IGNORANCE IS NO EXCUSE FOR DIRECTORS MINIMIZING INFORMATION ASYMMETRY AFFECTING BOARDS

Eythor Ivar Jonsson*

Abstract

This paper looks at information asymmetry at the board level and how lack of information has played a part in undermining the power of the board of directors. Information is power, and at board level, information is essential to keep the board knowledgeable about the failures and successes of the organization that it is supposed to govern. Although lack of information has become a popular excuse for boards, the mantra could –and should –be changing to, "Ignorance is no excuse" (Mueller, 1993). This paper explores some of these information system solutions that have the aim of resolving some of the problems of information asymmetry. Furthermore, three case studies are used to explore the problem of asymmetric information at board level and the how the boards are trying to solve the problem. The focus of the discussion is to a) describe how directors experience the information asymmetry and if they find it troublesome, b) how important information is for the control and strategy role of the board and c) find out how boards can minimize the problem of asymmetric information. The research is conducted through semi-structured interviews with directors, managers and accountants. This paper offers an interesting exploration into information, or the lack of information, at board level. It describes both from a theoretical and practical viewpoint the problem of information asymmetry at board level and how companies are trying to solve this problem. It is an issue that has only been lightly touched upon in the corporate governance literature but is likely to attract more attention and research in the future.

Keywords: directors, information asymmetry, executives

* *Henley Management College, Greenlands, Henley-on-Thames, Oxfordshire RG9 3AU, England, United Kingdom*

Last to know

Over thirty years ago, Drucker (1974, p. 628) noted that the board "was always the last group to hear of trouble in the great business catastrophes of the century." Some of the biggest business scandals in history that have unfolded recently emphasize this point. Boards seem to be oblivious of what is happening in the companies they are supposed to be directing and controlling. The Enron case is all the evidence needed to support this argument. In December 2001 Enron filed for the biggest bankruptcy case in the history of American business. As the case was unwrapped, it turned out that serious misconduct and malpractice had been at the core of the business, which eventually led to the fall of the company (Fox, 2003; McLean and Elklind, 2003). The board, however, issued a statement saying that they "in good faith and prudently performed their fiduciary duties based on the information provided to them." (McLean and Elklind, 2003, p. 408).

Several reasons have surfaced as explanation of the lack of information. On one side, it wasa failure of directors to fulfil their duties, e.g. insisting on more rigorous information, asking difficult questions, probing difficult issues and initiating internal investigations when concerns were brought to their attention (Cohan, 2002; Banks, 2004). The question is always the same, as it was in the case of Enron: "Where was the board?" Many believe the answer is, "Like Nero, fiddling while Rome burned" (Lorsch and Carter, 2004, p. 28).

On the other hand the governance failure can be seen as a gatekeeper failure (Coffee, 2002, 2006). Gatekeepers are intermediaries who provide verifications and certifications to information and analysis, staking their reputation It was the failure of gatekeepers to control for fraud and to report on malpractice when it was evident that helped bring Enron down (Coffee, 2002).

Information is vital for boards: "What can even the most brilliant and properly motivated director do if he or she lacks needed, accurate, or timely information?" (Monks and Minnow, 1996, pp. 174-75). If the board "is to be effective it must have complete and efficient access to all information required for decision making" (Banks, 2004, p. 276). This emphasis on high expectation of information requirements is evident in the post-Enron world, as E. Morman Veasey, former Chief Justice of the Delaware Supreme Court stated: "Directors will approach their jobs in a more confident way, because they will have to completely understand everything that is presented to them and really do their homework to get it right. Instead of just looking at a PowerPoint presentation, they need to understand

every aspect of company's business and legal issues" (Bloxham, 2005; p. 14). It is recognized today that not knowing does not limit liability (Bloxham, 2005), or as Mueller (1993) put it, "Ignorance is no excuse".

The problem, however, is that it isn't clear what "needed" and "required" information is. Several sources point out that the information load to boards has increased in the post-Enron world as the awareness and regulations pressure to the responsibility of the board has increased (Bloxham, 2005; Lorsch and Carter, 2004). It is, however, not only the regulator issues that have changed boards' needs of information. Globalisation, more complex and aggressive business models, technology, and business trends are also factors that influence the need for information. Furthermore, the evolving role of boards is still another factor (Lorsch and Carter, 2004; Bloxham, 2005).

This paper will look at issues regarding information flow to the board. I will argue that the right information in the right format at the right time can improve board performance. The paper starts out with a discussion of theoretical background and goes on to discuss the problems and some of the solutions that have been proposed to those problems.

