board from the employees (Aksjeloven; Kapittel 6.IV).

In most public companies, the boards will usually consist of two types of directors called as executive and non-executive directors (also called as inside and outside directors or dependent and independent directors). The terms executive and non-executive director will be used in this thesis, hereafter. An executive director is the corporation's staff member who is appointed among the management team. A non-executive director, in general terms, can be defined as a director who has no business, family or other relationships that might be assumed to affect his or her views and decisions as an independent (Norwegian Code of Practice for Corporate Governance; Chapter 8). More information on the duties and responsibilities of the boards from a theoretical perspective is added to section 2.

Section 2 of this thesis provides a theoretical background for this study. I have tried to choose the most relevant theories for the purpose of this study and there are also seven hypotheses following each subsection of the theories which are being tested in section 5. Section 3 gives an overview and a brief explanation of the selected firms on a table which will follow. This section will provide a good insight over the firms' activities and their ownership structure. In section 4 the research method is explained. A brief explanation of the research design, case selection, and data collection is also added. Section 5 provides information on the data analysis techniques and explains the research findings. You will also find information which is empirically tested in this section. In section 6 you will find my conclusion saying that the boards can be effectively involved in firm strategy by having knowledgeable, skilful and experienced members. The knowledge, skills and experience of the board members should be relevant to the firm and the industry they are in. Board diversity is crucial for boards' involvement in strategy by bringing healthy debates from different perspectives. Frequency and length of the board meetings are important too. Close contacts between CEOs and boards make it easier to the CEOs to feel free to seek for advice from boards. The conclusion ends mentioning that the managerial hegemony theory is not supported here and the agency theory could be modified the way that the information asymmetry will be reduced by boards' involvement in strategy. Section 7 presents the references which have been used for this study and at the end you will find the appendix.

The research method chosen for this purpose is a case study research method in which four firms have been selected as cases and these firms are small and medium size enterprises (SMEs) from the southern part of Norway. We can find two definitions for SMEs based on the number of employees of the firms - an American definition and a European definition. I

would like to use the European definition since the firms are Norwegian and Norway is closer to Europe, geographically and culturally, than to America. According to the EU definition the firms which have less than 250 staff members are called SMEs. To define more accurately, it is also mentioned that firms which have less than 50 staff members are called small size firms.

I would like to underline that this is a study of Norwegian SMEs and therefore I have used Norwegian laws and regulations to explain and define some issues. The generalization and application of the research findings will be only valid for Norwegian SMEs. For large Norwegian corporations and MNEs further research is required to support this research.



## 2.0 THEORETICAL BACKGROUND

### 2.1 TWO SCHOOLS OF THOUGHTS – PASSIVE VS. ACTIVE

Before going to the discussion on the different schools of thoughts about the boards' involvement in strategy, I would like to discuss the concept of the strategy first. There are many literatures about the strategy and there are too many different definitions for the concept of strategy. It is very difficult and almost impossible to say which definition is the best because all of the definitions have something in common and they all define the concept of strategy in different ways. In order to be short and come back to the main issue – two schools of thoughts – I would like to go through only two of the definitions here. Noda and Bower (1996) have defined strategy as “*a shared frame of references within an organisation, providing the basis for an iterative process of objective setting and resource allocation*”. This view focuses on process of strategy while Mintzberg (1978) differentiates between deliberate strategy and emergent strategy. Although the debate will go very far if these two views are discussed and it would be difficult to resolve them, many scholars and managers have realized that in reality the essence of strategy is likely a combination of both deliberate strategy and emergent strategy. Alferd Chandler, an American business historian was one of the first advocates of this view - combination of deliberate and emergent strategy - and he calls it strategy as integration school. The strategy as integration school has been defined as “*a firm's theory about how to compete successfully*”.

Given the definitions of strategy we should find out what is the role of the boards in strategy? From a legal point of view, the fiduciary duty is generally considered to include the review and monitoring role of it (Stiles and Tylor, 2001). From the management point of view a broader consideration is included. The board's role in strategy is considered to include such aspects as defining the business, developing a mission and vision, scanning the environment and selecting and implementing a choice of strategies (Pearce and Zara, 1991; Hilmer, 1993). Goodstein et al. have specifically defined the strategic role of the boards as “*taking important decisions on strategic changes that help the organisations adapt to important environmental changes (1994, p. 241)*”.

While there are generally accepted opinions in the literature about the board's role in strategy but the difficulty is the degree of involvement of the board in this process. This thinking has resulted in two broad schools of thoughts, namely "passive" and "active" schools. The passive school views the boards as rubber stamps or as tools of top management whose only contribution is to satisfy the requirements of company laws (Stiles and Tylor, 2001). This perspective of thinking argues that board decisions are largely subjected to management control particularly to a powerful chief executive officer CEO. On the other hand the active school sees the boards as independent thinkers who shape the strategic directions of their organisations (Finkelstein and Hambrick, 1996). These two schools of thoughts are, to some degree, supported by several theories. I would like to mention some of the theories which support both of the schools separately.

## 2.2 AGENCY THEORY

There are two streams of literature within the New Institutional Economics. Despite of the contractual framework and an efficiency perspective of both streams of literatures, they are different in respect to the approach of the contracts. The incentive alignment stream focuses on the designing of contracts that would safeguard the parties against all possible contingencies. In other words, the emphasis of this perspective is on the ex - ante side of the contracts (Coase 1984). There are two well-known theories in this stream; one of the theories is about the property rights arguing that new forms of property rights are attempts to overcome incentive deficiencies of simpler forms (Alchian 1965; Demsetz 1967; Alchian and Demsetz 1972). The other theory, namely agency theory, suggests that problems of organizations arise because principals entrust tasks to agents since they neither have the time nor the ability to do the task themselves and there is a potential conflict of interest between the principal and the agent. As a result, agents act opportunistically and they have opportunities to misrepresent information and divert resources to their personal use. Therefore, the principals have a need to monitor their agents. Alternatively, principals can induce the agents to cooperate by designing incentive schemes. Agents may also be motivated to tie themselves to the principals if they want to prevent monitoring. The task of organization design is to efficiently structure the agency relationship so that monitoring, bonding and related costs are minimized (Jensen and Meckling 1976).

There are two main branches of agency theory. The first is called positivist agency theory which focuses on the broad problem of separation of ownership from control and emphasizes how managers are disciplined by incentive schemes, external labour markets and capital markets (Fama 1980; Fama and Jensen 1983; Jensen 1983). The second branch is called the principal-agent problem which takes the ownership and allocation of firms as given and concentrates on the design of ex – ante employment contracts and information systems (Baiman 1982, 1990).

*Hypothesis 1-a: The degree of the board's involvement in strategy is positively related to the degree of the board's control over the CEO.*

The other stream of New Institutional Economics focuses on ex – post institutions of contract. This stream is represented by transaction cost economics which argues that the markets and hierarchies or firms are alternative modes of organizing economic transactions (Williamson 1975, 1985). It is claimed that transactions are organized in a way to minimize the costs of computing, writing and enforcing employment contracts. Although there are similarities between positivist agency theory and transaction cost economics, they are different in the choice of the basic unit of analysis and the approach to costs and organizational forms (Eisenhardt, 1989).

The principal – agent problem takes place in a business management context associated with studies in employer – employee and/or a company and a contractor interaction. It can also be applied to public and non-profit settings as well. These parties are called the principals and the agents. The principal is the employer and the agent is the employee. The principal – agent problems arises because of the potential conflict of interest between the principal and the agent and information asymmetries between them, which one party, mostly the agent has more information than the other, the principal, and will not be eager to share all of the information. The principal – agent problem was first discovered in insurance industry in which there is a great deal of incomplete information between the parties. The insurance company here is the principal while the insured party is the agent. The central issue in principal – agent theory is how to get the agent to act in the best interest of the principal while the agent, on the one hand, has an information advantage over the principal and on the other hand has different interests from the principal (Sappington David, 1991).

Agency theory argues that the major role of the board is to reduce the potential divergence of interest between the stockholders and management, minimise agency costs and protect stockholders' investments (Eisenhardt, 1989). Agency theory has very clear implications for the monitoring and control role of the board but its position regarding the strategy formulation is not as definite. However Zarah and Pearce argue that agency theory emphasises the crucial importance of the boards' role in strategy stating that "... places a premium on board's strategic contribution, specifically the board's involvement in and contribution to the articulation of the firm's mission, the development of the firm's strategy and setting of guidelines for implementation and effective control of the chosen strategy (1989, p 302).

*Hypothesis 1-b: The degree of the board's involvement in strategy is negatively related to the level of information asymmetry between board and CEO.*

## 2.3 MANAGERIAL HEGEMONY THEORY

The theory of managerial hegemony argues that the boards are legal bodies dominated by top management. The board plays a passive role in corporate strategy and they have a weak position in directing the corporation (Mace 1971; Lorsch and MacIver 1989). This managerial perspective proposes five bases for management control. First, it argues that the separation of ownership and control in corporations leads to diffuse the ownership situation in which the power of the stockholders is diluted. This relative weakness of the stockholders' control provides the management a greater level of control which is likely to be self – serving and the boards are placed in a passive role (Jensen and Mecling, 1976). The second factor which gives more control power to the management is the information asymmetry between the board and top management (Eisenhardt, 1989). The natural internal position of the management provides them with a more knowledge about the business which leaves the board in disadvantage. The third factor is that the managers in profitable organisations can reduce the corporations' capital dependence on the stockholders by reinvesting the retained earnings in order to enhance their own capital and finance their investment projects (Mizruchi, 1983). The fourth factor implies in some case which the selection of the directors on the board, both executive and non-executive directors, are consulted with the CEO (Pfeffer, 1972). This shows that the CEO can have influence on the board members. The fifth factor is especially about the executive directors who directly report to CEO on corporate operational issue. The executive directors are dependent on the CEO for their career advancement and compensation therefore they are

under the influence of the CEO (Stiles, 2001). This factor gives more control power to top management, namely the CEO, which weakens the control power of the board. The total effect of these five factors suggests that the corporate strategy is the area of the CEO and top management which to a great degree is controlled by them, and the board plays a very passive role which is to review and approve the suggested strategy by the senior management team. The theory of management hegemony argues that the boards have a very passive role in strategy formation and they are perceived as “rubber stamps” (Herman, 1981).

