On Value and Value Creation
Perspectives from Research and Practice in SMEs
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Abstract and key words

While corporate governance research has been evolving over the last decade, it still has challenges to deal with. In this chapter we will discuss the contributions of the board of directors to value and value creation. This study reveals that, independent of the context of the board, there will be various definitions and perceptions about value and consequently on value creation in firms. In addition to a literature review of recent research on the governance of SMEs with a focus on value and value creation, results from interviews with board directors on SME boards are presented and reveal what directors perceive to be value and what they aim to do to create value. While research supports the practitioners' perspective on value and value creation, there seems to be a disproportionate focus on financial performance and the structural aspects of boards in corporate governance research, which is not supported by the practitioners' perspective.

Key words: Corporate Governance, Board of Directors, SME, Value, Value Creation

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Introduction

Historically, the aim of firms and economic activity has been widely defined as a system to create value and wealth (Coase, 1937; Fama and Jensen, 1983; Huse, 2007; Jensen and Meckling, 1976; Lazonick, 2007; Smith, 1776; Windsor, 2017; Zattoni, 2007).

However, to succeed firms need rules, plans, activities, relations etc. in order to put their value-creation capacity into action. At its core, this is what corporate governance is about: the way power is exercised over corporate entities. This covers the activities of the board of directors, as well as its relationship with shareholders, members of the management team, auditors, regulators and other legitimate stakeholders (Tricker, 2015). The corporate governance setting includes multiple actors; however the most common focus is on shareholders, the board of directors and the management team, with the board of directors being accountable for the firm's overall conduct and development. Nevertheless, there are calls to include a broader set of stakeholders in the discussion of corporate governance, clear tendencies towards it, and a need for it (Clarke, 2017).

Further, corporate governance research has been arguing that boards of directors are to be responsible for firms' value creation (Huse, 2007, 2009; Yar Hamidi, 2018) as well as value protection (Fama and Jensen, 1983; Jensen and Meckling, 1976) and value distribution (Blair, 1998; Donaldson and Preston, 1995) while supporting firms' long-term development (Cadbury, 1992).

The definition of corporate governance is an important pillar in any kind of discussion about the tasks and responsibilities of the board of directors. There are quite a few definitions for the term ‘corporate governance’, although it is new terminology, not widely used until as late as the 1980s.¹ In order to define the board of directors’ possible views and conduct regarding value and value creation in firms, in this introduction we will have a brief discussion of the different perspectives in the definition of corporate governance.

Different definitions of corporate governance are aligned with or are a result of different perspectives and views on governance. I would like to briefly present a few different perspectives here. One common and widely used view on corporate governance is the operational perspective, such as that presented by Sir Adrian Cadbury, who defined corporate governance as ‘the system by which companies are directed and controlled’, while the board of directors are those responsible for the governance of their companies (Cadbury, 1992).

Adding a relationship perspective, the OECD extends the operational perspective to include the relationships among various actors by adopting the definition from the European Central Bank: ‘the corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisations – such as the board, managers, shareholders, and other stakeholders – and lays down the rules and procedures for decision-making’. (ECB, 2004). This definition also includes ‘other stakeholders’, which extends the definition to also represent a stakeholder view. Other perspectives include a financial economic perspective, presented by descriptions such as ‘corporate governance deals with the way supplier of finance assure themselves of getting a return on their investment’ (Shleifer and Vishny, 1997).

Recently, an increasing body of research, as well as policymakers, has been building a viewpoint that places the enterprise as an entity in society (Blair, 1995, 1998; IoDSA, 2009). The concept of ‘corporate citizenship’, as presented by the King III report by the Institute of Directors in South Africa, 2009, refers to corporations taking responsibility for their actions and being a part of society, going behind and above a focus on shareholder value. In his speech addressing the Global Corporate Governance Forum of the World Bank in 2000, Sir Adrian Cadbury presented such a viewpoint when he said:

Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

The five different perspectives on corporate governance briefly introduced above trigger different value-creation perspectives by the board of directors. Depending on which view a board of directors or its individual directors adhere to, the notion of value and value creation can vary drastically. The directors’ view will form how a board discharges its duties in different directions regarding value creation.

This chapter aims to elaborate on different perspectives on value and value creation and to discuss how understanding of value might affect the work and conduct of boards of directors and set firm governance in different directions. The rest of the chapter is organized as follows. The following two sections will discuss a few relevant theoretical perspectives on value and value creation. The subsequent section elaborates on the two main theories of corporate governance: the shareholder and stakeholder perspectives. Following the theoretical discussions, a literature review focusing on value and value creation in the scholarly literature on corporate governance will be presented. This will be followed by a section which will give voice to a clear practitioner and international perspective from the UK, Sweden and Denmark about the notion of value and ideas on value creation among directors in small and medium-sized enterprises (SMEs). A discussion will follow and the chapter will end with reflections and conclusions on new outlooks on boards and value creation. This work will thus contribute to research on corporate governance by adding insights on value and value creation by boards of directors as well as the practical development of governance in SMEs while offering insights into the practice of governance in firms in general and the work of board of directors in SMEs in particular.

How to define value

There is something delicate in the notion of value that makes it amoeba-like; it could take on many shapes and meanings and keep changing depending on whom you engage with in a discussion about value. This is due to value being a multifaceted and essential phenomenon of life: as Evert Gummesson (2006, p. 342) put it, ‘the essential phenomena of life are fuzzy and overlapping by nature and therefore cannot be given a clear cut definition’.

There are quite a few diverging perspectives on value and value creation (Windsor, 2017). Value is not defined in a comprehensive manner in theory in general (Smith, 1776; Windsor, 2017) or in theories of corporate governance in particular.

Adam Smith (1776) developed an interesting discussion about value and its definition in his seminal book *The Wealth of Nations*. His work has subsequently developed to be the most prevalent understanding of value in economic activities and the market economy. As Smith put it, ‘The word VALUE, it is to be observed has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys’ (Smith, 1776).

In his elaboration on value, Smith presents the water and diamond paradox² and underlines the importance of the distinction between, on the one side, value in exchange and, on the other side, value in use. Subsequently, Smith’s *The Wealth of Nations* has grounded the notion of value in exchange to be the prevalent definition of value in economics over the last centuries (Lusch et al., 2006; Vargo and Lusch, 2004a). This prevalence of value in exchange in economics has also defined and affected the interpretation of corporate governance as well as the management of economic activities and resources.