"We didn't know"

Davenport (1997) describes information as the link between raw data and knowledge, or as Drucker (1988, p. 45 as quoted in Davenport (1997)) defined it, "data endowed with relevance and purpose." There is general understanding, at least among practitioners, how important relevant information is to the board's tasks although different boards might perceive their tasks differently. Kaplan and Norton (2006, p. 212) argue that better information system will provide "the information and the structure to help boards to be more effective and accountable for their vital responsibilities in an effective capital market governance system." Charan (2005, p. 48) argues that board needs to address the information flow problem to be able to function effectively:

> *Boards cannot evolve until they address the information flow. Both the board and management benefit when they get on the same page regarding what information the board needs, when, and how it should be conveyed. When information is well architected, the board can focus on ideas rather than on the information itself.*

There is, however, some doubt about how well boards are actually informed. Nadler (2004, p. 110) reports: "We are constantly surprised when directors who have served on boards for years confess that they don't really understand how their companies make money". If the Enron board statement is true, saying that they "in good faith and prudently performed their fiduciary duties based on the information provided to them" (McLean and Elklind, 2003, p. 408), the board was obviously lacking some vital information to base its judgement on. Jonsson (2006) furthermore described how different boards of three companies in the Icelandic oil industry argued that they didn't know about the long illegal price collaboration that went on for more than a decade. The board members argument that "we didn't know" sounded more truthful than not because many of the board members had more to lose than gain from the illegal collaboration as they were big stakeholders in companies that were heavy oil consumers (like the fishing and transportation industries). One thing is that board doesn't seem to know much about dubious deals that management makes. Another is that in many cases it seems that boards cannot answer simple questions about what the company really does that they are supposed to govern. Lorsch and Carter (2004, p. 151) wonder if boards shouldn't have information to answer questions like these:

1. Where is shareholder value being created and destroyed in our company? Do we know which businesses earn in excess of the cost of capital?
2. What are the long-term (three to five years) margin trends in our businesses?
3. What are the major risks to which the company is exposed, and are these being managed effectively?
4. Are there any financial reporting issues in which our accounting practices would be regarded as "aggressive"?
5. What major projects are under way in the company (capital projects as well as "change" projects), and is implementation on schedule and on cost?
6. What is the level of employee morale? What is the retention rate for our key people? Do we survey employees' attitudes and, if so, what do they say? How are we doing in developing and retaining talent?
7. Is our market share in key segments holding? What are the trends in customer satisfaction?
8. What is happening to our major brands and our corporate image? Are these getting stronger or being eroded?
9. How does our strategy differ from that of our competitors in our major businesses?
10. How is our stock viewed by the analysts who cover us? Are we a "buy, hold, or sell" for brokers? On what do they base their view?

Often, the problem is not that top management cannot answer these questions; it's that the information is not conveyed to the board level. This can be a problem explored from the receiver's as well as the sender's position in the information exchange (Turnbull, 2002). It can be that it is not as much the senders lack of effort to send the information but rather the receiver's lack of effort to receive and process the information. It could be that the problem isn't that the board "didn't know", as the Icelandic oil boards and the Enron board argued, but rather it

didn't want to know about any corporate misconduct (Jonsson, 2006). The effects can be the same. It doesn't, however, change the fact that boards are not getting the information they need to govern corporation as their legal obligations ask of them and which could furthermore increase the possibility for the board to create value for the company.

Three theoretical sources address the problem of information flow. Firstly the information processing approaches in contingency theory (Chandler, 1962; Galbraith, 1973; Lawrence and Lorsch, 1967), and secondly, agency theory (Jensen and Merckling, 1976; Fama and Jensen, 1983; Kosnik, 1987) address information asymmetry. Thirdly, there is system design theory which focuses more on the information flow within companies.

Contingency theory has two main assumptions; there is no best way of organizing and different ways of organizing are not equally effective (Galbraith, 1973, p. 2). The argument is that organizations must fit their structure and processes to their environment. Firstly companies should align their structure to environmental uncertainty as a more mechanical way can fit a stable environment than unstable environment, that requires a more organic way of fitness. Secondly companies need to align their structure to the overall environment, in which companies in a more complex environment need more complex structure to cope with it (Hedman and Kalling, 2002). The environment is therefore characterized by the complexity and uncertainty it poses on organizations (Lawrence and Lorsch, 1967; Galbraith, 1973). Galbraith (1973; 1977) suggested that organizations should minimize environmental uncertainty by processing information to handle the complexity of the task and the uncertainty possessed by the environment. He offered two strategies; 1) to reduce information processing needs and 2) to increase capacity to handle more information (see figure 1). Strategic contingency theory, furthermore emphasis the importance of: choice, different interests and goals and the role of power, in determining organizational structure (Child, 1984; Pfeffer, 1982).