Critics of the managerial hegemony theory argue that the empirical support of it is limited and the theoretical part is mainly dependant on the definition of the term “control” (Stiles and Taylor, 2001). Mizruchi (1983) argues that a board has a great control power over the management through their capacity of hiring and firing the CEO. Some other scholars such as Zeitlin (1974) argue that the boards’ power is independent from the managements’ power through increasing concentration of corporate ownership by large investors.

*Hypothesis 2-a: The degree of the board’s involvement in strategy is negatively related to the degree of CEO’s influence on strategy.*

*Hypothesis 2-b: The level of the board’s knowledge and skills is positively related to the degree of the board’s involvement in strategy.*

*Hypothesis 2-c: The level of the board’s experience from the industry is positively related to the degree of the board’s involvement in strategy.*

## 2.4 STEWARDSHIP THEORY

Stewardship theory has its roots in psychology and sociology and it was designed for researchers to examine situations in which executives as stewards are motivated to act in the best interests of their principals (Donaldson & Davis; 1989, 1991). In this theory the model of man is based on a steward whose behaviour is ordered such that pro-organisational, collectivistic behaviours have higher utility than individualistic, self-serving behaviour. Given a choice between a self-serving behaviour and a pro-organisational behaviour, a steward behaviour will not depart from the interest of his or her organisation. A steward will not substitute or trade cooperative behaviours for self-serving behaviours. Thus even where the

interest of the steward and the principal are not aligned, the steward places higher value on cooperation than defection because the steward perceives greater utility in cooperative behaviour and behaves accordingly.

According to stewardship theory, the behaviour of steward is collective because the steward seeks to attain the objectives of the organisation. A steward protects and maximizes the shareholders' wealth through firm performance because by doing so the steward's utility function is maximized. Stewards believe that their interests are aligned with interests of corporation and its owners. Thus the stewards' interest and utility motivations are directed to organisational rather than personal objectives (Donaldson, 1990).

Stewardship theory argues against the opportunistic self interest assumption of agency theory claiming that the managers are motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing the challenging work, to exercise responsibility and authority and thereby gain recognition from peers and bosses (Davis et al., 1997).

*Hypothesis 3: Close relation between the CEO and the board is positively related to the board's involvement in firm strategy.*

## 2.5 RESOURCE DEPENDENCE THEORY

Resource dependence theory stems from research in economics and sociology and focuses on the role of interlocking directorates in linking firms to both competitors and other stakeholders (Zara & Pears, 1989). According to this theory boards are the means which forms links for the firms with external environment to access important resources and to buffer the firm against adverse environmental change. Stiles (2001) argues that the boards boundary spanning activity contributes to the strategy role by bringing new strategic information. The resource dependence theory of the firm has been often applied to explain the role of the board of directors, which is seen as a particularly effective means of obtaining essential resources for the company.

Indeed, the most recent and extensive reviews of the literature on boards of directors have classified the resource dependence role among the most important served by board of directors (Zahra & Pearce, 1989; Johnson, Daily & Ellstrand, 1996).

According to this theory a firm does not control all the resources it needs. The majority of such resources are found only outside the firm. Acquisition of resources by organizations – the critical activity for their survival - is carried out through the interaction with the subjects who control those resources (Pfeffer & Salancik, 1978).

*Hypothesis 4: There is a positive association between the board diversity and the board's involvement in firm strategy.*

By summarizing the above mentioned theories we can find out that the passive school is supported by managerial hegemony theory while the active school is supported by stewardship, agency and resource dependence theories.

## 2.6 THE RESPONSIBILITY OF THE BOARD – A THEORETICAL PERSPECTIVE

From a theoretical perspective John Carver & Caroline Oliver (2002) argue that the board of directors are responsible for governing the affairs of a corporation. The board's powers are derived from the shareholders whom they represent in corporation's governing. Although the laws and regulations for governing the corporations differ from country to country, the legal obligations of directors can be broadly summarised by the managerial duties that the law prescribes for directors. The major duties of directors are:

- The fiduciary duty
- The duty for loyalty and duty of fair dealing
- The duty of care
- The duty not to entrench
- The duty of supervision

*The fiduciary duty:* One of the most important roles of the directors is the role of fiduciary which simply means to be trustworthy in acting for the best interests of the shareholders whom they represent. This duty has the elements of both integrity and competence. A board of directors should have as its objective the conducting of business with a view to enhancing corporate profit and shareholder gain. The directors should note that the objective to enhance

shareholders gain is a broad term that implies everything which can contribute to strengthening the economic efforts and value of corporation.

*The duty for loyalty and duty for fair dealing:* A corporate director promises to be loyal to the corporation and acknowledges that the best interests of the corporation and the shareholders must take precedence over any interest of the individual director. The basic principle of this duty of loyalty is that the director should not use his or her corporate position to make a personal profit or gain other personal advantages. The duty of fair dealing can be viewed as a subset of the duty of loyalty, requiring that all transactions with the corporation be handled in a forthright and open manner that is fair to the interests of the corporation.

*The duty of care:* It is necessary on directors to act carefully in carrying out their responsibilities. This is only common sense, but it also is a legal requirement. The duty of care, in general, requires a director to act in the best interests of the corporation and with the care reasonably expected of an ordinary careful person. The director also has the duty to be informed and to make necessary inquiries to become informed. This duty allows the board to delegate functions to, and rely on others, including other directors, officers, employees, experts, and board committees. Such delegation and reliance do not eliminate the board's ultimate responsibility for oversight.

*The duty not to entrench:* If a corporation is not performing well, changes should be made in management. If the problem can be tracked beyond management to a board that is not fulfilling its responsibilities, changes need to be made there, as well. There are many examples of companies with poor performance where the board and the management continue to sit in power without successfully addressing the issues which in effect, they become entrenched. It emerges as an issue, for instance, when a board attempts to block a change of control, either through the sale of the company or in a proxy fight where dissident shareholders attempt to elect new board of directors.

Not all opposition to a change of control, however, is evidence of entrenchment. Many times, directors think that the motives of the other party or parties attempting to force change do not represent the best interests of the shareholders as a whole, and as a result, the directors are duty bound to oppose the effort. In many cases they are correct in doing so. Fulfilling the duty not to entrench is more dependent on following good business practices in evaluating the



corporate performance and the performance of management and the board than on complying with the law.

*The duty of supervision:* The duty of supervision is a subset of the duty of care, but deals specifically with the effectiveness of the directors in exercising their responsibilities. The duty of supervision addresses what directors should know about the operations, how they should know it, and what they should do when there is an issue or problem requiring attention. As an initial step in fulfilling this duty, the board must establish policies of ethics and disclosure that set the standards of behaviour for directors and senior executives. The board must also ensure that there are internal controls in place to provide accurate reporting of what is going on in the corporation. This control function is generally the responsibility of the audit committee of the board. The board must also establish policies addressing which decisions require board approval, and what information the board should regularly receive about the performance of the corporation.

Perhaps the most important task associated with the duty of supervision is the regular meeting of the board to discuss the performance of the organization and to ask penetrating questions of management. One of the crucial skills for a director is the intuitive sense of what needs to be questioned and the willingness to be persistent in pressing for access to the relevant information. Directors must know what they need to know and insist to be provided with it (John Carver & Caroline Oliver, 2002).

### 3.0 BACKGROUND INFORMATION ON COMPANIES

This section provides general information on the firms and their activities. You will also find sufficient information on the composition of board of directors and the ownership structure of each company. The table below gives a brief insight over the firms in respect to their major owners, board composition, board size, number of directors and number of employees of the firms. A detailed explanation of each firm in respect to their activities, ownership structure, composition of the board and number of employees will be followed after the table separately.

The basic accounting figures of three of these firms are available and attached to the appendix section. Only one of the firms namely Applica Bizware does not have the accounting figures ready yet because the firm started on 01.01.06. In all of these firms the major owners are either the board members or a part of the executive team.

	Noroff AS	V-tech AS	NorDrill AS	Applica Bizware AS
Major owner	The CEO and his family 95%	The CEO and his family 51%	The CEO and his wife 37%	The chairman and his family 66.7%
Total number of board directors	6	5	3	4
Number of non-executive directors	1	3	2	4
Number of executive directors	3	2	1	0
Number of employee directors	2	0	0	0
Frequency of board meetings	6 to 8 per year	6 per year	6 per year	6 to 8 per year
Average time used on board meetings	4-5 hours	2-3 hours	2-3 hours	4-5 hours
CEO being a board director as well	Yes	Yes	No	No
Number of employees	60	11	4	11
Need for external finances	No	Yes	Yes	No

*Table 1: Brief illustration of firms and composition of board of directors.*

### 3.1 NOROFF AS

Noroff AS is characterized as a well-informed and exciting experience centre. The goal of the institute is to be established as one of the country's leading and most innovative educational institute. The study programmes combine creativity and creative power with timely information technology. The institute can offer complete accredited study programmes through its close cooperation with several large, internationally recognised universities.

Noroff offers a number of attractive studies to high school and undergraduate level. It also offers web based bachelor studies where the student will follow the educational programmes on the internet for two year and then will join one of the universities which Noroff has cooperation with in abroad as an exchange student. The studies offered by Noroff is categorised into five categories as follows:

1. Creative studies
  2. IT studies
  3. Professional studies and courses
  4. Bachelor studies
  5. Web – based studies
- 
1. Creative studies: Within creative studies one can learn about the following
    - Multimedia design, design and media communication
    - 3D design and animation, 3D film production and 3D game design
    - Film and TV production
    - Sound and music production 1 &2 and technical design with DAK 2D/3D
  2. IT studies: Within IT studies one can choose among:
    - Network and system administration
    - Digital security and advice
    - CISCO (CNAP)
  3. Professional studies: The followings are within the professional studies.
    - Accounting, salary and personnel, and administrative and economic consultants

#### 4. Bachelor studies:

There are a dozen of opportunities under bachelor studies in which Noroff has close cooperation with some universities abroad. For information on bachelor studies, please go to Noroff's website.