In conjunction with this discussion on value and its denotation in monetary terms (value in exchange) on the one hand and value in use on the other, we also need to consider the

fundamental question of ‘value for whom?’. Two major theoretical perspectives on this matter are the shareholder and stakeholder theories (Windsor, 2017). These perspectives have been challenged lately in line with the development of new logics of the market due to technological development, as well as globalization and new practices of competition (Gummesson and Mele, 2010; Vargo et al., 2008). The changes are driven among others by new business models and a move towards open innovations (Chesbrough, 2007, 2017; Chesbrough, 2003), as well as globalization and emergent forms of business structure (Ingley and Van der Walt, 2001). We will return to these questions later in this chapter. Let’s start by delving into a few different views on value.

Value in exchange and value in use and context

Contentions about the nature of value and different meanings around its concept date back at least to Aristotle, who was first to elaborate on ‘use value’ and ‘exchange value’ (to be compared with value in use and value in exchange), a division that emerged through his efforts to distinguish between things and their attributes (Vargo et al., 2008).

Later, Adam Smith (1776) in his seminal work *The Wealth of Nations* made an interesting and insightful inquiry into the concept of value and discussed thoroughly two distinct and important perspectives on value: value in use and value in exchange. Smith’s heritage for the economics remained, however, a clear emphasis on value in exchange. His focus on nominal value and tangible exchange came to have critical implications for the development of economics and the general understanding of market exchange (Vargo and Lusch, 2004a; Vargo et al., 2008).

Subsequently, the term ‘value’ in neoclassical economics is explained as value in exchange, or price, of goods and services (Windsor, 2017). According to this logic, value is created when the price that consumers pay for goods or services is greater than the cost of its production. The economic value generated in a transaction, i.e. the sum of the consumer surplus and the producer surplus (Argandona, 2011), is also interpreted as the value created by the product or the service delivered.

This view of value in exchange has been the prevailing view of value in the firm context since Adam Smith introduced it almost 250 years ago (Vargo and Lusch, 2008a). However, this view has not been without competitors throughout the history of economics, and in some periods value in use has been prevalent. Medieval schoolmasters are recognized as having emphasized value in use in economic exchange and arguing that consumers’ need was the basis for economic exchange (Dixon, 1990).

Lately, marketing research has been advanced by introducing some novel perspectives. The concept of service-dominant logic (S-D logic) was suggested by Stephen L. Vargo and Robert Lusch in 2004. S-D logic specifically corresponds to the concept of value in use, in contrast to the goods-dominant logic (G-D logic), which matches closely the value in exchange perspective. This corresponds to Adam Smith’s definition of value in exchange, which is also the currently prevalent view of the market (Gummesson and Mele, 2010; Vargo and Lusch, 2004b, 2008a, 2013; Vargo et al., 2008). This new theoretical perspective, S-D logic,

fundamentally challenges the foundation of economics (Vargo and Lusch, 2004a). S-D logic as a perspective also restates Adam Smith's original notion of applied, specialized knowledge and skills, which in S-D logic defines the core of the definition of service,³ and proposes value in use as the essential and underlying basis of exchange (Vargo and Lusch, 2004a, 2008a, 2008b). Service is defined as the application of competences (knowledge and skills) by one party for the benefit of another (Vargo and Lusch, 2008a).

Giving importance and primary attention to value in use also adheres to the understanding that actors do not obtain value directly from the product itself but rather from its use, processing or consumption and by interacting with other entities interested or involved in the value-creation process (Katzan, 2008; Polese et al., 2017). Thus, at its core, this perspective argues that value in its essence is co-created by actors. This is however not merely about the interaction between producer and consumer, a dyadic relation, but includes interaction with many actors depending on the specific context of value creation (Akaka et al., 2014). This involvement of numerous actors (such as producer, supplier, customer and other possible and contributing partners) makes the process of value co-creation complex. Further complexity might be added by the notion that value is always uniquely and phenomenologically determined by the beneficiary (Vargo et al., 2008). This implies that what is perceived as value for one part might be of no value for the others; likewise, the extent of appreciation of the value for different actors might vary depending on their use and their skills and access to other resources in the process of value creation. These circumstances further emphasize and reinforce the notion of value in context as critical in the discussion about value and value creation.

Monetary measurement of value, hence, seems to hold difficulties in accurately reflecting value in its essence. Money cannot be considered a commensurable measure of value in exchange since, for money to measure a substance, the substance itself must be commensurable (Fleetwood, 1997). This, however, does not seem to be fulfilled regarding value, at least when departing from a logic of value in use as the core.

Back in 1995, Sheth and Parvatiyar (1995) noted a change in focus from value exchange to value creation by studying the evolution of marketing literature from a transactional to a relational approach. This means that value chain partners need to be involved in 'close, interactive relationships' (Sheth and Parvatiyar, 1995). These relations are part of the context where value in context is realized. Value in context has been analysed as value in a social context and in a context of networks with stakeholders that have a stake in value creation (Äyväri and Jyrämä, 2017). With this introduction to the difficulty in defining value we can now turn to review the beneficiaries of value in the firm context.

Shareholder vs. stakeholder value

With reference to the difficulty of defining value while discussing the co-creation of value as a complex and necessary process for the firm and its stakeholders, we also need to discuss aspects related to value other than its creation. This might include in different contexts value protection, value distribution and perhaps value destruction. Two major perspectives on

governance and the question of creation and distribution of value are shareholder theory and its primary contestant, stakeholder theory (Windsor, 2017).

The producer surplus theory states that ‘the creation of value is the core purpose and central process of economic exchange’ (Vargo et al., 2008), and suggests the market economy as the best operating context for firms. The foremost illustration of this shareholder perspective is agency theory and publicly traded companies (Jensen and Meckling, 1976). The basic idea here is that a firm should create and capture value for its shareholders; this is the only way to measure firm performance and ensuring value for shareholders is the primary responsibility of governing bodies (Jensen, 2002, 2010). Any effects on or relations with other stakeholders, such as government or communities, seems less certain from this perspective (Windsor, 2006) and is mostly considered to be instrumental (Blair, 1995). A firm operates by creating value for its primary stakeholders, including its shareholders, employees and customers. Value for secondary stakeholders is subject to additional definitions and each value-creation process should be defined by a contractual exchange aligned with the market economy and regulated by bilateral contracts (Windsor, 2006). While the firm may also assume an instrumentally inclined and strategic posture regarding the welfare of and value creation for other stakeholders due to its long-term performance (Husted et al., 2015), this will nevertheless be centred on logic for maximizing long-term gain for the shareholders.

