Governance, Boards and Value Co-Creation
– Changing Perspectives towards a Service Dominant Logic

Daniel, Yar Hamidi¹  University of Wolverhampton, University of Borås
Daniel.yar@wlv.ac.uk

Silke, Machold  University of Wolverhampton, S.Machold@wlv.ac.uk

PII: S0263-2373(20)30080-3
DOI: https://doi.org/10.1016/j.emj.2020.06.001
To appear in: European Management Journal

Please cite this article as:

Acknowledgment: This research has received funding from the European Union’s Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No 748905.

Governance, Boards and Value Co-Creation
– Changing Perspectives towards a Service Dominant Logic

Abstract

In this multidisciplinary and conceptual paper, we use insights from new and challenging developments in the management and marketing literature to inform corporate governance research. We shed light on the role of governance and specifically boards of directors in value creation in small and medium enterprises. Whereas corporate governance research mostly tends to emphasise the role of governance mechanisms such as boards in the protection and distribution of value, our research problematises such a narrow view and (re)conceptualises their role in value co-creation. By exploring the role of boards as resource integrators within a wider service ecosystem, we propose novel ways in which boards can become integral to firms’ value creation processes. In doing so, we develop a new logic for framing the boards’ tasks and suggest new directions for corporate governance research and practice. We apply an empirical conceptualisation strategy in order to make our findings more accessible.

Keywords: Corporate Governance, SME, Service Dominant Logic, Value, Value Co-Creation, Board of Directors, Board tasks

¹ Corresponding author, permanent address Daniel.yar@hb.se University of Borås, Sweden
Introduction

The notion of value has been the focus of corporate governance research for some time. Influenced by agency theory (Jensen and Meckling, 1976), the concept of shareholder value has had much traction in both academic research and practice (Hansmann and Kraakman, 2000). This has ignited debates about why shareholders should have primacy over other stakeholders (Freeman, 1983; Lazonick and O'Sullivan, 2000) and the detrimental consequences of an unrelenting shareholder value logic for the firm itself, other stakeholder groups and wider society (Stout, 2012). Intrinsic to this debate has been the question of ‘for whom’ to govern, with a related emphasis on protecting shareholders from managerial excesses and distributing value to those who participate in value creation.

There are at least two shortcomings with approaching corporate governance and value from a perspective of ‘who counts’. First, there is an implicit assumption that actors in governance can indeed be neatly pigeonholed as shareholders, managers, directors, or employees, when in practice many occupy multiple and/or shifting identities. This is perhaps best exemplified in firms different to the dominant and stylised Anglo-Saxon public corporation (Yar Hamidi and Gabrielson, 2014) such as small and medium enterprises (Hendrikk et al., 2011; Huse, 2000; Ingley et al., 2016; Karou et al., 2017; Machold and Farquhar, 2013; Neville, 2011), family firms (Bammens et al., 2008; Brunninge and Nordqvist, 2004; Carney, 2005; Fiegener et al., 2000; Gabrielson and Huse, 2005; Nordqvist et al., 2014; Voordeckers et al., 2007) as well as high-tech and innovative firms (Bello, 2012; Gabrielsonn and Politis, 2007, 2008; Knockaert et al., 2009). In such firms, the roles of director, shareholder and manager more typically coalesce instead of separating, which renders questions about who takes primacy in value distribution or how to protecting shareholders from managerial expropriation somewhat moot.

Second, both shareholder and stakeholder value perspectives share a view of governance as the arbiter for protecting and/or distributing firm value. This neglects the possibility that governance mechanisms and governance actors (such as the board of directors) are also involved in value creation. Forbes and Milliken (1999) conceptually identified boards as cognitive decision-making groups that contribute to firm performance, and scholars such as Huse (2007) have theoretically and empirically brought to the fore that governance and boards may play a more active role in firm value creation. Notwithstanding these notable exceptions, governance and boards tend to be seen as separate from the value creating processes of the firms.

In parallel to the development of corporate governance research, management scholars, primarily in marketing but also strategy and operations management, have articulated the need for a radical change in how the scholarly literature conceptualises value and value creation by firms. While different interpretations and models of value creation have been discussed in the literature (Johansson and Jonsson, 2012), a radical change of interpretation of value was suggested by Vargo and Lusch (2004) in their seminal article. Instead of the traditional view of firms offering products embedded with value while receiving monetary rewards in exchange (value-in-exchange), Vargo and Lusch (2004, 2008) articulated a new perspective, the called Service-Dominant Logic (S-D logic), which involves a radical shift in thinking about value and value creation processes. S-D logic foregrounds the concepts of service, collaboration, co-creation and systems thinking and introduces a novel way of defining value-in-use and value creation processes. Yet despite the enthusiastic reception of this conceptual shift in the management literature, to our knowledge there have been no reflections on how this might inform corporate governance research. This is especially puzzling since recent advances in corporate governance have stressed the importance of considering how boards interact with other firm actors in influencing board and firm performance (Blanco-Oliver et al., 2018; Knockaert et al., 2015). We
extend the argument on the role of the regulatory environment developed by Aguilera et al. (2018) to a broader institutional framework of service ecosystems that firms operate in, while keeping value and value creation as a central focus for our reasoning.

We seek to address in this article the conceptual limitations regarding value creation in extant corporate governance research by interpreting concepts from the S-D logic into governance contexts to frame a new and critical approach to corporate governance and the tasks of boards of directors. This approach firmly anchors value creation in how we view governance, while defining value as value-in-use and in context, and co-created by multiple actors in service ecosystems (Bettencourt et al., 2014; Chandler and Vargo, 2011; Payne et al., 2008; Polese et al., 2017; Vargo et al., 2008). In doing so, we change the theoretical logic that underpins the tasks of boards in current governance literature and contribute to the literature by providing a framework that considers boards as integral rather than separate from other actors involved in value creation in and around firms. The new S-D logic extends the literature on board tasks regarding the content of the service and monitoring tasks. In this view, the service task of the board of directors is directed at resource integration and value co-creation and the monitoring task requires an engagement with creating, maintaining and breaking institutions and institutional arrangements. Our conceptualisation has also implications and applications for practitioners by putting knowledge, skills, and resource integration at the core of value creation processes to inform how boards perform their tasks.