System design theory does primarily emphasize the importance of internal information flow to increase efficiency. This is different from contingency theory, which focuses on information flow to cope with uncertainty in the environment (Hedman and Kalling, 2002). Information flow, within system design theory, is to help with the question of how to divide labour into relevant tasks and how to coordinate those tasks (Mintzberg, 1979). To divide labour into tasks has the technical aspects to it, to divide tasks into manageable subtasks, and the issue of allocating people to do the tasks. The key issue is to match certain competencies of people to certain tasks. Coordination of tasks has three main mechanisms: mutual adjustment using informal communication, direct supervision for assigning responsibility and a chain of command and standardisation of work processes, work outputs and workers skills.

Structure influences companies' abilities to collect and process information in order to make decisions. It furthermore affects the ability to monitor and motivate behavior once particular decisions are made (Oster, 1994). Galbraith (1973) argues that a well-designed bureaucracy has value because it allows organizations to process tasks that would be impossible to accomplish in any other way. Williamson (1975) argues that transaction costs can be minimized by using a multidivisional structure, rather than functional, as it reduces information overload problems. As organization grows, some hierarchy is needed in order to expedite the information-collection and decision-making processes (Karen and Levhari, 1983). Pfeffer (1982) argues, however, that increasing the number of levels in a hierarchy can lead to obfuscation of information flows in much the same way that messages become garbled in the familiar children's game of telephone. Increased hierarchy can furthermore give members of the hierarchy the opportunity to divert the communications system to their own uses, leading to some kind of distortion in the information provided (Williamson, 1975).

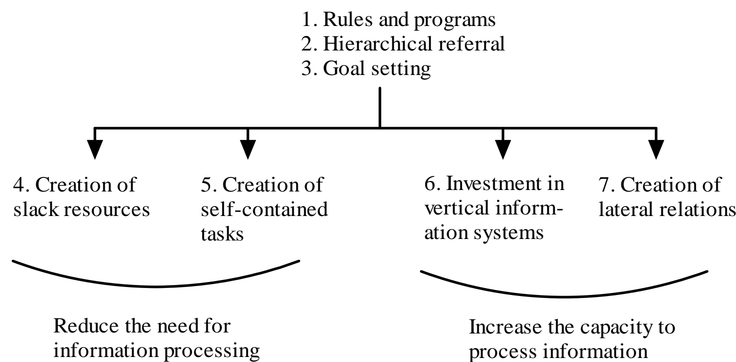

Figure 1. Information processing (Galbraith, 1973)

Agency theory assumes that individuals suffer from bounded rationality and that information is distributed asymmetrically throughout the organization (Eisenhardt, 1989). It furthermore is based on the assumption of opportunism (Oster, 1994).

VIRTUS NTERPRESS®

The problem of information asymmetry is explored by Akerlof (1970) in the automobile market where he argues that asymmetry of information supports a market for "lemons". The buyer and the seller do not have the same information about the quality of cars. In essence this describes the management and board relationship towards information, nearly all of the information that the boards acquires comes from management (Nadler, 2004). Management is likely to have the best access to company specific information, especially the internal information, as it has a system to collect, evaluate and analyse the information, although it depends on how effective and efficient that system is. The board usually does not have a special system for gathering, evaluating and analysing the information. The board is therefore likely to rely mostly on the information system that management has acquired or the information that management filters to the board from that information system (Nowak and McCabe, 2003; Nadler, 2004; Lorsch and Carter, 2004). There are mainly four problems that have been identified with information asymmetry and the process of filtering information to the board:

1. *Information overload* – too much information goes through the filtering process, which makes it hard for the board to see the forest for trees (Lorsch and Carter, 2004; Nadler, 2004).
2. *Information malnutrition* – too little information goes through the filtering process, which makes it hard for the board to make as good judgements and decisions as they otherwise could (Cohan, 2002; Nadler, 2004).
3. *Information blockages* – important information is blocked from reaching the board and therefore can never be discussed at board level (Coffee, 1977; Coffee, 2002).
4. *Misinformation* – the board is deliberately provided with wrong information (Coffee, 2002).