#### 5. Web-based studies (Webstudent):

Webstudent is Noroff's school of remote learning. The studies on the internet let's you follow the lessons when you wish and where you wish.

The remote learning offer is targeted to the ones who have a need to study outside the usual school hours. The Webstudent has been arranged with easy and simple navigating and functional technology in order to give easy access by using a user name and a password. The Webstudent gives an effective learning; the time and place are chosen by you as a student. Communication between the teacher and the student will be done through email and/or chat-programmes.

Noroff AS is owned by two shareholders. The CEO and his family are the largest shareholders. Mr. Finn Harry Mathiesen the CEO and a board member of the company together with his family own 95 % of the shares while another shareholder owns the rest of the shares, 5%. The board of directors is formed by six directors and one deputy director. The composition of the board and the ownership is illustrated by the table below.

Harald Holt	Chairman	Non-executive, no ownership
Finn Harry Mathiesen	Executive director	Owens 95% of the shares
Line Ingvill Berhus	Executive director	Owens 5% of the share
Ari Magnus Mathiesen	Executive director	Son of the biggest shareholder
Sundt Ernst	Employee director	Employee representative
Thomas Savio	Employee director	Employee representative
Anne Marie Mathiesen	Executive deputy director	Daughter of the biggest shareholder

*Table 2: Board composition ownership structure of Noroff AS*

The company has been running for some years in Norway and has attracted many customers (students). The ambition of the company is to be globally present. The board of directors in cooperation with the management team has been working on its strategy especially on international strategy. The focus of their strategy is on international markets as well as expanding the home market.

### 3.2 V-TECH AS

V-Tech AS develops and delivers hi-tech offshore and marine equipment. The company strives to be at the forefront of the modern technological development both within its own field and related industries. As part of this drive, the company seeks to recruit talented engineers from various technological fields and only uses state-of-the-art design and engineering tools.

V-Tech's product range is expanding. Its aim is not to copy existing solutions but to develop new products that significantly alter current processes or introduce new and revolutionary methods. In doing so, the company hopes to give its customers more reliable and cost-effective products. The company's main products are the following:

#### UniTong

UniTong power introduces a completely new tong, concentrically parked around the drill string. The tong combines a spinner and torque tong in one. It handles pipe dimensions from 2 3/8" to 20". Only three easily replaceable clamp elements handle all dimensions. A mud bucket and lubrication of threads are also integrated.

UniTong's main advantages are:

1. Handles tubular from 2 3/8" to 20" (drillpipe, drillcollar, tubing, casing, etc)
2. Less movable machines on drillfloor due to concentrically parked around drillstring
3. Personnel kept away from rotating and movable components
4. All-in-one solution. Only three clamp houses used to cover all tubulars
5. Softgrip system which eliminates concentrated stress points and scares caused by traditional dies
6. Integrated and remote operated mudbucket
7. Integrated and remote operated dope facility

8. Weight, spare parts and storage capacity reduced to a minimum
9. Easy maintenance, simple and fast dismantling of tongs
10. Torque/turn computer suitable for delicate low-torque connections

### UniWrench

UniWrench power tong introduces a completely new tong, integrated into the drill floor. The tong combines a spinner and torque tong in one. It handles pipe dimensions from 2 3/8" to 20". Only three easily replaceable clamp elements handle all dimensions. Lubrication of threads are also integrated.

UniWrenche's main advantages are:

1. Stand building tool integrated into drill floor
2. Able to do parallel operations without preventing operation at the well centre
3. Handles all sizes of tubular from 2 3/8" to 20" (drill pipe, drill collar, tubing, casing, stabilisers, bits etc)
4. Less movable machines on drill floor
5. Personnel kept away from rotating and movable components
6. Soft grip system which eliminates concentrated stress points and scares caused by traditional dies
7. Integrated and remote operated dope facility
8. Weight, spare parts and storage capacity reduced to a minimum
9. Easy maintenance, simple and fast dismantling of tongs
10. Torque/turn computer suitable for delicate low-torque connections

V-Tech AS has successfully finished its first product the "Unitong" and it is been used by Statoil as a test product in one of it fields. V-tech AS has been spending a great deal of money on research and development (R&D) so far and when the testing is over it will change its focus from product development to business perspective. It needs to develop its marketing strategy as well as keeping the R&D in mind for other products. The main focus would be on marketing and sales strategy in order to develop income flow for the company. The board of the company in cooperation with the management is currently working on the strategy of the firm.

V-Tech AS is owned by two main shareholding companies, namely the Viking Holding AS and Lime Rock Partners. Viking Holding AS is a family firm which is owned by the CEO and Chairman of V-Tech, Mr. Tore Hansen-Tangen and his family. Mr. Tore Hansen-Tangen and his family own 51 % while Lime Rock Partners own 49 % of V-Tech’s shares.

The board of the V-Tech AS is formed by five directors and one deputy director who would replace any of the directors, a part from the owners, in absence. The composition of the board of directors looks as the following:

Tore Hansen-Tangen	Chairman and CEO	Owner of Viking Holding AS
Yngvar Hansen-Tangen	Executive director	Representing Viking holding
Per Olav Langaker	Non-executive director	Outsider
Simon Munro	Non-executive director	Representing Lime Rock
Robert Willings	Non-executive director	Representing Lime Rock
Tor Hodne	Non-executive deputy director	Outsider

*Table 3: Board composition ownership structure of V-Tech AS*

For the time being, V-Tech AS has eleven employees and its main office is located in Kristiansand – Norway.

### 3.3 NORDRILL AS

NorDrill AS is an engineering company, founded in May 2003. The company is located in southern part of Norway. NorDrill have specialized its business on high tech drilling solutions, with an eye for using latest technology in innovative solutions. The NorDrill “Power Machine” - Top Drive concept is specially designed to offer the owners of compact rigs a modern and state of art equipment. NorDrill is the first company which is using Radio Control System (RCS) on Top Drive solution. NorDrill is also the first company which is certifying its equipment for Artic operation with environmental temperatures down to minus 40°C. NorDrill’s vision is to be established as one of the leading manufacture of Top Drives within 2008.

NorDrill's main goal is to be known as a solid manufacturer & supplier of Top Drives, and a company that takes care of its clients' equipment by offering professional after-sale services. This means that a fixed crew of highly experienced personnel will be dedicated to the customers' projects every time they buy equipment from NorDrill. Everybody should feel free to deal with NorDrill and none of the customers are "too small" to deal with NorDrill.

NorDrill will offer financing through the Norwegian export finance for every project that is sold. The financing is an exclusive offer for the clients with very competitive terms.

### Service

NorDrill, having long time field experience, is glad to share its knowledge with its clients. NorDrill can offer new modern & innovative drilling solution, resulting in a higher efficiency with focus on safety.

NorDrill Alliance is willing to provide personnel to manufacture and run big projects as well as to take care of service on short notice. NorDrill is also in a position to offer normal service assistance for equipments. NorDrill's main experience is on the following fields:

- Top Drives
- Travelling equipment (Blocks, hooks etc)
- Rotary equipment
- Winches
- Cranes
- Power Units
- Skidding systems
- PLC
- Monitoring/Logging systems

### Product

All of the NorDrill products are related to drilling and/or drilling equipments. The followings are some of the possible deliveries, with primary focus on ND-Technology, "The Power machine", and also some idea of rebuilding and/or modification of existing equipment to improve safety, efficiency & competitiveness.



1. Top Drives
2. HPU-Rebuilding kit (To fulfil the Tier 3/Stage IIIa demands for reducing emission)
3. Rotary-Conversion kit (From Chain to Hydraulic...)
4. Control system-Conversion kit (From mess to order... Removal of loops in derrick)
5. Control system- Conversion kit (Radio Control System (RCS))

NorDrill AS is owned by several shareholders. The ownership and composition of the board of directors is explained on the table below. NorDrill, as of today, has only four employees that three of them are shareholders too, the CEO, a board member and an employee. The CEO of the company, Mr. Egil Lauvslund, is not a board member but he is the biggest shareholder together with his wife who is a board member.

Kristen Moseid	Chairman; non-executive	Owns 6 % of the shares
Hans Sommerfelt Helle	Non executive director	Owns 33,5 % of the shares
Eva Sordal Lauvslund	Executive director	Owns 37 % of shares

*Table 4: Board composition and ownership structure of NorDrill AS*

The rest of the shares which is 23.5 % are owned by two outside shareholders and one employee who are not board members.

NorDrill AS has just developed its first product “the Power Machine” after a heavy investment on R&D for a period of time. The company is focusing on the business perspective now and tries to develop a new strategy in order to internationalise and market its products and services internationally.

### 3.4 APPLICA BIZWARE AS

Applica Bizware is a company in Applica Group. Applica Group is a Norwegian corporation which has been delivering products and services to prominent national and international customers such as, NATO, Norwegian Ministry of Defence, GE Healthcare, Ericsson, ABB, etc. since 1979. The common denominator for all of these companies is that they require extremely high quality and competence. The companies which form Applica Group are the followings:

1. Applica Consulting: This company mainly delivers service within data communication, software, and project management.
2. Applica EMC: This company undertakes tests and consulting within electromagnetic compatibility.
3. Applica Training System: This company develops professional presentations and interactive training programmes.
4. Applica Bizware: This company offers administrative software for manpower planning and resource control.
5. Applica Attend: This company develops support materials for dyslectic.

## SERVICES OF APPLICA BIZWARE

Assumptions for a successful implementing and a long term customer relations are good and value adding services which the Applica's products have. The consultants of Applica Bizware have solid competence and good experience in achieving the best solutions.

### Implementing services

Applica Bizware's products know how the organisations function. The value of Applica's system lies down on many years of work on how it is smart to implement the concepts. The company can deliver services such as project management, consulting, technical installations, converting of the existing data, test and training depending on the scope of supply.