**Theoretical framework**

**Corporate governance, value creation and board tasks**

As corporate governance research has evolved over the last decades, new perspectives are emerging and a multitude of theories and disciplinary approaches co-exist. The aim of firms and economic activity is widely understood as a system to create wealth for its stakeholders (Coase, 1937; Fama and Jensen, 1983; Huse, 2007; Jensen and Meckling, 1976; Lazonick, 2007; Smith, 1776; Windsor, 2017; Zattoni, 2007). The governing body is in a narrow sense regarded as being responsible for protecting the interests of shareholder and the distribution of surplus to shareholders (Shleifer and Vishny, 1997), and in a wider sense as directing firms to sustain value creation (Crow and Lockhart, 2016; Deschênes et al., 2015; Huse, 2007; Koufopoulos et al., 2008; Maseda et al., 2015). Aguilera, Filatotchev, Gospel, and Jackson (2008:475) define corporate governance as the “mechanisms to ensure that executives respect the rights and interests of company stakeholders and that those stakeholders are held accountable for acting morally and responsibly for the generation, protection and distribution of wealth invested in the firm” (Aguilera et al., 2008).

Nevertheless, most of the research on corporate governance remains embedded in theories that focus on value distribution (Martin et al., 2016). Agency theory, which despite the increasing theoretical plurality in corporate governance research (Huse et al., 2011), focuses for example on the conflicts of interest between managers and shareholders and the concomitant need for board control tasks to be performed. Its theoretical counterpart, stakeholder theory, instead foregrounds the contributions and associated claims of different stakeholder groups (Freeman et al., 2004). This focus is also closely associated with a definition of value that relates to “value-in-exchange” as Smith (1776) defined it almost 250 years ago. Such a definition of value is based on an understanding of the value that is embedded in goods, tangible resources and transactions in the market (Vargo and Lusch, 2004).
Corporate governance research has thus explicitly and implicitly considered value, but typically in relation to the question for whom and value-in-exchange. Perhaps most prominent is the concept of shareholder value, not only because of its central role within agency theory (Jensen and Meckling, 1976) but also because of the claim by legal scholars that shareholder value primacy has established its superiority over other corporate governance models and therefore spells the ‘end of history’ of corporate law (Hansmann and Kraakman, 2000).

Yet, there are competing perspectives on value creation in corporate governance, informed by different definitions, conceptualisations and theoretical frameworks. Huse (2007) outlines four different corporate governance definitions, with each taking a different perspective on value creation. The managerial definition focuses on management’s role in directing firms and value creation, and considers boards and other external governance actors as instruments to support managerial endeavours. Thus, boards are accountable for and contribute to value creation by serving management in realising their duties. They do so as organisational boundary spanners as discussed by resource dependency theorists (Pfeffer and Salancik, 1978). The shareholder supremacy definition, as the label suggests, assumes that management and board members are instruments for the shareholders to reach their goals, usually defined in terms of financial performance and shareholder value (Huse, 2007). In this definition, the general understanding of value is economic and financial wealth created by firms’ activities, which is realised for shareholders through share price growth and dividends, or otherwise referred to as shareholder wealth. In this perspective, boards are accountable to shareholders, and the primary task of boards is to monitor and control managerial opportunism. Agency theory is the foremost theoretical representation for the shareholder supremacy perspective with its origin in the separation of ownership and control of corporations (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). The stakeholder definition explains corporate governance as the relationships between actors who are involved in the process of decision-making, and are exercising control over firm resources (Huse, 2007). Board members’ responsibility in this definition is about balancing the interest of various stakeholders in order to ensure fair and just distribution of wealth. This might be achieved by board members being truly independent from all stakeholders, or by balancing stakeholder representation on the board. Corporate governance in this setting is essentially concerned with defining the structure of rights and responsibilities between actors who have a stake in the firm (Aguilera and Jackson, 2003).

Finally, the firm definition holds that corporate governance is not solely about distribution of wealth as discussed in the preceding perspectives, but about wealth creation for the firm in its own right. What is best for the firm, as opposed to what the rights and responsibilities of actors are, is central in decision-making of the board. The purpose of the governance function is to facilitate cooperation and collective processes to enhance firm wealth creation. The team production theory explains the board of directors as a mediating hierarchy in the corporate sphere, and places value creation for the firm before shareholder supremacy (Blair, 1995, 1998; Blair and Stout, 1999). While the managerial, shareholder supremacy and stakeholder perspectives on corporate governance have their focus mostly on distribution of wealth or creation of it for specific actors, the firm definition of corporate governance focuses on creation of wealth in and for the firm as an entity itself.

Depending on the perspective one might adapt and its associated theories, corporate governance scholars have conceptualised different board tasks to describe the cognitive outcomes of what boards do (Forbes and Milliken, 1999). The execution of these tasks, often referred to as board task performance, is conceptually and empirically associated with firm performance (Forbes and Milliken, 1999; Minichilli et al., 2012). Whilst there is some disagreement on the number, scope and content of these tasks (Machold and Farquhar, 2013), we focus first on the two most widely used tasks,
monitoring and service, in board research before developing a theoretical reframing of board tasks in line with the S-D logic.

The monitoring and control task has its origin in agency theory and embraces several categories of activities that have been empirically observed in large public companies. These include review and control of policies to exert behavioural control (Huse, 2007; Minichilli et al., 2009; Zona and Zattoni, 2007); output and quantitative control such as control of activities and budgets (Huse, 2007; Minichilli et al., 2009; Zahra and Pearce, 1989); strategic control such as control of business and strategic plans (Carpenter and Westphal, 2001; Minichilli et al., 2009; Wan and Ong, 2005); and not least control of the executive team including hiring, firing and remuneration decisions (Carpenter and Westphal, 2001; Huse, 2007; van den Heuvel et al., 2006; Zahra and Pearce, 1989).

