An Excellent & Innovation-Orientated Boardroom (*Gathered Articles*): A North America, Asia, Africa, Oceania & Europe Perspective 1st Edition

RUDOLPH.PATRICK.T.MUTESWA

FIRST EDITION

An Excellent & Innovation-Orientated Boardroom (*Gathered Articles*): A North America, Asia, Africa, Oceania & Europe Perspective 1ˢᵗ Edition

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BBA, BCom Honors & MCom (UKZN South Africa)

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PREFACE TO THE FIRST EDITION

Nowadays what determines a 'brilliant and highly functional boardroom' is its ability to embrace, adapt, implement and uphold 'innovation'. The performance of the world's largest corporations' boards nowadays is also determined by their ability to embrace, adapt, implement and uphold an 'innovativeness corporate culture' in their overall strategy. Good business leadership is one of the key ingredients of attaining success at the workplace by board of directors and the management of the organization. The purpose of this book is to educate readers that innovation is now inevitable in this highly dynamic 21st century business environment in both profit-making and nonprofit making organizations and their boards. Therefore, one of the main duties of a board of director whether he/she is based in the continent of North America or Oceania or Africa is to set a corporate innovation agenda in the organization. Another purpose of this book was to introduce readers to the basic roles & functions of a board and how to become an innovation-orientated board via innovation strategy. The other aim of this book was to highlight the impact of recruitment on boosting innovation in the boardroom. Lastly, another aim of this book was to contribute to the board of director profession, field of management & business leadership focusing on the development of a board of director by publishing a free *eBook* and *a print hard copy* to empower all chairpersons, company secretaries, board of directors, CEOs, COOs, CFOs, managers, head of departments (*namely: human resources, marketing, operations & supply chain, finance, information technology, research & development, legal affairs and so on*), business executives, and so on. This book specifically targeted people in the continent of Africa, North America, Europe, Oceania and Asia in order to provide them with basic knowledge about the role played by a board in driving an innovation culture in an organization today since a book is '*a source of wisdom*' that can positively influence others to become ethical and better people in society. Furthermore, l wrote this book to help promote a culture of book writing amongst the people of this 21st century in order to enhance knowledge sharing or academic wisdom through book publishing in both developed and developing countries to help promote ethical global economic development. I noticed that in this life we live today humanity can only progress through consistent learning or knowledge sharing and the desire for consistent learning can only be strengthened through book writing and rigorously promoting a culture of book writing amongst all people located across the world in various career-fields.

Acknowledgement:

I would like to thank my 6 (*four brothers & two sisters*) siblings for tirelessly supporting me towards my education and personal life goals. I would also like to take this opportunity to greatly thank my late parents, aunties and uncles for the great role they played in my childhood. Furthermore, I shall forever be grateful to the great men and women in the continent of Africa, North America, Europe, Oceania and Asia who contributed in the writing of this book in particular all the named leading 'iconic' entrepreneurs, business leaders, organizations & the various information sources cited in this book.

Chapter 1: Introduction to board management

After reading this chapter you should be able to:

- Introduce and explain the critical ingredients that produce a brilliant and highly functional board.
- Describe the definition of a board of director.
- Understand the meaning of innovation and creativity. Identify the importance of innovation to a business.
- Describe inspirational innovation centered global businesses.
- Explain the habits that help to promote innovation and creativity in a board.

1.1 Introduction

The most critical ingredient or driver of prosperity in any type of organization in terms of achieving good corporate governance, high quality management, profitability and effective branding strategies is its 'board of directors'. Generally an organization's board of directors play a critical role in ensuring that the organization: (1) successfully aligns its corporate strategy to its various business functions, (2) it continuously aims to enhance its 'employer brand' status in the labour market, (3) it continuously enhances both its market position and market value in order to consistently attain its set operational and profitability goals. Interestingly, an organization cannot succeed in its day-to-day activities without the critical input of its board of directors as they help to give it strategic guidance and direction on how to enhance or maintain its current market position. Nowadays what determines a 'brilliant and highly functional boardroom' is its ability to embrace, adapt, implement and uphold 'innovation'. Nowadays the performance of the world's largest corporations' boards is mainly determined by their ability to embrace, adapt, implement and uphold an 'innovativeness corporate culture' in their overall strategy. Another critical ingredient that produces a 'brilliant and highly functional boardroom' is effective change management since any form of change is simply 'innovating' for the better and this will be covered later on in greater detail in Chapter 3. The functions of a board are broad and they can only be achieved by board of directors who are focused and highly engaged.

A good example of an organization that is innovation centred is the Illinois, Chicago, United States of America headquartered Boeing Corporation (Boeing, 2019). "Since July 15, 1916, we've been making the impossible, possible. From producing a single canvas-and-wood airplane to transforming how we fly over oceans and into the stars, The Boeing Company has become the world's largest aerospace company. And we're just getting started. Thank you for making 2016 unforgettable with events, activities and commemorations that celebrated not only our first century of innovation, but also the people and moments that inspire us to live by our founder Bill Boeing's philosophy – *'build something better.'*"[1] (Boeing Inc., 2019, https://www.boeing.com/history/). [2]*"Boeing Overview.* Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners, defense, space and security systems, and service provider of aftermarket support. As America's biggest manufacturing exporter, the company supports airlines and U.S. and allied government customers in more than 150 countries. Boeing products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training. Boeing has a long tradition of aerospace leadership and innovation. The company continues to expand its product line and services to meet emerging customer needs. Its broad range of capabilities includes: creating new, more efficient members of its commercial airplane family; designing, building and integrating military platforms and defense systems; creating advanced technology solutions; and arranging innovative financing and service options for customers. With corporate offices in Chicago, Boeing employs more than 153,000 people across the United States and in more than 65 countries. This represents one of the most diverse, talented and innovative workforces anywhere. Our enterprise also leverages the talents of hundreds of thousands more skilled people working for Boeing suppliers worldwide. Boeing is organized into three business units: Commercial Airplanes; Defense, Space & Security; and Boeing Global Services, which began

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[1] Boeing Inc., *History: Thank You for Celebrating Our Centennial with Us!*, [Website], 2019, https://www.boeing.com/history/, (accessed 18 July 2019).

[2] Boeing Corporation, *Overview,* [Website], *2019,* https://www.boeing.com/company/general-info/index.page#/overview, (accessed 18 July 2019).

operations July 1, 2017. Supporting these units is Boeing Capital Corporation, a global provider of financing solutions. In addition, functional organizations working across the company focus on engineering and program management; technology and development-program execution; advanced design and manufacturing systems; safety, finance, quality and productivity improvement and information technology"[3] (Boeing Corporation, 2019, https://www.boeing.com/company/general-info/index.page#/overview). "There's more innovation underway today at Boeing than at any time in our 101-year history. Recent examples of innovation include the first flights of the 737 MAX 9, 787-10, and T-X, among other milestones such as the launch of Boeing AnalytX and Boeing HorizonX. Teams across the global Boeing network continue to transform how we design and build our products, the systems that enable us to work more efficiently, and the work we do to improve the environmental performance of our products and internal operations. With more than $3 billion invested annually in research and development, Boeing drives innovation that will transform aerospace and defense as we know it"[4] (Boeing, 2019, https://www.boeing.com/innovation/). "*When an accident occurs, we feel it deeply across our company and it intensifies our dedication to designing, building and supporting the safest products in the industry*"[5] (Boeing, 2019, https://www.boeing.com/features/innovation-quarterly/2019_q3/thought-leadership-dennis.page). The meaning of the term board of director will be covered in the next section.

1.2 Definitions of the terms 'innovation', 'creativity' and 'board of director'

Today there are several definitions that have been developed by numerous academics, business management gurus and industry experts over the past number of years. *Innovation* can be defined

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[3] Boeing Corporation, *Overview,* [Website], *2019,* https://www.boeing.com/company/general-info/index.page#/overview, (accessed 18 July 2019).

[4] Boeing Inc., *Innovation*, [Website], 2019, https://www.boeing.com/innovation/, (accessed 18 July 2019).

[5] Boeing Inc., *From Concept to Business: Boeing HorizonX India Innovation Challenge*, [Website], 2019, https://www.boeing.com/features/innovation-quarterly/2019_q3/thought-leadership-global.page (accessed 18 July 2019).

as: "A change in a product offering, service, business model or operations which meaningfully improves the experience of a large number of stakeholders"[6] – *Hutch Carpenter* (Hutch Carpenter, 2010, https://www.innovationexcellence.com). "*Creativity* is the act of turning new and imaginative ideas into reality. Creativity is characterised by the ability to perceive the world in new ways, to find hidden patterns, to make connections between seemingly unrelated phenomena, and to generate solutions. Creativity involves two processes: thinking, then producing"[7] (Naiman, 2014, www.creativityatwork.com). Furthermore, according to the Institute of Directors in New Zealand (2018) a board is:

• a group who meet regularly to look at the performance and strategic progress of the company

• at least one independent director and other owner-operator directors (executive directors)

• a group who can separate themselves from the day-to-day operations and take a bird-eye view of the business

• a group who can debate the difficult issues and come out with a clear decision for the future of the company

• ultimately, a group who guides, and is committed to, the company[8] (Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/FirstBoards/What-is-a-board). The importance of innovation to an organization and its board will be covered in the following section.

1.3 The importance of innovation to a business

The need or the ability to generate fresh new ideas on a regular basis nowadays plays a significant role in determining the continual survival of each and every organization while on the other hand this has added more value to the concept of 'innovative thinking' in organizations.

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[6] Hutch Carpenter (2010) *Definitions of Innovation*. Available from:
https://www.innovationexcellence.com/blog/2010/08/22/25-definitions-of-innovation/

[7] Naiman, L. (2014) *What is Creativity*. Available from: https://www.creativityatwork.com/2014/02/17/what-is-creativity/

[8] Institute of Directors in New Zealand (2018) *What is a Board?* Available from:
https://www.iod.org.nz/FirstBoards/What-is-a-board

The six ways that help to determine how innovation is important to an organization and its board are depicted in Figure 1.1 below.

Figure 1.1 The four ways that help to determine how innovation is important to an organization & its board

As previously highlighted by Figure 1.1 the six ways that help to determine how innovation is important to an organization are further discussed in-depth below:

1.3.1 It helps to improve the problem solving abilities of the board members

"In economic terms, *innovation* describes the development and application of ideas and technologies that improve goods and services or make their production more efficient. A classic

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example of innovation is the development of steam engine technology in the 18th century. Steam engines could be put to use in factories, enabling mass production, and they revolutionised transport with the railways. More recently, information technology transformed the way companies produce and sell their goods and services, while opening up new markets and new business models"[9] (European Central Bank, 2017, www.ecb.europa.eu/). In general there is no doubt that innovation plays a critical role in increasing the problem solving abilities of board of directors in any organization. Every organization despite its size (*small or large*) or type (*for profit or nonprofit*) often faces various challenges on a day-to-day basis and these challenges require business leaders who have the right attitude, motivation and an innovation-focused mindset to strategically tackle them. An innovation driven board often generates new value adding ideas, concepts or strategies that help to easily move the organization towards the attainment of its set short and long term goals. A typical good example of two organizations that have thrived as a result of innovation is Harmondsworth, United Kingdom leading airline company called 'British Airways' the flag carrier airline of the nation of the United Kingdom which is now owned by the Spanish firm the 'International Airlines Group' (IAG). The current Chief Executive of IAG is Mr. Willie Walsh whilst Mr. Alex Cruz is the current Chief Executive of British Airways[10] (British Airways, 2019, www.britishairways.com). *"Celebrating 99 years of flying with pride*. British Airways can trace its origins back to the birth of civil aviation, the pioneering days following World War I. In the 99 years that have passed since the world's first schedule air service on 25 August 1919, air travel has changed beyond all recognition. Each decade saw new developments and challenges, which shaped the path for the future,.. On 25 August 1919 Aircraft Transport and Travel Limited (AT&T), a forerunner company of today's British Airways, launched the world's first daily international scheduled air service, between London and Paris. That first flight, which took off from Hounslow Heath, close to today's Heathrow Airport, carried a single passenger and cargo that included newspapers, Devonshire cream, jam and grouse" (British Airways, 2019, www.britishairways.com). Since its establishment over 99 years ago British Airways has successfully managed to make innovation

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[9] European Central Bank (2017) *How Does Innovation Lead to Growth*. Available from:
https://www.ecb.europa.eu/explainers/tell-me-more/html/growth.en.html

[10] British Airways (2019) *Explore Our Past*. Available from: https://www.britishairways.com/en-zw/information/about-ba/history-and-heritage/explore-our-past

one of its core strength and this is supported by various innovation driven services it offers its customers around the world on a daily basis. According to the British Airways Media Centre (2017) British Airways has become the first airline to trial self-service biometric boarding gates on international flights out of the USA, working in partnership with Los Angeles Airport. As part of the airline's commitment to invest in innovation and new technology, British Airways has begun an exclusive trial that will transform customers' airport experience by improving the boarding process and significantly reducing the amount of time it takes to board an aircraft. The new technology, created by Vision-Box, will create a smoother journey for customers, as they will no longer need to present their passport or boarding pass at the gate – only at check in and security. Instead travellers can simply look into a camera prior to boarding, wait for their biometric data to be verified, and then walk onto the aircraft. Similarly to facial identification built into mobile phones, the biometric gates use high definition camera technology, and allow customers to pass through by recognising their unique facial features, and reconciling them with the digital facial scan taken as part of the immigration process[11] (British Airways Media Centre, 2017, http://mediacentre.britishairways.com/). Furthermore, according to the British Airways Media Centre (2017) British Airways has become the first airline worldwide to introduce high-tech remote controlled devices to push back aircraft across its short-haul operation. The airline is modernising its operation to maintain and further improve punctuality for its customers. In partnership with Heathrow, the eco-friendly Mototok tugs will allow British Airways staff to prepare aircraft for departure more efficiently. The airline is the first commercial operator to deploy the devices across multiple aircraft stands. The equipment, used to move Airbus short-haul aircraft, replaces traditional diesel tugs, allowing a single ramp agent to push an aircraft backwards from the gate remotely. Emissions-free and capable of moving planes with precision, five Mototoks are currently in operation at Terminal 5. They were integrated into the operation in August, and more than 100,000 customers have benefited from smoother departures already. Klaus Goersch, British Airways' Chief Operating Officer, said: "British Airways is the most punctual, major short-haul airline in London. The introduction of the Mototok will help us to stay at the top of the league and keep our flights departing on time. "This major step to modernise our operation is a first in the airline industry, and part of wider investment in new

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[11] British Airways Media Centre (2017) *British Airways Pushes New Technology in Aviation First*. Available from: http://mediacentre.britishairways.com/pressrelease/details/86/2017-228/8826

technology that will enhance the experience our customers have." British Airways plans to roll out the Mototok across its short-haul operation by the end of the year, and is exploring the possibility of introducing the technology to push back long-haul aircraft in the future. The Mototok's electric battery can hold its charge for up to three days, and charging points will be installed on each of the 25 stands at Heathrow's T5 (British Airways Media Centre, 2017, http://mediacentre.britishairways.com/). The International Airlines Group was launched in 2011 (International Airlines Group - IAG, 2019, www.iairgroup.com). "International Airlines Group (IAG) is one of the world's largest airline groups with 573 aircraft flying to 268 destinations and carrying around 113 million passengers each year. It is a Spanish registered company with shares traded on the London Stock Exchange and Spanish Stock Exchanges. Our vision is to be the world's leading airline group, maximizing sustainable value creation for our shareholders and customers. Our business model makes us well-positioned to achieve this in an increasingly competitive and fast-paced environment"[12] (International Airlines Group - IAG, 2019, www.iairgroup.com). IAG brands portfolio includes: **Aer Lingus** (is the national airline of Ireland, founded in 1936), **British Airways** (is the number one carrier in London, the world's largest international aviation market, and the number one European carrier across the North Atlantic), **Iberia** (founded in 1927, Iberia is Spain's largest airline and its flag carrier), **LEVEL** (is IAG's new low-cost airline brand, built on the belief that the world is a better place when we all get out and experience it), **Vueling** (is one of Europe's leading low-cost airlines and is number one in connecting Spain and Continental Europe), **Avios** (is transforming its loyalty programmes, diversifying its partnerships and leveraging data to become the loyalty partner of choice and a centre of loyalty excellence for the International Airlines Group), **IAG CARGO** (Five IAG airlines – one cargo carrier. IAG Cargo is the trusted cargo partner of more than 10,000 businesses), **IAG Global Business Services (GBS)** (since launching in 2014, IAG GBS has transferred and restructured services, implemented new technology, created new ways of working and delivered unprecedented cost savings – establishing IAG GBS as a strategic

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[12] International Airlines Group (IAG) (2019) *IAG Overview*. Available from: https://www.iairgroup.com/en/the-group/iag-overview

platform for growth as well as IAG itself)[13] (International Airlines Group, 2019, https://www.iairgroup.com/en/our-brands).

1.3.2 It helps to promote growth in the organization

Nowadays progress in organizations is now being spearheaded by innovation. A commonly notable benefit of innovation in all aspects of an organization (*for instance processes, policies, short and long term planning, management and boardroom activities*) is growth[14] (European Central Bank, 2017, www.ecb.europa.eu/). Generally an innovation-focused board often places more emphasis on product/service improvement, quality, strategy, R&D, good corporate governance and the implementation of transformative innovation strategies that help the organization to achieve its set productivity and profitability goals and also this ultimately helps to provide the business with the much needed capital injection to use to finance its business expansion plans (*both locally or internationally*). The term '*productivity*' refers to the amount of output an employee produces based on the amount of inputs they used for instance inputs can be in the form of time, labour and capital (*money invested*)[15] (Hunter, 2002:137). Innovation is one business aspect that helps an organization to achieve high productivity levels (*higher output*) whilst using fewer inputs. "Simply put, innovation can lead to higher productivity, meaning that the same input generates a greater output. Innovation and productivity growth bring vast benefits for consumers and businesses. As productivity rises, the wages of workers increase. They have more money in their pockets, and so can buy more goods and services. At the same time, businesses become more profitable, which enables them to invest and hire more employees" (European Central Bank, 2017, www.ecb.europa.eu/).

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[13] International Airlines Group (IAG) (2019) *Our Brands*. Available from: https://www.iairgroup.com/en/our-brands

[14] European Central Bank (2017) *How Does Innovation Lead to Growth*. Available from: https://www.ecb.europa.eu/explainers/tell-me-more/html/growth.en.html

[15] Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions.