### Consultation/advisory services

Many of Applica's customers use its consultants as their advisors and co-partners. The consultants' abilities to combine competence with possibilities provide good solutions, improve the efficiency and enhance the value.

### Training services

The company puts forward a lot of effort to offer training services on deferent levels to its customers in order to make them highly competent and be successful. The company has the possibility to offer courses, such as standard courses, internal trainings and e-learning in virtual classrooms. Customers will have the choice to either run the course on their own computers or use Applica's mobile classrooms.

### Technical services

The technical services safeguard a stable production platform and as a result, the customers can focus on the things which count most. The technicians make sure to hold your technical systems updated through new installations, downloading newer versions and upgrading the database to make it optimal and complete.

### Support services

The daily following up of the customers is done through the company's support department. The characteristic of the service is known by quick replies and good follow ups. The customers can report the support issues by telephone, email or through an own website. By having support agreement, the company's consultants will directly plug into the customers systems; analyse and handle the failure.

### *CONCEPTS - A wholly solution for administration of personnel resources:*

Applica Bizware has developed a unique software called Applica Resource. Applica Resource is a value enhancing management tool for all who work on manpower planning. Applica Resource is a strategic management tool that communicates seamlessly with time recording and payroll systems. Applica Resource is a logical tool for simplified planning, monitoring and control of working hours.

Applica Resource is a complete management tool. Nevertheless, Applica's technologists are engaged in continuous development work and ensure that the users of Applica Resource can continue to be delighted by trailblazing new functionality. Thanks to advanced technological integration, Applica Resource offers the option of direct communication between the substitution pool and uncommitted resources. The resources are contacted automatically by SMS and/or email. The functionality is included in Applica Resource. Applica Resource has a genuine simple user interface with automat electronic processes which gives the customer organisation a total overview of its administration of personnel resources.

Applica Bizware is owned by some shareholding companies. The ownership structure and the composition of board of directors are explained on the table below. The board members are not a part of management team and do not occupy any position in the company. Applica Bizware AS has eleven employees today and its main office is located in Sør-Audnedal; Southern Norway.

Kjell Gustav Knutsen	Chairman; non-executive	Owens 66,7% of the shares
Olaf Christian Valeur	Non-executive director	Owens 2.1 % of the shares
Terje Haanes	Non-executive director	Owens 8.5 % of the shares
Andreas K L Ugland	Non-executive director	Owens 15 % of the shares

*Table 5: Board composition and ownership structure of Applica Bizware AS*

The rest of the shares which makes 7.7 % of the total shares are owned by the employees.

Appica Bizware AS is a newly started company which was separated from Applica AS on 01.01.06. Despite being a newly started company, it has already some customers in Norway and it is focusing on some international markets now. The board of the company is focusing on internationalisation and is trying to develop an international strategy for the company as well as having the home market on target.

## 4.0 RESEARCH METHOD

### 4.1 RESEARCH DESIGN

When we mention research method we mainly come up with two methods namely qualitative research method and quantitative research method. The use of each method depends on the nature of the research itself and research question. A research design represents a master plan or a framework for the study as a guide in collecting and analysing data. It is difficult to say which research design is the correct one because the research design depends the characteristics of research, in other words what to be researched. It is usual to classify research design into three categories namely exploratory, descriptive and causal.

*Exploratory* research design emphasises on discovery of ideas and insights which is especially useful in breaking a broad vague problem statement into smaller and more precise research question. It is also useful in clarifying concepts and testing measurement methods.

*Descriptive* research design is typically concerned with describing the characteristics of a population or phenomenon. Descriptive research seeks to determine the answers to who, what, where, and how questions. It also estimates the frequency or proportion and association of variables or it makes some specific predictions. Descriptive studies are often based on large, representative samples of the population.

*Causal* research studies the cause and effect relationship of a phenomenon. Causal studies typically take the form of experiments because experiments are the best and easy way to determine the cause and effect.

There are several ways of doing a social science research which include experiments, surveys, histories, analysis of archival information and case studies (Yin 2003). Each strategy has its advantages and disadvantages depending on some conditions such as:

- the type of research question
- the control and investigator has over actual behavioural events
- the focus on contemporary as proposed to historical phenomena.

I have chosen case study as my research design for this thesis. An alternative was to choose quantitative method, descriptive analysis by using a questionnaire but there was a huge risk of not receiving enough replies due to the time limit, which could lead to a biased result in this method.

## 4.2 CASE STUDY RESEARCH

In general case studies are the preferred strategy when *how* or *why* questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real life context. Explanatory case studies can be complemented by exploratory and descriptive case studies. Regardless of the type of case study, investigator must exercise great care in designing and doing case studies to overcome the traditional criticisms of the method (Yin 2003)

Case study research is one of the most challenging attempts of all social science researches. Case study research is used in many situations to contribute to our knowledge of individual, group, organisational, social, political and related phenomena. Case study research has commonly been used in psychology, sociology, political science, business and economics lately. Case study method allows investigators to retain meaningful characteristics of real life events such as individual life cycle, organisational and managerial processes, international relations and so on.

Many well-known case study researchers such as Robert E. Stake, Helen Simons, and Robert K. Yin have written about case study research and suggested techniques for organizing and conducting the research successfully. Basically there are six steps in a case study research that a researcher is required to follow. The steps in a case study research are:

- Determine and define the research questions
- Select the cases and determine data gathering and analysis techniques
- Prepare to collect the data
- Collect data in the field
- Evaluate and analyze the data
- Prepare the report

### 4.3 CASE STUDY DESIGN

There are mainly two types of a case study design, single case study design and multiple case study design. A single case study design considers only one case and studies that certain case. A multiple case study design considers multiple cases and studies all cases from one perspective. The question about how many cases should a researcher have in a multiple case study mainly depends on the nature of the research and the resources available to the researcher as well as the time consumption on the research. Even if a researcher chooses two cases, it can be called a multiple case study design.

Single cases are a common design for doing case studies. The single case design is obviously justifiable under certain condition such as the case represents (a) a critical test of existing theory, (b) a rare or unique circumstances, (c) a representative or typical case or when the case serves as revelatory or longitudinal purposes (Yin 2003, p 45).

Multiple cases deal with situations in which the same investigation may call for multiple-case studies. These types of designs are becoming more frequent, but they are more expensive and time consuming to conduct. Any use of multiple case designs follow a replication and not sampling logic and an investigator must choose each case very carefully (Yin 2003, p 53).

Which design is better, a single case study design or a multiple case study design?

Although all designs can lead to a successful case studies, when a researcher has the choice and resource, multiple case designs might be preferred over single case designs. Multiple case designs have better chances of doing a good case study. Single case designs are vulnerable if only because “you put all your eggs in one basket”. More important the analytic benefits from having a multiple case design could be substantial (Yin 2003, p 53).

### 4.4 CASE SELECTION

The cases that I have selected for investigation are four firms from southern part of Norway. Three of them are small size firms and one of them is a medium size firm. The reason why I have selected these firms is because I got introduced to them through the international laboratory in connection with the course ORG 410 International Strategy. International

laboratory was organised by Professor Trond Randøy and the Centre for Entrepreneurship in which these firms were studied in regard to their internationalization ability. It was easy to contact their CEOs since I got to know them and they all showed their interests to be interviewed. I took the initiative to contact these firms' chairmen of the boards and explained the purpose of my study.

#### 4.5 DATA COLLECTION

In data collection, depth interview technique has been used. All the data have been collected by directly interviewing the CEOs and the Chairmen of the boards of the selected firms individually and separately. I interviewed four CEOs, three Chairmen of the board and one board member. I should have interviewed only the CEOs and the Chairmen of the board of the firms. Since in one of the firms, V-Tech, one person serves as both the CEO and the chairman of the board, I decided to interview him as the CEO of the firm and one external board member as the representative of the board. All the interview process have been recorded on a tape which enables me to recall all the words and sentences that have been said under the interview.

#### 4.6 VALIDITY AND RELIABILITY

All researchers are preoccupied of the quality of the research they undertake. The quality of a research is very important and the research must be of a high quality. You can also judge the quality of any given design according to certain logical tests because a research design is supposed to present a logical set of statement. The concepts of validity and reliability are very much important in case studies and they are a little bit more complicated than other types of research designs. There are four tests relevant to case studies in order to make the research valid and reliable, in other words the tests offer a high quality research. These tests are called construct validity, internal validity, external validity and reliability. An important revelation is that the several tactics to be used in dealing with and these tests should be applied through out the conduct of the case study and not just at the beginning (Yin, 2003).

*Construct validity* means to establish correct operational measures for the concepts being studies. Construct validity seeks agreement between a theoretical concept and a specific measuring device or procedure. For example, a researcher inventing a new IQ test might



spend a great deal of time attempting to “define” intelligence in order to reach an acceptable level of construct validity. In order to have construct validity it is important to use a multiple source of evidence. In addition it is necessary to select a specific type of measuring device or the procedure of measuring (Yin, 2003)

In this study I have chosen multiple cases, defined the concept of strategy and have demonstrated the theories relevant to the board of directors and their involvement in strategy. I have interviewed the people who are directly involved in this process who are the CEOs and the chairmen of the boards. Having the facts above, I can say that this study has good construct validity.

*Internal validity* means establishing a causal relationship where certain conditions are shown to lead to other conditions. This test mainly concerns explanatory or causal studies only, and not descriptive or exploratory studies. This test has been given the greatest attention in experimental and quasi-experimental research (Campbell & Stanley, 1996). Numerous threats to validity have been identified mainly dealing with false effects. There are two main points to be concerned in relation to internal validity. First, internal validity is only a concern for causal or explanatory case studies, in which an investigator tries to determine whether event “X” leads to event “Y”. Second, the concern over internal validity may be extended to the broader problem of making inferences. Basically a case study involves an inference every time an event cannot be directly observed. An investigator will infer that a particular event resulted from some earlier occurrence based on interview and documentary evidence collected as part of the case study.