On the other hand, the basic idea of value creation in stakeholder theory is the notion that firms can be understood as a set of value-creating relationships between groups (stakeholders) which have a stake in the activities that make up the business and its value creation. This is about how shareholders, customers, employees, suppliers, financiers, communities and managers interact to create value (Freeman, 2017). In order to understand the firm and make it successful, managers need to understand these relationships as the rationale for using the term ‘managing for stakeholders’ (Freeman, 2017). From this perspective, value creation dedicated to all stakeholders is embedded in the basic understanding and aim of the firm and there is no need for additional definitions of value for an extended group of stakeholders.

Although both of these perspectives focus on value creation, differences occur in response to the question of which stakeholders should receive value and are primarily entitled to it. Freeman and Reed illuminated the question of identifying stakeholders in their seminal article “Stockholders and Stakeholders: A New Perspective on Corporate Governance” (Freeman and Reed, 1983). They proposed two definitions of stakeholders:

- ‘The wide sense of stakeholders: Any identifiable group or individual who can affect achievement of an organization’s objectives or who is affected by the achievement of an organization’s objective.’
- ‘The narrow sense of stakeholders: Any identifiable group or individual on which the organization is dependent for its continued survival.’

Nevertheless, in a recent article Freeman evidently put forward the fact that stakeholders in a firm are interconnected and no stakeholder stands alone in the process of value creation (Freeman, 2017).

Additional perspectives have lately been added and discussed regarding value creation in firms. Porter and Kramer put forward a theory in which firms act to create shared value (Porter and Kramer, 2011). Creating shared value in their terms means that a firm creates economic value for owners while simultaneously creating social value for the community (Windsor, 2006). More conceptualization of value and value creation are to be expected and will be part of the development of economics as well as marketing and governance literature.

In the next section we will review research on corporate governance where value and value creation by boards is the focus of the research. In our approach we aim to identify research where author(s) specifically use value and value creation by boards as a dependent variable or pay specific attention to the subject by discussing value and value creation of boards of directors in SMEs.

Value and value creation in corporate governance research

To further the discussion about value and its meaning and theoretical underpinnings, we now turn to the research and literature on corporate governance in order to expand our understanding of what corporate governance scholars discuss when they research and write about value and value creation.

A literature review of corporate governance research with regard to value and value creation based on two electronic resources for academic and scholarly outlets is presented here. Through a thorough search in Proquest's ABI Inform Collection and Ebscohost's Business Source Premier, two of the most used sources of scholarly literature, we identified research on corporate governance where the author(s) specifically discuss value and value creation through the work of boards of director in SMEs.

The search started by defining search phrases relevant to our topic. The search was organized in 12 steps in order to stepwise narrow down to our area of interest; see Appendix 1. First, in three steps we looked for phrases 'SME*', 'small' and 'medium' in the abstract for all peer-reviewed scholarly articles in the databases in order to keep focus for our research on SMEs. Second, we searched for articles that included any of the terms 'board*', 'director*' and 'govern*'⁴ in their abstracts in order to find articles that specifically discussed boards of directors' work and contribution to SMEs. In our search we applied one step for each phrase in this stage. Third, we looked for the word 'value*' in the abstract and for 'Board*' of directors' and 'value creat*' anywhere (full text) in the article.

The search strategy included all scholarly peer-reviewed articles published between 1998 and 2018 that met the criteria mentioned above. All identified articles were imported into EndNote to be processed further. Our search resulted in eight articles in Ebscohost's Business Source Premier and 43 articles in Proquest's ABI Inform Collection. Two articles were identified as repeated and identical and were excluded, and then the search results were imported and structured in EndNote. A total of 49 articles were thus included in the sample for the study at this stage.

Next, we carefully read all the abstracts for these 49 articles in order to exclude articles that matched the search criteria but might have been giving lip service to our search phrases without actually investigating these or diverted from the focus for our research in other ways. This control step resulted in excluding another 22 articles as not relevant for our purpose. All other 27 articles were screened closely in full text, looking for discussions on value and value creation. In this phase of the review we searched for studies where any kind of value and possible value drivers were discussed with regard to the work of boards of directors either in an empirical setting, a discussion paper, or a conceptual paper. In this process we excluded another three papers and arrived at the final sample for our study, which included 24 scholarly peer-reviewed articles published between 1998 and 2018 discussing value and value creation by boards of directors, predominantly in SMEs. However, the earliest article included in the final sample is from 2008, indicating an introduction of a new vocabulary and perhaps a new mindset regarding boards' work and contributions in firms.

The articles were published in 15 different journals, with ten of the articles in Emerald Insight's *Corporate Governance: The International Journal of Business in Society*. All 14 other journals were represented by one article each in the final sample. The complete list of journals is presented in Table 1.

Table 1: List of journals

	Journal name	No. of articles
1	<i>Academy of Strategic Management Journal</i>	1
2	<i>Corporate Governance</i>	10
3	<i>Entrepreneurship & Regional Development</i>	1
4	<i>International Journal of Management</i>	1
5	<i>International Journal of Managerial Finance</i>	1
6	<i>Journal of Asset Management</i>	1
7	<i>Journal of Economics & Finance</i>	1
8	<i>Journal of Management & Governance</i>	1
9	<i>Journal of Small Business and Enterprise Development</i>	1
10	<i>Journal of Small Business Management</i>	1
11	<i>Leadership & Organization Development Journal</i>	1
12	<i>Management Decision</i>	1
13	<i>Managerial Finance</i>	1
14	<i>Symphonya – Emerging Issues in Management</i>	1
15	<i>Team Performance Management</i>	1
	Total number of articles in the final sample	24

As expected, there are different perspectives on value and value creation presented in the articles included in this sample. As many as 11 articles in the sample (46 per cent) focus on monetary value (value in exchange) by focusing on the financial performance of the firm, using proxies such as ROI and ROA (Clark and Urwin, 2008; Crow and Lockhart, 2016; Darmadi, 2013; Di Pietra et al., 2008; Koufopoulos et al., 2008; Liu and Michelle, 2010;

Maseda et al., 2015; O'Connor and Byrne, 2015; Smythe et al., 2015; Vera Ogeh, 2013). The other 13 articles, however, discuss value in other terms including social value (Meyskens et al., 2010), corporate citizenship (Morgan et al., 2009), task performance (Karoui et al., 2017), implementation of ethical codes (Garegnani et al., 2015), innovation and strategic change (Napoli, 2012), as well as transparency and information disclosure (Torchia and Calabro, 2016).