1.3.3 It helps to boost the motivation levels of the board

Innovation tends to successfully penetrate through every part of the organization including the boardroom and in the process of doing so it helps to produce positive results for the organization in terms of: new idea generation, the introduction of new products/services, proper alignment of change to the corporate strategy, enhanced profitability and employee morale. Thus in the end these positive results help to boost the motivation levels of both the employees and the board of directors as a result of successfully achieving their set organizational objectives and goals. Several business and motivation gurus have since discovered that each and every victory (*whether small or large*) in an organization often plays a significant part in the motivation of employees in order for them to repeat their strong work ethic and behavior. Therefore, innovation helps to keep employees highly motivated as a result of their continuous improvement of their work performance.

1.3.4 It helps an organization to achieve a competitive advantage

"A *competitive advantage* is an attribute that allows a company to outperform its competitors. Competitive advantages allow a company to achieve superior margins compared to its competition and generates value for the company and its shareholders. A competitive advantage must be difficult, if not impossible, to duplicate. If it is easily copied or imitated, it is not considered a competitive advantage"[16] (Corporate Finance Institute, 2019, https://corporatefinanceinstitute.com/). A competitive advantage can even be a new idea or application of a new technology the organization can use to offer its customers a critical benefit. For example, a micro-finance company located in the magnificent city of Toronto in Canada (*North America*) can use biometric security technology in its banking halls which can be a unique technology it possesses over its competitors who still use manual security clearing systems that are susceptible to frequent human errors. On the other hand innovation that leads to new product/service development nowadays can only succeed by working in line with good quality management processes. An effective modern-day board often places quality management

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[16] Corporate Finance Institute (2019) *What is a Competitive Advantage?*
https://corporatefinanceinstitute.com/resources/knowledge/strategy/competitive-advantage/

and assurance on its high priority list on a regular basis. *Quality assurance* is a process that is used by organizations or trading blocs (*such as the European Commission*) to enforce quality control standards by applying the planned, systematic quality activities and working to improve the processes that are used in producing goods or services[17] (European Commission, 2018). In addition *quality assurance is one definite way an organization or trading bloc can use to reduce the number of errors or defects commonly found in manufactured goods or services.* Quality is one of the ways organizations can use to gain a profitable competitive advantage for a much longer time period. *'Quality'* is a term that is applied in various economic sectors and organizational processes or systems in order to refer to the standards of perfection the organizational processes or systems must conform-to including the standards of perfection the final product/services produced must conform-to on a continuous basis. Today boards that are innovation driven often enforce quality management and assurance practices throughout the organization. Therefore, innovation is a guaranteed way an organization and its board can attain a competitive advantage at the marketplace on a continuous basis. Some of the examples of innovation centered global businesses will be covered in the following section.

1.4 Describe inspirational innovation centered global businesses

Today there are many powerful organizations that have since shifted from being customer and manufacturing/service orientated to being innovation-orientated businesses in order to remain relevant and highly competitive in the rapidly growing global market. Innovation in this modern day global economy has become the norm and the main driver of progress and growth. Examples of some of the leading and growing innovation centered global organizations are depicted in Figure 1.2 below.

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[17] European Commission (2018) *Quality Assurance*. Available from:
http://ec.europa.eu/ipg/quality_control/index_en.htm

Figure 1.2 Two examples of leading and growing innovation centered global organizations
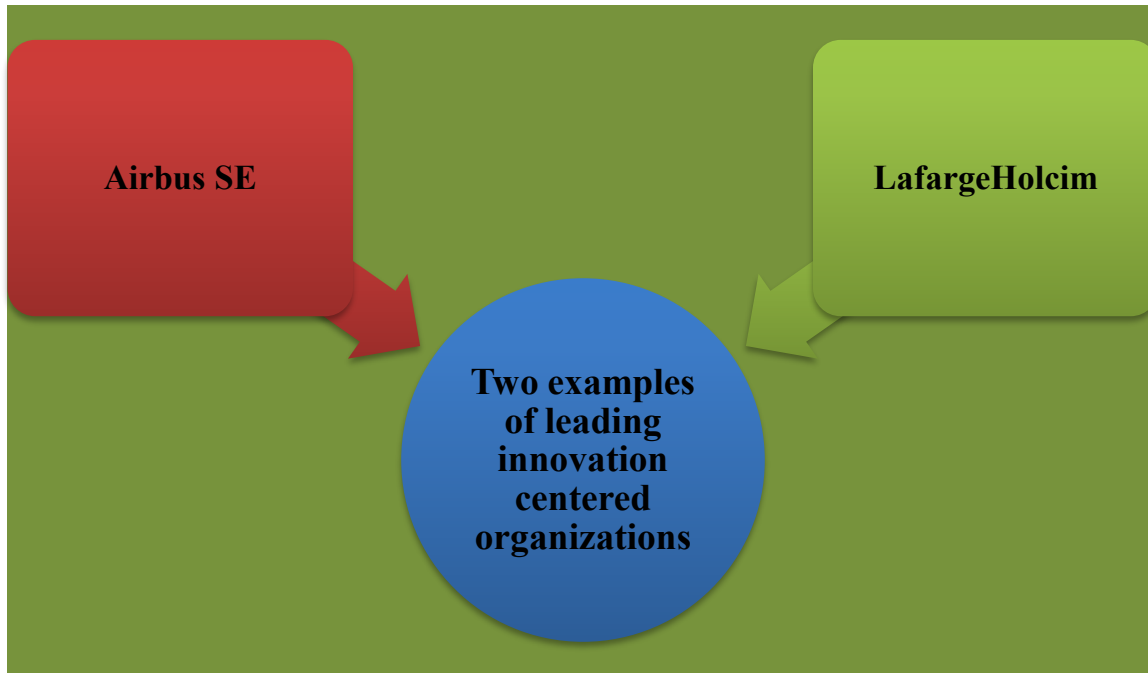
Source: Modified: (Airbus, 2019; LafargeHolcim, 2019)

1.4.1 Airbus SE

Another typical good example of an organization that has an inspirational innovation centered approach is the leading commercial aircraft manufacturer 'Airbus SE' which is headquartered in Leiden in the Netherlands. *"Designing the future of flight* - Innovation has always been a driving force at Airbus, which promotes cutting-edge technologies and scientific excellence to contribute to global progress. Through its predecessor companies, Airbus pioneered many of the technologies that helped conquer the skies and are now part of everyday life. Airbus encourages its industry-leading experts to push their boundless imaginations, moving the company into the Industry 4.0 era and inventing new possibilities for the future of flight: from manned and unmanned vehicles for urban mobility, to hybrid and electric propulsion systems for cleaner aviation"[18] (Airbus, 2019, https://www.airbus.com/company/we-are-airbus.html). The current Chairman of the Board of Directors of Airbus SE is Mr. Denis Ranque and the current Chief Executive Officer of Airbus SE is Mr. Guillaume Faury (Airbus, 2019, www.airbus.com). "With a 50-year track record of innovation, technological firsts and

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[18] Airbus (2019) *We Are Airbus*. Available from: https://www.airbus.com/company/we-are-airbus.html

industry milestones, Airbus has lived up to its official motto, 'We Make It Fly,' from the company's creation. Today, Airbus is a leader in designing, manufacturing and delivering aerospace products, services and solutions to a customer base that spans the globe – with operations for commercial aircraft, helicopters, defence and space" (Airbus, 2019, www.airbus.com). According to Airbus (2019) *What we do.* As a proven leader in the global aerospace sector, Airbus designs, produces and delivers innovative solutions with the aim to create a better-connected, safer and more prosperous world. These cutting-edge products and services – which span the commercial aircraft, helicopter, defence, security and space segments – benefit our wide-ranging expertise and continued emphasis on innovation. A commercial aircraft manufacturer, with Space and Defence as well as Helicopters Divisions, Airbus is the largest aeronautics and space company in Europe and a *worldwide leader.* Airbus has built on its strong European heritage to become truly international – with roughly 180 locations and *12,000 direct suppliers* globally. The company has aircraft and helicopter final assembly lines across Asia, Europe and the Americas, and has achieved a more than sixfold order book increase since 2000 (Airbus, 2019, https://www.airbus.com/company/we-are-airbus.html). "By 2030, 60% of the world's population will be urban. This significant population growth is expected to create a real need for innovative mobility options as ground infrastructure becomes increasingly congested"[19] (Airbus, 2019, https://www.airbus.com/innovation/urban-air-mobility/mission-and-team.html). "At Airbus Urban Mobility, we believe urban air mobility can contribute positively to a multimodal mobility system and help build more liveable cities. It leverages the sky to better link people to cities and regions, giving them more possibilities to connect while supporting a balanced development of regions"(Airbus, 2019, https://www.airbus.com/innovation/urban-air-mobility.html).

According to Airbus (2019) *Future technologies* are reshaping industries and markets in unprecedented ways and at extraordinary speeds. The organisations that succeed in this environment are those that can adapt rapidly to new opportunities and challenges. Rather than seeing them as a threat, Airbus recognises that future technologies give us a competitive

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[19] Airbus (2019) *Mission and Team*. Available from: https://www.airbus.com/innovation/urban-air-mobility/mission-and-team.html

advantage as we shape the future of flight[20] (Airbus, 2019, https://www.airbus.com/innovation/future-technology.html). "*Bringing zero-emission technology to aviation.* Today, zero-emission flight is closer to reality than ever. Electric and hybrid-electric propulsion is rapidly revolutionising mobility technologies across industries, from automotive to marine. And the aviation industry is no exception. Airbus is committed to developing, building and testing electric and hybrid-electric future technology that will enable the aviation industry to significantly reduce the CO_2 emissions of commercial aircraft. *On the path to zero-emission flight.* In 2010, Airbus embarked on its electrification journey, developing the world's first fully-electric, four-engine aerobatic aircraft, CriCri. Since then, Airbus has made significant progress in the electrification of flight. Our all-electric, twin propeller aircraft E-Fan successfully crossed the English Channel in 2015. Vahana, our single-seat electric vertical take-off and landing (eVTOL) vehicle demonstrator, has been flight testing since 2018. CityAirbus, our eVTOL demonstrator with a four-passenger capacity, successfully conducted its first take-off in May 2019. Both of our eVTOL demonstrators are undergoing a rigorous and comprehensive flight test programme to ensure safety and high performance. E-Fan X, the successor to E-Fan that is 30 times more powerful than its predecessor, is expected to take its first flight in 2021. For Airbus, our work in electric propulsion aims to drive the commercialisation of zero-emission, all-electric urban air mobility vehicles and, eventually, large commercial aircraft" (Airbus, 2019, https://www.airbus.com/innovation/future-technology/electric-flight.html). "*Connectivity. Connecting to the digital world anywhere*. In the aerospace industry, connectivity means faster access to critical information, leading to better decision-making and outcomes. At Airbus, we work to better connect our passengers and aircraft to the digital world, whether on the ground, in the air or anywhere around the world. *Building faster access to critical information.* Airbus builds comprehensive future technology capabilities to deliver uninterrupted connectivity that is interoperable between aircraft, helicopters, drones, future electric vertical take-off and landing (eVTOLs) vehicles, satellites, command centres and mobile units deployed on the ground or at sea. Our objective is to offer seamless in-flight connectivity that is comparable to mobile phone connectivity available on the ground—even when switching from one network to another, from 4G to Wi-Fi, or from country to country—without compromising the aviation

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[20] Airbus (2019) *Future Technology*. Available from: https://www.airbus.com/innovation/future-technology.html

industry's high standards in reliability and cybersecurity"[21] (Airbus, 2019, https://www.airbus.com/innovation/future-technology/connectivity.html). Furthermore, according to Airbus (2019) *Advanced Analytics - Harnessing data to drive greater performance.* Today's business decisions depend on the insights that big data can offer. But massive volumes of complex and unstructured data require high-performance analytics to extract value. At Airbus, we leverage future technology in advanced analytics to provide the right information to the right people at the right time—and in a context they understand. In 2017, Airbus officially launched **Skywise**, our open data platform. Skywise collects vast amounts of data from Airbus, and our customers and suppliers to enable new levels of insight that have the potential to facilitate better decision-making and unlock significant cost savings (Airbus, 2019, https://www.airbus.com/innovation/future-technology/advanced-analytics.html).

1.4.2 LafargeHolcim

A typical good example of a remarkable leading global organization with a powerful employer brand with a board that is comprised of good-to-great leaders with a strong innovation orientated culture is LafargeHolcim, headquartered in Jona, Switzerland. The current Chairman of LafargeHolcim is Mr. Beat Hess and the Vice Chairman is Mr. Oscar Fanjul. The other board of directors of LafargeHolcim include: Mr. Paul Desmarais Jr., Mr. Patrick Kron, Mr. Adrian Loader, Mr. Jürg Oleas, Ms. Hanne Birgitte Breinbjerg Sørensen, Dieter Spälti, Mr. Colin Hall, Ms. Naina Lal Kidwai and Ms. Claudia Sender Ramirez[22] (LarfargeHolcim, 2019, https://www.lafargeholcim.com/board-directors). "LafargeHolcim is the global leader in building materials and solutions. We are active in four business segments: Cement, Aggregates, Ready-Mix Concrete and Solutions & Products. With leading positions in all regions of the world and a balanced portfolio between developing and mature markets, LafargeHolcim offers a broad range of high-quality building materials and solutions. LafargeHolcim experts solve the challenges that customers face around the world, whether they are building individual homes or major infrastructure projects. Demand for LafargeHolcim materials is driven by global population growth, urbanization, improved living standards and sustainable solutions construction. Around

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[21] Airbus (2019) *Connectivity*. Available from: https://www.airbus.com/innovation/future-technology/connectivity.html

[22] LafargeHolcim (2019) *Board of Directors*. Available from: https://www.lafargeholcim.com/board-directors

75,000 people work for the company in around [80 countries](https://www.lafargeholcim.com/our-strategy).["23"] (LafargeHolcim, 2019, https://www.lafargeholcim.com/our-strategy). *"Board of Directors*. The Board is comprised of eleven Board members, all of who are independent according to the Swiss Code of Best Practice for Corporate Governance and the criteria laid out by the DJSI. Furthermore, the company has set a policy that the majority of Directors on the Board shall be independent. Board members are expected to attend all regular meetings. With regard to Board composition, the Nomination, Compensation and Governance Committee considers diversity (including but not limited to: origin, domicile, gender, age and professional background) as well as such other factors necessary to address current and anticipated needs of the Company"[24] (LafargeHolcim, 2019, https://www.lafargeholcim.com/board-directors). The common habits that help to encourage board of directors in an organization to regularly be innovative and creative will be covered in the following section.

1.5 Habits that help to promote innovation & creativity in a board

Poor leadership styles, lack of freedom, poor remuneration and a bad image in the market often lead to the creation of an unconducive environment for innovation and creativity in an organization. Innovation flourishes in businesses where the owner-managers provide adequate support towards innovation driven operational practices. It is important for business owners to be fully knowledgeable of the fact that the essence of business innovation is that any idea that is viewed to be useful and innovative has to first provide a solution to a problem that already exists in a cost-efficient manner. Therefore, one of the most effective ways of promoting an innovation driven culture in a board is through recognizing and appreciating directors who are good-to-great innovators. Consistent idea generation is key to the success of any business that is innovation centered and well known for innovative ideas in the market. The Chairman and the CEO of the board of directors in an organization often play a vital role in fostering an innovation culture amongst board members. There are many ways organizations can adopt to promote innovation and creativity. Some of the common ways of promoting innovation and creativity in an organization and boardroom are depicted in Figure 1.3 below.

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[23] LafargeHolcim (2019) *Our Strategy*. Available from: https://www.lafargeholcim.com/our-strategy

[24] LafargeHolcim (2019) *Board of Directors*. Available from: https://www.lafargeholcim.com/board-directors

Figure 1.3 Six common ways of promoting innovation & creativity in the organization and the boardroom

Applaud every new idea & clearly state 'there is no foolish idea'

Regularly identify and write down a list of critical challenges or problems the organization might be facing

Provision of organization-wide innovation focused coaching programs

Hiring highly talented board of directors

Offering a free and open working environment

Continuously investing in research and development (*R&D*)

As previously depicted by Figure 1.3 the six common ways of promoting innovation and creativity in the organization and the boardroom are further discussed as follows:

1.5.1 Applaud every new idea and clearly state 'there is no foolish idea'

It is important that the chairman or vice chair of the board of directors to ensure that he/she creates a boardroom working environment that is very receptive to new idea generation by appreciating and congratulating every board member who generates a good idea despite the fact that it is either a relevant or irrelevant idea. It is the responsibility of the chairman or vice chair to consistently ensure that they strongly emphasize to their board of directors that there is no idea that is considered to be foolish and they must feel free to speak about the ideas they think of in their minds.

1.5.2 Regularly identify and write down a list of critical challenges or problems the organization might be facing

In general it is critical for the board to list all current and future challenges being faced by the organization. Thus, by writing down all the challenges the business may be currently facing and generating possible solutions that may help to solve some of these problems or challenges the

organization and its board would have created a unique way of innovating for the better. For example, solutions to a problem can be the production of a new product or entering a new market and so on. Consistent problem solving by the board via idea generation can result in the board identifying new business opportunities the organization can take advantage of in order to raise more sales revenue and or develop new markets.

1.5.3 Provision of organization-wide innovation focused coaching programs

One of the easiest ways an organization can ensure that its' board of directors are well educated about the advantages of having an innovation centered culture and its implementation in their day-to-day board activities is via coaching programs. Executive coaching helps board of directors to quickly grasp new knowledge, trigger quick, analytical and decisive thinking. In general executive coaching programs that are focused on innovation training tend to empower board of directors with the skills, abilities or capabilities that help them to facilitate change in the organization's processes, products, quality programs, systems, strategies, planning, decision-making, corporate culture and so on in order to enhance its efficiency. Thus, executive coaching programs often end up making board of directors being accustomed to an innovation driven culture in their day-to-day boardroom activities.

1.5.4 Hiring highly talented board of directors

A business that has a high intellectual capital base employs highly skilled, experienced, qualified business leaders in its board. Organizations that aim to create a highly conducive workplace that helps to consistently generate innovative ideas must ensure that they create a good employer brand status through offering attractive compensation plans, balanced work/life working schedules, career growth opportunities and so on. Highly talented board of directors are often attracted to organizations that have a good employer brand status and that offers them excellent career and training opportunities.