In this study I do neither an experimental research nor a quasi-experimental research. Internal validity is also concerned with causal relationship something that I haven’t done in my study. In order to be concerned with internal validity I have taken some measures in this regard such as explaining the research findings and I have tried to address rival explanations and logical reasons. Having these facts I can say that this study is internally valid.

*External validity* means to establish the domain to which a study’s findings can be generalized. This test deals with the problem of knowing whether a study’s findings are generalizable beyond the immediate case study. The external validity problem has been a major barrier in doing case studies. Critics typically state that single cases offer a poor basis

for generalization. However such critics are implicitly contrasting the situation to survey research in which a sample readily generalizes to a large population. Survey researches rely on statistical generalization whereas case studies rely on analytical generalization. In analytical generalisation the investigator tries to generalise a particular set of results to some broader theories (Yin, 2003, p 37-38).

As I said earlier I have used multiple cases and all cases are within one group namely SMEs. I have already addressed to the generalization issue at the end of the introduction part which mentions that the generalization is only valid only for SMEs in Norway since this study is a study of Norwegian SMEs. In this regard the issue of external validity has been taken care of.

*Reliability* means demonstrating the operations of a study can be repeated with the same results. In other words, if one does the same case study with same data collection process again, the result achieved must be the same as the first time. The goal of reliability is to minimise the errors and biases in a study.

In respect to reliability of this study I would like to say that all the data which have been collected for the purpose of this study is saved and will be available to anyone who would like to redo this study. If I had a partner I could have asked him/her to redo this process and find out that we achieve the same result. But due to the time limit and not having a partner I have not been able to do this. As a matter of fact I am alone in this study. In order to take care of the reliability issue I have gone through this study step by step and have all the documents and data stored and saved on my PC. I have consulted my professor Mr. Trond Randøy on every step such as the theory selection based on my research question, preparing the interview question, hypothesis and so on. I would like to say that the issue of reliability has also been dealt.

To summarise the issue of validity and reliability this study, I would say that I have used a multiple case study which includes four different SMEs. I have interviewed eight persons individually that four of them are the CEOs of these firms and four others are chairmen of the boards of those firms and have recorded all the interview procedure on a tape. I have used relevant theories to the purpose of my study and these theories have been selected from the previous researches which have been done on corporate governance. Having the above mentioned facts I can conclude that this study is both valid and reliable.

## 5.0 DATA ANALYSIS AND RESEARCH FINDINGS

### 5.1 ANALYSING A CASE STUDY

Data analysis consists of examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address to initial propositions of a study. It is especially difficult to analyse the evidence of case studies because the strategies and techniques which should be used in analysis process have not been well defined. It is helpful to be familiar with various tools and manipulative techniques but every case study needs to have a certain analysing strategy and it should be defined what to analyse and why to analyse. There are mainly three strategies which could generally be used in case study analysis. These strategies are focused towards (a) relying on theoretical propositions, (b) setting up rival explanations and (c) developing case descriptions (Yin 2003).

In this study I would mainly used the two first strategies which are common in analysing the case studies and in the meantime I would use the third strategy to some degree. I will analyse the data which I have collected through depth interviews referring to the theoretical backgrounds and the hypothesis that are mentioned. I will also come up with some rival explanations related to the interviews and theories. I will use these techniques while I discuss and analyse the research findings based on the interviews. Then I will test the hypothesis and check whether they are in accordance to the analysis and explanations that I have come up.

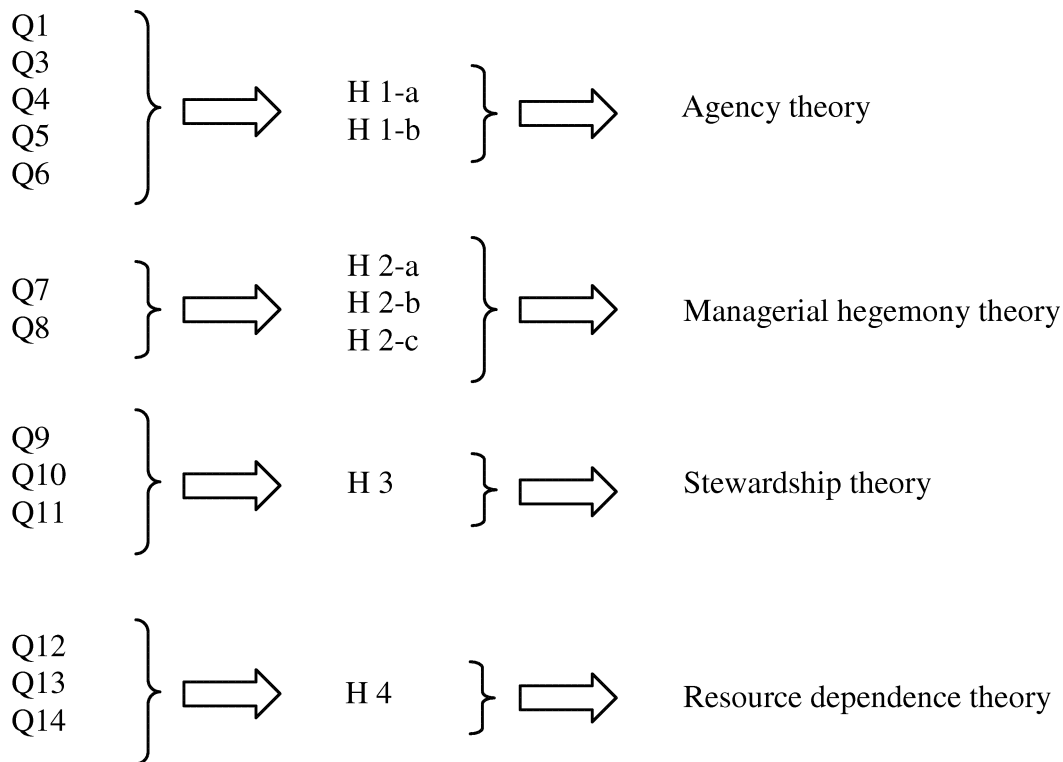
### 5.2 RESEARCH FINDINGS

All the firms which are selected for this study have a formal business strategy which means that they have a written document which will be used as their strategic guidelines, but some of them have their business strategy in several documents and some of them have a business plan which is used as a guide for their strategic decisions and strategic issues. Their business plan is mainly used as a base for the strategy of the firm something that could be called as a business strategy. NorDrill AS has business plan which was developed by the help of some students from NTNU in 2003. This business plan is very thick and will be updated according to the developments of the market. Applicia Bizware AS has its business strategy in several written documents and these documents are their business plan too. These documents contain

several strategic elements and they are the base for their strategic decision. Noroff AS has a written business plan which contains many strategic elements. Noroff's business plan has not been revised and updated for three years which is something that they are going to do it. V-tech AS doesn't have an overall written business strategy yet since they have focussed on product development so far but they have a very simple business plan. They have talked about it on board meetings and the board is working to develop a business strategy. Given the fact that all the firms have formal business strategies, makes it valid to ask them about the formulation of their business strategy and the involvement of the board in their strategy formulation.

In order to be more precise on data analysis, I have to quote the CEOs and the chairmen in order to mention exactly what they have answered for a specific question. But due to anonymity requirements I will not mention the names of the persons or the firms. In order to be precise and meet the anonymity requirements I will use alphabetical letters instead of company names and quote the CEOs and chairmen anonymously by saying, for example, the CEO of firm A said that .... Chairman of firm B said that .... and so on.

I have asked fourteen open-ended questions from each of the interviewees. The answers for these questions are the base for research findings and my discussions which in turn test the hypotheses. All questions are interrelated and have something in common. I have tried to organise them in a way that each of them will discover an issue which is related to the hypotheses but they still have a common denominator. Only the first question is about to find out whether the firms have a formal business strategy. Basically I have four groups of questions for four groups of hypotheses. Questions in group one (question two to question six) are to test the hypotheses in group one (hypothesis 1-a and hypothesis 1-b) which has a connection to agency theory. Questions in group two (question seven and question eight) are to test the hypotheses in group two (hypothesis 2-a, hypothesis 2-b and hypothesis 2-c) which are connected to managerial hegemony theory. Questions in group three (question nine to question eleven) are to test hypothesis 3 which is connected to stewardship theory and finally questions in group four (Questions twelve to question fourteen) are to test hypothesis 4 which is connected to resource dependence theory.



*Question 2 asks about how the decision making process on the strategic issues functions.* The CEO of firm A said “all decisions are made by the board. We, the shareholders in this company have an agreement on which decisions should be taken by the board. The strategic business decisions are made by the board”. The chairman of firm A said that “it is the board’s job to define the strategy and it is the management’s job to execute the strategy. We include senior managers on the board because the board including those people define the strategy and the subset of the board is the management team who are tasked by the board to execute the strategy. In reality, one good people determine the strategy and another good people execute it”.

The CEO of firm B said that “the decisions will be taken by the board and the board decides on the strategic and important issues and develops them. The administration suggests some strategies and the board either develops them or approves them. We have an active board which plays a good role; they work out the strategies and takes decisions”. The chairman of firm B said that “our firm is a small firm with a small administration. It is the board that makes the decisions on strategic issues and it is not different from a big firm in this respect. Although we have almost the same people on the board and on the management who are the owners, he board is the board and it functions as normal”.

The CEO of firm C answered that “a strategic analysis will be made, when I need support for the decisions, I propose it to the board. The board makes a discussion and either give a direction or make a decision in cooperation with the CEO for how to carry it out”. The chairman of Firm C said that “generally we make a discussion on the board and then we ask the administration to prepare necessary documents and material for the presentation. Then we decide on the issue and if some strategic issues show up between the board meetings, the administration asks the board for which direction to take. All of the owners are the board members and they will be present on each meeting, which makes the discussion easy and deeply. The owners being present on the board meetings give them good knowledge of the company and take part on strategic decisions”.