Generally, the more recent articles in the sample seem to be more interested in aspects of value creation other than merely financial performance as a measure for value creation by the board of directors. Articles with a non-financial focus on value are on average about 1.5 years more recent than those with strict focus on financial performance as a measure for value creation. Considering that the sample articles dates from 2008 to 2018, this indicates an overall 15 per cent difference; thus, the tendency is that the later articles and research seem to be more interested in aspects of value other than value in exchange in their examinations of boards of directors. A summary of the results is presented in Table 2.

Interestingly, a clear majority, 63 per cent, of the articles put their trust in the structural aspects of the board and the firm's governance structure in order to explain whichever value they focus on as a result of the board's contributions. These structural aspects have been discussed as 'the usual suspects' (Finkelstein and Mooney, 2003) of corporate governance research and have delivered inconclusive results, especially with regard to firm performance (Dalton and Dalton, 2005; Dalton et al., 1998; Finkelstein and Mooney, 2003; Huse, 2007).

Further, it seems like the enduring trend of using archival data in corporate governance also holds for this sample, with 16 articles (67 per cent) using archival data in their studies and 18 articles (75 per cent) applying quantitative research methods in their analysis. However, this should be compared to a literature review by Yar Hamidi and Gabrielsson (2014) that presented results from a review of 249 research articles on board leadership, where 96.2 per cent of the articles were using quantitative methods mostly based on archival data. Thus, although the sample for this study is limited, we might be observing a change of trend in corporate governance research towards more qualitative methods and the use of first-hand data. This change has been called for by scholars asking for aspects of governance to be examined other than the structural aspects of boards based on proxies extracted from archival data (Dalton and Dalton, 2005; Dalton et al., 1998; Forbes and Milliken, 1999; Gabrielsson, 2003, 2016; Huse, 2000, 2005; Yar Hamidi and Gabrielsson, 2014).

The studies conducted as a basis for the articles in our sample are embedded in different contexts with data gathered in different countries. In order to scrutinize the sample from a contextual perspective, as is the focus of this book, there are no obvious differences in our sample regarding the focus of the studies, data collection or the methodologies used by the authors. In Table 3, a number of factors observed in the sample are presented in relation to the context for the data used in the studies.

Table 2: Summary of the results

	Author(s)	Value (Dependent variable)	Value Driver (independent variable)	Journal	Paper Sort	Data	Methodology
1	(Clark and Urwin, 2008)	Financial performance (long-term risk-adjusted rate of return)	Good governance (organisational coherence, people, processes)	Journal of Asset Management	Conceptual	Case studies (Mixed cases America, Europe, Asia)	Qualitative Case Study
2	(Crow and Lockhart, 2016)	Financial performance (revenue and EBIT as proxies for company performance);	Strategy development, decision making and monitoring	Leadership & Organization Development Journal	Empirical	Multiple Case study (Australia)	Qualitative, Longitudinal
3	(Darmadi, 2013)	Financial performance (measured by return on assets (ROA) and Tobin's q.	Gender Diversity, proxied by the proportion of women	Corporate Governance	Empirical	Archival (Indonesia)	Quantitative
4	(Deschênes et al., 2014)	Financial performance (Share value (upside) CEO pay (cost, downside))	Director/Board Characteristics	Academy of Strategic Management Journal	Empirical	Archival (Canada)	Quantitative
5	(Deschênes et al., 2015)	Corporate social responsibility	Board characteristics (gender quote, independence, ownership, tenure)	Corporate Governance	Empirical	Archival (Canada)	Quantitative
6	(Di Pietra et al., 2008)	Financial performance (Market value of firm)	Structure and Task (network)	Journal of Management & Governance	Empirical	Archival (Italy)	Quantitative, panel data
7	(Elgharbawy and Abdel-Kader, 2016)	Corporate Entrepreneurship	Task Performance (Compliance with the CG principles)	Corporate Governance	Empirical	Archival (UK)	Quantitative
8	(Estêvão Teixeira et al., 2014)	Access to external equity	Good Governance (through VC and/or PE competence)	Corporate Governance	Empirical	Survey data (Brazil)	Quantitative
9	(Garegnani et al., 2015)	Implementation of high quality ethical codes	Ownership structure, board size, director independence, CEO age etc.	Corporate Governance	Empirical	Archival (Italy)	Quantitative
10	(Karoui et al., 2017)	Board task performance	Board configuration	Journal of Small Business and Enterprise Development	Empirical	Survey data (France)	Quantitative
11	(Koufopoulos et al., 2008)	Financial performance (ROA, after-tax-return on sales, total sales growth)	Chairman characteristics and board composition	Team Performance Management	Empirical	Survey data (Greece)	Quantitative
12	(Kun-Huang and Tiffany Hui-Kuang, 2011)	Tangible and intangible value for members as well as society	Process innovation via Funding, stakeholders and legitimacy	Management Decision	Empirical	Case study (Taiwan)	Qualitative/quantitative
13	(Liu and Michelle, 2010)	Financial performance (measured by return on assets)	Board characteristics (The usual suspects)	Corporate Governance	Empirical	Archival (China)	Quantitative
14	(Maseda et al., 2015)	Financial performance (ROA)	Insider/outsider quota	Journal of Small Business Management	Empirical	Archival and survey data (Spain)	Quantitative
15	(Meyskens et al., 2010)	Social value	Collaboration and resource sharing	Entrepreneurship & Regional Development	Conceptual/empirical	Case study (US)	Qualitative
16	(Morgan et al., 2009)	Corporate citizenship	Board and management engagement	Corporate Governance	Empirical	Survey data (US)	Qualitative
17	(Napoli, 2012)	Innovation, Strategic change	External directors (Independence, competence)	International Journal of Management	Empirical	Archival, interviews (Italy)	Quantitative
18	(Neville, 2011)	Competence gain and good governance	External directors (Independence, competence)	Corporate Governance	Empirical	Archival, interviews (Denmark)	Mix
19	(O'Connor and Byrne, 2015)	Financial performance (Share/firm value)	Monitoring by the board (task)	Managerial Finance	Empirical	Archival (International, 25 countries)	Quantitative
20	(Reddy and Locke, 2014)	Agency cost (value destruction)	Independent directors, board experience	International Journal of Managerial Finance	Empirical	Archival (New Zealand)	Quantitative
21	(Salvioni and Gennari, 2017)	Long term value creation	CSR and integrated Reporting (task)	Symphonya Emerging Issues in Management	Theoretical/Discussion	None	Theoretical
22	(Smythe et al., 2015)	Financial performance (ROA)	Board and ownership structure	Journal of Economics & Finance	Empirical	Archival (US)	Quantitative
23	(Torchia and Calabro, 2016)	Transparency and disclosure	Board characteristics	Corporate Governance	Empirical	Archival (Italy)	Quantitative
24	(Vera Ogeh, 2013)	Financial performance (Share value)	Board characteristics (size, independence etc.)	Corporate Governance	Empirical	Archival (Ghana)	Quantitative