Coffee (2002; 2006) has argued that the failure of the Enron board was not a failure of directors per se but rather a failure of gatekeepers who were supposed to assure that the board got authentic and right information. The gatekeepers were management, accountants and consultants that were supposed to validate information and present them to the board. Information malnutrition is probably the most usual translation of information asymmetry although it can be argued that the failure of gatekeepers is because of information blockages or misinformation as in the Enron-case (Coffee, 2002) and the case of the oil cartel in Iceland (Jonsson, 2006). In such cases decision makers attempt to do the best they can, given inevitable limits on their information-processing abilities as it is simply impossible for them without considerable cooperation to gather and process all the information needed for decision making (Oster, 1994). Information overload, ironically, is when gatekeepers provide too much". "Most directors tell us they are overwhelmed with the *volume* of material they receive but 'underwhelmed' by the *content*" of this information (Lorsch and Carter, 2004, p. 150). Too much information can be an effective way to hide the truth as facts and issues become buried in pile of documents. That is why quality of information is usually better than the quantity. At times it is more important to move quickly in markets than striving for the more informed vision created by centralization of information (Eisenhardt, 1990).

The issues of information asymmetry and the quality and quantity discussions are furthermore enlightened by March and Simons (1958) work on bounded rationality. Rationality does not always entail thoughtful choice but only the following of rules, and organizational decision-making is a conception of cognitive limits by individual decision-maker. Bounded rationality can therefore explain why information might not be used although it is available. Simon (1976, p. 79) stressed that:

> *It is impossible for the behavior of a single, isolated individual to reach any high degree of rationality. The number of alternatives he must explore is too great, the information he would need to evaluate them so vast that even an approximation to objective rationality is hard to conceive. Individual choice takes place in an environment of "givens" premises that are accepted by the subject as bases for his choice; and behavior is adaptive only within the limits set by these "givens".*

Information flow is therefore limited because of knowledge; i.e., peoples' limited ability to remember and readily recall information, the use of simplistic rules to process information and insufficient education and intelligence to process information (Carlton and Perloff, 1994). Given the limited ability of board members to process information and the cost of acquiring information, it is obvious that many decisions need to be delegated and others made with imperfect information (Simon, 1976). "Ideally, the organizational structure should be such that the "right" information filters up to senior management to inform the "important" decisions in a cost effective way, while other decisions are made at lower levels in the hierarchy" (Oster, 1994, p. 172).

This asymmetry of information is source of power in organizations. "By controlling knowledge and information, a person can systematically influence the definition of organizational situations and can create patterns of dependency (Morgan, 1998, p. 166). It is power which gatekeepers can abuse *vis-à-vis* the board of directors as they have the role of filtering information and verifying its authenticity (Coffee, 2002). Opportunism leads people to abuse that power for their own ends (Oster, 1994). Therefore agency theory is concerned with limiting the possibilities of opportunism in the world of bounded rationality. Incentives and information are two of the drivers of organizational design (Oster, 1994).

"Ignorance is no excuse"

Many propositions have surfaced in the last few years that are designed to cure the illness of board behavior. The emphasis on monitoring and control in regulations has been the grand plot, where the main focus is on independence of board members, split role of CEO and chairman of the board and committees as support groups (Stiles and Taylor, 2001). Such measures only partly address the importance of information flow and information architectures. It has been pointed out that the Enron-board had already ticked the right boxes of these corporate governance requirements (Clarke, 2004).

Whenever information is transferred, there is a possibility of deception that leads to the process of evaluation on the part of the receiver and authentication on the part of the provider (Hirshleifer, 1979). It is hard, however, to provide any guarantees, as is the standard solution to the information asymmetry problem (Akerlof, 1970). Several solutions have been proposed in the literature: 1) a due diligence process for evaluation (Coffee, 1977; Garratt, 2003); 2) other and independent sources of information flow to the board (Stone, 1975; Nadler, 2004), 3) a stronger whistle blower culture (Stone, 1975; Cohen, 2002). However, as Coffee (1977, p. 1108 and p. 1146) pointed out, there are "indications that replacing the current club-like intimacy between the board and management with the adversarial atmosphere that would accompany diligent monitoring by a moralistic board" and "near-paranoid sensitivity of corporate managers toward internal spies would intensify the problem of information blockages by causing greater restrictions to be placed on the intra-corporate flow of information."

Some of these problems regarding information flow to the boards can be minimized, if not removed, using information technology and information systems (Banks, 2004). In fact, companies have already started to use new technology to provide directors rapid access to information, like the Australian telephone company Telstra (Lorsch and Carter, 2004). Telstra has an information system online for its directors, which includes agendas, board and audit committee charters, policies, announcements by the company to the stock exchange, news clippings, news summaries and a few other matters. The system also includes a secure e-mail system for communication with directors. Other companies have incorporated information systems like the balanced scorecard at board level to give directors a simple but wider picture of how the company is doing (Lorsch and Carter, 2004). Kaplan and Norton (2006) have proposed the Balanced Scorecard as a solution to the problem where three components programme of an enterprise scorecard, executive scorecard and a board scorecard.