The CEO of firm D said that “basically, the daily based decisions are made by the CEO in cooperation with the managers from different departments. The superior issues go to the board with a draft from the management”. The chairman of firm D said that “ the strategies are developed in the administration with the experts involved, those who really feel the situation and then it is put forward to the board for decisions.”

*Question 3 asks about who takes the initiatives to bring up the issues and draft the strategies for them.* The CEO of firm A said that “both sides take initiatives depending on the issue”. The chairman of firm A said that “we cooperate”.

The CEO of firm B said that “our board is very active and they work out the strategies and take decisions. Some times it is the administration which brings up the issues and makes some suggestions for a particular issue”. The chairman of firm B said “basically it is the chairman who brings up the issues. I update the business plan and I take the initiatives to taking up some issues. The board makes executive summaries is the focus of the business plan. It contains important plans and we should focus on them”.

The CEO firm C said that “mainly the administration but we have a very active board which continuously comes up with some suggestions. I feel that we work as a team and I have a lot of contacts with the board members outside the board meetings”. The chairman of the firm C said “both, the administration and the board. It comes to what the issue is”.

The CEO of firm D said “the initiatives lie on different places, some lie on the board and most of the time it is the management who takes the initiatives”. The chairman of firm D said “it varies depending on the issues. Sometimes it is me who initiates and put the issues on the agenda. I do that because of the importance of the issue and make it familiar for the board and then we make the decision on it.”

*Question 4 asks about how long the board uses to form and approve a business strategy.* The CEO of firm A said that “we haven’t had a business strategy yet since our focus was to develop our product. We have developed the product and we have just finished the testing. We have to sit together and decide on an overall strategy”. The chairman of firm A said “we have relatively less strategic issues to discuss and we mainly discuss what price we should have on our product. We do not have long term strategic discussion now. I think we will be looking more on it next year”.

The CEO of firm B said that “it depends on the issue they discuss. It varies due to the importance of the issues”. The chairman of firm B said “normally there is no timetable for it because things constantly happen. When we see a change on the market, we should make a choice accordingly although we have decided on the strategy before”.

The CEO of firm C said that “our firm is very young and the business plan we have contains many issues such as marketing, competitors, products and services, financing and so on. Each issue will be discussed on a board meeting and we do not treat the overall plan in one meeting. Time used on the issues is different”. The chairman of firm C said that “we use different amount of time on different issues for example when we talk about either to choose a partner or use an agent differs from either to use a dealer or have our own subsidiary. We have to go through the options that we have and then choose one of them”.

The CEO of firm D said that “when we talk about the superior issues it may last over several meetings. The time consumed on strategic issues differs according to the nature of the issue”. The chairman of firm D said that “In most of the cases we have strategic discussion as part of our ordinary agenda. I am trying to use as little time on operational issues and more time on strategic issues. There are numbers of issues which show up on the board meeting. We use different amount of time on each issue”.

*Question 5 asks about how often the business strategy is revised.* The CEO of firm A said that “we have to develop one now since the company has been in the stage of product development”. The chairman of firm A said that “we are trying to develop a business strategy now since the company hasn’t had it yet”.

The CEO of firm B said that “we have a good business plan and we have had it for some years now. Things change according to the developments. The business plan is the same but we have to develop our market strategy once a year and we have to revise our market plan constantly. We have to change some directions and some other things which happen quite often”. The chairman of firms B said that “as I said it is a newly started firm and things happen gradually, therefore we have to change the direction of our firm according to the new developments. In general we follow our business plan but we have to check in regard to the market and do some necessary changes when we receive a signal from the market”.

The CEO of firm C said that “we treat different issues in different time such as strategic guidelines will be discussed in August, the budget framework in October and so on. We have strategic discussion on each meeting but we discuss the mainline issue as planned.” The chairman of firm C said that “we are less formalistic in long term and we form our strategy according to the situation and the need for the company.

The CEO of firm D said that “we should have been more active in revising the business plan. We should do it at least once a year and it is something we work on it but the existing business plan has not been revised for three years.” The chairman of firm D said that “it depends on the nature of the issue. Some issues are revised once a year and some are revised twice a year. We have some issue which is one time thing”.

*Question 6 asks about how the board access information prior to board meetings.* The CEO of firm A said that “the management gives full updated information to the board. The management updates the board very often and sends them a written report every week. There are very clever people on the board who ask for more information or for specific information if they need”. The chairman of firm A said that “we are pretty good now and it is the discipline we require. The agenda for the board meetings are created ten days beforehand and the board members receive a pack of information a week before the meetings. We have our list of requirements which we wish to know about”.



The CEO of firm B said that “the administration provides reports every month and sends information to the board prior to board meetings”. The chairman of firm B said that “the administration collects and sends updated information to the board”.

The CEO of firm C said “financial and operational reports are written every month and we go through all the departments’ activities and results, and see what has worked well and what has worked less. All the reports will be sent to the board once a month by the administration”. The chairman of firm C said that “we make an agenda for what to do on the board meeting and we receive information according to our agenda and out plan from the administration”

The CEO of firm D said that “the administration sends information to the board and if things are not clear or more information is needed the board asks the administration to provide some more or specific information”. The chairman of firm D said that “we receive documents, which describe all the relevant issues at least one week prior to board meeting and if I feel that there is a need for additional information, I contact the administration and ask them to prepare some additional documents”.

From the answers above we find out that the decisions on the strategic issues are taken on the board level and it is actually the boards that make strategic decision for the firms. The boards are decision making bodies and they are involved in strategy formation. In some cases the boards take the initiatives and draft the strategy, discuss the issues and then make decisions about them. In cases that the managements draft and propose decisions due to their expertise and knowledge about some particular issues, the boards either approve or develop the proposal and then make decisions in accordance to their own knowledge. The boards make new strategies and strategic decisions as well as revising the existing strategies as needed. The strategic decisions are sent to CEO/management for implementation; as a chairman said “*one good people define the strategy and one good people execute it*”

The boards receive information from the administration and information lies on the administration side. The boards receive their required information well in advance prior to the board meetings. In some cases the chairmen of the boards ask for more information or they ask for some specific information. The boards receive all information they need from the administration through monthly activity reports, financial reports and some other documents.

In some cases they receive information on weekly bases. The CEOs have experienced that sometimes the boards ask for more information or an explanation about an issue and they wish to get the information they require on a certain issue. This means that the boards are active and involved, and they ask questions in order to get more information and explanation on some issues, something which reduces the level of information asymmetry between the boards and the management.

Overall, the boards are very active and they are very involved in strategy formation. The boards have good understanding of their jobs and they have good control over the issues to be discussed. The boards have good control over the strategy and strategic issues for the firms. The more involved the boards get in firm strategy the more control they gain over the management. From the explanations above, it is true to say that boards have control over the management and not vice versa.

The table below summarises the findings in respect to main characteristics of the firms, and hypothesis 1-a and hypothesis 1-b.

	Firm A	Firm B	Firm C	Firm D
Hypothesis 1-a	Supported	Supported	Supported	Partly supported
Hypothesis 1-b	Supported	Supported	Supported	Supported

*Table 6: Summaries of findings related to hypothesis 1*

***To conclude this part of the analysis in respect to the predictions of hypothesis 1, I would like to say that:***

- ***Hypothesis 1-a is supported***
- ***Hypothesis 1-b is supported.***

*Question 7 asks about how the board monitors the firm performance against the business plan.* The CEO of firm A said that “we don’t have a real business plan but we have a budget. We have been spending money and not earning money yet. The management and the finance people give a forecast to the board and if the board monitors, they check the forecast of the budget and see whether the management has control over the budget”. The chairman of the

firms A said that “again one of our requirements is the financial measure against the business plan. Our requirement for the financials is for the month and year to update. That is the key and also the CEO gives us an update on the product development vs. budget”.

The CEO of firm B said that “the firm performance is measured out of the activity reports and monthly reports that the administration provides every month. The reports contain necessary information that the board requires in order to make any evaluation. The reports also contain information about the activities of the top management”. The chairman of firm B said that “in our case the board knows everything that happens in the firm since it is a small firm. We have an accounting department which provides the financial reports every month. We can check the results achieved by the firm. In addition the firm is audited once a year”.

The CEO firm C said that “I don’t think that they monitor the firm performance against the business plan”. The chairman of firms C said that “we don’t monitor very formally. We follow the performance by looking at the sales reports and other reports that we receive on each board meeting”.

The CEO of firm D said that “since our business plan has not been revised, I think that the board monitors firm performance against each decision that they have made earlier. When it comes to economical monitoring, the board receives accounting reports which is the bases for monitoring the results that the firm has achieved”. The chairman of firm D said that “there are number of issues that we monitor regularly on every board meeting such as financial issues. We get a report showing the results for a period of time and we look for any deviation from the norm that we have put on. If there is a problem the administration will explain why and what the problem is”.

*Question 8 asks about how the CEO performance is formally evaluated by the board.* The CEO of firm A said that “they haven’t done it yet. It is a bit especial in our case because we had a CEO who quitted and we are looking for another one”. The chairman of firm A said “we don’t have it yet but we discussed it on our last board meeting and put an ad hoc section about the salary and bonuses. We have agreed on board level to put the system in place which involves certain objectives and measuring them”.

The CEO of firm B said that “the CEO provides information regarding the firm and the board is very active and uses all the information they receive”. The chairman of firm B said that “we don’t do it formally because the firm is very new and also our CEO is the founder and the biggest shareholder of the firm. But the board has the authority to hire the CEO and give a job description for him/her”.

The CEO of firm C said that “I don’t have a good answer for it. I exhibit the financial results every month. I exhibit the results of each activity which we are running. I would believe that the board uses these reports and the results achieved as a base”. The chairman of firm C said that “the company has recently started and it is difficult to answer this question”.

The CEO of firm D said that “my position is that I am the biggest shareholder of the firm. My performance has a larger effect on myself than the others. But still we try to do some fact evaluation because the managers in the firm can have a lot of affect on the firm. We don’t have any kind of formal evaluation”. The chairman of firm D said that “we don’t do it formally. We evaluated each other mutually at the end of the year and give feedback on our performances”.