The contexts for the sample articles are defined as Anglo-Saxon, European and international contexts. The Anglo-Saxon context includes articles using data from the US, the UK, Canada, Australia and New Zealand. The European context indicates data gathered in all European countries except the UK, which is included in the Anglo-Saxon context. Finally, the international context includes articles using mixed data from several countries as well as all other countries. This includes studies using data from Brazil, China, Taiwan, Indonesia, Ghana and a couple of studies with mixed data from several countries in the sample.

Table 3: Context for the sample studies

Context	No. of articles	Using archival data	Focusing on value in exchange	Focusing on structural aspects of BoDs	Using quantitative methods
Anglo-Saxon	7	5	3	4	5
European	8	6	3	8	7
International	8	5	5	3	6

As seen in Table 3, there seems to be a similar mix of methodologies, focus and use of archival data among the different contexts as defined here and no clear differences can be observed. Nonetheless, the results indicate that researchers in corporate governance are approaching value and value creation in a generally similar manner and independent of the context their research is embedded in.

In the next section we turn to practitioners to get insights about how directors in SMEs perceive value and value creation in their day-to-day work while acting as external directors on SME boards.

Empirical insights into value and value creation in firms

Departing from the theoretical perspectives on value and value creation discussed above, this study will integrate the voices and views of practitioner directors into our discussion of value and value creation by boards of directors. By conducting interviews with active board directors in SMEs we introduce some currently absent voices in the discussions on board work and value creation. An international perspective is added to the study by collecting data from countries with different contexts, including diverse governance traditions and legal structures. This unique empirical study will contribute to the research on international corporate governance as well as our understanding of how value is perceived by boards and their directors in SMEs' everyday governance.

While board meetings and directors remain inaccessible research settings (Huse, 2000; McNulty and Pettigrew, 1999), most research on boards relies on data from various archival data sources and published reports and is mostly based on data from publicly held companies (Yar Hamidi and Gabrielsson, 2014). Hence, a call for more qualitative research on boards has been raised in extant research (Huse, 2000; Yar Hamidi and Gabrielsson, 2014). As an alternative data collection methodology for this research, qualitative interviews with experienced board directors have been conducted. This approach is expected to be useful for building theories in new or emerging areas (Rubin and Rubin, 2012; Silverman, 2015), where development is needed at both the theoretical and empirical levels (Eisenhardt, 1989; Yin, 2013).

Data were collected by interviewing eight directors of SMEs in three countries with different company legislations and governance structures. A preliminary interview questionnaire was

initially designed to be used in interviews with the directors. The questionnaire consisted of questions about the work and conduct of the board of directors with regard to value creation in firms and the directors' perceptions of value in the firm context. The preliminary questionnaire was tested in a pilot interview with an experienced board director. Based on feedback and discussions from this pilot, the interview questionnaire was revised and finalized to be used in further interviews.

A purposeful sampling method (Patton, 2014) was used to identify respondents who could provide relevant data for this research. This procedure is appropriate for the acquired qualitative interview methodology and the goal of generalizing the findings in this study (Yin, 2013). Three criteria for the selection of the sample were defined. First, each director should have a history of directorship and serve in board position(s) as an external director. Second, each director should have extensive managerial and board experience. Third, each director should be a non-executive director for at least one firm classified as a small and medium enterprise.

The respondents were identified and contacted in networks of firms in the United Kingdom, Denmark and Sweden. These countries have diverse governance traditions and legal structures and differ in their governance code in some critical aspects. For example, focus on shareholder rights is somewhat different in the legislation and Company Acts, as well as in the corporate governance codes, in these countries.

Eight interviews were conducted in order to give an overall understanding of different possible perspectives regarding value and value creation among directors in SMEs. Table 4 describes the respondents/directors in this study.

Prior to the interviews, every respondent was furnished with a description of the project in advance as well as a consent form. The documents stated how the data will be used and the course of data management processes in the project, such as data storage, data structuring and confidentiality. A letter and this documentation were sent to the respondents before the date of the interview. If there were any questions or inquiries about the consent it was dealt with before the interview and the signed consent form was collected before opening the interview. Interviews took place at a place that was convenient for the respondent and with regard to the means and resources available. This included university premises, the respondent's office, or the internet by means of available communication tools such as Skype or phone.

The same interview questions and structure was used for all interviews. Since no formal hypotheses were to be proven, open-ended questions were used that could lead to inductive theories (Eisenhardt, 1989). Questions were flexible yet sufficiently structured to capture the present and past work experiences of the directors and create a comprehensive understanding of their ideas about value and value creation in firms without restraining their approach to the questions.