Charan (2005) argues that the board itself needs to design the information architecture. Information architecture describes all of the ways the board gets information, what kind of information, when and in what format. He proposes five channels of information sources:

Channel 1 – Board briefing: A succinct report that captures the current state of affairs with no jargon, to prepare directors before each board meeting.

Channel 2 – Management letter: A short topical letter or communication from the CEO that keeps directors abreast of current conditions within and outside the company between meetings.

Channel 3 – Employee survey: A periodic instrument the board can request from management to monitor a specific set of issues.

Channel 4 – Director outreach: The commitment of time to visit stores or plants, speak directly with line managers, attend conferences, and otherwise experience the business firsthand.

Channel 5 – Reports from committees: Recommendations and relevant background information presented to the full board.

Garratt (2003) has emphasised the importance of creative thinking at the board level as the board needs information and discussion that will fire the synapses and create creative lateral thinking. This can be labelled as a more proactive way for boards to deal with problems of lack of information as independent directors are responsible for obtaining adequate information, which can range from asking the CEO questions to seeking a second opinion and checking the reliability of information (Nowak and McCabe, 2003).

Evaluations of boards and their needs has become a big business, both as quantitative and qualitative research (Leblanc, 2006). This is in sink with what Nadler (2004, p. 102) said: „The key to better corporate governance lies in the working relationships between boards and managers, in the social dynamics of board interaction, and in the competence, integrity and constructive involvement of individual directors". Checking information source, quantity, quality, timeliness and format is increasingly becoming a part of the evaluation process (Leblanc, 2006). Evaluations of boards have, however, often become box-ticking exercises with only limited importance (Stiles and Taylor, 2001; Kiel, 2004).

In other words, to summarize, the problem regarding the information issue of boards are:

a) The need for information – what is the right information?

b) The importance of the source of information – is there control of validity?

c) The filtering process – what information doesn't reach the board and why?

d) Gatekeepers – are they insuring the board gets the right information?

e) The information flow – what is the right amount, timeliness and form of information?

f) Bounded rationality – do the board members and can they understand the information to base their decisions on?

Three cases

The following cases are built on semi-structured interviews with board members of the companies. Furthermore the media and journals were surveyed for relevant information regarding the cases. The case of the oil company builds on the report published by the Competitive Counsel, which in more than thousand pages describes the evidence of illegal collaboration between three oil companies. The original idea for this paper was to find companies that could be examples to others regarding the information system at board level. A snowballing approach didn't, however, lead to any companies that could be said to be exemplary in regards of dealing with information at board level. Therefore the cases portrayed here are examples that can enlighten the discussion about corporate governance and information.

The Oil Company - The filtering process

In October 2004 were three companies accused of price fixing in the Icelandic oil industry. The illegal collaboration had been going on for over a decade according to the investigation of the Icelandic competition counsel. The case received huge media attention and created public outrage. The media demanded explanations and for those accountable to be punished. The board members, however, claimed that they didn't know anything about the illegal collaboration. Mr. Sturlaugsson, a director for HB, one of the biggest fishing companies at the time, stated that: "Directors of Skeljungur were never informed of the collaboration between the oil companies that is described in the report from the Competition Counsel and I knew nothing about it" (Morgunbladid, 2004a). He furthermore pointed out that because he was running a fishing company, which is a heavy user of oil, he "would have been fooling himself if the collaboration between the oil companies had been known." (Morgunbladid, 2004a). Mr. Sigurgestsson, another director of Skeljungur, a CEO of the leading shipping company in Iceland and chairman of the main airline at the time, stated that the collaboration "was never discussed at the board of Skeljungur, and as far as I know, none of the directors knew about this collaboration" (Morgunbladid, 2004b). When asked whether the board did not discuss matters regarding the company that appeared in the media, Mr. Sigurgestsson answered: "Of course up to a certain point the discussion in the media was considered at meetings, but nothing suggested to us that the accusations were true and that there actually was a collaboration between the oil companies" (Morgunbladid, 2004b). All the directors of the oil company who were interviewed for this paper maintained that they had not known about the illegal collaboration.