From the answers above we find out that the boards monitor the firms’ performances through the reports which come from the managements of the firms. The boards monitor by looking at different reports such as monthly reports, financial reports, sales reports, activity reports and so on, and on the other hand as mentioned earlier the boards ask for some more information on a matter if not clear. The boards ask for an explanation if any issue sounds vague and unclear for them. The boards’ active involvement in monitoring through reports persuades the management to make more accurate and clear reports and send them to the boards. Active involvement of the boards in evaluating the firm performance and holding the CEOs accountable for poor performance or unsatisfactory performance makes the CEOs to share the responsibility of decision making on important and strategic issues with the boards.

The board members’ knowledge and skills are quite important. Boards being knowledgeable and skilful can discover any kind of the issues which are relevant to the firms’ performances easily. For example, board members who have good knowledge and skill on finance and financial issues can study the financial reports thoroughly and evaluate the firm performance accurately out of those reports. Board members who are knowledgeable and skilful on

marketing and sales can study the marketing and sales reports thoroughly and evaluate the firm performance more accurately. On the other hand boards having good knowledge and skills can propose good strategies which will contribute to the successfulness of the firms. Board members who are highly experienced in a field can provide more information which could be very important in making a good strategic decision. We also find out that the CEO performance is not done formally but boards do it informally by looking at the reports that they receive on monthly and annually basis. The boards are very active in receiving information and in studying the information which they receive.

Overall, the knowledge, skills and experiences of the board members are crucial in evaluating the firms’ performances. They can ask accurate questions and demand for more information or explanation from the CEO if any issue sounds vague or unclear for them. On the other hand the knowledge, skills and experience of the board members attract the attention of the CEOs and make them eager to consult them on strategic issues which have a great impact on the firms’ performances. The CEOs do wish to achieve good results and if they perceive the boards as competent partners, they will definitely use their knowledge and experience in order to enhance their own ideas and decisions.

The table below summarises the findings in respect to main characteristics of the firms, and hypothesis 2-a, hypothesis 2-b and hypothesis 2-c.

	Firm A	Firm B	Firm C	Firm D
Hypothesis 2-a	Supported	Supported	Supported	Supported
Hypothesis 2-b	Supported	Supported	Supported	Supported
Hypothesis 2-c	Supported	Supported	Supported	Supported

*Table 7: Summaries of findings related to hypothesis 2*

***To conclude this part of the analysis in respect to the predictions of hypothesis 2, I would like to say that:***

- ***Hypothesis 2-a is supported***
- ***Hypothesis 2-b is supported***
- ***Hypothesis 2-c is supported***

*Question 9 asks about whether the board members meet the CEO and top management other than board meetings.* The CEO of firm A said that “Yes but not to a large extent. Basically we have daily contacts; we have telephone contacts with all our board members and send them information by email. They all have a very good understanding of what is going on. I am extremely occupied of informing them”. The chairman of firm A said that “yes we do and I am probably the only one. I do make efforts to get down and meet the team. I am going to have dinner with two of them tonight since I am in the city now. I do meet them personally but the other non-executive members don’t but we talk two or three times a week”.

The CEO of firm B said that “yes we do. We have board members who work at the firm and we meet quite often. We contact each other by the telephone too”. The chairman of firm B said “Yes we do. We meet on different occasion for example if we have a meeting with an investor then we use the opportunity to meet the top management. We also make lots of telephone calls and in this way we have lots of board meetings and we use our time in meetings in stead of travelling and be there physically”.

The CEO of firm C said that “yes we do and perhaps on daily basis. We contact each other by telephone and email and update each other on some issues. I had a meeting with the chairman just before you came and it was to update on the issue we talked the last time”. The chairman of firm C said “yes especially with chairman and if we have a certain issue to discuss more about it, we make telephone conferences and hold extra meetings”.

The CEO of firm D said that “the chairman would like to have more contacts with the firm. Since he lives in different city we hold our contacts by telephone and email. We talk especially if anything shows up between the board meetings and we discuss on the issue. We have most contact with the chairman and also we have our executive directors that we discuss the issues. The chairman of the firm D said that “yes we do. Some of the board members are apart of top management and some of them are representatives of the employees. They meet at different context”.

*The answer for the questions on frequency of board meetings and the time consumed on each meeting is illustrated on table 1.*

From the explanations above we find out that the contacts between the CEOs and the boards are very good, especially the chairmen and the CEOs contact each other several times a week either by telephone or by email. All of the CEOs and the chairmen have friendly and open relations and they do not hesitate to contact each other on any matter. It is mostly the chairmen and the CEOs who have contacts and they discuss on different issues. If the issue is to be decided on the board level, the chairmen inform the other board members and put the issue on the agenda for further discussion and possible decision for an action. Communication between the CEOs and chairmen is frequent and the CEOs feel free to contact the chairmen if they wish to discuss an issue and get chairmen's view point and advice on it. On the other hand the chairmen get more information on daily based operations of the firms and on decisions that the CEOs make for daily operations of the firm. It seems that the relations between the CEOs and the chairmen are good and they have lots of contacts. We can also see that both the CEOs and the chairmen seem to be enthusiastic to establish close contacts between the board members and the top management teams. The closer and friendly the relations between the CEOs and boards are, the easier it is for the CEOs to seek advice from the board.

The board meetings take place frequently for all the firms. They have at least six board meetings a year. Frequent board meetings result to more communication between the CEOs and the boards, something which makes the boards updated on the issues which happen constantly.

To summarise, it is correct to say that there are good relations between the CEOs and the boards. The contacts are especially good between the CEOs and the chairmen of the boards on daily basis which is good to both, the CEOs and the boards. It is good for the CEOs because it makes it easier for them to ask the chairmen for advice and support on important issues. It is good for the boards because they get more information on daily based activities of the firms as well as the important decisions of the CEOs made for operations of the firms. This is something which makes the boards get more involved in firms' strategy.

The table below summarises the findings in respect to main characteristics of the firms, and hypothesis 3.

	Firm A	Firm B	Firm C	Firm D
Hypothesis 3	Supported	Supported	Supported	Supported

*Table 7: Summaries of findings related to hypothesis 3*

***To conclude this part of the analysis in respect to the predictions of hypothesis 3, I would like to say that:***

- ***Hypothesis 3 is supported***

*Question 12 asks that in what way the board members knowledge and skills are relevant to the firm.* The CEO of firm A said “it is difficult to answer. When we started I hoped for an active involvement of the board on strategy of the company. But now three of our board members are finance people. Their involvement is more on financial issues than other issues such as marketing, technical and etc”. The chairman of firm A said that “let’s go through them. Our CEO is the founder of the business, he is clearly good and we take it as given. We have corporate finance adviser and the reason he is on the board is that he brings good knowledge on financial on the public markets. We may need capital from a bank or go public, we are going to access both. The other board member is the son of the founder and he has worked for the business for sometimes. He doesn’t bring enormous for the business but he has good understanding of the business. The others and I have knowledge about the industry we are in and we will be able to get this business on the market”.

The CEO of firm B said “I feel that the board has good knowledge which is relevant to the firm. We have people with different background such as, finance, marketing and so on. The skills of the board are absolutely relevant according to the phase we are in, for example we are in establishing phase and we have recently started the firm. The next phase will be to go internationally and then we need the board to have knowledge about internationalisation. We use the board very actively every day”. The chairman of firm B said that “basically we could think of people with more experience from the industry but we have to pay them because they are not a part of the firm and they are professionals from outside the firm. We cannot afford it now and therefore we have the owners on the board who have good knowledge and different background too”.



The CEO firm C said that “it is very relevant. The board is made up from the skills and qualifications which are necessary for the firm’s management. Every board member has equally strong side who contributes to the best of the firm”. The chairman of firm C said “I would say very much. We have people with different background, I am the chairman and I started the firm. I know a lot about this business. The other directors have had high positions in different firms and they are the general managers and have experience from other boards too. They have a high degree of general management. A director of us has been in the market that we are in for almost his life time. Another director is very good in finances and another is good in international business. Each of our directors has different background and I would like to say that our board is very highly competent”.

The CEO of firm D said that “it is very relevant to the firm and our chairman is especially recruited because he has a lot of experience from the industry we are in. We are four owners who also work at the firm and three of us are board members too. We have only one non-executive director who is the chairman and two other directors are employees”. The chairman of firm D said that “I am the only non-executive and it is a family business. The rest of the directors are either the owners or employees. The financial officer is also present on the board meetings but he is not a board member. They have relevant skills in marketing, development, the business we are in and etc. it is quite good”.

*Question 13 is a multiple choice question which asks that if the interviewee is to change anything about the board, what he will change in order to make the board more efficient. The choice answers were (a) board size, (b) proportion of board representing owners, (c) frequency of board meetings, (d) board diversity and (e) anything else.*

The CEO of firm A said “sometimes I think that we don’t need board meetings board meetings every other month and I think it is enough to have four meetings per year but it is a part of our shareholder agreement. Board size is ok and as I see it everybody gives good input and they all are well-experienced. I wish to have people with background in strategy to better help in strategy formulation for the company”. The chairman of firm A said that “to some extent it would be the board diversity. I would be keen to have a senior industry figure on the board. That is probably the one thing which will add a lot of value”.

The CEO of firm B said “the board diversity is very important since the board is like an advisor to me. Since the firm is developing and activities are expanding, I would like to have people with international experience in strategy and the industry”. The chairman of firm B said that “If I am to change something I would like to have one more person with solid experience and real business background from the industry. Our CEO has experience then the other person could be a good support to him in order to discuss and suggest things together. Then the board would have been strengthened. He/she must be an outsider (non-executive director) with solid experience from international business and industry that we are in”.

The CEO of firm C said that “I have been the manager and have worked very closely with some boards. This board is one of the best that I have worked with and therefore I don’t want to change anything about it. It is important that boards have continuity and this board has continuity in the board’s task”. The chairman of firm C said “I think the board is quite capable in our case and I really don’t know what I would change. In my opinion different companies have different needs. Our company is on the start phase and we have good representation on the board”.