Table 4: Director/respondent list

UK	1951 (67)	Honorary doctorate, company direction	SME and charity
UK	1969 (49)	Master of Communication	SME, charity, banking
UK	1961 (57)	MBA	SME
Denmark	1965 (53)	Master of Public Administration	SME, large, public, edu
Denmark	1959 (59)	MBA	SME, large, public
Sweden	1941 (77)	Engineering	SME, large, charity
Sweden	1954 (64)	Master of Economics & Marketing	SME, start-up, charity
Sweden	1960 (58)	Engineering	SME, large, listed

The interviews lasted between 30 and 70 minutes and notes were taken during the interviews. The interviews were tape-recorded.

Data analysis and results

The interviews were conducted to gather data on directors' perceptions and understanding of value and value creation in the firm context. The data analysis aimed to identify and categorize generic classes of value and value-creation activities presented by the respondent directors.

The interview data were analysed using a systematic process of theory building (Eisenhardt, 1989; Yin, 2013). Observations and patterns that could lead to general conclusions were identified and noted. The data analysis began in a sense at the same time that the data collection started. This analytical method is a recommended strategy in qualitative research (Glaser and Strauss, 1965). Therefore, the first interview was analysed with the intent of identifying the building blocks of a framework that explains how the directors perceive value and value creation in their conduct as board directors. Simultaneously, inquiries into how this initial framework might relate to existing theory were made and followed up in the scholarly literature. As all interview data were analysed, within-case analyses and cross-case analyses were conducted. The goal for this approach was to determine if the framework presented by the respondents applied to areas of interest for only one or for multiple respondents (Miles and Huberman, 1994). In short, responses from the respondents were analysed individually as well as jointly with the other responses. This iterative process continued until all interviews were analysed and compared. The results presented in this chapter are focused on the perception of value and the categorization of value as the directors in this study interpreted it, as well as presenting the value-creating activities they proposed to achieve value in firms.

Not surprisingly, our respondents in this study seemed to have diverse notions of value in firms as a concept. Although this is to be expected, some similarities were identified across directors, firms and nations. From the interviews with the directors we infer that all directors agreed that the notion of value is different for different stakeholders and actors as also suggested by scholars (Gummesson, 2006). One of the respondents, Harvey,⁵ initiated his answer to the question ‘what is your understanding of value in the firm context?’ by raising a question of his own: ‘Value for whom? Maybe we should start with defining value for different stakeholders. You know, they all will have different definitions of it [value] anyway!’, which clearly emphasizes how Harvey interprets the individual aspects of different stakeholders’ perceptions about value. This viewpoint was the general interpretation among the respondents and not an exception in one case.

Bob, another director in the study, shared an interesting example where an expected course of the value-creation process in a firm turned out to be a rather unacceptable path of action for this specific firm. A non-executive director for a firm owned by a municipality running the harbour of the city, he said,

Look, it is not that easy to beforehand define the value. If we [the BoD of the firm] could buy a robot that would do the job of eighty of our workers at the harbour it would be saving us tremendous cost of salary. That might sound like a great idea considering the investments and in financial terms. However, for the owners of the company it might be a very poor deal resulting in having 80 people out of work with all costs it would incur for the county and the bad-will it would create for the firm. You need to put this in context to understand.

This notion is a declaration of the essence of value in context, which is an important part of the board’s contributions to the firm (Akaka and Vargo, 2015).

Chiara, a female director with long experience of directorship gave a rather philosophical perspective on value: ‘You need to consider value on different level. Value on personal level or value at board level as a team, and firm level might be different things.’ She continued in her deliberations:

I think people, firms, and organizations find value in the actual conduct of creating ‘something’. It’s the will and the desire for creation of ‘something’ within the individuals that drives value creation. That ‘something’ might be financial, technical, brands, societal etc. this is a part of the human race to pursue achievements.

While the empirical material clearly reveals the multifaceted interpretation of value among the directors, there are a few general categories of value that emerged while the interviews were taking place and through the analysis. Table 5 gives an account of the value categories suggested by the analysis of the empirical material in this study.

An important and often-discussed perspective on value in the firm context is the monetary value (financial performance) created and distributed by the firm as part of the overall

accountability of the board towards the shareholders of the company (Fama and Jensen, 1983).

Table 5: Value outputs by the board

Value-creating	Share value	Product	Succession	Deciding risk appetite	Employees	Job creation
	Growth	Services	Transparency and accountability	Achieving goals	Customers	Higher aims
	Dividend	Alliances	Vision and mission	Future proofing	Local society	Environment

The creation of monetary value was also pointed out by the directors in this study as a prerequisite for the survival of the firm and necessary to trigger shareholders' motivation towards investment. The value of the monetary nature mentioned by the directors was, among others, share value, growth of the firm, and dividend. However, the strategy to reach these monetary values could bear elements of perspectives of value and value creation other than the strict monetary ones, as will emerge in the following.

Donald, for example, very briefly presented the real value in firm context as trust: 'Value in its core is about creating trust and respect for the firm!' While this might be thought of as a holistic view of the sustainable firm, Donald clearly defined and implemented trust at an operative level by relating it to customer trust, owner trust, trust for the product quality and trust in relation to stakeholders, all of which in turn are expected to bring in monetary value by their contribution to developing growth, share value and higher dividend.

Innovation is another area where the board might play a critical role and it was anticipated as value creation in the firm context by our directors. This is touched upon as new and innovative products and services that meet a real need but also include strategic relations and alliances with strategic partners and competencies. Phil talked about 'focus on introducing new products that satisfy a need' and Chiara underlined the 'creating value together' that relate to an understanding of value being created in collaboration in value co-creation processes in value networks and among alliances (Payne et al., 2008; Polese et al., 2017).

Boards are also expected to create value by exerting leadership on the organization. An example of what leadership by board could offer as value is described by the directors as succession planning and ideas about talent management as well as clarity of vision and mission statements. Phil described value creation through leadership by the board as: 'Leadership is about setting the goals and about making sure that everybody knows what their role is within the business and each person feels that they are valued and they have an important part to play'.

Another area of interest and a potential for the board to create value is strategy development. Our directors seem to interpret strategy making as being about deciding the company's appetite for risk, as well as planning how to achieve its goals. The directors also discussed strategizing as 'future proofing' the company by implementing diverse perspectives in their decision-making. As Clair suggested, 'The board should bring customers to the board to keep itself updated about the market. Also, researcher and business intelligence experts should be consulted in order to create insights about the future among board members.'