In interviews with the board members they argued that although the oil companies had they same prices there was perfectly reasonable explanation for that as a price war for a commodity was not a strategy that any of the companies was interested in. It was, however, not to their knowledge that the managers of the companies and middle management actually negotiated prices and which company should get contracts in open bids. They didn't even suspect that something illegal was going on, as one board member put it. All the boards were 'watchdog' boards which were concerned primarily with monitoring the financial performance of the company, looking at income statements and projections, market situation, price of oil, investment analysis etc. It seems that most, if not all, were satisfied with the information flow "as nobody complained". Another board member explained: "The board believed that they had received all the information that they needed… the information system was something that had been developing over a long period of time". However, all the information came from the CEO who acted as a gatekeeper, filtering information for the board. In all cases, the directors said that they were very dependent on the CEO for information, although the chairman also met regularly with the auditors. The origin of information was described as being the primary constraint regarding information, not their knowledge, time or motivation. "The board was very dependent on the CEO for information… and we expected that he would tell the truth". One of the board members complained that the CEO had lied to board members when he was approached after one of the meetings to discuss if there was any truth in these allegations. The CEO answered it was all old history, something that happened ten years ago when the three companies were under governmental price control system and in the aftermath of when that system was abolished. The board members believed the CEO.

The directors were asked about solutions to the problem of information asymmetry and filtering in the light of their experience. A few mentioned that it was important for the board to ask the obvious questions like "is the company following rules and regulation in the country" on record rather than assuming that this is the case. One director suggested that it might be helpful to have a questioning session once a year, where directors or even an independent agent would question the CEO about issues that are usually not on the agenda of the board and if the company was being run as it should be run. "Then we would have a written record that showed that the board had been fulfilling its monitoring duties". One director said that there was need for a more direct approach to questioning the CEO. Furthermore, the issue of having independent lawyers and internal investigators answering only to the board were raised, especially if there was need for "a more formal analysis about certain issues". Ideally, it would be

better that "the board had the loyalty of some senior accountant or internal investigator".

In other words, the problem could have been avoided if the board would have been getting the right information from internal sources and if the filtering process was working as it should but important information not blocked from reaching the board or the board was misinformed. The solution suggested to these problems were that other internal information sources could have helped to inform the board and a more hard questioning and probing for the CEO could have at least insured the board that they were trying their best to get the information they were supposed to have.

Bakkavor - External networking

Bakkavor is one of the fastest growing companies in Icelandic history. It started in the early nineties in the fishing sector in Iceland producing caviar and related products but has since become the biggest player in the fresh food business in the UK after buying companies like Katsouris Fresh Food in 2001, Geest in 2004, Hitchen Foods in 2005 and Laurence Patisseries and New Primebake in 2006. It has grown from roughly 20 million pounds company in 2000 to over 800 million pounds company in 2006. The chairman and CEO have been the same two men from the start, brothers, and they shifted positions this year for the first time. Furthermore, they have from the start had a ruling stake in the company.

Three interviews have been taken with the chairman of the board for this case. Agust Gudmundsson, the chairman of Bakkavor, has said that the role of the board is on one hand to emphasise on strategy and on the other to monitor the operation of the company. "I think those two tasks are equally important and boards should have the same responsibility towards both obligations". In the first interview that "buying a company like Katsouris Fresh Food is a big project as we were buying a company many times the size of ours company and at the time the biggest takeover in Icelandic business history. But the board was well prepared for the project as the members have extensive experience and knowledge in the food industry. It will, however, not be denied that the board needed to go a little travelled roads some parts of the way". The position that the board has *vis-à-vis* the CEO is somewhat unique as the chairman and the CEO are brothers which should minimize the problem of filtering to the chairman although there wasn't any inquiry in this case on how other members of the boards were informed. The chairman argued though that they were all on the same boat and the discussions were open and honest at board meetings. It is, however, the external network of the board members which has been most important for the growth strategy of the company as to understand and analyse potential acquisition targets for the future.

In other words external information sources due to network abilities of board members makes the board valuable when the company focus in on growth strategy. A trust relationship between management and board, although not necessarily to be brotherly, can furthermore minimize the information asymmetry. It is the elements of stewardship theory, in contrast to agency theory, that the agency conflict is minimized and the focus is on strategy.

Nýherji - Information strategy

Nýherji is a computer service and software company, specialising in companies and public institutions in Iceland. It was founded in 1992 with a merger of two computer and software retailers. Nýherji is a leading service and computer technology provider for big businesses in Iceland and has about 85% of its operations in Iceland. There are a few competitors and the competition has been fierce as some of the competitors went bankrupt after the burst of the technology bubble. However Nýherji has kept its position and has had a stable existence in the last few years, focusing on survival and internal growth. The company has a close relationship with IBM which was one of the founders but sold its 25% share in 1997. The turnover in 2005 was 66 million pounds.

