WATCHING EYES: FRIEND OR FOE? NETWORK BOARD MONITORING AND INNOVATIVE PERFORMANCE OF THE MEMBER FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

Innovation goes hand in hand with creativity and freedom. Yet, with separation of ownership and governance, too much freedom might invoke a host of issues associated with the agency problem. Monitoring has been cited as one of the universal cures against agency-related issues. Though effective in most cases, whether or not (and to what extent) monitoring is beneficial when tasks in question are highly innovative remains under-researched. We explore relationships between monitoring and innovative performance in the context of Swedish strategic small- and medium-size networks (SME networks).

Strategic SME networks consist of geographically proximate independent but related small- and medium-sized firms that cooperate to improve their innovative stature by means of multilateral intra-network technology and know-how exchange. As the degree of intra-network cooperation differs between the membership firms, and there is a possibility for free-riding, the networks often establish boards responsible for monitoring network innovative activities. Effects of such monitoring are the main focus of our study.

Method

To tackle the questions posed by the study, we used five-year panel data on 53 Swedish networks collected through extensive telephone interviews and questionnaires from network representatives and policy makers responsible for the network support throughout the country. Both linear and non-linear effects were examined. Given the nature of our data, we employed a within estimator with first-order autoregressive disturbance term as suggested by the appropriate econometric tests.

Results and Implications

Our results indicate that having board members compensation determined by the outcomes of the innovative activities of the member firms significantly improves network innovative performance. At the same time, relationships between network board independence and size, and innovation performance are more complex. While remaining positive, effect of the network board size on innovative performance diminishes. Effect of the board independence, on the other hand, remains positive only up to a certain threshold beyond which board independence actually hampers network innovative performance. Our findings help resolve some of the controversies reported by the previous literature, suggest several areas for future work on network board composition in strategic SME networks context, and contribute to entrepreneurship, agency, and networks literatures.

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