Despite these variants in capturing the content of the monitoring and control task, there is a common theme running through the existing studies insofar as the emphasis is placed on output control without paying much attention to the actual outcome of the subject of the monitoring and control. This might be due to the fact that measuring the output, often based on easily-observable proxies, is more straightforward than capturing the outcome, which would require more complex and longitudinal follow-up processes and demand more complex analytical methods to account for indirect relationships and intervening variables. Further, boards’ involvement in the monitoring and control task is theoretically predicated on the agency-theoretic argument of preventing managerial opportunism and expropriation (Shleifer and Vishny, 1997), and as such more concerned with preventing value destruction (Minichilli et al., 2012). Finally, board structures that facilitate higher levels of monitoring and control, including independent outsider-dominated boards and separation of the roles of Chair and CEO, are increasingly becoming part of the fabric of governance norms in many countries worldwide (Aguilera et al., 2018).

The service task as discussed by the extant research includes actions such as provision of resources (Hillman and Dalziel, 2003; Wan and Ong, 2005), mentoring the CEO and the top management team (Huse, 2007), as well as provision of advice (Huse, 2007; Minichilli et al., 2009; Wan and Ong, 2005), and external networking and legitimacy (Huse, 2007; Minichilli et al., 2009; Zahra and Pearce, 1989) by the board of directors. As such, its theoretical derivation is most commonly aligned with resource dependency theory (Hillman and Dalziel, 2003; Pfeffer and Salancik, 1978).

The service task captures a need for resource allocation within and outside the firm’s boundaries. Yet, it assumes that the board through its members possesses “valuable” knowledge to be delivered to the management team through mentoring and advice. Board members’ networking capabilities and profiles are also expected to offer the firm new opportunities and the legitimacy to act upon these. However, it is uncertain if the firm will acquire the new network and if legitimacy is enhanced, or if these are resources connected with one or more directors on the board that are as transient as the tenure of the director. Furthermore, there is an implicit assumption that all knowledge and skills of directors are indeed of value to managers or the firm, when it might also be plausible that advice by directors may be poor or deficient in the context in which it is being applied, or perhaps that sound advice is accidentally or intentionally misused. Conditions under which ‘service’ might turn into ‘disservice’ or value destruction are not yet fully explored.

Nevertheless, research coalesces around notions of boards’ harnessing external and internal information (Schønning et al., 2018) and making, shaping and following up on firm’s strategies without necessarily articulating the institutional and context-specific factors that justify or explain boards’ contribution to strategy (Pugliese et al., 2009). This in turn leads us to reflect in the following
sections on a value creation focus for boards, and how we can take cues from other literatures to further scrutinise and develop board tasks and their impact on value creation in firms.

### Changing focus from wealth to value (co)creation

Although there is a widely accepted consensus that creating wealth is at the core of the economic activity and defines firms’ aim (Coase, 1937; Fama and Jensen, 1983; Huse, 2007; Jensen and Meckling, 1976; Lazonick, 2007; Smith, 1776; Windsor, 2017; Zattoni, 2007) the term “value creation” was only relatively recently introduced to the vocabulary of corporate governance research. In a search\(^2\) in ProQuest’s ABI Inform Collection and EBSCOhost’s Business Source Premier, two of the most widely used databases in business and management research, we found that the term “value creation” first occurred in the corporate governance literature during the 1990s and its use proliferated throughout the last decade.

Hitherto, the corporate governance literature refers to the concept of value creation in general terms, without giving a specific account of what value creation in firms entails. Whilst there have been attempts to define, interpret and categorise value and value creation in corporate governance research (Yar Hamidi, 2019), these have rarely been linked to board tasks. Instead, board task performance is typically associated with firm financial performance (Forbes and Milliken, 1999; Zattoni et al., 2015), rather than value creation. Some notable exceptions to this include studies on stakeholder democracy (van Ees, 2005), strategic roles and firm value creation (Huse et al., 2011; Ingleby and Van der Walt, 2001), and board control and innovation (Gabrielsson and Politis, 2008; Hendrikx et al., 2011), where scholars have sought to explicate how board tasks contribute to value creation. Finally, to our knowledge, no research in corporate governance to date has addressed the concept of value co-creation and its mechanisms in board work.

In this study we define value creation in firms and board context as activities by the board that contribute to creation of value (monetary or other) for one or more of the firm’s closest constituents in the narrow sense, including shareholders or stakeholders (Freeman and Reed, 1983).

*Value co-creation*, on the other hand, occurs through (social and economic) actors including boards of directors that are involved in resource integration and service exchange, enabled and constrained by institutions and institutional arrangements, establishing nested and interlocking service ecosystems and aiming for stability, well-being and survival of the whole ecosystem (Lusch et al., 2016). The purpose of value co-creation is, unlike the traditional view of increasing shareholder or stakeholder wealth, to increase adaptability, survivability, and system wellbeing through service of others in ecosystems (Vargo et al., 2008). In the following sections, we will build on this definition and clarify the most essential concepts integrated in our rationale about value co-creation, including service, resource integration, service ecosystem, and institutions and institutional arrangements.

In deriving our definition, we lean on insights from a growing body of research in other fields that focuses on value co-creation (Galvagno and Dalli, 2014; Grönroos, 2011; Payne et al., 2008; Polese et al., 2017; Vargo et al., 2008). Much of this research originates from a marketing context and therefore, not surprisingly, foregrounds consumers in value co-creation of firms (Galvagno and Dalli, 2014; Grönroos, 2011; Grönroos and Voima, 2013; Humphreys and Grayson, 2008). However, while consumers are pivotal to value co-creation processes, in this study we are addressing value co-creation from a multi-stakeholder perspective (Pera et al., 2016; Vargo, 2011), and apply it at a governance level at the apex of the firm. Extant research recognises that value is co-created by interactions

---

\(^2\) We included two search strings with the terms “value creation” and “corporate governance” in our search.
between multiple actors rather than in dyadic interactions between two parties, such as firm-customer interactions (Pera et al., 2016; Vargo and Lusch, 2004, 2008). As such, value co-creation forms part of a new logic about exchange, competition and collaboration of firms within ecosystems, known as the Service-Dominant logic (S-D logic). Vargo and Lusch (2004, 2008, 2013), in examining management research in general, as well as marketing and strategy research within the broader management domain, found that the notion of value-in-exchange was a central concept of a Goods-Dominant logic (G-D logic). In G-D logic, the good is the central unit of exchange, and firms are profit maximisers that make and distribute goods/products embedded with value that can be sold for profit (value-in-exchange). This logic has been dominant in informing not only the production system of firms but also its concomitant governance system in the sense that governance is commonly viewed as allocating rights and responsibilities for those involved in, and contributing to, the corporate objective defined as creation of wealth.