The structure of the board has been stable for years in Nýherji with only three board members, making it the smallest board of a registered company on the Icelandic stock exchange. The leading investor, who represents 33% of the shares, is the vice-chairman and has sat on the board since the company was founded, the first four years as chairman. He is a former professor of business at the University of Iceland and one of the most experienced board members in Iceland. The chairman, also a rather big shareholder in the company, is also an experienced board member who has been chairman of many influential companies. The role of the board is described as a mixture of a watchdog and an advisor. One of the reasons for this is the traditional approach of the chairman, as he explained: "Boards are supposed to monitor regularly what is happening in the business and furthermore decide on a broad agenda for the company with the CEO." However the complication and fast moving pace of computer technology has also restricted the involvement of the board.

The board of Nýherji has set up a system of which the board members can get a "nearly real-time" information about business operations. The CEO often informs them between board meetings about what is going on. The financial manager and the CEO are required to answer questions from all the board members. "The contact increases the information flow to the members of the board between board meetings and makes the board members more secure about they can get all the information that they need when they need it". Real time financial information has been available for the last few years and has made

"decision making more smooth and the board members more confident about taking necessary decisions," as the chairman pointed out. He furthermore pointed out that is was important that "board members were always well informed about the big corporate issues and weren't reading something that was news to them about the company in the newspaper".

In other words by increasing the options and the freedom of board members to seek information increases the confidence of board members and helps them make better decisions. Furthermore, more than one internal source decreases the possibility of information asymmetry and makes it unlikely that important information is filtered away before it reaches the board level. A clear information strategy that insures that the board members are the first, rather than the last, to hear about what is happening in the corporation is further a working strategy that increases the importance of information reaching the board as soon as possible.

Conclusions

Information is a very important element for boards to function. Boards need the right information, at the right time and in right format to be able to do the work they are supposed to do as well as they possibly can. The case of the board of the oil company supports the claim that board members can be the last to know about the corporate misconduct. When it matters a public outrage in a small society there is no wonder that board members find information asymmetry troublesome, especially when few believe that they didn't know of what was happening. The second case of a company with extreme growth strategy the advantages of minimized information asymmetry and the importance of external network as source of information is supported. The third case of a company in the computer industry emphasises the importance of information strategy at board level and that asymmetric information can be reduced with better access to information when needed and from more than one source. Therefore the case studies show that there are issues of concern regarding information asymmetry as the literature review claims and there are ways to help boards to become more informed and better equipped for doing their job. Information can create insights, lower unfounded risk aversion, and promote worthwhile action and investment. Ignorance isn't longer any excuse for boards, they need to be more proactive to set up an information system that provides them with the information needed and checks its validity. The power of information can make or break boards, make them into a valuable organ on the top of the organization or leave them as a mere rubber stamp or an ornament for ceremonial purposes.

References

1. Akerlof, G. (1970), 'The Market for 'Lemons': Quality Uncertainty and the Market Mechanism', *Quarterly Journal of Economics*, Vol. 84, pp. 488-500.
2. Banks, E. (2004), *Corporate Governance: Financial Responsibility, Controls and Ethics.* Palgrave Macmillan.
3. Chandler, A. (1962) *Strategy and Structure*. Cambridge, MA.
4. Charan, R. (2005) *Boards that Deliver.* John Wiley & Sons, SF.
5. Charlton, D. and J. Perloff (1994) *Modern Industrial Organization.* Harper Collins College Publishers, NY.
6. Child, J. (1984) *Organization; A Guide to problems and practice.* Harper & Row, London.
7. Clarke, T. (Ed.) (2004), *Theories of corporate governance: The philosophical foundations of corporate governance*. Routledge.
8. Coffee, J.C. (1977). 'Beyond the Shut-Eyed Sentry: Toward a Theoretical View of Corporate Misconduct and an Effective Legal Response' *Virginia Law Review*, 63, 7, 1099-1278.
9. Coffee, J.C. (2002). Understanding Enron: 'It's the Gatekeepers Stupid', *The Business Lawyer*, 57, August, 1403-20.
10. Coffee, J.C. (2006). *Gatekeepers: The Professions and Corporate Goverance.* Oxford, University Press
11. Cohan, A. J. (2002). '"I didn't know" and "I was only doing my job": Has Corporate Governance Careened Out of Control?'. *Journal of Business Ethics*, 40 (3), 275-299.
12. Davenport, T. H. (1997). *Information ecology.* New York: Oxford University Press.
13. Drucker, P. (1974). *Management: Tasks, Responsibilities, Practices*. New York: Harper and Row.
14. Eisenhardt, K. (1990). 'Speed and Strategic Choice: How managers accelerate decsision making'. *California Management Review*, 32, pp. 1-16.
15. Eisenhardt, K. L. (1989). 'Agency theory: a review and assessment'. *Academy of Management Review*, 14 (1), 57-74.
16. Fama, E. F. and Jensen, M. (1983). 'Separation of ownership and control'. *Journal of Law and Economics*, 26, 301-325.
17. Fox, L. (2003). *Enron – The Rise and Fall*. John Wiley and Sons, Inc.
18. Galbraith, J.R. (1973). *Designing complex organizations.* Reading MA: Addison-Wesley.
19. Galbraith, J.R. (1977). *Organization Design*. Addision-Wesley, Reading.
20. Garratt, B. (2003). *Thin on Top*. London: Nicholas Brealey Publishing.
21. Headman, J. and Kalling, T. (2002) *IT and Business Models: Concepts and Theories.* Författarna och Liber AB.
22. Hedman, J. and T. Kalling (2002) IT and Business Models. Forfattarna och Liber, Sweden.
23. Hirschleifer, J. (1973). 'Where are we in the theory of information'. *American Economic Review*, 63, 2, 31-39.
24. Jensen, M.C. and Meckling, W.H. (1976). Theory of the Firm, Managerial Behaviour, Agency Costs and Ownership Structure, *Journal of Financial Economics*, October, 305-60.