1.5.5 Offering a free and open working environment

It has since been discovered that there is a link between high creativity and freedom at the workplace thus organizations that offer employees autonomy to work freely at their own pace tend to have a consistent generation of excellent business ideas. Boardrooms that have

excessively strict and high work pressure environments are often viewed as a hindrance to idea generation. Strict and high work pressure board environments are often suitable for routine activities whilst on the other hand they are often viewed as not suitable for idea generation. A relaxed and free working environment is the best environment to generate excellent business ideas. For example, most of the highly successful Silicon Valley, California, United States of America high-tech giant firms often have snooker tables, chess boards, video games, gyms, swimming pools and tennis courts at their headquarters premises in order to help employees who feel that they need to relax and refresh their mind to visit these above mentioned facilities and later on return to the workplace and successfully produce excellent business ideas.

1.5.6 Continuously investing in research and development (*R&D*)

Organizations that invest adequate funds in their research activities consistently generate excellent business ideas since it helps them to remain up-to-date with the consistently changing consumer buying behavior trends, ever-changing demographic patterns and technological advancements. Therefore, market research helps to identify existing gaps in the marketplace and this can help the board to make well informed strategic decisions that may enable the organization to develop new products or services, enter into a new partnership or a joint venture and so on in order to be able to fulfill these existing gaps in the market. The various types of innovation will be covered in the following section.

1.6 Types of Innovations

Innovation is generally a process that aims to make the organization better. Some of the types of innovation are depicted in Figure 1.4 below.

Figure 1.4 Three types of innovation
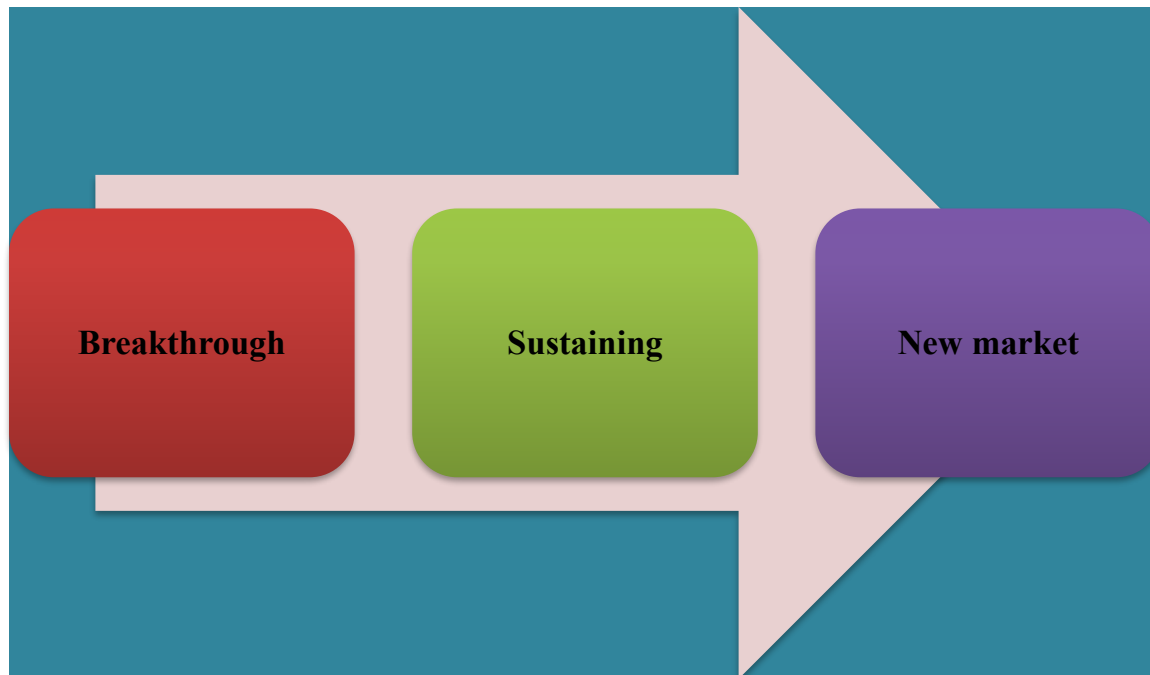
Source: Modified: (Nielson, 2014, https://www.innovationexcellence.com).

There are many types of innovation that can be experienced in all kinds of organizations of any size. Some of the common types of innovation include the following:

1.6.1 "Breakthrough. A breakthrough innovation is what most people think of when they think of innovation – something new, bold and way ahead of the next best thing. Additionally, a breakthrough product often combines the functionality of several different products all into one" [25](Nielson, 2014, https://www.innovationexcellence.com).

1.6.2 "Sustaining **-** sustaining ideas have to do with improving the current product by developing generations 2, 3, 4, 5 and so on until the product reaches the end of it's life cycle. Normally large companies are very good at creating sustaining innovations because their resources, business processes and cultures are setup in a way to enable sustaining efforts. Typical sustaining efforts include the following:

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[25] Nielson, J. (2014) *Four Types of Innovation and the Strategic Choices Each One Represents*. Available from: https://www.innovationexcellence.com/blog/2014/01/12/four-types-of-innovation-and-the-strategic-choices-each-one-represents/

• *Feature fixes/additions* – most next generation products will come with a handful of fixes and/or new features that address previous gripes with the first generation products.

• *Cost reductions* – as sales volumes grow for a product, the cost of purchasing raw materials for that product decline in addition to design enhancements that simplify the product or enable it to use less expensive materials.

• *Product line expansions* (proliferation) – at launch most new products don't have a full suite of products to meet each end-user segment's needs and as a fix for that companies will fill out their product line by offering additional sizes, colors, etc." (Nielson, 2014, https://www.innovationexcellence.com).

1.6.3 "New Market. A lot of managers think of new markets in terms of geography such as entering an emerging market like India or China. While that can be highly valuable, I like to think of new market innovations in terms of use cases. For the purpose of this article, new market innovations refers to applying a current product in a new way and sometimes even for a different segment of customers"[26] (Nielson, 2014, https://www.innovationexcellence.com). The conclusion of this chapter will be covered in the following section.

1.7 Conclusion

In this modern day operating business environment an organization cannot succeed in its day to day activities without the critical input of its board of directors as they help to give it strategic guidance and direction on how to enhance or maintain both its current market position and value. Generally the daily functions of a board are broad and they can only be achieved by board of directors who are focused and highly engaged. An innovation driven board often generates new value adding ideas, concepts or strategies that help to easily move the organization towards the attainment of its set short and long term goals. Organizations that are fuelled by innovation often place more emphasis on establishing highly conducive working environments for their board of directors that easily enable them to generate new ideas in a highly productive manner on a

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[26] Nielson, J. (2014) *Four Types of Innovation and the Strategic Choices Each One Represents*. Available from: https://www.innovationexcellence.com/blog/2014/01/12/four-types-of-innovation-and-the-strategic-choices-each-one-represents/

continuous basis. It can therefore be concluded that what determines a 'brilliant and highly functional boardroom' is its ability to embrace, adapt, implement and uphold 'innovation'.

1.8 Review Questions

1) Explain the various important factors that help to produce a brilliant and highly functional board?

2) Discuss the meaning of the term 'board of director'?

3) Define the terms 'innovation and creativity'? Discuss the importance of innovation to both the organization and the board?

4) Describe six examples of inspirational innovation centered global businesses?

5) Outline the six common habits that help to promote innovation and creativity in a board? Discuss the three types of innovation?

Chapter 2: Basic roles & functions in a board

After reading this chapter you should be able to:

- Describe the meaning of the term 'director'.
- Outline eight different types of directors.
- Highlight the various characteristics of an effective director.
- Explain the meaning of the term 'board committees' and explain their role in an organization.
- Discuss the five types of board committees and provide relevant examples.

2.1 Introduction

"Directors set the vision and long term goals of the organization. Directors are concerned with the big-picture and use a 'helicopter focus', which involves steering the organisation towards its goals and ensuring the day-to-day management of the organisation is consistently aligned with the overall organisation's vision. It is important to note that directors DO NOT replace the management team. In fact, there is a very important distinction to be made between them. Directors supervise and complement the role of the management team by offering long-term planning, financial oversight, and inside knowledge. In contrast, the management team is concerned with the operational running of the business"[27] (Institute of Directors New Zealand, 2019, https://www.iod.org.nz/). According to the Institute of Directors United Kingdom (*IoD UK*) (2019) it is for the board to judge, on a case-by-case basis, which stakeholders it treats as 'relevant' and which of their interests is appropriate to meet, taking into account the law, relevant regulations and commercial considerations. In pursuing this *key purpose*, a board of directors faces a uniquely demanding set of responsibilities and challenges. Each board member is expected to recognise these *challenges* and ensure that they personally contribute to finding the right balance between these various competing pressures. Each board should decide what it needs to do in order to achieve its *overall purpose* and identify any gaps or deficiencies in what it is already doing. The board is also encouraged to focus on those tasks that it must – or wishes to

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[27] Institute of Directors New Zealand (2019) *What Do Directors Do?* Available from:
https://www.iod.org.nz/FirstDirectors/What-do-directors-do

– undertake itself, and to decide which should more properly be carried out by senior management[28] (Institute of Directors United Kingdom, 2019, https://www.iod.com/). The advantages of board of directors in an organization will be identified in the following section.

2.2 Importance/Advantages of the 'board of directors' to an organization

Many organizations are enjoying numerous advantages on a daily basis as a result of having board of directors in their organizational structure. In general board of directors are the key drivers of innovation and strategy in an organization which therefore makes them the lifeblood of the organization as they help to determine its future or prosperity. According to Boland and Hofstrand (2019):

2.1 "*Recruit, supervise, retain, evaluate and compensate the manager*. Recruiting, supervising, retaining, evaluating and compensating the CEO or general manager are probably the most important functions of the board of directors. Value-added business boards need to aggressively search for the best possible candidate for this position"[29][30] (Boland and Hofstrand, 2019, https://www.extension.iastate.edu; Boland, 2018, https://conservancy.umn.edu/). Board of directors are generally involved in the recruitment and monitoring process of senior management/business executives in an organization.

2.2 "*Provide direction for the organization*. The board has a strategic function in providing the vision, mission and goals of the organization. These are often determined in combination with the CEO or general manager of the business" (Boland and Hofstrand, 2019, https://www.extension.iastate.edu; Boland, 2018, https://conservancy.umn.edu/).

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[28] Institute of Directors United Kingdom (IoD UK) (2019) *What is the Role of the Board*.
https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/What-is-the-role-of-the-board

[29] Boland, M. and Hofstrand, D. (2019) *The Role of the Board of Directors*. Available from:
https://www.extension.iastate.edu/agdm/wholefarm/html/c5-71.html

[30] Boland, Michael (2018). *An Introduction to Cooperation and Mutualism*. University of Minnesota Libraries Publishing. Retrieved from the University of Minnesota Digital Conservancy, https://conservancy.umn.edu/handle/11299/191871.

2.3 "*Establish a policy based governance system*. The board has the responsibility of developing a governance system for the business. The articles of governance provide a framework but the board develops a series of policies. This refers to the board as a group and focuses on defining the rules of the group and how it will function. In a sense, it's no different than a club. The rules that the board establishes for the company should be policy based. In other words, the board develops policies to guide its own actions and the actions of the manager. The policies should be broad and not rigidly defined as to allow the board and manager leeway in achieving the goals of the business"[31] (Boland and Hofstrand, 2019, https://www.extension.iastate.edu; Boland, 2018, https://conservancy.umn.edu/).

2.4 "*Govern the organization and the relationship with the CEO*. Another responsibility of the board is to develop a governance system. The governance system involves how the board interacts with the general manager or CEO. Periodically the board interacts with the CEO during meetings of the board of directors"[32] (Boland and Hofstrand, 2019, https://www.extension.iastate.edu; Boland, 2018, https://conservancy.umn.edu).

2.5 "*Fiduciary duty to protect the organization's assets and member's investment*. The board has a fiduciary responsibility to represent and protect the member's/investor's interest in the company. So the board has to make sure the assets of the company are kept in good order. This includes the company's plant, equipment and facilities, including the human capital (people who work for the company" (Boland and Hofstrand, 2019, https://www.extension.iastate.edu; Boland, 2018, https://conservancy.umn.edu/).

2.6 "*Monitor and control function*. The board of directors has a monitoring and control function. The board is in charge of the auditing process and hires the auditor. It is in charge of making sure the audit is done in a timely manner each year" (Boland and Hofstrand, 2019,

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[31] Boland, Michael (2018). *An Introduction to Cooperation and Mutualism*. University of Minnesota Libraries Publishing. Retrieved from the University of Minnesota Digital Conservancy, https://conservancy.umn.edu/handle/11299/191871.

[32] Boland, M. and Hofstrand, D. (2019) *The Role of the Board of Directors*. Available from: https://www.extension.iastate.edu/agdm/wholefarm/html/c5-71.html

https://www.extension.iastate.edu; Boland, 2018, https://conservancy.umn.edu/). The meaning of the term director will be clearly discussed in the following section.

2.3 What is a director?

According to the Institute of Directors in the United Kingdom (2017, www.iod.com/) the director is the most senior full-time executive of the company, except when there is an executive chairman. The managing director is responsible for the performance of the company, as dictated by the board's overall strategy. The main purpose of the role is to direct and control the company's operations and to give strategic guidance and direction to the board to ensure that the company achieves its mission and objectives. Both executive and non-executive directors are classified as office holders/officers of the company. Non-executive directors will usually have a letter of appointment, unlike executive directors who will have a contract of employment employment, however as far as HMRC are concerned, they are both subject to taxation under PAYE and to NI contributions, much as employees [33](Institute of Directors in the United Kingdom, 2017, https://www.iod.com/news/news/articles/What-is-a-director). The different types of directors will be covered in the following section.

2.4 Types of Directors

There are several types of directors that are found in organizations nowadays. Effective organizations often adopt a mixture of the different types of directors in order to grow and increase shareholder value. The different types of directors in an organization are depicted in Figure 2.1 below.

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[33] Institute of Directors (IoD) (2017) *De Facto Directors and their Liabilities*. Available from: https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/De-facto-directors-and-their-liabilities

Figure 2.1 Eight types of directors

Eight Types of Directors	Eight Types of Directors
Executive director	*De facto* director
Non-executive directors	Shadow director
De jure director	Nominee director
Independent director	Statutory director

Source: Modified: (Institute of Directors in New Zealand, 2018, SingaporeLegalAdvice, 2018; Institute of Directors, 2019, www.iod.com; Australian Institute of Company Directors, 2016, Rocket Lawyers, 2019).

As previously depicted by Figure 2.1 the eight different types of directors include the following:

2.4.1 Executive directors

"Executive directors have a dual role as employees of the company and as directors. As directors they:

• have responsibilities, but must retain a degree of independence from their executive role

• should be appointed as individuals, and not because of any position they hold within the company

• must always be alert to the potential conflicts between their management interests and their duties as a director.

An executive director brings an insider's perspective to the table which can be very valuable when discussing the operations of a company"[34] (Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors).

2.4.2 Non-executive directors

"These directors bring an outside perspective to the table and often a wealth of knowledge and experience. A non-executive director may be representing a major shareholder but an independent director will generally have no other links with the company other than sitting on the board. Non-executive directors' principal role is to provide independent judgement. This includes:

• outside experience and objectivity on all issues which come before the board

• understanding detailed knowledge of the company's business activities and on-going performance, so they can make informed decisions

• recognising the division between the board and management.

The boundary often gets blurred in SMEs. For example, a non-executive director may be appointed to fill a gap in knowledge and expertise, and end up assisting management in that area" (Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors). Non-executive directors can also be referred to as 'outside directors'.

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[34] Institute of Directors in New Zealand (2018) *Types of Directors*. Available from:
https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors

2.4.3 De jure directors

"A *de jure* director of a company is a director who has been formally appointed to sit on the board of directors (such as through *an ordinary resolution* of the members)"[35] (SingaporeLegalAdvice, 2018, https://singaporelegaladvice.com). [36]According to the Institute of Directors (2019) a *de jure* director (meaning a director from law) is a director who is properly appointed to the board and registered with Companies House. *De jure* directors (also informally known as 'Companies House directors' or 'registered directors') will be either executive (employed directors responsible for the day to day running of the company) or non-executive (non-executive directors are not employees of the company, they provide independent guidance to the executive directors). Whilst executive directors have the protection of employment law in the same way as any other employee, there is no legal distinction between executive and non-executive directors in terms of their directorships. Consequentially, executive and non-executive directors have the same legal duties, responsibilities and potential liabilities[37] (Institute of Directors, 2019, www.iod.com).

2.4.4 Independent directors

"To gain true separation between management and governance it makes sense to include independent board members. Some owners can feel threatened by this independence, but in the end their outside thinking can enable the business to grow and develop valuable long-term strategy"[38] (Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors). In general an independent director can also be referred to as an 'outside director'.

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[35] SingaporeLegalAdvice (2018) *Shadow Directors: Who are They and What Duties Do They Owe to the Company?* Available from: https://singaporelegaladvice.com/law-articles/shadow-directors

[36] Institute of Directors (IoD) in the United Kingdom (2019) *De facto Directors and their Liabilities*. Available from: https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/De-facto-directors-and-their-liabilities

[37] Institute of Directors United Kingdom (2017) *What is a Director?* Available from: https://www.iod.com/news/news/articles/What-is-a-director

[38] Institute of Directors in New Zealand (2018) *Types of Directors*. Available from: https://www.iod.org.nz/FirstBoards/How-to-set-up-a-board/Types-of-directors

2.4.5 De facto directors

According to SingaporeLegalAdvice (2018) in another scenario, a *de facto* director refers to a person who openly acts as if they were a director without being formally appointed as one. For example, a senior employee (who does not have a seat on the board of directors) given free rein to make major decisions for the company, without any oversight by the (*de jure*) directors, will likely be a *de facto* director of the company[39] (SingaporeLegalAdvice, 2018, https://singaporelegaladvice.com). "A *de facto* director (meaning a director in fact or in reality) is someone who has not been properly appointed and notified to Companies House as a director but who nevertheless acts as a director and holds themselves out to third parties as a director. Sometimes (but not always) they will have the word 'director' as part of a job title. The *de facto* director will usually carry out all the duties of a director and can make the decisions of a director, sign company documents and be treated as a director by *de jure* directors. It is the role assumed by the individual, rather than the title used that determines whether an individual is a director or not. The *de facto* director is also subject to the same legal duties, responsibilities and potential liabilities as *de jure* directors and will be treated as such by the courts in the case of a dispute"[40] (Institute of Directors, 2017, www.iod.com).