In juxtaposition to the G-D logic, Vargo and Lusch (2004, 2008) proposed the notion of an S-D logic by reconceptualising and repositioning service as concept. Service is, in this perspective, untethered from the concept of good in its definition, in contrast to how it has traditionally been defined, captured and measured by economists and management scholars. Service in S-D logic is defined as “the process of one actor using its knowledge and skills (operand resources) for the benefit of another” (Vargo and Lusch, 2008). S-D logic makes a distinction between operand and operand resources. The former are those resources that can operate on and integrate the latter, for example knowledge and skills as operand resources are capable of integrating tangible operand resources such as material, machinery, or infrastructure (Pera et al., 2016).

S-D logic also suggests that service is the fundamental basis of exchange and all exchanges in the market are exchanges of service. However, service is often provided through a complex combination of goods, money and institutions, and therefore it might be masked and not readily apparent as what is traditionally considered to be a service (Vargo and Lusch, 2008). Service might thus be disguised by goods/products, or be delivered through a product as well as encapsulating traditional services. Goods are therefore transmitters of operand resources (embedded knowledge). Goods are simply intermediaries that are used by others as appliances in their own value creation processes (Vargo and Lusch, 2004).

Following an S-D logic, value is always uniquely determined by the beneficiary (Vargo and Lusch, 2004, 2008, 2014) and therefore a firm can only offer value propositions to other actors that might lead to value creation in their respective processes, but not deliver value in and of itself. In other words, value cannot be created unless a value proposition is made by one party and used by another (Vargo, 2008; Vargo et al., 2008) in a value co-creation process. This viewpoint is different from the earlier conceptualisations of value propositions that sought to position the firm, highlighting differentiation and delineating promises (Frow et al., 2014). A very important development in the S-D literature on value proposition(s) is also the notion of moving from a narrow dyadic view to including multiple actors within service ecosystems.

In this perspective, the formulation of value propositions is not a solitary act and instead requires a collaborative approach. Unlike the G-D logic, which is competitive and potentially confrontational, S-D logic is collaborative and facilitates greater value alignment among multiple actors, which can lead to value co-creation (Abela and Murphy, 2008). S-D logic thus promotes knowledge sharing and dialogue between actors aimed at increasing value co-creation potential, rather than wealth maximisation (Frow and Payne, 2011).
Further, S-D logic advocates that value is co-created by multiple actors and will always include the beneficiary who also applies their own resources in order to create value. Value is thus co-created by each beneficiary in the process of using goods or services on offer, whilst applying their own knowledge and skills as well as resources from other actors (economic or social) in the value co-creation processes. Thus, all social and economic actors are resource integrators (Vargo and Lusch, 2018). Resource integration is interpreted as actors integrating and transforming micro-specialized competences into complex services that are demanded in the marketplace (Peters, 2018; Vargo and Lusch, 2008).

This also emphasises the interactivity of value co-creation. Value co-creation processes themselves are integrated within service ecosystems. Service ecosystems are defined as “relatively self-contained, self-adjusting systems of resource integrating actors connected by shared institutional logics and mutual value creation through service exchange” (Lusch and Vargo, 2014). All economic and social actors, i.e. individuals, households, organisations/firms etc., act as resource integrators in service ecosystems. The mere presence of resources, however, does not imply that resource integration occurs. It is only when the utility of resources is recognised and acted upon that resources de facto convert to actual resources in the value co-creation process (Forbes and Milliken, 1999; Lusch and Vargo, 2014; Peters, 2016).

Importantly, processes of value co-creation require coordination in order to be fruitful. This coordination of value co-creation is made possible by actor-generated institutions and institutional arrangements, and expands the idea of value co-creation from dyadic relations to a system-level perspective in service ecosystems (Vargo and Lusch, 2016). Institutions are, in this context, humanly devised rules, norms, and beliefs that enable but may also constrain action (North, 1990; Scott, 2001) while making service exchange predictable and meaningful. Institutional arrangements, sometimes also referred to as institutional logics, are a set of interrelated institutions that uphold the relations and interactions in service ecosystems. Institutions and institutional arrangements are thus key factors to understanding the structure and functioning of service ecosystems. Institutions, in this perspective, are not to be confused with organisations, rather the former constitute the “rules of the game” while the latter are the participants in the game (North, 1990). The concepts are thus functionally aligned but conceptually separate (Scott, 2013).

Institutions come in many forms; they can be explicated in formal laws or contracts, informal social norms, communication, judgments and conceptual and symbolic meanings (Scott, 2013). Such institutions play a central role in value co-creation processes by enabling actors in service ecosystems to accomplish an ever-increasing level of value co-creation under time and cognitive constraints (Vargo and Lusch, 2016). Next, we will integrate the S-D logic arguments as presented above in interpretation of board task in their governance role.

**Revisiting board tasks**

Taking our cue from S-D logic, we suggest a need for reframing board tasks to promote value co-creation that build on and extend extant definitions of board task. Our conceptualisation challenges the traditional understanding of governance and furnishes boards of directors with a new mind-set and explicit activities to engage in for value co-creation in firms. Value and value creation in corporate governance research have generally been considered in relation to monetary wealth with a focus on value-in-exchange typically measured by share price, dividend growth and firms’ financial results (Huse, 2007). We argue that this focus creates constraints for the governing body of the firm by engaging it in a zero sum game and redirects boards’ focus from value creation to value distribution.
and/or protection (Barker and Chiu, 2018). The concepts of value-in-use and co-creation on the other hand generate a distinctive understanding of value creation and its processes by redirecting attention to the notion of value heterogeneity, which refers to the fact that there are different perspectives on value among actors in an ecosystem (Corsaro, 2019). The traditional definitions of corporate governance seem to neatly follow a G-D logic, which posits that value is embedded (manufactured) in products/service generated by the firm, which are sold to customers for monetary returns and value-in-exchange. The surplus or profit margin will then be distributed to the shareholders and/or other stakeholders. In contrast, the S-D logic focuses on value-in-use and in context, and the roles of different actors are not distinctly delimited, as we highlighted earlier in the context of governance actors in SMEs, and may coalesce in a co-creation process.