25. Jonsson, E. (2006) Price Fixing in the Icelandic Oil Industry: Where were the boards?, *Journal of Business Governance and Ethics*, forthcoming.
26. Kaplan R. and D. Norton (2006) *Alignment.* Harvard Business School Press.
27. Kosnik, R.D. (1987). 'Greenmail: a study of board performance in corporate governance.' *Administrative Science Quarterly,* 32, 163-185.
28. Lawrence, P. and Lorsch, J. (1967). *Organization and Environment: Managing Differentiation and Integration.* Boston, MA: Harvard Business School.
29. Leblanc, R. (2006) Assessing the Effectiveness of Boards of Directors and Individual Directors, in *International Corporate Governance After Sarbanes-Oxley*, (ed. Ali, P.U. & Gregoriou, G. N.). John Wiley & Sons, Inc.
30. Lorsch, J. W. and Carter, C. B. (2004). *Back to the Drawing Board*. Boston: Harvard Business School Press.
31. March, J. and H. Simon (1958) *Organisations.* John Wiley, New York.
32. McLean, B. and Elkind, P. (2003). *The Smartest Guys in the Room.* Penguin Group.
33. Mintzberg, H. (1979) *The Structuring of Organizations.* Prentice Hal, Englewood Cliffs.
34. Monks, R.A.G. and Minow, N. (1996). *Watching the Watchers: Corporate Governance for the 21st Century.* Blackwell Publishers, Inc.
35. Morgan, G. (1998). *Images of Organization*. SAGE publications.
36. Morgunbladid (2004a) 'Ekki kunnugt um samráðið'. *Morgunblaðið*, 10th November.
37. Morgunbladid (2004b) 'Vissi aldrei um samráðið' *Morgunblaðið*, 9th November.
38. Mueller, R.K. (1993). *Building a Power Partnership: CEOs and Their Boards of Directors.* New York: Amacom.
39. Nadler, D. (2004). 'Building better boards'. *Harvard Business Review*, May, 102-112.
40. Nowak, M.J. and McCabe, M. (2003). 'Information costs and the role of the independent corporate director'. *Corporate Governance,* 11, 4, 300-307.
41. Oster, S. (1994) *Modern Competitive Analysis*. Oxford University Press.
42. Pfeffer, J. (1978) *Organizational Design*. Northbrook, IL.
43. Pfeffer, J. (1982) *Organizational Design*. AHM Arlington Heights.
44. Pfeffer, J. (1982) *Organizations and Organization Theory*. Boston.
45. Simon, H. (1973) 'Applying Information Technology to Organizational Design'. *Public Administration Review*, May-June, pp. 268-278.
46. Simon, H. (1976) *Administrative behavior.* MacMillan, New York.
47. Stiles, P. And Taylor, B. (2001). *Boards at Work – How Directors View their Roles and Responsibilities.* Oxford: Oxford University Press.
48. Stone, C. (1975). *Where the Law Ends.* Boston: Harvard University Press.
49. Turnbull, S. (2002). 'The Science of Corporate Governance', *Corporate Governance,* 10, 4, 261-277.
50. Williamson, O. (1975) *Markets and Hierarchies*. New York.