2.4.6 Shadow directors

"A *shadow director*, however, does not openly claim to be a director. Neither does he openly exercise the powers associated with directorship. Rather, a shadow director instructs or directs *de jure* directors on matters which they should be deciding on their own, such as the overall growth strategy of the company" (SingaporeLegalAdvice, 2018, https://singaporelegaladvice.com). [41]According to the Institute of Directors (2019) a *shadow director* is 'a person in accordance with whose directions or instructions the directors of the company are accustomed to act' (Section 251 The Companies Act, 2006). Note the reference to 'person' as opposed to

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[39] SingaporeLegalAdvice (2018) *Shadow Directors: Who are They and What Duties Do They Owe to the Company?* Available from: https://singaporelegaladvice.com/law-articles/shadow-directors

[40] Institute of Directors United Kingdom (2017) *What is a Director?* Available from: https://www.iod.com/news/news/articles/What-is-a-director

[41] Institute of Directors (IoD) in the United Kingdom (2019) *De facto Directors and their Liabilities*. Available from: https://www.iod.com/services/information-and-advice/resources-and-factsheets/details/De-facto-directors-and-their-liabilities

'individual' meaning that a company can also be seen as a shadow director. A shadow director cannot carry out these acts themselves and probably acts behind the scenes as there is a reason that they cannot be appointed formally. A body corporate will not usually be regarded as a shadow director of its subsidiaries but a 'dominant individual' at the parent company could be. Advice given in a professional capacity (for example by lawyers or accountants) is not sufficient to make a person a shadow director but banks looking to protect loans made to a company or a 'company doctor' working on a corporate recovery plan could potentially be shadow directors[42] (Institute of Directors, 2019, www.iod.com).

2.4.7 Nominee directors

A *nominee director* refers to an individual director who is selected by the co-owner or a shareholder of an organization to become part of the board and they generally have unquestionable loyalty and trust to the co-owner or shareholder who made their appointment decision while simultaneously they must consistently uphold the interests of the organization. In general it is the fiduciary duty of a nominee director to put the best interests of the organization first and after doing so they may act in the best interests of their nominator as this helps to avoid conflict of interest[43] (Australian Institute of Company Directors, 2016, https://aicd.companydirectors.com.au/).

2.4.8 Statutory directors

[44]"*Statutory directors* have legal rights and duties. They collectively act and make decisions on behalf of the company. Saying someone 'sits on the Board of Directors' (the Board) or 'has been appointed to the Board' just means they are a statutory director. *'Directors' who are not statutory directors*. Sometimes, departmental heads are called directors (e.g. Director of Communications)

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[42] Institute of Directors United Kingdom (2017) *What is a Director?* Available from:
https://www.iod.com/news/news/articles/What-is-a-director

[43] Australian Institute of Company Directors, 2016, *Board Composition: Types of directors*, Resources, Sydney, https://aicd.companydirectors.com.au/-/media/cd2/resources/director-resources/director-tools/pdf/05446-1-10-mem-director-t-bc-types-of-directors_a4_web.ashx (accessed 28 Sept 2019) p5

[44] Rocket Lawyers (2019) *Different Types of Company Director*. Available from;
https://www.rocketlawyer.co.uk/article/different-types-of-company-director.rl

even though they are not statutory directors. Confusingly, if such individuals have not been appointed to the Board they do not have the legal rights and duties of a statutory director" (Rocket Lawyers, 2019, https://www.rocketlawyer.co.uk). The following section will cover the characteristics of an effective director.

2.5 Characteristics of an effective director

[45]According to the Institute of Directors in the United Kingdom (2002) cited in Institute of Directors in the United Kingdom (2017, www.iod.com) *the six key attributes of an effective director*. At the Institute of Directors, we believe that excellence and professionalism in the boardroom are essential for business. [46]The following are based upon and adapted from the key attributes developed by the IoD in the publication 'Standards for the Board':

2.5.1 Strategic perception

• *Change-orientation*: Alert and responsive to the need for change. Encourages new initiatives and the implementation of new policies, structures and practices.
• *Creativity:* Generates and recognises imaginative solutions and innovations.
• *Foresight:* Is able to imagine possible future states and characteristics of the company in a future environment.
• *Organisational awareness*: Is aware of the company's strengths and weaknesses and of the likely impact of the board's decisions upon them.
• *Perspective*: Rises above the immediate problem or situation and sees the wider issues and implications. Is able to relate disparate facts and see all relevant relationships.
• *Strategic awareness*: Is aware of the various factors which determine the company's opportunities and threats (for example, shareholder, stakeholder, market, technology, environmental and regulatory factors).

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[45] Institute of Directors (2002) '*Standards for the Board'* cited in Institute of Directors in the United Kingdom (2017). Available from: www.iod.com

[46] Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

2.5.2 Decision making

• *Critical faculty*: Probes the facts, challenges assumptions, identifies the (dis)advantages of proposals, provides counter arguments, ensures discussions are penetrating.

• *Decisiveness*: Shows a readiness to take decisions and take action. Is able to make up his/her mind.

• *Judgment***:** Makes sensible decisions or recommendations by weighing evidence, considers reasonable assumptions, the ethical dimension, and factual information.

2.5.3 Analysis and the use of information

• *Consciousness of detail*: Insists that sufficiently detailed and reliable information is taken account of, and reported as necessary.

• *Eclecticism*: Systematically seeks all possible relevant information from a variety of sources.

• *Numeracy*: Assimilates numerical and statistical information accurately, understands its derivation and makes sensible, sound interpretations.

• *Problem recognition*: Identifies problems and identifies possible or actual causes[47] (Institute of Directors, 2002 cited in Institute of Directors in the United Kingdom, 2017, www.iod.com). [48]Furthermore, according to the Institute of Directors in the United Kingdom (2002) cited in Institute of Directors in the United Kingdom (2017, www.iod.com):

2.5.4 Communication,

• *Listening skills*: Listens dispassionately, intently and carefully so that key points are recalled and taken into account, questioning when necessary to ensure understanding.

• *Openness*: Is frank and open when communicating. Willing to admit errors and shortcomings.

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[47] Institute of Directors (2002) '*Standards for the Board'* cited in Institute of Directors in the United Kingdom (2017). Available from: www.iod.com

[48] Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

• *Verbal fluency*: Speaks clearly, audibly and has good diction. Concise, avoids jargon and tailors content to the audience's needs.

• *Presentation skill*s: Conveys ideas, images and words in a way that shows empathy with the audience.

• *Written communication skills*: Written matter is readily intelligible; ideas, information and opinions are conveyed accurately, clearly and concisely.

• *Responsiveness:* Is able to invite and accept feedback[49].

2.5.5 Interaction with others

• *Confidence*: Is aware of own strengths and weaknesses. Is assured when dealing with others. Able to take charge of a situation when appropriate.

• *Coordination skills*: Adopts appropriate interpersonal styles and methods in guiding the board towards task accomplishment. Fosters cooperation and effective teamwork.

• *Flexibility*: Adopts a flexible (but not compliant) style when interacting with others. Takes their views into account and changes position when appropriate.

• *Presence*: Makes a strong positive impression on first meeting. Has authority and credibility, establishes rapport quickly.

• *Integrity*: Is truthful and trustworthy and can be relied upon to keep their word. Does not have double standards and does not compromise on ethical and legal matters.

• *Learning ability*: Seeks and acquires new knowledge and skills from multiple sources, including board experience.

• *Motivation*: Inspires others to achieve goals by ensuring a clear understanding of what needs to be achieved and by showing commitment, enthusiasm, encouragement and support.

• *Persuasiveness*: Persuades others to give their agreement and commitment; in face of conflict, uses personal influence to achieve consensus and/or agreement.

• *Sensitivity*: Shows an understanding of the feelings and needs of others, and a willingness to provide personal support or to take actions as appropriate.

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[49] Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

2.5.6 Achievement of results

• *Business acumen*: Has the ability to identify opportunities to increase the company's business advantage.

• *Delegation skills*: Distinguishes between what should be done by others or by themselves. Allocates decision making or other tasks to appropriate colleagues and subordinates.

• *Exemplary*: Sets challenging but achievable goals and standards of performance for self and others.

• *Drive*: Shows energy, vitality and commitment.

• *Resilience*: Maintains composure and effectiveness in the face of adversity, setbacks, opposition or unfairness[50].

• *Risk acceptance*: Is prepared to take action that involves carefully calculated risk in order to achieve a desired benefit or advantage.

• *Tenacity*: Stays with a position or plan of action until the desired objectives are achieved or require adaptation[51] (Institute of Directors, 2002 cited in Institute of Directors in the United Kingdom, 2017, www.iod.com). The next section will cover the roles of a director in a nonprofit-making organization.

2.6 Roles and responsibilities of directors in a 'nonprofit making' organization

"Board members are the fiduciaries who steer the organization towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as by making sure the nonprofit has adequate resources to advance its mission"[52] (National Council of Nonprofits.org, 2019, www.councilofnonprofits.org). According to the National Council of Nonprofits.org (2019) THE BASICS. *What's the role of the board of directors of a nonprofit corporation? ¿Cuáles son las responsabilidades legales de una junta directiva sin fines de*

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[50] Institute of Directors (2002) *Standards for the Board: Improving the Effectiveness of Your Board (Good practice for directors)*. Paperback – 19 April.

[51] Institute of Directors (2002) '*Standards for the Board'* cited in Institute of Directors in the United Kingdom (2017). Available from: www.iod.com

[52] National Council of Nonprofits.org (2019) *Board Roles and Responsibilities*. Available from:
https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities

lucro? Just as for any corporation, the board of directors of a nonprofit has three primary legal duties known as the "duty of care," "duty of loyalty," and "duty of obedience."

• *Duty of Care*: Take care of the nonprofit by ensuring prudent use of all assets, including facility, people, and good will;

• *Duty of Loyalty*: Ensure that the nonprofit's activities and transactions are, first and foremost, advancing its mission; Recognize and disclose conflicts of interest; Make decisions that are in the best interest of the nonprofit corporation; not in the best interest of the individual board member (or any other individual or for-profit entity).

• *Duty of Obedience*: Ensure that the nonprofit obeys applicable laws and regulations; follows its own bylaws; and that the nonprofit adheres to its stated corporate purposes/mission.

However, a board of directors does not exist solely to fulfill legal duties and serve as a fiduciary of the organization's assets. Board members also play very significant roles providing guidance to nonprofits by contributing to the organization's culture, strategic focus, effectiveness, and financial sustainability, as well as serving as ambassadors and advocates. Beyond fulfilling legal duties, board members can be important resources for the organization in multiple ways (National Council of Nonprofits.org, 2019, https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities). The next section will cover the roles of directors in a profit making organization.

2.7 Roles and responsibilities of directors in a 'profit making' organization

[53]**"*Role* -** The role of the director is to:
• consider the strategic vision for the company

• offer fresh thinking and additional skills and knowledge

• have extensive networks to help the company grow

• act in good faith and in the best interests of the company

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[53] Institute of Directors New Zealand (2019) *What Do Directors Do?* Available from:
https://www.iod.org.nz/FirstDirectors/What-do-directors-do

• have no conflicts of interest with the company

• ensure that the company remains solvent

• not take advantage of their position as a director for personal profit (i.e. insider trading).

The value of directors comes to bear at meetings – a good board will try to debate an issue from every angle before coming to a decision. A director should be prepared, informed, and ready to debate and think about the strategic future. Some directors will have general skills, while others more specific, either way, they will add value to the company with a fresh perspective" (Institute of Directors New Zealand, 2018, https://www.iod.org.nz/FirstDirectors/What-do-directors-do). All the relevant information about a board committee will discussed in-depth in the following section.

2.8 What are board committees?

[54]According to Jo Iwasaki cited in Acca Global (2019) *What are board committees and their functions? Boards may assign specific tasks to committees to help them fulfill their diverse range of responsibilities*. Committees can deal with specific tasks for which the board is responsible, but which it does not necessarily have enough time and resource to manage. By delegating tasks to committees, boards can spend their time more efficiently. Board committees meet according to their task, and as specified in their terms of reference. This might be at a specific time of the year (e.g. coinciding with the financial reporting and audit cycle for the company's audit committee) or at certain intervals. It is important that prospective board members consider whether they have sufficient time to dedicate not only to the work of the board, but also to that of a committee or committees because board committees are usually made up of a sub-selection of board members. While it is not mandatory to have board committees, particularly in companies that are not listed, many corporate governance codes, recommend as a best practice that companies set up an audit committee and, particularly in the case of large companies, remuneration and nomination committees. Many companies, especially in the financial services sector, also have ethics and risk committees (Jo Iwasaki cited in Acca Global, 2019, https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-

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[54] Jo Iwasaki cited in Acca Global (2019) *Sectors and Specialisms: NED and Trustee Advice*. Available from: https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html

advice/what-are-board-committees-and-their-functions.html). The brief overview of the three common board committees that are found in most of the boards in organizations will be discussed in detail in the next section.

2.8.1 Key board committees

Board committees vary according to the various aims of the board and organization. The five common board committees are depicted in Figure 2.2 below.

Figure 2.2 Five common board committees
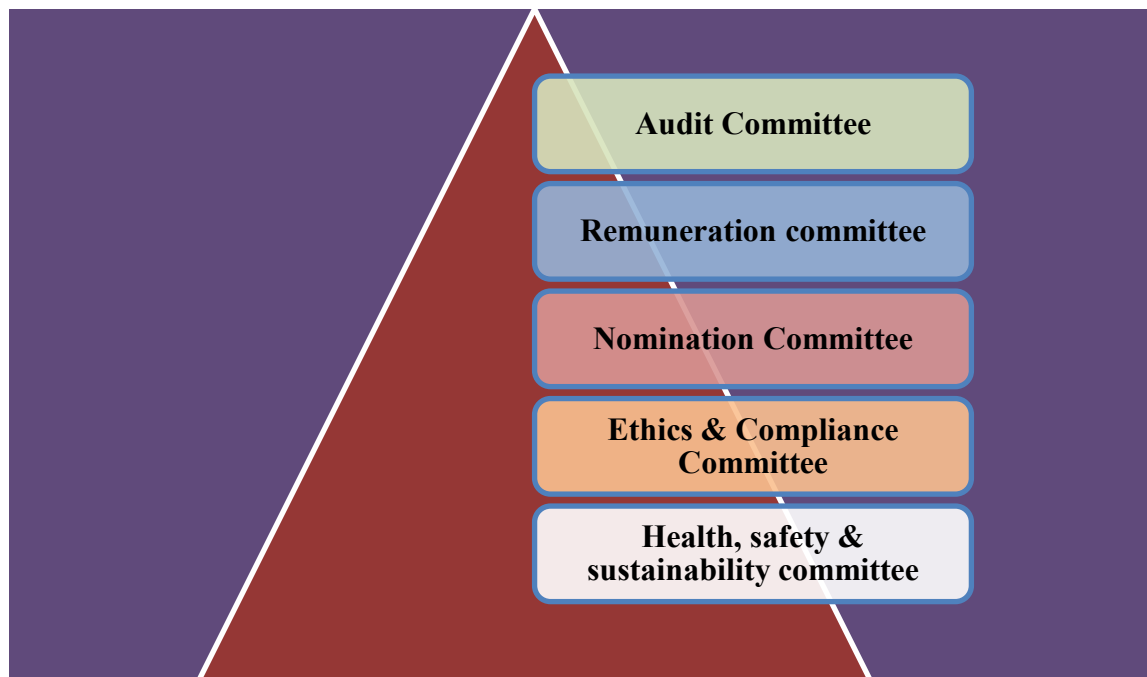
Source: Modified: (Jo Iwasaki cited in Acca Global, 2019; Airbus, 2019; LafargeHolcim, 2019).

As depicted by Figure 2.2 above the five common key board committees include the following:

2.8.1.1 "Audit committee - The primary task of the audit committee is to oversee the relationship with external auditors to ensure the quality of the company's financial statements. The audit committee's role includes making recommendations on the appointment and reappointment of the external auditors, their remuneration, and their terms of engagement. For this task, it is essential that you keep up to date on the relevant professional and regulatory requirements within your jurisdiction. It is often the case that the audit committee membership must have relevant financial (and possibly auditing) expertise and experience. This is because the audit committee will be reviewing, and reporting to the board on, the most critical accounting policies, which are

the basis for the financial reports. Another important task for the audit committee is to provide the link between the internal and external auditors. On behalf of the board, the audit committee receives reports from the internal auditors and, through its relationship with the external auditors, it is then well placed to advise the board on the necessary next steps. This is why the audit committee is often an integral part of a company's risk management and internal control systems"[55] (Jo Iwasaki cited in Acca Global, 2019, https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html). A typical good example of an organization with a board that has made effective use of audit committees is the 'Royal Bank of Canada' (*RBC*). The current Chair of the Board of RBC is Ms. Kathleen Taylor and the current President & CEO of RBC is Mr. David McKay. The other board of directors of the 'Royal Bank of Canada' (*RBC*) include: Mr. Andrew A. Chisholm, Ms. Jacynthe Côté, Mr. Toos N. Daruvala, Mr. Frank M. Vettese, Mr. David. F. Denison, Ms. Alice D. Laberge, Mr. Michael H. McCain, Ms. Heather Munroe-Blum, Ms. Bridget A. van Kralingen, Mr. Thierry Vandal and Mr. Jeffery W. Yabuki[56] (Royal Bank of Canada, 2019, http://www.rbc.com/governance/directors.html). [57]According to the Royal Bank of Canada (2019:1) *General Purpose* - The Audit Committee is responsible for assisting the Bank's board of directors (the "Board") in its oversight of (i) the integrity of the Bank's financial statements; (ii) the qualifications, performance and independence of the external auditors; (iii) the performance of the Bank's internal audit function; (iv) internal controls; and (v) compliance with legal and regulatory requirements (Royal Bank of Canada, 2019:1, http://www.rbc.com/governance/_assets-custom/pdf/audit-committee-mandate.pdf). *Reproduced with permission of Royal Bank of Canada.*

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[55] Jo Iwasaki cited in Acca Global (2019) *Sectors and Specialisms: NED and Trustee Advice*. Available from: https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html

[56] Royal Bank of Canada (2019) *Directors*. Available from: http://www.rbc.com/governance/directors.html *Reproduced with permission of Royal Bank of Canada.*

[57] Royal Bank of Canada (2019) *Audit Committee Mandate*. Available from: http://www.rbc.com/governance/_assets-custom/pdf/audit-committee-mandate.pdf *Reproduced with permission of Royal Bank of Canada.*

2.8.1.2 "Remuneration committee - Remuneration packages for executives have been in the spotlight for years. It is one of the areas on which shareholders regularly focus at AGMs around the world. The debate around executive pay is of interest to shareholders, the media and legislators alike. The members of remuneration committees must keep independence, transparency and potential conflicts of interest at the front of their minds when deciding on pay arrangements. The design of remuneration policies should be linked to the achievement of the company's long-term success, but there is no simple answer that works for every company. This is one of the reasons that many jurisdictions call for disclosures of the remuneration of board members and key executives. This enables investors to assess the costs and benefits of remuneration plans and the contribution of incentive schemes, such as stock options, to company performance in the long and short term. Disclosure requirements may include the remuneration policy and not just the total value of compensation arrangements, so members of the remuneration committee will need to check the relevant regulations, governance code, and possibly best practices that are available. The composition of the committee is also important. It is essential that no one should be involved in deciding his or her own remuneration. All, or a majority of, remuneration committee members will be independent directors, and executives are excluded" (Jo Iwasaki cited in Acca Global, 2019, https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html).