The most certain result from the analysis is, however, a broad consensus about the importance of considering all stakeholders to be important to the firm in board business. All our directors brought up this issue during the interviews in different but explicit ways. Harvey pointed out that in order to succeed with the development of a firm you need to 'move from a strict shareholder perspective to include all stakeholders'. And Bob put it in another way: 'in order to develop the firm you will need to develop all parties, the management, the owners etc.'.

Tor, one of our directors, emphasized the many ways of value creation and posited the difficulties of measuring value created in the same way for everyone. He raised the salience of stakeholders and especially society and connected this idea to a true sustainable business model.

Tor evoked the question 'Value should be measurable, but how do you measure an experience that really develop and/or change people?'. When he was asked how boards of directors should work with value creation of this kind, he replied: 'By defining goals for firms that are considering a bigger aim for them than sheer monetary gain or goals. And they should act on questions and activities that nurture these goals.'

Value is also expected to be created for the society surrounding the firm. Tor proclaimed, 'I would never waste my time on helping a company that defines its aim by the terms of monetary achievements only'. Other directors as well give clear indications that in order to create a long-term and sustainable business a firm needs to consider and create value for society. Clair described the firm's relation to society as crucial and 'If a firm can't create value for society it won't be able to create value in the long run anyway'.

While discussing their perceptions of value, the directors were also asked what board activities would address the values they suggested should be created by the board of directors. Specific suggestions in this regard from the directors were identified and categorized in the analysis of the data. These board activities are summarized in Table 6.

The data offer activities suggested by the directors in this study, which can be codified and categorized with regard to the areas of value creation identified by the directors. Interestingly, when the respondents were asked about boards' value-creating activities, monitoring was not mentioned at all, even when focusing on the monetary values for the firm or its shareholders/stakeholders. On the other hand, one of the paths to better economic value creation was suggested to be trust building among stakeholders including customers, shareholders, employees and financiers. Furthermore, strategy development was suggested as part of the long-term safeguarding of monetary value creation in the firms.

Table 6: Value-creating activities by the board of directors

Value	BoD value-creation activity
Monetary	Developing sound strategies, Building trust among all stakeholders (customers, financiers, employees, etc.)
Innovation	Focus on contributing to other actors' value-creation processes by meeting their needs and establishing new and fruitful alliances
Leadership	Succession planning, accountability, clarity of vision and mission
Strategy	Thorough and informed risk appraisal and business intelligence
Stakeholders	Establishing and developing dialogue with key stakeholders
Society	Considering corporate citizenship, community commitment

In relation to innovation and the development of new products and services, the data inform us about the directors' belief that the firm's ability to contribute to another party's value-creation processes is part of value creation in the firm. In other words, by focusing on the needs of others, and using firms' knowledge and resources for the benefit of others (Vargo and Lusch, 2008a) the firm will create new combinations of resources, knowledge and abilities that create value.

Another way of creating value through board work, according to our respondents, is offering good leadership to the organization by working vigilantly with succession planning and recruitment to satisfy its needs for knowledge and competency gaps. Leadership is also about clearly formulating the vision and mission of the firm and being accountable for the leadership and development of the firm and its conduct.

While strategy development was described as an important value-creating process for the boards of directors and research in the area has proliferated (Pugliese et al., 2009), our directors put an emphasis on thorough and informed risk appraisal and adding knowledge, data and business intelligence to the process by the board as a significant part of strategizing in firms. Directors' knowledge and experience from other firms are seen as value-adding elements in the strategy development process (Yar Hamidi, 2018).

Furthermore, according to our data in this study, stakeholder management or establishing constructive dialogues with key stakeholders seems to be an important value-creation activity by boards. This is also part of the development of firms' relation to society and is sometimes referred to as corporate citizenship or corporate social responsibility. This goes behind and above the firms' value creation for all stakeholders and actualizes consideration about the long-term effects of firms' activity on their surrounding society and environment.

It is evident that practitioners as well as extant research have various definitions and understandings of value as well as value creation in firms. Some more philosophical

perspectives give a more ethical and thoughtful reflection; other, more pragmatic viewpoints make more of a clear connection to firms' business and wealth creation.

Although there are somewhat differing perspectives presented in the empirical evidence based on practitioners' understanding and views in this study, a vibrant respect for a more stakeholder-oriented perspective is clearly presented. Interestingly, this is the same for all three countries (contexts), despite the differences in their contextual settings. The Scandinavian approaches to governance as well as the corporate governance codes in Scandinavian countries are different from the British setting. However, the directors engaged in small and medium-sized enterprises in all three countries seemed to be convinced that the wealth of these firms as well as their shareholders is not detached from the wealth of other important stakeholders of the firms.

The respondent directors in this study seem to conform to a more stakeholder-inclined perspective (Blair and Stout, 1999; Freeman and Reed, 1983; Porter and Kramer, 2011) rather than a principal agent-and-shareholder-primacy stance (Fama and Jensen, 1983; Jensen, 2002, 2010; Jensen and Meckling, 1976). This, however, does not mean that our directors did not have the shareholders' money and rights in mind. It is just that these directors believed that the shareholders' investment would be best protected and achieved by keeping value-creation activities as a collaborative act together with other stakeholders. Further, a fair distribution of value to a broader group of stakeholders seems to be common ground for the directors. This in turn is about keeping all stakeholders satisfied and integrated in the value-creation processes for the long run.

Conclusions

This chapter aimed to elaborate on value and value creation in firms based on a theoretical and empirical examination of these terms in corporate governance setting. Theoretical and empirical evidence indicates that value is defined in numerous ways in this context and it is unlikely if not impossible to find one definition for value that fits all. This has practical consequences for firms' value creation by boards of directors when there are many diverging interpretations of value by firms, actors and individuals, and it puts pressure on research to find models and tools that can inform the practice.

This also has an impact on how value creation takes place and who might be involved in the process of value creation and entitled to receive the value created. A shift in mindset from value in exchange to value in use and context is motivated in order to get closer to the understanding that value cannot be measured exclusively by monetary measures. However, value in use as a concept has its own challenges and the question of measuring value is inevitably and closely connected to who might be the expected beneficiary of the value.

The literature review in this study reveals support for the aspects of value and value creation raised by the directors in our interview study.