Whilst the research stream on board tasks has produced important contributions regarding the relationship between boards as cognitive decision-making groups and firm-level outcomes (Forbes and Milliken, 1999), the processes and mechanisms of value co-creation that involve boards have not yet been articulated. Furthermore, since the board is typically the unit of analysis, there has been little consideration of the possibility that boards do not create value in their own right but instead co-create value together with other actors in new and existing service ecosystems (Akaka and Vargo, 2015; Lusch and Vargo, 2014; Vargo and Lusch, 2008, 2014).

To that end, informed by S-D logic framework, we propose a different perspective on firm governance and specifically contributions by boards of directors to value co-creation processes. In the following, we will elaborate the implications of shifting from a focus on wealth creation to value co-creation by boards of directors and their governance role in firms. In order to support and visualise our conceptualisation, we will draw on two examples from our fieldwork with Swedish SMEs.

Silencer is a small firm engaged in the production of industrial nozzles for the B2B markets. Healthy is a medium-sized Swedish firm delivering high quality mattresses to hospitals and retailers. Both firms are very successful in their operation and performance and have active boards of directors. Without explicitly using the terminology of S-D logic, the firms are implementing some of its underlying concepts and mind-set in their governance and board work. Table 1 describes the firm size and performance characteristics.

<table>
<thead>
<tr>
<th>Company</th>
<th># of Employees</th>
<th>Turnover</th>
<th>EBITDA 2018</th>
<th>EBITDA 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silencer</td>
<td>21</td>
<td>€ 8.5</td>
<td>37.3%</td>
<td>28.16%</td>
</tr>
<tr>
<td>Healthy</td>
<td>86</td>
<td>€ 17</td>
<td>10.12%</td>
<td>16.21%</td>
</tr>
</tbody>
</table>

Table 1: Case data

From value propositions to value constellations and board tasks

S-D logic posits that a key role for firms in service ecosystems is to offer value propositions, which, after acceptance from another actor or actors, enable the mutual value co-creation in the ecosystem (Ballantyne et al., 2011; Vargo and Lusch, 2008). Value propositions offered by a firm are developed based on the firm’s services embedded in its operant resources, i.e. primarily its knowledge and skills. Value propositions connect one actor with other interested actors in the service ecosystem and thus offer a connection between competencies and relationships (Lusch and Nambisan, 2015). It is the firm’s operant resources that enable it to put forward value propositions (Frow and Payne, 2011;
Karpen et al., 2012), whilst it is necessary for other actors to collaboratively integrate their resources through interactions in order to co-create value (Grönroos and Voima, 2013).

In this perspective, value is co-created by the exchange and application of operant resources among multiple actors within service ecosystems (Akaka and Vargo, 2015). This is in line with the contention of Forbes and Milliken (1999) that knowledge and skills are a necessary pre-requisite at the board level in order to enhance board task performance as well as firm performance.

We suggest that the creation of value propositions in service ecosystems in line with S-D logic may lean on the directors’ knowledge and skills to identify new value constellations. Within these new value constellations, there are novel opportunities to create value propositions that are based on the needs and the context of the new constellation(s). Directors contribute to board task performance by engaging in identification of new value constellations, that is they reconfigure roles and relationships among a constellation of actors including suppliers, partners, and customers in order to mobilise value co-creation through new combinations of resources and players (Normann and Ramirez, 1993).

Firm-specific knowledge among directors, as a critical factor in this context, includes knowledge about the operant resources within the firm and potential application of these in new and existing service ecosystems including managerial industry experience (Kor and Misangyi, 2008).

Adapting a non-zero sum view of value in S-D logic, which is only possible because two or more actors in the ecosystem may appreciate value of the same good or service differently (Williams and Aitken, 2011), will arguably open up new opportunities and avenues for the firm to develop its collaborations and value co-creation. Further, the purpose of this value co-creation is, unlike the traditional view of increasing shareholder wealth, to increase adaptability, survivability, and system wellbeing through service of others (Vargo et al., 2008). In this sense, the boards’ task is extended to consider firms’ positions within ecosystems and associated value constellations to current and potential future partners. By focusing on value co-creation for the whole ecosystem, and the survival and thriving of it, the board creates also opportunities for the firm to gain value and prosper as well as being rewarded by positive financial feedback.

Silencer uses cutting-edge competences to produce technical devices (goods with embedded knowledge and know-how) in the field of compressed air blowing. These very sophisticated industrial devices are developed using a patented technology and state-of-the-art manufacturing facilities. However, the company has flourished primarily due to developing new value constellations rather than out-competing its competitors by the technical superiority of its goods. A few years ago, Silencer, following an initiative from its board and CEO, changed its value proposition from offering high quality, cost-effective air nozzles and knives to proposing value co-creation for their ecosystem in three areas: 1) improved work environments, 2) energy savings and 3) reducing accidents and injuries in industrial work places. This innovative advance of their approach from value propositions to individual actors to identification of value constellations was a critical aspect in development of their offerings. Value constellations include more actors than the presumed “customer” or immediate users of the technical devices. This development followed a journey of creating measurement models and instruments that made it possible for actors in the ecosystem to systematically gauge the effects of Silencer’s products. The new value constellations in this case includes various actors such as the workers’ union, middle management and shop floor workers as well as the procurement officers at the client firms. Subsequently, Silencer has changed and trained its sales agents to become a group of experts that offers consultation and measurements instead of selling devices to customers. The result has been a sharp rise in turnover, outstanding loyalty and improved firm financial performance for
Silencer. Simultaneously, they continually create reports on the efficiency of their products based on customer data, which the customers freely share with Silencer. They have thus completely substituted the need for marketing of their products and instead invested in long-lasting relationships and knowledge sharing with actors in their ecosystem.