2.8.1.3 "Nomination committee - The nomination committee is responsible for leading the board appointment process, considering the requirements of the company and making recommendations to the board. This responsibility covers both executive and non-executive directors. Historically, the nomination committee might have attracted less attention from stakeholders than the audit and remuneration committees. This is changing, however, as the benefits of diversity on boards have become more widely recognised. The aftermath of the financial crisis reinforced the importance of oversight and rigour in the boardroom. The diversity debate first focused on the board as a whole, and on diversity of gender. Now, the scope of the debate is widening to include the executive pipeline and diversity beyond gender. Some countries encourage or require an employee representative on the board. Other companies, in an attempt to increase the diversity of thought among board members, are experimenting with techniques such as psychometric profiling. The board has to explore what composition is most

likely to achieve its overall strategic aims. The solution will be different from company to company, and it may change over time"[58] (Jo Iwasaki cited in Acca Global, 2019, https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html).

2.8.1.4 Ethics & Compliance Committees are established in an organization to help enforce compliance with the organization's rules and practices that are concerned with upholding ethical conduct and integrity amongst board members including the organization. A good example of an organization that uses Ethics & Compliance Committees is the leading commercial aircraft manufacturer 'Airbus SE' which is headquartered in Leiden in the Netherlands. [59]According to Airbus (2019) *The Ethics and Compliance Committee* assists the Board in overseeing Airbus' culture and commitment to ethical business and integrity. It oversees the Company's ethics and compliance programme, organisation and framework for the effective governance of ethics and compliance, including all associated internal policies, procedures and controls (Airbus, 2019, www.airbus.com).

2.8.1.5 "Health, safety & sustainability committee - This committee supports and advises the Board of Directors on the development and promotion of a healthy and safe environment for employees and contractors as well as on sustainable development and social responsibility. It is also responsible for the following:

• Overseeing the resources and processes to be employed to minimize or eliminate risks to health and safety

• Overseeing health and safety performance of the Company, its employees and contractors

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[58] Jo Iwasaki cited in Acca Global (2019) *Sectors and Specialisms: NED and Trustee Advice*. Available from: https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html

[59] Airbus (2019) *Board and Board Committees*. Available from: https://www.airbus.com/company/corporate-governance/board-and-board-committees.html

• Reviewing compliance with relevant health and safety legal and regulatory requirements, and internal policies and procedures[60]

• Assessing performance and use of resources through reviews and audits, including periodic formal reviews of the Company's health and safety performance" (LafargeHolcim, 2019, https://www.lafargeholcim.com/committees). The conclusion of this chapter will be covered in the following section.

2.9 Conclusion

Board of directors must first be aware that in the boardroom they represent the interests of shareholders and the other stakeholders of the organization. The key benefits an organization can easily enjoy as a result of having a board include: the ability to properly evaluate its performance and productivity levels by fully utilizing the high intellectual capital and experience of its board of directors while on the other hand the organization is able to consistently keep up-to-date or comply with new legislation that affect its vision and mission statement. In general highly competent board of directors' tend to be attentive and responsive to change since it is interrelated to innovation in the organization. It can be concluded that highly functional committees with the task of handling particular board responsibilities fall under the scope of the board of directors.

2.10 Review questions

1) Discuss the importance of directors to an organization giving relevant examples?

2) Define the term 'board of director'? Describe in detail the eight different types of directors?

3) Identify the various characteristics of an effective director?

4) Define the term 'board committees' and explain their role in an organization?

5) Describe five types of board committees and provide relevant examples?

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[60] LafargeHolcim (2019) *Committees*. Available from: https://www.lafargeholcim.com/committees

Chapter 3: Innovation leads to change

After reading this chapter you should be able to:

- Define the terms 'change' and 'innovation culture'.

- Explain the difference that exists between innovation and change. Describe the importance of change to the organization and the board. Discuss the different types of change in an organization.

- Highlight the importance of culture in an organization. Discuss how to adopt an innovation culture. Describe the innovation culture management process.

- Describe how to align innovation culture to corporate strategy.

- Explain how to maintain an innovation driven culture in the organization and board.

3.1 Introduction

In this 21st century the interrelation that exists between change and innovation has totally made it critically important for any board in any type of organization to shift their focus towards adopting continuous change management and innovation approaches or practices when conducting their day-to-day board responsibilities and duties. A highly functional board in any organization embraces change and is fully knowledgeable of the fact that the gateway to change is through implementing innovation in the board's decision making process, strategic planning process, application of governance practices, training or coaching programs and other various day-to-day responsibilities of the board. The global economy and its markets have now become highly unpredictable as a result of the ever-changing new developments in technology, consumer behavior, socio-demographic patterns of consumers, international trade activities and so on. Nowadays it has therefore become a necessity for board of directors to be fully capable of managing both planned and unplanned change in order to easily cope with the present day highly unpredictable global economy and or market. Brilliant and highly functional boards nowadays reach their future vision after going through various change processes and carrying-out effective planning. Therefore, establishing change begins with developing a vision for change followed by the empowerment of board members to play the role of change agents in order to achieve that vision. One of the simple definitions of change is when an organization embraces a different way of doing things (for instance a new method, system, procedure or policy) or an idea that is

completely new to it in its own way[61] (Wang, Lim and Kamardeen, 2012:13). Most importantly change enables the organization and its board to explore new opportunities and improve its innovativeness despite the fact that it is quite complex to define under any situation especially in the context of the modern day technologies being adapted by most of the organizations today[62] (Richards, 2006 cited in Gomez and Gomez, 2016:60). It is no secret that the most highly functional boards in the business world today are well informed that innovation is a critical decisive factor towards attaining business development. On the other hand it is important to point out that some of the organizations operating in certain industries or economic sectors located in different parts of the world tend to consistently experience innovation processes that are either 'stagnant or slowly progressing' and this is caused by the lack of expertise and innovators to fully utilize in order to sufficiently develop an effective innovation culture. In general the drivers of an organization's progress are the board of directors and their team of employees but in order for progress to be sustainable in the long term in any type of organization an innovation culture must first be adopted in the corporate philosophy by the board[63] (Dr. Jens-Uwe Meyer cited in Innolytics, 2019, https://innolytics-innovation.com/). The meaning of the terms 'change' and 'innovation culture' will be discussed in the next section.

3.2 Definitions of the terms 'change', 'culture' and 'innovation culture'

Today there are many definitions about change management that have been developed by several academics and other theorists due to the fact that change plays an important part in the continued long term survival of any organization. [64]"We can define *change management* as when the organization decides to alter the present mode of business activities into a new model in order to

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[61] Wang, Z., Lim, B. and Kamardeen, I. (2012) Volatility in Construction: Different Dimensions and Types of Changes, *Australasian Journal of Construction Economics and Building Conference Series, 1(2),* p13-15.

[62] Gomez, M.B. and Gomez, S. (2016) Organizational Change and Development. *European Scientific Journal Vol 12(22),* p56-58.

[63] Dr. Jens-Uwe Meyer cited in Innolytics (2019) *Innovation Culture*. Available from: https://innolytics-innovation.com/innovation-culture/

[64] Hashim, M. (2013) Change Management. *International Journal of Academic Research in Business and Social Sciences Vol 3(7),* p685-687.

cope with the rapid changes of the business world while keeping in mind the profit maximization factor" (Hashim, 2013:685). *In addition change management* is the process of transforming organizations to help make them function better through implementing new systems, processes, knowledge and so on (Wang *et al.*, 2012:13). The term 'culture' is widely used in various academic fields and several definitions have been developed by numerous leading academics, industry experts, sociologists and so on. The term *'culture'* is broad and it refers to the social behavior, beliefs, values, heritage and practices that are shared by a group of people or society (Rudolph. Patrick.T. Muteswa, 2019). "In his scientific book 'The Innovation Capability of Companies', Innolytics® Managing Director Dr. Jens-Uwe Meyer defines the term, on the basis of 200 international studies, as the following: '*The ability of a company to exploit the individual creativity of its employees by creating social environments to develop ideas and implement innovations of different degrees of innovation'*"[65] [66](Dr. Jens-Uwe Meyer cited in Innolytics, 2019, https://innolytics-innovation.com/). [67]According to Emprechtinger (2019) the culture of innovation, on the other hand, describes a specific form of corporate culture that is primarily intended to promote the development of innovations within the company (Emprechtinger, 2019, https://www.lead-innovation.com/). The various differences that exist between innovation and change will be covered in the following section.

3.3 Difference between innovation and change

Many directors and entrepreneurs located in various parts of the world nowadays often make the mistake of using the words 'innovation' and 'change' synonymously as if they have a similar meaning. In general there are numerous differences that exist between the terms innovation and change. These differences are depicted in Table 3.1 below.

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[65] Dr. Jens-Uwe Meyer cited in Innolytics (2019) *Innovation Culture*. Available from: https://innolytics-innovation.com/innovation-culture/

[66] Dr. Jens-Uwe Meyer (2019) *The Innovation Capability of Companies*. Available from: Http://www.businessvillage.de/Dle-Innovationsfaehigkeit-von-Unternehmen/eb-973.html

[67] Emprechtinger, F. (2019) *What is Innovation Culture*. Available from: https://www.lead-innovation.com/english-blog/what-is-innovation-culture

Table 3.1 Common differences between innovation and change

Innovation	Change
Innovation is generally perceived to be a process that is adopted to achieve a certain goal or result.	Change is generally based on the shifting of old behavior to new behavior in order to achieve a desired outcome.
Innovation can only occur and succeed if certain foundational principles have been developed since it is structural in nature.	Change is sudden and it can only succeed after certain modifications have taken place on the organization's processes, systems and so on.
Innovation is centered on acquiring technical knowhow that is focused on how to cope and strategically handle uncertainty or things unknown to the organization.	Change generally aims to change old behavior to new behavior in order to achieve desired outcome of things known to the organization and by doing so it creates certainties or predictability in the process.
Innovation of any kind generally encompasses change.	Every change that occurs nowadays generally does not include innovation.
Innovation often takes place after a series of change initiation failures and successes.	Change initiations generally do not result in innovation.

The various reasons why change is important to an organization will be covered in the following section.

3.4 Importance of change to the organization and the board

A board that accepts that change is unavoidable and it is something that occurs in the operational life of any organization on a daily basis in this modern-day business environment is more likely to easily move forward towards anchoring an innovation culture. Nowadays most of the change interventions in organizations aim to achieve a certain objective or goal. Some of the reasons why change is important to an organization and the board are outlined below:

• Change empowers an organization to be flexible towards the rapidly dynamic business environment in particular technology.

• Change helps the organization and the board to align the change process to the organization's strategic objectives and strategy.

• Change helps the organization and the board to increase the organization's productivity, efficiency and quality management in a well planned manner.

• Change helps the organization and the board to establish new better ways of doing things and eliminate old ineffective methods of doing things. The common types of change that occur in organizations nowadays will be covered in the following section.

3.5 Types of change in an organization

The different types of changes that commonly occur in organizations are depicted in Figure 3.1 below.

Figure 3.1 The five common types of organizational change
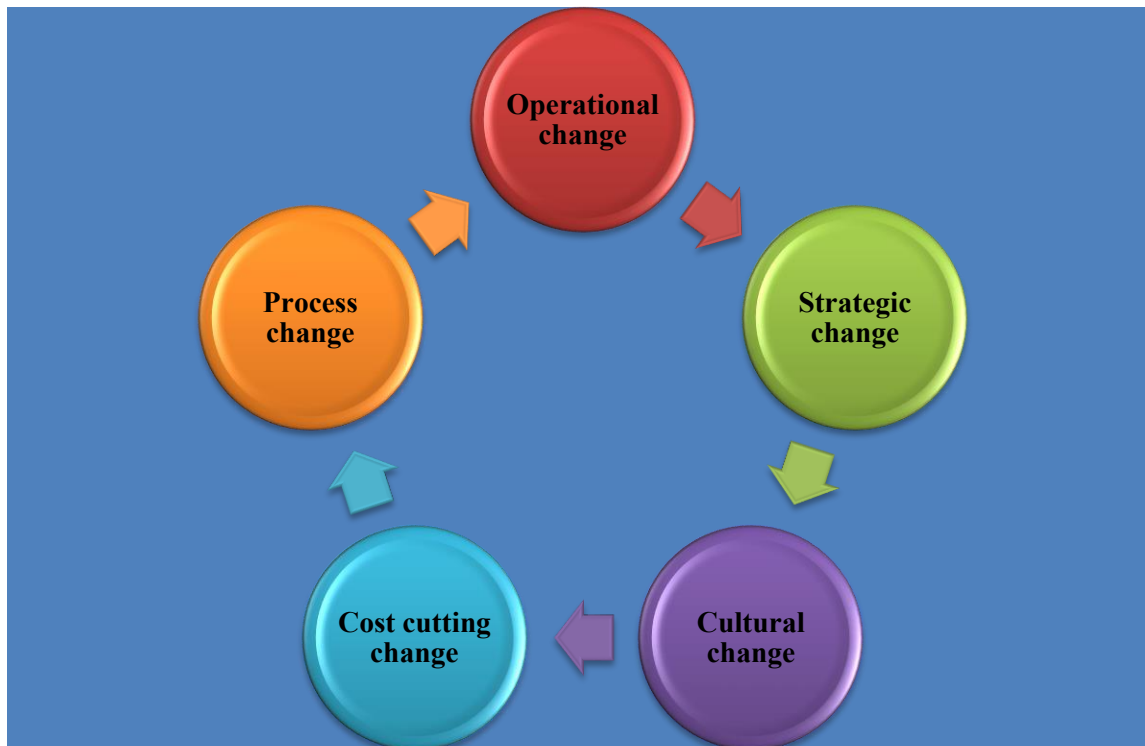
Source: Modified: (Metre, 2009:22)

• *Operational changes* – this is the change that impacts the manner in which current operations of the organization are carried-out for instance the mechanization/computerization of a certain stage of the production process.

• *Strategic changes* – therefore this type of change is the change that takes place in the strategic business vision or plan for example expanding the business from a regional or retail chain to a national retail chain (Metre, 2009:22). Therefore, strategic change alters the organization's strategy to: (1) enhance its core competencies, (2) diversify its operations and (3) strengthen its momentum. A typical example of strategic change is when Nordburg, Denmark-based organization called Danfoss which is the world's leading supplier of energy-efficient and innovative solutions acquired Visedo Oy[68] (Danfoss, 2017:6). "On November 1, 2017, Danfoss

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[68] Danfoss Group (2017) *Interim Announcement Financial Highlights 1st to 3rd Quarter*. Available from: http://files.danfoss.com/download/CorporateCommunication/Financial/InterimAnnouncement/Interim-announcement-first-to-third-quarter-2017.pdf

announced the acquisition of Visedo Oy, a world-leading expert in electric solutions for the marine and off-highway market, based in Finland. With this step, Danfoss enables access to electric solutions, which will further strengthen the business and market position of Danfoss Power Solutions"[69] (Danfoss, 2017:6).

• *Cultural changes* – these are changes that affect an organization's founding principles, values or beliefs of how it should carry-out its day-to-day operational activities to achieve the set organizational goals and objectives. For example, the human resources department can introduce a performance bonus system into the organization[70] (Metre, 2009:22),

• *Cost cutting changes* – any operational change initiative that is carried-out in the organization with the aim of lowering the costs of conducting business is referred to as 'cost cutting change' and this is one of the most common type of change nowadays due to the high volatility of the global business environment. Thus, cost cutting changes in an organization can include shutting down inefficient plants, divisions and so on (Metre, 2009:22). Cost cutting changes also encompasses cutting down on all wasteful expenses that end up lowering the organizations' operating income it uses to meet its short and long term financial obligations. A typical good example of a cost cutting change is when leading global Australian airliner Qantas Airways conducted its first Australian commercial biofuel flight on 13 April 2012[71] (Qantas, 2012). "Founded in the Queensland outback in 1920, Qantas has grown to be Australia's largest domestic and international airline. Registered originally as the Queensland and Northern Territory Aerial Services Limited (QANTAS), Qantas is widely regarded as the world's leading long distance airline and one of the strongest brands in Australia. We've built a reputation for excellence in safety, operational reliability, engineering and maintenance, and customer service. The Qantas Group's main business is the transportation of customers using two complementary

[69] Danfoss Group (2017) *Interim Announcement Financial Highlights 1st to 3rd Quarter*. Available from: http://files.danfoss.com/download/CorporateCommunication/Financial/InterimAnnouncement/Interim-announcement-first-to-third-quarter-2017.pdf

[70] Metre, C. (2009) *Deriving Value from Change Management*. Available from: https://repository.upenn.edu/cgi/viewcontent.cgi?referer=https://www.google.co.zw/&httpsredir=1&article=1027&context=od_theses_msod

[71] Qantas (2012) *Creating a Sustainable Future with Aviation Biofuels*. Available from: http://www.qantas.com/travel/airlines/sustainable-aviation-fuel/global/en

airline brands - Qantas and Jetstar"[72] (Qantas, 2019, https://www.qantas.com/au/en/about-us.html). *"Australia's first commercial biofuel flights*. On 13 April 2012, Qantas operated Australia's first commercial flight powered by aviation biofuel using an Airbus A330. The Airbus A330 was powered with a 50:50 blend of biofuel and conventional jet fuel in one engine. *Creating a sustainable future with aviation biofuels.* Qantas works hard to improve its *fuel efficiency*, and the next logical step in creating a more sustainable industry is to encourage the development of aviation biofuel. Unlike fossil fuels, biofuels can be created sustainably. We've already made Australia's first commercial biofuel flight, and now we're using our landmark Qantas Future Planet research to promote and develop the widespread use of aviation biofuel. *World first USA to Australia biofuel flight*. In January 2018 we operated the world's first dedicated biofuel flight between the United States and Australia: QF96 from Los Angeles to Melbourne. The historic trans-Pacific 15-hour flight operated with approximately 24,000kg of blended biofuel, saving 18,000kg in carbon emissions"[73] (Qantas, 2019, http://www.qantas.com/travel/airlines/sustainable-aviation-fuel/global/en). During the 2008 – 2009 global economic recession several organizations mainly financial institutions in the United States of America and the European Union including other parts of the world carried-out *cost cutting changes* such as retrenchments, closure of some of their bank branches, selling of subsidiary businesses in order to operate profitably.