While monetary value creation in firms, referred to in the literature as financial and/or firm performance, is underpinned by board characteristics in a number of articles in the review

(Darmadi, 2013; Deschênes et al., 2014; Deschênes et al., 2015; Garegnani et al., 2015; Liu and Michelle, 2010), our directors did not pay as much attention to the structural aspects of the board of directors. Interestingly, research has been delivering inconclusive results regarding the connection between the structural aspects of board – the usual suspects (Finkelstein and Mooney, 2003) – and firm performance (Dalton et al., 1998; Huse, 1998, 2005). On the other hand the directors' perspectives regarding how to create financial value find support in the literature regarding organizational coherence, people and processes (Clark and Urwin, 2008) and strategy development (Crow and Lockhart, 2016), as well as leadership (Koufopoulos et al., 2008).

We also find interest for other interpretations of value presented by the directors in our review. Value creation by engaging in innovation was raised by our respondents and is discussed extensively in research (Hill and Davis, 2017; O'Sullivan, 2000; Yar Hamidi, 2016), as well as in our review in this chapter, by focusing on corporate entrepreneurship and innovation (Elgharbawy and Abdel-Kader, 2016; Kun-Huang and Tiffany Hui-Kuang, 2011; Napoli, 2012).

Strategy development is often connected to innovation and has extensive support in the general research on corporate governance with regard to value creation (Machold et al., 2011; Pugliese et al., 2009; Stiles, 2001; Yar Hamidi and Gabrielson, 2018). We find support for this perspective too in our sample of articles in this study regarding value and value creation (Crow and Lockhart, 2016).

Our respondents also raised social value and stakeholder value as important aspects regarding long-term value creation in firms. This view seems to be gaining erstwhile support in the literature review by scholars focusing on social value (Meyskens et al., 2010), corporate citizenship (Morgan et al., 2009), transparency (Torchia and Calabro, 2016) and corporate social responsibility (Deschênes et al., 2015).

While all aspects represented by practitioners' voices in this study find support in the scholarly literature, there seems to be undue attention paid to the structural aspects of governance and boards of directors in research. From the interviews, the literature review and the discussion about value and value creation in the introduction, we conclude that research on corporate governance might need to pay more attention to alternative definitions of value and to apply multi-theoretical perspectives more often.

With regard to the creation of monetary value, our practitioners presented a need for the development of sound strategies and building trust among stakeholders, while the research seems to put its trust in the usual suspects, i.e. the structural aspects of the board of directors and the governance structure.

This research also has implications for the practice of directorship and board development, which requires acceptance of a more pluralistic definition of value while underlining the importance of a coherence view in each context about what value could be created in relation to the needs of beneficiaries. Thus, for the board of directors to engage in value-creation activities it is necessary to define value and decide on the beneficiaries beforehand. This also

needs to include a discussion with the shareholders and management in the context of small and medium-sized enterprises. Without a thorough examination of a common understanding of what kind of value is expected to be created, it seems to be impossible to create a common ground for the board's work.

Further research and a close dialogue between practice and research are needed in order to create a relevant theory of value and value creation that in the future can stand as a basis for the governance of firms. The rapid developments of new and innovative business models based on service systems and research on open innovation are examples of how value and value creation are being formed and affected by the development of new technology, as well as new theoretical insights about firms and value creation.

Notes

1. Corporation in this chapter is used interchangeably with company or firm and does not necessarily point out large public corporations.
2. While water is of great value in use, being necessary for life, its value in exchange is marginal. However, diamonds have great value in exchange, while their value in use for most of us is very much limited to their possible visual and aesthetic value.
3. Service is the application of competences (knowledge and skills) by one party for the benefit of another (Vargo and Lusch, 2008a).
4. The asterisk (*) at the end of the words enable the inclusion of search phrases with more than one ending in a Boolean search. For example, govern* could yield results for governing, governance, governor etc.
5. Respondents' names are all fictitious.

Appendix 1 – Search strategy and list of articles included in the final sample

Steps	Search phrase	In	Number of articles in EBSCOhost	Steps	Search phrase	In	Number of articles in ABI/Inform
1	SME*	Abstract	5116	1	SME*	Abstract	6280
2	small*	Abstract	85414	2	small*	Abstract	53315
3	medium*	Abstract	21614	3	medium*	Abstract	18276
4	1 OR 2 OR 3		103634	4	1 OR 2 OR 3		67662
(AB sme* OR AB small* OR AB medium*)				(ab(sme*) OR ab(small*) OR ab(medium*))			
5	Board*	Abstract	21371	5	Board*	Abstract	12466
6	Director*	Abstract	14572	6	Director*	Abstract	9413
7	Govern*	Abstract	99759	7	Govern*	Abstract	68072
8	5 OR 6 OR 7		123758	8	5 OR 6 OR 7		82785
(AB board* OR AB directors OR AB govern*)				(ab(Board*) OR ab(director*) OR ab(govern*))			
9	Value*	Abstract	146481	9	Value*	Abstract	153550
10	"Board* of directors"	Full text	23945	10	"Board* of directors"	Full text	24147
11	"Value creat*"	Full text	13775	11	"Value creat*"	Full text	23349
12	4 AND 8 AND 9 AND 10 AND 11		8	12	4 AND 8 AND 9 AND 10 AND 11		43

List of the articles included in the sample:

<ol style="list-style-type: none"> 1. (Clark and Urwin, 2008) 2. (Crow and Lockhart, 2016) 3. (Darmadi, 2013) 4. (Deschênes et al., 2014) 5. (Deschênes et al., 2015) 6. (Di Pietra et al., 2008) 7. (Elgharbawy and Abdel-Kader, 2016) 8. (Estêvão Teixeira et al., 2014) 9. (Garegnani et al., 2015) 10. (Karoui et al., 2017) 11. (Koufopoulos et al., 2008) 12. (Kun-Huang and Tiffany Hui-Kuang, 2011) 	<ol style="list-style-type: none"> 13. (Liu and Michelle, 2010) 14. (Maseda et al., 2015) 15. (Meyskens et al., 2010) 16. (Morgan et al., 2009) 17. (Napoli, 2012) 18. (Neville, 2011) 19. (O'Connor and Byrne, 2015) 20. (Reddy and Locke, 2014) 21. (Salvioni and Gennari, 2017) 22. (Smythe et al., 2015) 23. (Torchia and Calabro, 2016) 24. (Vera Ogeh, 2013)
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