Whilst this mind-set and view inherently includes a stakeholder concern and a normative dimension on value creation and firms (Meynhardt et al., 2016), this service of others perspective has implications for firm governance and consequently the responsibilities and tasks of boards of directors (Clarke, 2017; Tricker, 2015).

Directors need to acquire and use firm specific knowledge while gathering relevant information about the firms’ ecosystem in order to be able to actively contribute to identification and introduction of value constellations that correspond to value co-creation together with other actors. Boards' contribution in this process demands a high degree of firm specific knowledge at the board level as suggested by Forbes and Milliken (1999). Identifying and introducing value constellations with regard to other internal and external actors, as we exemplified in the case of Silencer, is thus an important part of board task performance and its value co-creation ability.

Following this logic, boards would actively explore, analyse and review new and existing value constellations in collaboration with actors within the firms’ ecosystem including its management. This goes beyond involvement in discussions about firm’s offerings at board meetings and builds on active cognitive work while engaging in dialogues with both internal and external actors of the firm, focusing on operant resources of the firm. We therefore suggest that boards focus on identifying and introducing value constellation within their service task in order to establish a transition from generating wealth in the firm to value co-creation in service ecosystems. This view engenders a collaborative spirit, and envisages value creation as a joint activity (co-creation) in multi-actor service ecosystems. In this approach, a focus on value-in-use and context substitutes the focus on value-in-exchange and the traditional wealth creation idea for the individual firms and/or particular actors.

Subsequently, we formulate our first proposition as:

**P1:** In their service task, boards of directors contribute to value co-creation by engaging in identification and introduction of new value constellations within the firm service ecosystem.

**Resource Integration**

Changing the locus of the firm from wealth creation to value co-creation is about shifting our understanding of value from one that is based on units of output to value based on processes of resource integration and a focus on the outcome (Vargo et al., 2008). This understanding of value correspond well to the process and outcome focus of governance activities by the board of directors as conceptualised by Forbes and Milliken (1999).

S-D logic portrays resource integration as the antecedent of value co-creation (Peters et al., 2016; Vargo and Lusch, 2008). Resource integration is the process by which actors in a service ecosystem deploy resources as they undertake bundles of activities that create value directly or that will facilitate subsequent use from which they drive value in a co-creation process (Hibbert et al., 2012). Another way of viewing resource integration is as the process through which organisations, households and/or individuals integrate and transform micro-specialised competences into complex services that are demanded in the marketplace (Peters, 2018).
This view of value co-creation predicated on resource integration has implications for boards of directors’ conduct and contributions to the firm’s strategy and resources. Whilst the traditional view of board’s strategising has been concerned with how structural/compositional aspects of the board are related to strategic choices (Bergh, 1995; Daily, 1995; Goodstein et al., 1994; Haunschild and Beckman, 1998; Hayward and Hambrick, 1997; Sheppard, 1994; Zahra, 1996), or viewed strategising as a kind of solitary act that firms and their governing body (should) master and engage in (Hendry et al., 2010; McNulty and Pettigrew, 1999), we suggest that the examination of the impact of institutional and context-specific factors should be distinguished as the core contribution by boards to strategy development (Pugliese et al., 2009). Thus, we interpret resource integration by the board as discovering paths and suggesting strategies for successful integration of firm’s operant resources in collaboration with other actors within the firm ecosystem.

Value co-creation through resource integration is only possible if the actors’ awareness of the potential resources available to them and continuous interactions and collaboration between actors and the resources available is secured for the long term (Peters et al., 2014). Thus, we suggest that resource integration is a crucial task within the purview of boards of directors.

In delivering their value propositions, Silencer’s board strategically supported the development of practices to integrate the firm’s operant resources with other actors in its ecosystem to serve new value constellations. For example, by engaging in audits of their partners’ (customers’) production lines, Silencer’s staff integrated their operant resources (knowledge and skills) into partners’ operation and resources. This is about a much more in depth relationships where Silencer shares and integrates their resources with other actors aiming for increased adaptability, survivability, and system wellbeing through service of others.

Meanwhile, knowledge and experiences from each encounter in the ecosystem is used to develop other actors and enhance capabilities in the ecosystem. This resource integration was initially a substantive change of culture and perspective in the firm, and only possible with support from the board of directors of the firm who funded and sponsored the strategic change in a crucial phase in its development. As an alternative to applying a logic of protectionism and a proprietary style, the board supported and sponsored the idea of openness and resource integration for system wellbeing.

Healthy has been delivering quality mattresses for the last twenty years and thus accumulated extensive knowledge about maintenance and hygiene of mattresses in clinical environments as well as private homes. This knowledge has been embedded in maintenance processes and training programmes that help their partners deliver important quality services to hospitals and private users, while enhancing user and customer loyalty to their brand and company. By using their knowledge and skills (operant resources) and (operand) resources available to the firm such as tools, repair kits, and other products they offer tractability in mattress’ life cycle. They also offer subscription services that help increase their customers’ process quality and deliveries by systematically collecting data and analysing these to mitigate problems and assist problem solving. Healthy thus integrates their operant resources into the service ecosystem by sharing their knowledge and skills with partners and customers through new value propositions in order to sustain the quality and stability of the value co-creation processes in their ecosystem. Healthy’s board of directors has been instrumental in promoting resource integration and creating feasible sharing arrangement in the service ecosystem by integrating their domain knowledge as well as their thorough firm specific knowledge (operant resources) into the cognitive processes of the board while maintaining a dialogue with actors in the ecosystem.
Interestingly, as part of the service task in the extant literature, boards are supposed to share or use their networks to contribute to firms’ value creation, for example by building legitimacy for the firm (Huse, 2007; Zahra and Pearce, 1989). Using board members’ networks is therefore partially aligned with the collaborative spirit of the S-D logic, but not in its traditional view of networking and legitimacy where networks are merely seen instrumentally as operand resources that the firm or its management act upon to create value. In S-D logic, the focus is instead on directors’ knowledge about the institutional contexts and the firm’s operand resources as their foremost contributions. This approach opens new avenues for understanding how a firm’s resources are best integrated within existing service ecosystems or how to create new constellations of actors and institutional rules (North, 1990) in new ecosystems.