• *Process change* – this is change that focuses on how change can be attained to improve the organization's effectiveness and efficiency (Metre, 2009:22).

3.5.1 Other 12 common types of organizational change

The other 12 common types of organizational change that occur in our current modern day organizations are depicted in Figure 3.2 below.

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[72] Qantas (2019) *About Us*. Available from: https://www.qantas.com/au/en/about-us.html

[73] Qantas (2019) *Creating a Sustainable Future with Aviation Biofuels*. Available from:
http://www.qantas.com/travel/airlines/sustainable-aviation-fuel/global/en

Figure 3.2 The twelve common types of organizational change

- **Radical change**
- **Incremental change**
- **Developmental change**
- **Remedial change**

- **Transformational change**
- **Process & system change**
- **De-merger change**
- **Downsizing change**

- **Relocation change**
- **People & culture change**
- **Structural change**
- **Merger/acquisition change**
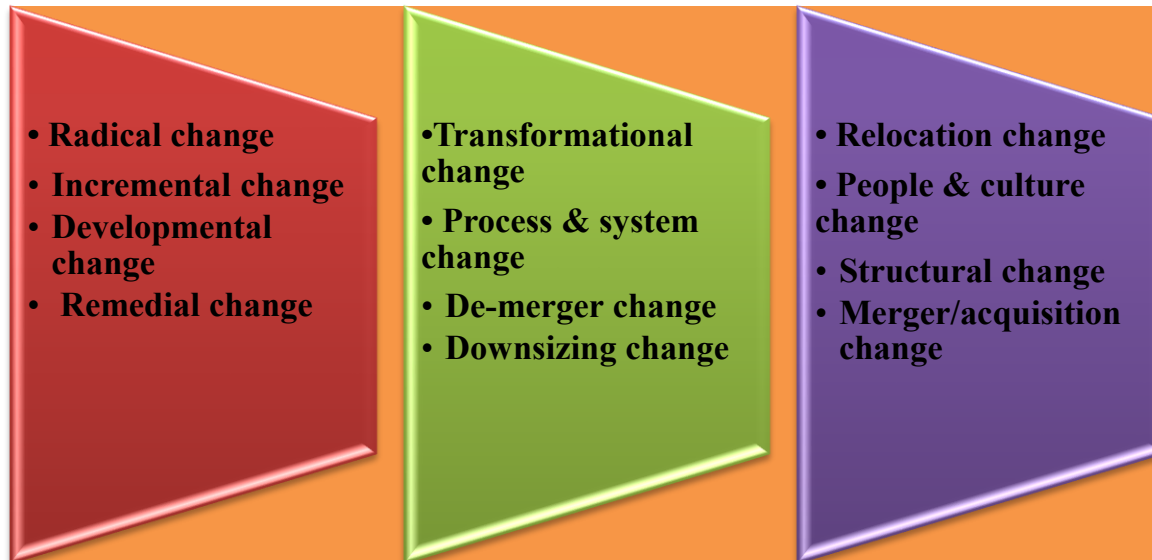
Source: Modified: (Change Activation, 2018, https://changeactivation.com)

3.5.1.1 Radical change

"It refers to the large scale transition to a different state of operation affecting the entire organization. To maximize engagement, encourage staff to consider what the things about their organization are intrinsic regardless of its structure. It is also known as 'fundamental change'"[74] (Change Activation, 2018).

3.5.1.2 Incremental change

"It refers to the continuous, small improvements made to an organization on an on-going manner. This may be the result of a continuous improvement program such as Total Quality Management" (Change Activation, 2018).

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[74] Change Activation (2018) *12 Common Types of Organizational Change*. Available from:
https://changeactivation.com/change-management-resources/12-common-types/#.WsIsf_nwbIV

3.5.1.3 Developmental change

"It is designed to increase the capacity of the organization without incurring significant shifts in operating structures or process re-engineering. It aims to maximize engagement, emphasize the stabilizing nature of the improvements being made to the organization"[75] (Change Activation, 2018).

3.5.1.4 Remedial change

"It occurs in reaction to a problem, threat or challenge faced by an organization. Effectiveness of change efforts can be gauged relatively by judging whether the problem has been resolved. Sometimes also known as *unplanned changes"* (Change Activation, 2018).

3.5.1.5 Transformational change

"It involves a re-imagining of an organization's vision, organizing principles, processes, way of working, products & services. It requires significant buy-in from all levels of staff and is typically led in a top-down manner. To maximize engagement, ensure communications about the transformation are; clear, coherent and consistent" (Change Activation, 2018).

3.5.1.6 Process & system change

"It refers to the shifts to workflows, information pathways, resource allocation, and production systems designed to optimize how an organization creates and captures value. Such changes may also require significant behavior changes from individuals affected" (Change Activation, 2018).

3.5.1.7 People & culture change

"It refers to activities designed to influence the values, norms, roles assumptions, & leadership style that form the organization's culture to align with its mission, vision and strategy. In addition it is designed to influence the way in which people communicate, motivate each other,

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[75] Change Activation (2018) *12 Common Types of Organizational Change*. Available from: https://changeactivation.com/change-management-resources/12-common-types/#.WsIsf_nwbIV

approach problems and work in teams. Typically a long-term project" (Change Activation, 2018).

3.5.1.8 Structural change

"It refers to the changes to an organization's hierarchy of authority and structural characteristics such as the organization of business units or internal groups" (Change Activation, 2018).

3.5.1.9 Merger/acquisition change

"It refers to the integration of two (or more) organizations, with different cultures, systems, values and work practices. Change management efforts typically concentrate on maintaining workplace stability and morale in order to minimize employee attrition" (Change Activation, 2018).

3.5.1.10 De-merger change

"It involves developing new leadership capacities, processes and competences to allow two or more business units that once acted as a single entity to act independently. Furthermore, it may result from strategic planning or transformational change efforts. In general it often involves a strategic re-evaluation by senior management of resulting entities" (Change Activation, 2018).

3.5.1.11 Downsizing change

"It involves an intentional reduction in the workforce size of an organization in response to an environmental pressure with the aim to improve efficiency and effectiveness. Change management initiatives focus on minimizing negative impacts to morale, trust and productivity, assisting the restructuring of work processes and supporting remaining staff through training and coaching efforts" (Change Activation, 2018).

3.5.1.12 Relocation change

"Change management initiatives focus on creating clarity around the reasons for the move, what to expect at the new site and communicating the specific behaviors that are required from individuals and groups to ensure uninterrupted service to internal & external customers" (Change Activation, 2018). The reasons why culture is important in any type of organization will be discussed in the following section.

3.6 Importance of culture in an organization

It is important to point-out that 'culture' or 'organizational culture' often help to clearly highlight what an organization and its board clearly stands for and the way they carry-out their day-to-day business activities. Organizational culture in simple terms helps to define the organization and the board's attitude, reputation and philosophical thinking. The three ways in which organizational culture is important to an organization and its board are depicted in Figure 3.3 below.

Figure 3.3 Three ways organizational culture is important

Source: Modified: (Moseley, 2019, https://blog.jostle.me).

The three different ways organizational culture is important to an organization that were depicted in Figure 3.3 are further explained as follows:

3.6.1 "Organizational culture is about living your company's core values - Your culture can be a reflection (or a betrayal) of your company's core values. The ways in which you conduct business, manage workflow, interact as a team, and treat your customers all add up to an experience that should represent who you are as an organization and how you believe a company should be run. In short, your culture is the sum of your company's beliefs in action. But if your espoused values don't match your culture, that's a problem. It could mean that your 'core values' are a list of meaningless buzzwords, and your people know it. A strong organizational culture keeps your company's core values in front and center in all aspects of its day-to-day operations and organizational structure"[76] (Moseley, 2019, https://blog.jostle.me/blog/why-is-organizational-culture-important).

3.6.2 "Your culture can transform employees into advocates (or critics) - One of the greatest advantages of a strong organizational culture is that it has the power to turn employees into advocates. Your people want more than a steady paycheck and good benefits; they want to feel like what they do matters. And when your people feel like they matter, they're more likely to become culture advocates—that is, people who not only contribute to your organization's culture, but also promote it and live it internally and externally" (Moseley, 2019, https://blog.jostle.me/blog/why-is-organizational-culture-important).

3.6.3 "Your culture transforms your company into a team - A successful organizational culture brings together the people at your company and keeps them aligned. When your culture is clear, different perspectives can gather behind it with common purpose. The culture at your organization sets expectations for how people behave and work together, and how well they function as a team" (Moseley, 2019, https://blog.jostle.me/blog/why-is-organizational-culture-important). The following section will cover issues on how to develop an innovation culture in an organization and its board.

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[76] Moseley, C. (2019) *7 Reasons Why Organizational Culture is Important*. Available from:
https://blog.jostle.me/blog/why-is-organizational-culture-important

3.7 How to develop an innovation culture

The development of a culture that must be followed by everyone in an organization can only succeed if the leadership of the organization adopts and implements certain procedures in place that they must follow on a regular basis. [77]The several ways an organization and its board can use to develop an innovation culture will be depicted in Figure 3.4 below.

Figure 3.4 Ten ways to develop an innovation culture
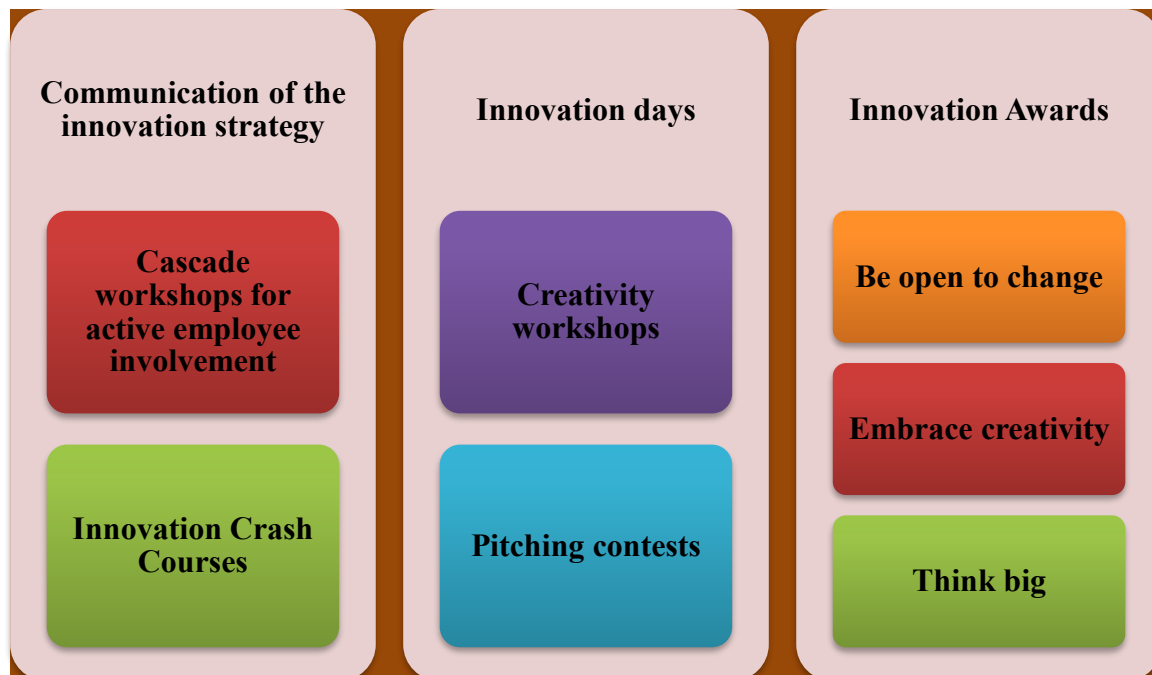
Source: Modified: (Hengsberger, 2018, www.lead-innovation.com; Eriksson Björling, 2018, https://www.ericsson.com/en/blog/)

As depicted by Figure 3.4 the ten ways an organization and its board can develop an innovation culture is as follows:

3.7.1 "Communication of the innovation strategy. The innovation strategy sets the direction and framework conditions. The expectations and goals regarding innovation should be clear to every employee. Therefore, a first important step is to communicate the innovation strategy across all

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[77] Hengsberger, A. (2018) *10 Measures to Create a Culture of Innovation*. Available from: https://www.lead-innovation.com/english-blog/measures-to-create-a-culture-of-innovation

functions and hierarchy levels, for example by means of an information campaign (Hengsberger, 2018, www.lead-innovation.com).

3.7.2 "*Cascade workshops for active employee involvement.* The communication of the innovation strategy raises awareness, but is very one-sided. Even more important, however, is the dialogue with employees and their involvement. Through cascaded workshops on innovation across all functions and top-down through all hierarchy levels, the employees are picked up. Jointly, initiated by the manager, it is to be defined,

• what innovation means for their field,

• what role they play in the innovation process and

• what they can contribute to the success of innovation.

In the best case, this results in role models and action plans or influences the job descriptions" (Hengsberger, 2018, www.lead-innovation.com).

3.7.3 "Innovation Crash Courses. Everyone talks about innovation, but often employees can't explain what that means for the company and for them and what they can contribute. Being creative and innovative also requires information and skills. Here, broad-based crash courses on innovation are recommended, in terms of content and scope adapted to the needs of the employees. For example, the content and scope of a production worker's information needs are different from those of a group leader in marketing. Contents of the crash courses can be for example:

• Definition of innovation

• How to get ideas

• How and where to submit an idea

• Innovation process - what happens with an idea and what you can contribute yourself

• Creativity techniques.

The optimum length should be between one and three hours and reach and appeal to the widest possible audience" (Hengsberger, 2018, www.lead-innovation.com).

3.7.4 "Innovation days. An annual Innovation Day can focus and activate attention on the topic of innovation. All employees should be able to participate. Possible focal points and contents can be the following:

• Presentation of the latest innovations

• Word of the Executive Board on Innovation

• Open day in the innovation department

• Hackathons and idea workshops

• Barcamps on innovation topics

• Information events on innovation, e. g. innovation process, innovation methods

• Awards ceremony for innovation.

The Innovation Day can also take place online. Above all, it is recommended for internationally active companies because it is not possible to bring all employees together in one place. Whether offline or online, the visibility of top management is a very important success factor"[78] (Hengsberger, 2018, www.lead-innovation.com).

3.7.5 "Creativity workshops. In addition to providing information and raising awareness of innovation, it is recommended that employees be directly involved in the innovation process in the form of creativity workshops. Teams working together across all functions work on innovation questions and develop new ideas and solutions. If the workshops are well moderated and the topics are exciting, an immense attraction will be created and people will be inspired and mobilized for innovation. Of course, it is also very important that the ideas don't end up in a

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[78] Hengsberger, A. (2018) *10 Measures to Create a Culture of Innovation*. Available from: https://www.lead-innovation.com/english-blog/measures-to-create-a-culture-of-innovation

drawer, but rather have an effect, otherwise every commitment will be lost" (Hengsberger, 2018, www.lead-innovation.com).

3.7.6 "Pitching contests. In the form of a competition, all employees are asked to develop ideas. They can then be piped in front of the management. In addition, there is a pre-pitching training to get the best possible result. A jury consisting of management and internal as well as external experts nominates the top ideas. However, the winning ideas can also be selected by employee voting. The best ideas are then awarded and processed further. Pitching contests have very many advantages, such as visible management commitment, broad internal media effectiveness, ideas are discussed and developed, employee mobilization, fun and of course the development of excellent ideas" (Hengsberger, 2018, www.lead-innovation.com).

3.7.7 "Innovation Awards. Innovation contests, whether in the course of a pitching contest or whether the best innovation ideas, innovation teams or innovation projects are awarded, always have a very strong impact and attention. But above all not because of the objective prize, but because of the public recognition that the employees receive from the company. In addition, prizes and awards mobilize other employees and encourage them to think about innovations" (Hengsberger, 2018, www.lead-innovation.com).

3.7.8 "Be open to change. To be open to change means to admit and embrace the notion that the world is in constant transformation and all areas of society are challenged by this change. It also means to be aware of where this transforming world is heading and to curiously keep track of change and new phenomena. Finally, it also means that you have to constantly keep analyzing what the transformation means and what the possible consequences of the transformation will be for your business"[79] (Mikael Eriksson Björling, 2018, https://www.ericsson.com/en/blog/2018/5/5-key-steps-to-creating-an-innovation-mindset).

3.7.9 "Embrace creativity. The other aspect of an innovative mindset is to truly embrace creativity. An innovator's attitude is that creativity is the solution to problems, rather than a traditional scientific method. This argument is predominant among many of those who have

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[79] Mikael Eriksson Björling (2018) *5 Key Steps to Creating An Innovation Mindset.* Available from: https://www.ericsson.com/en/blog/2018/5/5-key-steps-to-creating-an-innovation-mindset

successfully practiced innovation in the realm of daily business activities" (Mikael Eriksson Björling, 2018, https://www.ericsson.com/en/blog/2018/5/5-key-steps-to-creating-an-innovation-mindset).

3.7.10 "*Think big.* Today, most academic researchers and experts on innovation agree that innovation is about more than just incremental improvements to existing products or product extensions. This leads to the point that innovation requires an ability and the courage to think bigger and beyond the current norms and truths in the market. Innovation is about stretching one's thoughts out of everyday ordinary thinking and analysis" (Mikael Eriksson Björling, 2018, https://www.ericsson.com/en/blog/2018/5/5-key-steps-to-creating-an-innovation-mindset). In the following section the innovation culture management process will be covered.

3.8 The innovation culture management process

Innovation culture management generally requires the commitment of everyone in the organization from the top to bottom of the organizational hierarchy and it is not a task that is easy to handle without proper commitment and adequate support structures. [80]The Five-Stage Process for Innovation Culture Management highlighted by The Conference Board of Canada, Michael Grant and Hope Shamonda (2013) will be depicted in Figure 3.5 below.