The CEO of firm D said that “I would say board diversity in respect to gender. We have only one female director on the board. But when it comes to the diversity in respect to the knowledge and skills, it would be better to change a bit. It would be better if we had fewer owners and instead more neutral persons”. The chairman of firm D said that “I think it would be advantageous if we could have at least one more outside director. Board diversity in respect to gender, we could have another women”.

*Question 14 is another multiple choice question which asks that what the board’s main contribution is. The alternative answers are (a) control, (b) support and advice and (c) network.*

The CEO of firm A said that “I would say support and advice is extremely important and discuss the different issues and find solutions. The CEOs should be backed by the board and discuss the issues with them. When a CEO is in doubt in making a decision which can have an influence on the firm, to have that kind of people on the board to discuss the issues and be backed them is extremely important. In our case control issue is not important but in large companies with many shareholders and businessman, the control is important”. The chairman

of firm A said “it is all of those. It is a business which is very limited in resource and capacity. Providing direction, control and to find out in particular what we need is something that I would be keen on”.

The CEO of firm B said “all of them are important but I would insist on support and advice because the board is a good adviser and supporter. We need their skills to support and develop our ideas. We will go internationally and I need their support and advice to strengthen my knowledge and the board should have this knowledge”. The chair of firm B said “I would say that it is the network. Our board has done a good job using their network in different environment. Strategically, it is to give direction to the firm and network. I would say that the main task of the board is not the control function”.

The CEO of firm C said that “it is the two last ones. It is support and advise and my board has an enormous network. I don’t feel that the board is controlling. I feel that I have the support from the board which has many friends and have a fantastic network. I can use them for some issues that I don’t have the competence myself”. The chairman of firm C said that “Advice is important since I have lots of informal exchange of information. The board members have good network since they have different backgrounds. This means that we have a large network and we are using our network to grow the company”.

The CEO of firm D said that “in my opinion all three are important. Network is important, support and advice is very important. Control is important in a sense that whether we have done our jobs the way that the board expects but control in financial means, we have auditors and audit reports about the firm”. The chairman of firm D said that “of course all of it but control aspect is very well handled by the administration and our contribution is on the last two points; support and advice is certainly very important both for operation and for strategy aspects. Networking is absolutely very important aspect. I would say alternative B and C on your list is the main contribution of the boards”.

To summarise the last three answers I would say that the knowledge and skills of the directors are, to a good degree, relevant to the firms and it is very important to have a high degree of relevancy of knowledge and skills in order to be able to assist and contribute to the firm in a better way. The board diversity in respect to knowledge and experience of the directors is very important and as we see that six of the interviewers, three CEOs and three chairmen, said

that they wish to have a more diverse board. Only two interviewees, interestingly the CEO and the chairman of Firm C, said that they don't wish to change anything about their board now since they have a competent and diverse board. They are very satisfied with their board because they have competent people with different backgrounds who have enormous networks on their board. According to the CEO, it is one of the best boards that he has been working with. The board members of firm C are executive managers and CEOs in other firms and they also occupy places on some other firms' boards. This means that they are very competent and have good network.

When it comes to the main contribution of the board we find out that the main contribution of the board is perceived as support and advice followed by the network task of the boards. The control task of the boards is not perceived as to be very important since the CEOs and the management team do their job very well. Of course it is important but not as important as the other two tasks, support and advice together with network. On the other hand all of the firms are relatively small firms and there are lots of contacts between the CEOs and the boards which they don't feel that the control task is very important here.

A CEO needs support and advice from the board in order to strengthen his knowledge and he expects to get this help from the board. It is extremely important to discuss an important issue with the board and find a good solution for it. If a CEO is in doubt which decision to make, the board members are to help him in his decisions which can have a great impact on the firm's successfulness. A board is to provide direction and network to a firm. More contacts and open discussions between a board and a CEO support the CEO to make a good decision on an important issue. Board members who have a high degree of knowledge and solid experience from the industry can have a great impact on the firm performance and they can be a great assistance to the CEOs as a good co-worker. The board members with good network are advantageous for the CEOs since they provide lots of good information on many different issues. Having a good network is very important because no firm can have enough resources to provide all the information it needs. Boards having large networks will provide necessary and strategic information easily and cheaply.

Overall, everybody wants to have people with high degree of knowledge and experience on their boards since the boards function as a decision making body on the important and strategic issues. The boards give direction to the firms and the boards are active in defining

strategy for the firms. The networks of the board members are very crucial since they can provide good information which are important for the firms in order to chose directions and form good strategies to be more successful.

The table below summarises the findings in respect to main characteristics of the firms, and hypothesis 4.

	Firm A	Firm B	Firm C	Firm D
Hypothesis 4	Supported	Supported	Supported	Supported

*Table 8: Summaries of findings related to hypothesis 4*

***To conclude this part of the analysis in respect to the predictions of hypothesis 4, I would like to say that:***

- ***Hypothesis 4 is supported***

## 6.0 CONCLUSION

A board's involvement in strategy is very important because a board is the supreme decision making body for a firm. A board is the unit which defines the strategy and makes strategic decisions for a firm. A firm having good strategy is more likely to be more successful.

Strategy provides the answer to the questions such as why some firms are successful and some others are not. The role of the board in firm strategy is crucial because a board can be held accountable for firm performance. But the question is how a board can effectively be involved in firm strategy.

A board can effectively be involved in strategy formulation by having knowledgeable, skilful and experienced members. The knowledge, skills and experience of the board members should be relevant to the firm and the industry that the firm is in. Knowledgeable, skilful and experienced board members can contribute to the firm's successfulness by creating and developing good business ideas, improving the suggestions which come from the management and providing strategic information for decision making. Board members must have a good knowledge of the firm and its activities in order to be effectively involved in its strategy. Board diversity is important because diverse boards will come up with different perspectives, healthy debates and important information for decision making. Frequency and the length of the board meetings are important because frequent and long board meetings will give more room for fewer cases and deeply discussion on the cases to decide on each time. But the question of how frequent and how long should the board meetings be mainly depends on the availability and time of the board members. Based on the findings, I would like to suggest that six board meetings a year and 4 to 6 hours of length is good enough to be deeply involved and dedicate time for strategic issues.

Furthermore, based on the research findings I would like to say that managerial hegemony theory which suggests that the strategy is the province of the management and not the board is not supported by this research. The boards are involved and they are the bodies that actually define and form the strategy for the firms. Of course they will cooperate with the management team but the boards have control over the management and not vice versa. The agency theory can be modified the way that the information asymmetry will be reduced as the boards get more involved in strategy. The involvement of the board members in strategy will reduce the

information asymmetry between the boards and the management teams. The stewardship theory and the resource dependence theories are fully supported by this study. To summarise the net effect of the theories above, I would like to say that the active school of thought is supported while the passive school of thought is not supported by this research.

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## 8.0 APPENDIX

### 8.1 INTERVIEW QUESTIONS

1. Do you have a formal business strategy?
2. How is the process of decision making on the strategic issues?
3. Who takes the initiatives of bringing up the issues and draft strategies for the issues?
4. How long does the board use to form and approve the business strategy for the firm?
5. How often do you revise your business strategy?
6. How does the board access information prior to board meetings?
7. How does the board monitor the firm performance against the business plan?
8. How does the board formally evaluate the CEO performance?
9. Do the CEO and top management meet with board members other than board meetings?
10. How often do the board meetings take place?
11. How long does each meeting last?
12. In what way are the board members knowledge and skills relevant to the firm?
13. If you are to change anything about the board what will you change in order to make the board more efficient?
  - a. Board size
  - b. Proportion of board representing owners
  - c. Frequency of the board meetings
  - d. Board diversity
  - e. Anything else
14. In your mind, what is the board's main contribution?
  - a. Control
  - b. Support and advice
  - c. Network

## 8.2 ACCOUNTING FIGURES OF COMPANIES

### Nordrill As

<b>Resultatregnskap</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Sum driftsinntekter	1.946	604	611
Driftsresultat	-998	-193	-160
Resultat før skatt	-1.001	-193	-164
Årsresultat	-1.001	-193	-164

<b>Balanseregnskap</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Eiendeler			
Sum anleggsmidler	39	15	19
Sum omløpsmidler	1.761	44	163
Sum eiendeler	1.800	59	182
Egenkapital og gjeld			
Sum egenkapital	42	-257	-64
Kortsiktig gjeld	1.758	315	246
Langsiktig gjeld	0	0	0
Sum gjeld	1.758	315	246
Sum egenkapital og gjeld	1.800	58	182

- Alle tall i hele 1000 kroner.

<b>Lederlønn</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Lederlønn	356 000	90 000	140 000

\* Regnskapet viser kun hovedtall, og er levert av Lindorff Decision.

## V-Tech AS

<b>Resultatregnskap</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Sum driftsinntekter	1.162	0	
Driftsresultat	-7.157	0	
Resultat før skatt	-10.478	0	
Årsresultat	-7.327	0	

<b>Balanseregnskap</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Eiendeler			
Sum anleggsmidler	14.138	5.935	
Sum omløpsmidler	13.799	286	
Sum eiendeler	27.937	6.221	
Egenkapital og gjeld			
Sum egenkapital	-4.916	6.084	
Kortsiktig gjeld	3.978	137	
Langsiktig gjeld	28.875	0	
Sum gjeld	32.853	137	
Sum egenkapital og gjeld	27.937	6.221	

- Alle tall i hele 1000 kroner.

<b>Lederlønn</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Lederlønn	403 000	0	

\* Regnskapet viser kun hovedtall, og er levert av Lindorff Decision.

## **Noroff As**

<b>Resultatregnskap</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Sum driftsinntekter	58.290	60.810	68.468
Driftsresultat	- 665	3.015	1.763
Resultat før skatt	- 1.927	1.424	- 276
Årsresultat	- 1.927	1.475	- 239

\* Regnskapet viser kun hovedtall, og er levert av Lindorff Decision.