A crucial part of the board’s contribution to value co-creation should therefore be to identify solutions and activities that enhance firm’s resource integration in new and existing service ecosystems. This is by engaging with actors in the ecosystem, evaluating possibilities of resource integration as well as scrutinizing suitable frameworks to do so. However, as Forbes and Milliken (1999) conceptually distinguished between the presence and the use of knowledge and skills by boards, we distinguish between the provision of board resources (Hillman & Dalziel, 2003) and the existence of board resources as part of strategic resource integrations within the firm. In line with Forbes and Milliken’s argument, we propose that the resource of knowledge and skills within the board is not realised before it is put into a context as contended by resource integration (Peters, 2018).

From a resource dependence perspective (Pfeffer and Salancik, 1978) board service/advisory tasks relate to the ability of board members to bring additional resources to the firm (Hillman and Dalziel, 2003). From S-D perspective, we contend that directors rather contribute to value co-creation by identifying opportunities to integrate firm resources into new and existing service ecosystems.

This might involve creating norms, values and rules in collaboration with other resource-integrating actors in the service ecosystem. Resource integration therefore becomes as a part of the service task a collaborative task that is distinct from the solitary strategising, or allocating resources to the firm as presented by traditional corporate governance research. Further, this view presents a more explicit path regarding the board’s service task and contribution to strategy than the traditional perspectives. Thus, we frame our second proposition as follows:

P2: In their service task, boards of directors contribute to value co-creation by engaging in formulation of strategies for resource integration within the firms’ service ecosystem.

Institutions and institutional arrangements

So far, we have argued that value co-creation occurs in service ecosystems by actors identifying and introducing value constellations, while integrating firms’ resources in their service ecosystems. This co-creation is coordinated by logics and rules in order to promote effective and meaningful resource integration. Service ecosystems are created by actors who are connected together by shared institutional logics and mutual value creation mechanisms through service exchange initiated by value propositions (Vargo and Lusch, 2014). The importance of institutions such as rules, norms, meanings, symbols and practices (Edvardsson et al., 2014; Vargo and Lusch, 2016) and institutional arrangements such as the interrelated sets of institutions in facilitating or inhibiting interaction and collaboration in service ecosystems, has been underscored by prior research (Berthod et al., 2018; Edvardsson et al., 2014; North, 1990; Vargo and Lusch, 2016).
While the discussion about board conduct in the traditional view of corporate governance focuses on output control through, for example, the monitoring and control task, S-D logic presents a more outcome- or process-oriented view regarding value creation in firms (Bettencourt et al., 2014; Chandler and Vargo, 2011). This goes beyond offering outputs (tangible goods) as the unit of exchange in dyadic relationships (Michel et al., 2008), and moves toward initiating activities involving multiple actors and value co-creation in service ecosystems (Vargo et al., 2015). As service ecosystems are shaped by social values and forces in social systems, there is a set of nested institutions affecting each other in various but coherent ways with respect to their effectiveness (Edvardsson et al., 2014). S-D logic thus emphasises the institutions and their enduring rules, values, norms and beliefs, with institutional arrangements providing “the rules of the game” (North, 1990) for service ecosystems. We suggest therefore that boards engagement in the development of stronger and enduring social norms, rules and values will provide firms’ stakeholders with more effective protection by discouraging management from engaging in expropriation and opportunistic behaviour in the firm (Boytsun et al., 2011), while creating more effective resource integration opportunities within the firm’s service ecosystem.

Silencer in its endeavours to integrate their resources within the service ecosystems took initiatives to create a new set of agreements, practices, norms and beliefs internally and externally. These included, for example, a new way of interpreting the role and practices of the sales department. Colleagues in the department were challenged to rethink their duties and act as consultants for their beneficiaries/partners in the ecosystem offering them solutions instead of vending products and goods. In this process, the board of directors, besides allocating resources for training, initiated a reorganisation of processes and logics of contracts and offerings. Additionally, this change of perspectives triggered a change of relation with partners in the ecosystem where new relations, practices, beliefs and rules of the game were created and some previous norms disrupted. For example, Silencer initiated communications with new stakeholders such as HR departments and workers’ union branches in the ecosystem. These new actors had other interests and priorities than the mere monetary aspects of the trade between Silencer and the respective production actor in the ecosystem, and sometimes acted as mediators in negotiation processes with their values and beliefs as part of the institutional arrangement in the service ecosystem.

In their monitoring task, boards should go beyond and above monitoring the activities of firm’s top management and engage in forming the institutional logic of service exchange of the ecosystem. By doing this, the board will create strong institutional rules that discourage management from expropriation or opportunistic behaviour within the firm (Boytsun et al., 2011) in their service exchange, while enhancing resource integration within the firm’s service ecosystem. This will only occur when boards engage in breaking, making, and maintaining institutionalised rules of resource integration (Koskela-Huotari et al., 2016) in new and existing service ecosystems. Such institutional endeavours allow actors to engage in novel ways of value co-creation by including new actors, redefining roles of the existing actors and reframing resources in the ecosystem (Koskela-Huotari et al., 2016).

Hence, we extend the notion of monitoring and control task from a duty to actively control top executives and their incentives to engage in creating, maintaining and disrupting institutions and institutional arrangements in the firm’s service ecosystem. These institutions and institutional arrangements create changing and yet stable contexts for resource integration within the firm’s service ecosystem (Berthod et al., 2018) including the firm itself. By doing this, boards make resource integration in ecosystems effective and meaningful and realise the potential of value co-creation within these. Thus, we put forward our third proposition as follows:
P3: In their monitoring and control task, boards of directors contribute to value co-creation by engaging in creating, maintaining and disrupting institutions and institutional arrangement for resource integration within the firm service ecosystem.