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[80] Source: The Conference Board of Canada, Grant, M. and Shamonda, H. (2013) *Culture and Innovation: The Secret Sauce*. Available from: https://www.conferenceboard.ca/CBI/research/secretsauce.aspx

Figure 3.5 A Five-Stage Process for Innovation Culture Management
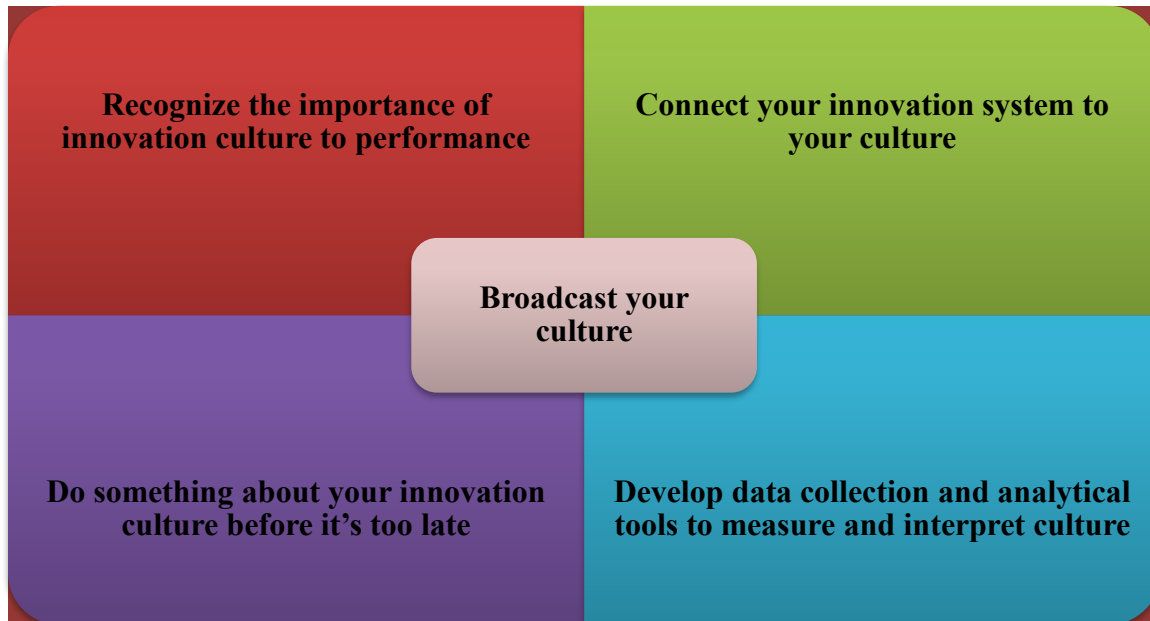
Figure 3.5 above clearly depicts the five-stage process for innovation culture management. [81]According to The Conference Board of Canada, Grant and Shamonda (2013) we suggest a five-stage process for innovation culture management by businesses:

3.8.1 Recognize the importance of innovation culture to performance.

There is clear evidence of the relationship between innovation culture and performance. The first step in managing your company's innovation culture is simply to recognize this connection and how it relates to your business. Culture management needs to be viewed as a strategic imperative and a driver of managerial decisions, or there is little reason to expend efforts on understanding it.

3.8.2 Connect your innovation system to your culture.

One reason culture is widely ignored, except when things go wrong, is that it is a broad concept that may be difficult for managers to grasp. It helps to build the culture approach off your

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[81] Source: The Conference Board of Canada, Grant, M. and Shamonda, H. (2013) *Culture and Innovation: The Secret Sauce*. Available from: https://www.conferenceboard.ca/CBI/research/secretsauce.aspx

existing innovation model. This involves understanding the connections between high-level statements of purpose (mission, vision) and your company's values, strategy, the innovation system, and innovation elements. By parsing these relationships, companies can begin to understand how cultural traits relate to innovation elements and, ultimately, to innovation performance metrics[82].

3.8.3 Develop data collection and analytical tools to measure and interpret culture.

The advantage of developing a model that describes the relationship between culture and innovation in your company is that it helps economize on data collection and analysis. It makes it possible to know who needs to be surveyed and what needs to be asked. Companies can easily build on existing data gathering tools to make the task easier, modifying existing employee performance, employee satisfaction, customer satisfaction, and stakeholder surveys. As data are gathered, it becomes easier to make statistical connections between cultural traits and innovation performance metrics.

3.8.4 Do something about your innovation culture before it's too late.

Culture is the underpinning of innovation and is simply too important to leave to chance. You can manage your innovation culture if you systematically set out to do so. As we have shown, you can single out behaviour problems and isolate them. It is only when anti-innovation behaviours become widespread that companies have a cultural problem. The more these behaviours are widespread or endemic at the highest levels (i.e., in leadership culture), the more difficult they are to change through management. Yet companies that develop early warning systems of cultural failings can take corrective action.

3.8.5 Broadcast your culture.

Culture is a key differentiator for companies. That being the case, your company needs a way to communicate how its culture is important to its success. Stakeholders need to understand the cultural characteristics that distinguish your company. Not only will this help you attract leading

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[82] Source: The Conference Board of Canada, Grant, M. and Shamonda, H. (2013) *Culture and Innovation: The Secret Sauce*. Available from: https://www.conferenceboard.ca/CBI/research/secretsauce.aspx

talent but it will also help you attract capital from financiers (Source: The Conference Board of Canada, Grant and Shamonda, 2013, https://www.conferenceboard.ca/CBI/research/secretsauce.aspx). The ways an organization and its board can effectively align innovation culture to business strategy will be covered in the following section.

3.9 How to align innovation culture to business strategy

"For any corporate innovation initiative to succeed, it is important that it is aligned with corporate strategy. This is more likely to occur naturally when senior management takes the lead with an innovation initiative – and this is a key reason why top management buy-in is a major factor in the success of any innovation process. But when middle managers or innovation consultants reporting to middle managers take charge of your innovation activities, there is a good chance that these actions will generate many good ideas, but few of those ideas will be relevant to your business's strategic aims"[83] (Baumgartner, 2019, https://innovationmanagement.se/imtool-articles/how-to-align-innovation-with-your-corporate-strategy/). The three step approach for aligning innovation to corporate strategy published by Baumgartner (2019) is depicted in Figure 3.6 below.

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[83] Baumgartner, J. (2019) *How to Align Innovation with Your Corporate Strategy*. Available from: https://innovationmanagement.se/imtool-articles/how-to-align-innovation-with-your-corporate-strategy/

Figure 3.6 Three Step Approach for Aligning Innovation to Corporate Strategy

Source: Modified: (Baumgartner, 2019, https://innovationmanagement.se/)

"A simple three step approach using some very basic methodology is all you need to align your innovation activities with your strategy. You simply need to ask some probing questions, follow creative problem solving (CPS) in idea generation and have experts judge ideas using clearly defined business criteria.

3.9.1 Step 1: Ask many questions - In order to align innovation to strategy, you need to know how well your firm is meeting its strategic objectives.

3.9.2 Step 2: Pose innovation challenges based on strategic needs - With the information gleaned in step one, you are ready to formulate innovation challenges based on the answers to your questions. For instance, if you find that your products do not reflect your brand values in the eyes of your employees and customers, you need to frame challenges that resolve this problem. These challenges might focus not only on the products themselves, but on marketing communications, packaging and possibly even pricing" (Baumgartner, 2019,

https://innovationmanagement.se/imtool-articles/how-to-align-innovation-with-your-corporate-strategy/).

3.9.3 ""Step 3: Evaluation **-** After investing substantial effort into their idea generation activities, it is amazing how many organizations and innovation professionals blow it by putting ideas to a popular vote in order to identify which ideas to develop further. Indeed, voting for ideas has two serious flaws. Firstly, popular votes tend to favor incremental improvements. Such ideas are easier to envision than breakthrough innovations and, hence, people are more likely to vote for the incremental improvements instead of the more radical ideas. If you are absolutely obsessed with idea voting and understand that voting is unlikely to select ideas that align with corporate strategy, then at least specify criteria by which the vote should take place. Criteria should be along the lines of "vote for the most creative idea", "vote for the idea you would LEAST like to see our competitors implement" or "vote for the idea which offers the greatest potential value to the firm." *Conclusion* - as noted, the steps necessary to aligning your innovation initiative with your strategic needs are simple in principle: identify strategic issues where innovation is necessary, focus your innovation on those issues and measure idea viability according to strategic issues"" (Baumgartner, 2019, https://innovationmanagement.se/imtool-articles/how-to-align-innovation-with-your-corporate-strategy/). The various ways that can be used to maintain an innovation culture in an organization will be covered in the following section.

3.10 How to maintain an innovation driven culture in the organization and board

Generally introducing an innovation culture in an organization is not a simple task. An innovation culture can only thrive in an organization that has the total commitment of its top management (*board of directors and the CEO, COO and the CFO*) down to the middle management and other employees. "The need for constant reinvention is a given in today's business environment. And while a breakthrough product or concept can catapult an organization ahead of its competitors, in these fast-paced times, that advantage is often short-lived. While major product or service breakthroughs make headlines, it's the steady incremental innovations made by employees every day that give an organization the sustained growth it needs. Sustained innovation comes from developing a collective sense of purpose; from unleashing the creativity

of people throughout your organization and from teaching them how to recognize unconventional opportunities. As innovative ideas surface, a clear sense of mission empowers front-line employees to act on new ideas that further your company's purpose. *It starts at the top.* Leaders create the psychological environment that fosters sustained innovation at all levels. The challenge is that as an organization grows, management structures and bureaucracies, designed to channel growth, tend to create barriers to small-scale enhancements"[84] (Karlsberg and Adler, 2019, https://innovationmanagement.se/). The various ways an organization can use to sustain its innovation culture are depicted in Figure 3.7 below and seven of these strategies were identified by Dr. Robert Karlsberg and Dr. Jane Adler (2019) *7 Strategies for Sustained Innovation* via https://innovationmanagement.se/.

Figure 3.7 Nine strategies of sustaining an innovation culture
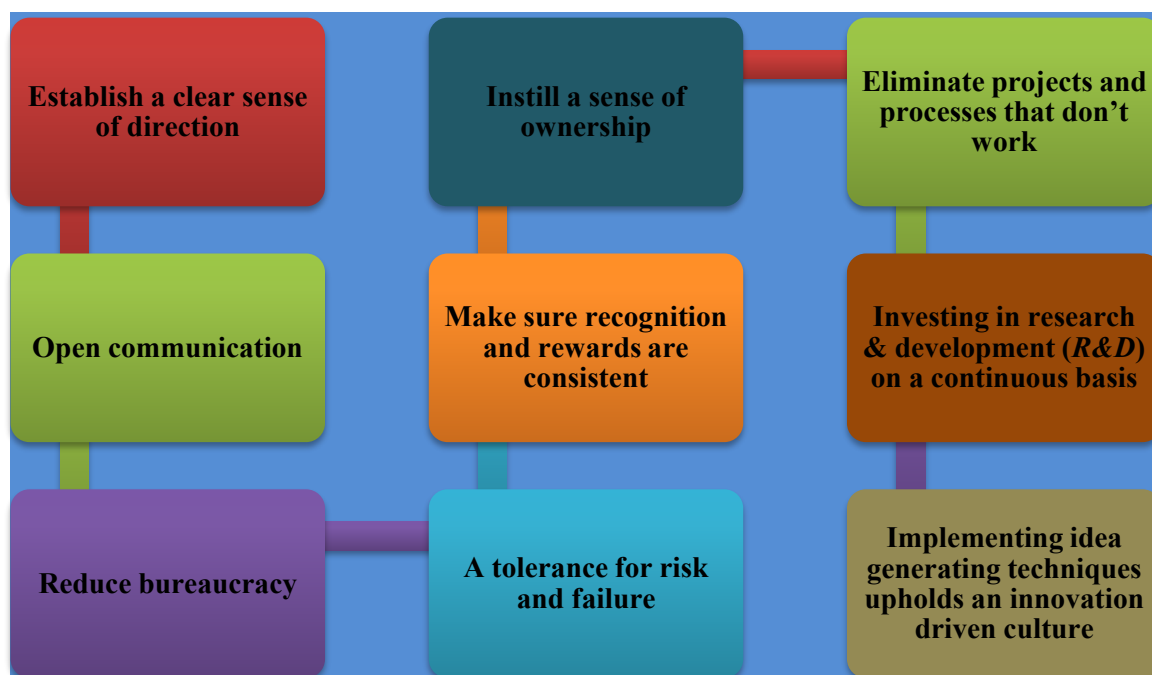
Source: Modified: (Karlsberg and Adler, 2019, https://innovationmanagement.se/; European Central Bank, 2017, www.ecb.europa.eu/)

As depicted by Figure 3.7 the nine strategies that an organization can use to sustain its innovation culture include:

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[84] Karlsberg, R. and Adler, J. (2019) *7 Strategies for Sustained Innovation*. Available from: https://innovationmanagement.se/imtool-articles/7-strategies-for-sustained-innovation/

3.10.1 "Establish a clear sense of direction. Changing cultures involves changing minds, and that takes time. But as with any initiative, a clear sense of the target helps to speed the journey. Your organization's mission helps to organize and direct the creativity of its people. What is the purpose of consistent innovation in your enterprise? Is it to add customer value to existing products and services… to speed delivery… to increase on-time arrivals? Having a clearly articulated message allows everyone to focus on innovation where it can deliver the greatest value" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.2 "Open communication. Open communication between management and employees sets the stage for an atmosphere of trust. But if you want to establish a new, more trusting culture, you can't expect employees to take the first step. Company leadership initiates the process of open communication by sharing information with employees on a regular basis. This includes good news and bad. Leaders of organizations that sustain innovation offer multiple opportunities for communication. While not every company can offer an open-door policy for its senior executives, or even a chance for regular face-to-face contact, every organization can institute programs that enable front-line workers to feel heard. From CEO lunches with cross-sections of employees, to monthly division meetings between employees and the general manager, to open intranet forums for idea sharing and feedback, leaders can communicate their openness to hearing innovative ideas from those who are closest to the customer" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.3 "Reduce bureaucracy. While larger organizations are often considered less entrepreneurial and inventive than their smaller counter**p**arts, it's not the size of your company that inhibits innovation — it's the systems. Bureaucracy slows down action and is a serious impediment to innovation. Smaller organizations can often move faster on implementing innovative ideas because they have less bureaucracy" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.4 ""Instill a sense of ownership. An ownership mentality creates a powerful incentive for inventive thinking. When an individual is clearly aware of how his or her interests are aligned with those of the company, he or she has a strong reason to "go the extra mile" to further the mission. Stock ownership is a significant, if not essential, incentive for employees. However on its own, profit-sharing doesn't guarantee your employees will think like owners. When

employees don't see how their individual efforts affect company profitability, they tend to be passive and reactive. To encourage greater involvement, make sure each employee knows how his or her work affects company performance"" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.5 ""Make sure recognition and rewards are consistent. While financial rewards are often tied to innovations, rewarding only the individual or team responsible for the "big idea" or its implementation, sets up a subtle competitive atmosphere that discourages the smaller, less dramatic improvements. Even team-based compensation can be counterproductive if teams are set up to compete with each other for rewards. These incentives discourage the cross functional collaboration so critical to maximum performance. Companies that successfully foster an innovation culture design rewards that reinforce the culture they want to establish. If your organization values integrated solutions, you cannot compensate team leaders based on unit performance. If your company values development of new leaders, you cannot base rewards on short-term performance"" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.6 "A tolerance for risk and failure. Tolerating a certain degree of failure as a necessary part of growth is an important part of encouraging innovation. Innovation is a risk. Employees won't take risks unless they understand goals clearly, have a clear but flexible framework in which to operate and understand that failures are recognized as simply steps in the learning process. Employees who trust their bosses are more likely to take intelligent risks that have potential benefit for the company" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.7 "Eliminate projects and processes that don't work. Projects and processes that no longer contribute should be abandoned to make room for new, progressive activities. While no organization wants to squander financial resources on unprofitable activities, it is actually the irreplaceable resource of time and employee energy that is wasted if a company holds on to the old way of doing things. Innovation requires optimism. It's about an attitude of continually reaching for higher performance. You can't expect employees to maintain an optimistic attitude if they feel compelled to continue in activities that are going nowhere" (Karlsberg and Adler, 2019, https://innovationmanagement.se/).

3.10.8 Investing in research & development (R&D) on a continuous basis. Innovation focused organizations tend to ensure that they are consistently kept up-to-date by their R&D department and executive director on new market trends, product or service technologies, designs and processes the organization's board must think of adopting, eliminating or investing-in to help improve the market value and the profitability of the organization. "Structural measures to promote innovation include increasing spending on research and development (R&D) and investing in education,... In addition, companies can facilitate innovation by investing in their staff and conducting their own R&D"[85] (European Central Bank, 2017, www.ecb.europa.eu/). Organizations without an executive board of director from the R&D specialization often lag behind in terms of innovation in the global marketplace. "Recent ECB studies show a considerable difference in productivity between the most productive and least productive firms, for example. This means that while well-performing frontier firms are highly innovative, so-called laggard firms do not benefit much from innovation" (European Central Bank, 2017, www.ecb.europa.eu/).

3.10.9 Implementing idea generating techniques upholds an innovation driven culture. An innovation driven culture in any organization can also be maintained by adopting idea generating techniques in the boardroom on an on-going basis to help ignite creativity amongst board members. In general an innovation centered culture in a boardroom can easily be adopted in an organization by deliberately practising different idea generating techniques that help to automatically stimulate the mind to form new or non-existent thought connections to produce unique useful new ideas. There are several idea generating techniques that can be adopted by different types of organizations across the world today and these are depicted in Figure 3.8 below.