Discussion

In this conceptual paper, we put forward a new interpretation of value and value co-creation in firms, drawing on developments in the management literature and specifically the S-D logic pioneered by Vargo and Lusch (2004, 2016, 2018). We apply this logic in the context of corporate governance and the board of directors. In doing so, we propose a new mind-set as well as specific tasks for the board of directors by building and extending earlier literature on board task (Forbes and Milliken, 1999; Machold and Farquhar, 2013). Our approach shares similarities with earlier conceptualisations of boards such as “participative boards” (Andrews, 1982; Pearce and Zahra, 1991) in that these are collaborative and the emphasis is on building and reaching consensus among directors and the management of the firm. However, our conceptual development of boards and board tasks in S-D logic goes beyond consensus building with management and extends the board abilities in establishing fruitful interaction with actors in the firm ecosystem aiming to create condition for successful integration of firm resources in the ecosystem. This is thus about integrating boards’ operant resources (firm specific and context knowledge) in the firm’s service ecosystem to create “rules of games” for effective and meaningful resource integration. This endeavour includes relations and discussions at different levels within the firm as well as within the service ecosystem.

In a creative analogy, Demb and Neubauer (1992:19) present the “pilot board” in order to illuminate the diversity of need for firms and their board constellations. A propeller craft (Twin Otter) and a helicopter are compared in the analogy, which goes: “The Twin Otter can be flown in almost any weather and is a favourite of bush pilots in the Arctic, Australia and the South Pacific. It will fly on one engine, and with a balloon tire, it can land in a short meadow. It does not, however, offer the flexibility or quick response of a helicopter which can land and take-off quickly and hover to examine an oil rig at close range.” (Demb and Neubauer, 1992). The argument presented by Demb and Neubauer demonstrates a need for suitable board structures dependent on and adjusted in regards to the need, context and capabilities of the company. Our conceptualisation of board work focuses instead on the identification of the terrain and the context (institutions and institutional arrangements) in which to manoeuvre instead of the type of aircraft. Further, we contend that the pilots are dependent on actors other than the management of the firm in order to direct the firm and might need resources that are not readily available within the firm but might be integrated into the ecosystem by other actors with the same institutional values and norms.

We consider value co-creation to be realised in service ecosystems by resource integration by multiple actors, which implies extensive boundary expanding activities and going behind the boundaries on the firm as a legal entity (Lusch and Webster, 2011). Firms are evolving from largely self-contained hierarchical entities into complex networks of relationships with resource providers of all kinds within service ecosystems (Lusch et al., 2010). This has also implication for the governance of the firms and their board of directors as proposed here. Boards of directors need to take on the role of boundary expanding entities, going beyond being boundary spanners (Pfeffer and Salancik, 1978) by engaging in active resource integration and participating in development of the institutions and institutional arrangement of the service ecosystems. This requires that boards are transcending in their approach, i.e. they focus on resolving tensions and paradoxes within the service ecosystem including the focal firm itself. This means they need to move from a competing logic to a collaborative reasoning that embraces resource integration within the service ecosystem and presents a unifying mind-set.
Conclusions

Extant corporate governance research has had its focus mostly on large public companies, value creation in a narrow sense and an underlying goods dominant logic to describe board tasks. By integrating theoretical reasoning from the management literature on service-dominant logic into corporate governance and board task conceptualisation, we make three contributions to the corporate governance literature.

First, in theorising about the concept of value co-creation, we argue that definitions of corporate governance in extant research that focus on the primacy of particular actors in the firm sphere are limited in scope insofar as they explain only how corporate governance protects or distributes value (Huse, 2007). We introduce instead a vision of boards being able to contribute to and influence value co-creation abilities of the firm. Congruent with the notion of value co-creation is a change in how we re-conceptualise the tasks of board of directors. Here, instead of focusing on board tasks as atomistic activities that create (or fail to create) value for the firm, we argue that boards are part of a value co-creation system and contribute to this by identifying and introducing new value constellations together with other actors (Vargo and Lusch, 2014). Whilst our starting logic and empirical examples are drawn from an SME context where boundaries between internal governance actors are more blurred, our insights in relation to boards and value co-creation might also apply to large corporates.

The second contribution is to extend the logic of boards’ involvement in strategy (Pugliese et al., 2009) as part of board service task by elaborating on the concept of operant resources (Vargo and Lusch, 2008). Instead of viewing involvement in strategy as a solitary act performed by the board (or management of the firm), we have argued that boards contribute to value co-creation by facilitating resource integration which enhances firm capabilities for value co-creation in new and existing service ecosystems. To that end, boards’ involvement in strategy is viewed as a collaborative, connected and dynamic process together and in collaboration with actors in firm service ecosystems. This includes not only management of the firm but also other actors engaged in resource integration within the ecosystem.

Our third and final contribution is to elaborate on the role of boards in relation to institutional rules and norms as part of their control task. Value co-creation will inevitably entail shifts from institutional norms (Aguilera et al., 2018) as firms embed their resources in order to promote value co-creation in existing or new service ecosystems. This also has important practical implications insofar as it encourages directors towards choices of governance arrangements and ‘performing’ governance that are congruent with the identity of the firm within respective service ecosystems. This is done by creating, maintaining and disrupting norms and rules of the game by the boards.

Our research also opens up avenues for further enquiries. First and foremost, much of the literature on S-D logic is conceptual in nature, and our paper follows in this vein. However, by offering empirical examples, we seek to augment of our theoretical arguments regarding application of S-D logic perspective in corporate governance research. Nevertheless, there is a need to generate further empirical evidence to move away from what may be perceived as a highly normative theoretical framework to a more applicable and practical view. Further work on how concepts such as value co-creation or resource integration can be operationalised on the board level, in different firm contexts, is needed in order to determine antecedents and outcomes.

Second, we recognise that the focus here has been on value co-creation and how governance and the board are located within S-D logic. Just as we have seen evidence of boards destroying firm value (Pirson and Turnbull, 2011), scholars in management have proposed the concept of interactional co-
destruction of value (Plé and Rubén Chumpitaz, 2010). It therefore follows that it is equally important to have further research into the conditions under which boards disrupt value co-creation or co-destroy value in service ecosystems.
References