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[85] European Central Bank (2017) *How Does Innovation Lead to Growth*. Available from: https://www.ecb.europa.eu/explainers/tell-me-more/html/growth.en.html [Accessed 2019, 08 July]

Figure 3.8 Five idea generating techniques
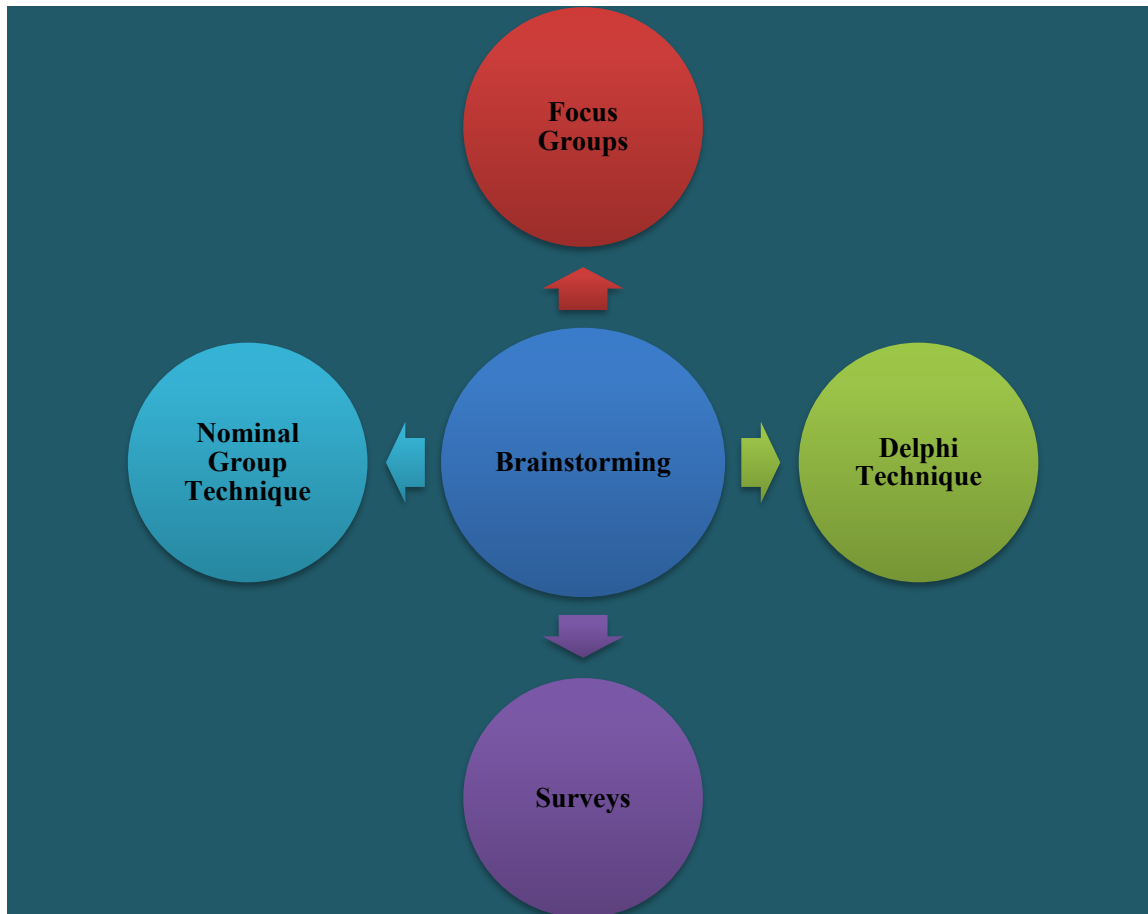
Source: Modified: (Association for Qualitative Research, 2018, www.aqr.org.uk/; Meredith and Mantel, 1995:8; Sample, J. 1984)

The five idea generating techniques depicted in Figure 3.8 above are further explained as follows:

3.10.4.1 Focus groups

""Focus group is a term often applied to a group discussion carried out for market research purposes. Participants unknown to each other are brought together, in a particular neutral location, for the specific purpose of discussing an issue, or responding to ideas or materials of interest to the client of the research. The term "focus group" originated in the USA. It is useful to

retain a distinction between this and the term more widely used in the UK, "group discussion""[86] (Association for Qualitative Research, 2018, www.aqr.org.uk/). For example, a focus group can consist of cancer patients thus they share a common interest of being diagnosed with the same illness. Therefore, a focus group is one way businesses can successfully generate creative and life changing ideas that help to solve a problem in society.

3.10.4.2 Surveys

One of the effective ways businesses can use to generate new ideas is surveys. In general surveys collect information from research participants through asking them questions that are associated with the research's main subject topic. Research participants can be customers, community members, industry professionals, government officials, suppliers, employees and so on. There are various methods that can be implemented by a small business and these include the following: (1) telephone surveys, (2) social media surveys (*social network platforms and Internet video conference calling*), (3) interviews (*structured or unstructured interviews that are done face-to-face*), (4) online surveys that are done via the Internet using email and the business's website, (5) mail surveys (*these involve the posting of questionnaires to the targeted research participants via the post office and usually the firm provides return envelopes and stamps to offer convenience and ensure that feedback is provided*), (6) questionnaire surveys (*generally a questionnaire is comprised of a list of questions that are related to the problem at hand or subject topic. A questionnaire can be made up of both 'open ended' question and 'closed ended' questions. The researcher sends the questionnaire to the targeted research participants via email, social media platforms, uploads it on the firm's website in order for customers who visit the site to complete it, the local post office service and so on*), (7) paid surveys (*these are surveys where research participants are paid for contributing towards the research. They are costly especially when the sample population is large and they can be useful if high level expert opinion is needed since money becomes the main motivator for the skilled experts to participate*), (8) mobile surveys (*are another new type of surveys entrepreneurs can use to carry-out research for*

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[86] Association for Qualitative Research (2018) *Focus Group*. Available from:
https://www.aqr.org.uk/glossary/focus-group

their small business. Mobile surveys use short message service (SMS) texts to communicate with research participants and the entrepreneur can also receive both written (texts) and verbal (calling) feedback as well). It can be summarized that the feedback that is provided by the research participants helps to generate new ideas since some of the answers to the questions that are asked during the survey can actually be the solution of the problem at hand the firm is searching for.

3.10.4.3 The Delphi technique

The *delphi* technique involves the gathering of experts in a specific career field and whose knowledge is highly valued to predict technological issues and for investigating the numeric measures of importance (*weights*) and today it is now being used by businesses for idea generation purposes. This technique places more emphasis on the combined knowledge of the experts to identify, predict and solve currently existing problems. In addition with the Delphi technique the gathering of experts is often formalized to create a structure that helps to deter bias that is usually interrelated with the presence of group members who are highly recognized and command great respect in society (Meredith, J. and Mantel, S. *Creativity and Idea Generation*. John Wiley & Son Inc., Copyright@ 1995, p8). The Delphi technique starts with the choosing of individuals who are experts of the main research topic. Afterwards the ground rules and conditions for carrying-out the idea generating process are then clearly outlined and adequate time allocation must also be made available for the idea generating process. The Delphi technique is generally not commonly used for idea generation but it is a popular technique that is used for technological predictions and parameter estimations (Meredith, J. and Mantel, S. *Creativity and Idea Generation*. John Wiley & Son Inc., Copyright@ 1995, p8). Good business, product or service ideas are some of the positive outcomes of the Delphi technique.

3.10.4.4 Brainstorming

The brainstorming technique is the most popular idea generation technique. It is based on the foundation that the innovative thinking of two or more individuals is more likely to produce more refined relevant, useful, new and unique ideas if compared to a single person's thinking. According to the Government of Western Australia Department of Primary Industries and Regional Development (2017) sometimes it can be difficult to start thinking about how to go

about achieving a goal or solving a problem. Brainstorming is a quick way to generate lots of ideas and possibilities. One of the strengths of this tool is that it stimulates creative, unconstrained thinking. This can help us think about new and different ways of doing things. Brainstorming can be used in groups or by individuals. Business teams can use it to share and build on each other's ideas. *Brainstorming in a group.* For effective group brainstorming someone needs to set up and lead the session. This person encourages people to participate and helps them to follow the rules[87]. The rules of brainstorming are:

• stay focused on the goal

• come up with as many ideas as you can

• any idea is acceptable

• there is no criticism of people's ideas or comparing of ideas

• build on other people's thinking and combine ideas

• one person speaks at a time

• comments need to be quick and to the point.

Preparing for the brainstorming session

• Define the goal or problem you will focus on.

• Choose the people to be involved. It is good to have a mix of people, for example, those with practical experience, specialists and creative thinkers. Involving people who have different perspectives makes the brainstorming more productive.

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[87] Government of Western Australia Department of Primary Industries and Regional Development (2017) *Improvement Tools: Brainstorming.* Available from: https://www.agric.wa.gov.au/improvement-tools-brainstorming-0 Copyright © Western Australian Agriculture Authority, 2013–2018 [Accessed 2020, 27 February] ©Government of Western Australia & © Commonwealth of Australia 2020.

• Set up a comfortable environment where people can sit and see each other and a whiteboard or flipchart.

• Make sure everyone has a pen and paper.

• Include someone who can accurately, neatly and quickly write the thinking on the flip chart using marker pens[88].

Running the brainstorming session

1) Explain the purpose of the session. Make sure people understand the goal.

2) Ask everyone to take five minutes to work on their own and write down all the ideas they have for achieving the goal.

3) Each person in turn reads out one idea. These are written on the flipchart. Keep going from person to person until all of the initial ideas have been recorded.

4) While this is happening, people listen to what others are saying. Encourage them to build on ideas. This could mean combining two ideas to come up with a new one.

5) When all the initial ideas have been recorded, see if any more ideas have been stimulated. Give people time to think because it can take a while for more ideas to start to flow.

6) When the extra ideas have been recorded review the full list. Make sure everyone understands all the ideas. This is about checking that people understand. It is not about discussing or judging the ideas.

7) Once people understand the ideas, similar ones can be grouped as long as everyone agrees.

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[88] Government of Western Australia Department of Primary Industries and Regional Development (2017) *Improvement Tools: Brainstorming.* Available from: https://www.agric.wa.gov.au/improvement-tools-brainstorming-0 Copyright © Western Australian Agriculture Authority, 2013–2018 [Accessed 2020, 27 February] ©Government of Western Australia & © Commonwealth of Australia 2020.

8) After the brainstorming session the ideas can be assessed and prioritised in relation to their impact on the goal.

Tools to use with brainstorming

Use the SMARTT goal tool to clarify the goal you will be focusing on during the brainstorming. The Impact and influence tool, Eight criteria technique and gross margin analysis can help to assess and prioritise the ideas. Inverse thinking is a type of brainstorming where you think about how not to achieve a goal. This then informs how you could achieve it. Tools like Inverse thinking, free writing, word association and mind maps can be used to stimulate thinking in personal brainstorming[89] (Government of Western Australia Department of Primary Industries and Regional Development, 2017, https://www.agric.wa.gov.au/).

3.10.4.5 Nominal Group Technique (NGT)

One of the many idea generating techniques used by businesses nowadays to generate ideas is the Nominal Group Technique (NGT). [90]According to a journal paper published in the *Journal of Extension Vol 22(2) titled: Nominal Group Technique: An Alternative to Brainstorming* by Sample, J. (1984) a possible alternative to brain storming is NGT. This technique was originally developed by Delbecq and VandeVen[91] and has been applied to adult education program planning by Vedros[92]. This technique is a structured variation of small group discussion

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[89] Government of Western Australia Department of Primary Industries and Regional Development (2017) *Improvement Tools: Brainstorming.* Available from: https://www.agric.wa.gov.au/improvement-tools-brainstorming-0 Copyright © Western Australian Agriculture Authority, 2013–2018 [Accessed 2020, 27 February] ©Government of Western Australia & © Commonwealth of Australia 2020.

[90] Sample, J. (1984) Nominal Group Technique: An Alternative to Brainstorming. *Journal of Extension Vol 22(2)*. Copyright © by Extension Journal, Inc. ISSN 1077-5315. Journal Editorial Office, joe-ed@joe.org

[91] Delbecq, A. L. and VandeVen, A. H. (1971) "A Group Process Model for Problem Identification and Program Planning," *Journal Of Applied Behavioral Science VII* (July/August, 1971), 466 -91

[92] Vedros, K. R. (1979) *"The Nominal Group Technique is a Participatory, Planning Method In Adult Education".* (Ph.D. dissertation, Florida State University, Tallahassee, 1979)

methods. The process prevents the domination of discussion by a single person, encourages the more passive group members to participate, and results in a set of prioritized solutions or recommendations. The steps to follow in NGT are:

1. Divide the people present into small groups of 5 or 6 members, preferably seated around a table.

2. State an open-ended question ("What are some of the ways we could encourage participants to car pool?").

3. Have each Person spend several minutes in silence individually brainstorming all the possible ideas and jotting these ideas down.

4. Have the groups, collect the ideas by sharing them roundrobin fashion (one response per person each time), while all are recorded in key term, on a flipchart. No criticism is allowed, but clarification in response to questions is encouraged.

5. Have each person evaluate the ideas and individually and anonymously vote for the best ones (for example, the, best idea gets Points, next best 4 Points, etc).

6. Share votes within the group and tabulate. A group report is prepared, showing the ideas receiving the most points.

7. Allow time for brief group presentations on their solutions.

NGT is no exception. Some of the obvious advantages are that voting is anonymous, there are opportunities for equal participation of group members and distractions (communication "noise") inherent in other group methods are minimized (Sample, 1984). The conclusion of this chapter will be covered in the following section.

3.11 Conclusion

Innovation has always been linked to change thus this has totally made it critically important for any board in any type of organization to shift their focus towards adopting continuous change management and innovation approaches or practices in conducting their day-to-day board responsibilities and duties. It is important to highlight the fact that in certain industries innovation is stagnant or slowly occurring as a result of inadequate innovators and knowledge. The majority of business leaders often believe that the term change and innovation are similar whilst in reality the two words completely have different definitions. Innovation is generally perceived to be a process that is adopted to achieve a certain goal or result. Change is generally based on the shifting of old behavior to new behavior in order to achieve a desired outcome. One of the main aim of change in an organization is to help the organization and its board of directors to increase the organization's productivity, efficiency and quality management in a well planned manner. It can therefore be concluded that innovation culture management generally requires the commitment of everyone in the organization from the top to bottom of the organizational hierarchy and it is not a task that is easy to handle without proper commitment and adequate support structures.

3.12 Review questions

1) What is the meaning of the following terms 'change', 'culture' and 'innovation culture'? Outline the four differences that exist between innovation and change?

2) Discuss the importance of change to the organization and the board? Identify at least 15 types of change in an organization?

3) Explain giving examples the importance of culture in an organization? Discuss how an organization can develop an innovation culture?

4) Describe the innovation culture management process? Explain how an organization can easily align innovation culture to corporate strategy?

5) Discuss how an organization can maintain an innovation driven culture in the organization and the board?

Chapter 4: How to become an innovation-orientated board via innovation strategy

After reading this chapter you should be able to:

- Describe the meaning of the term 'innovation strategy'.
- Outline the methods to use to develop an innovation strategy.
- Highlight why aligning innovation strategy to business strategy fails.
- Explain the different ways that can be used to avoid misalignment of business strategy and innovation strategy.
- Discuss the myths about innovation.

4.1 Introduction

In general every board in any type of organization conducts strategic planning to determine the long term goals of the organization. Strategic plans that are devised by a board in an organization are often broad as they precisely stipulate the goals of the organization and they also clearly stipulate the direction the organization will take in order to achieve its set goals or objectives over a long period of time. The long term goals of board's that are usually presented in strategic plans and they often vary based on the type and size of the organization for instance the long term goals of a large telecommunications company may include: to enhance the innovation culture of the organization, increase investments in research & development (*R&D*), introduce a new human resources strategy, improve the organization's market value and performance by a specific percentage within a period of 3 - 5 years through adopting new good corporate governance rules, standards and so on. However, an organization's board of directors can only be highly functional if they are able to have a clear understanding of the term 'strategy' and its highly significant importance in the strategic planning process. "Strategy is about making choices between a number of feasible options to have the best chance at 'winning', and innovation is just one of the means to achieve your strategic goals. Without a good one, it's actually quite difficult to achieve long-term success and orient your business for speed in order to secure competitive advantage. What's interesting is that according to statistics, 96% of

executives have defined *innovation as a strategic priority*"[93] (Kylliäinen, 2018, https://www.viima.com/blog/innovation-strategy). The meaning of the term innovation strategy will be covered in the following section.

4.2 Definition of the term 'innovation strategy'

Over the past years numerous changes have occurred in organizations across the world as a result of innovations in the external technological, economical, demographic, legal and political environment. Thus this has somehow managed to put enormous pressure on leading business management gurus, academics, innovation consultants and other industry experts to place more emphasis on understanding the concept of innovation strategy and its definition. "Innovation is about creating new value people are willing to use and pay for, whereas strategy is the plan for harnessing for example marketing, operations, finance and R&D to support achieving the competitive goal. To clarify, innovation strategy isn't about innovation tactics, such as setting up an idea challenge, but more about mapping the organization's mission, vision and value proposition for defined customer markets. It sets boundaries to your innovation performance expectations by simplifying and structuring your innovation work to achieve the best possible outcome. *Innovation strategy* can be described as an explicit roadmap for the desired future" (Kylliäinen, 2018, https://www.viima.com/blog/innovation-strategy). [94]"An *innovation strategy* is a plan to grow market share or profits through product and service innovation. When looking at innovation strategy through a *jobs-to-be-done* lens, we see that an effective strategy must correctly inform which job executor, job, and segment to target to achieve the most growth, and which *unmet needs* to target to help customers get the job done better. When it comes to creating the solution, an *innovation strategy* must also indicate whether a product improvement, or a disruptive or breakthrough innovation approach is best" (Strategyn, 2019, https://strategyn.com/innovation-strategy/). The next section will cover the various ways an organization can use to develop an innovation strategy.

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[93] Kylliäinen, J. (2018) *Innovation Strategy – What is it and How to Develop One?* Available from:
https://www.viima.com/blog/innovation-strategy

[94] Strategyn (2019) *An Innovation Strategy Should Inform*. Available from:
https://strategyn.com/innovation-strategy/

4.3 How to develop an innovation strategy

There are various ways an organization can use to develop a highly effective innovation strategy. In one of the outstanding articles that was published by Julia Kylliäinen via Viima.com (*Finland*) titled: "*5 Steps for Developing Your Innovation Strategy*" the ways an organization can use to develop a highly effective innovation strategy were presented and these 5 steps are depicted in Figure 4.1.

Figure 4.1 The 5 Steps for Developing Your Innovation Strategy

Source: Modified: (Kylliäinen, 2018, https://www.viima.com/blog/innovation-strategy)

As depicted by Figure 4.1 according to Kylliäinen (2018) the '*5 Steps for Developing Your Innovation Strategy*' include the following:

4.3.1 Determine the objectives and strategic approach to innovation. The first step in the strategy choice cascade is to define your winning aspiration. In other words, your innovation objectives and the *why* behind your innovation strategy. As any other strategy, the planning process of your innovation strategy starts with defining your objectives: *What do you want to achieve with innovation?* If we take a step back, think about your long-term business goals and the things that are most likely to drive your business forward even after some time. As already

mentioned, your innovation strategy should help to support your business objectives and vice versa.

4.3.2 Know Your Market: Customers and Competitors. The second step in the strategy choice cascade is defining the right playing field, as in, the market you're operating in and the customer segment you're offering value for. To be able to innovate and to respond to your customers' needs, you should listen and understand what your customers really want and remove the rest. To be able to do that, knowing what happens in the market is essential. However, because competitive needs are individual and often very specific, a strategy that worked for another player in your field shouldn't be copied but learned from. Although defining your playing field is important, your unique value proposition is what will make or break your innovation strategy.

4.3.3 Define Your Value Proposition. Next, and probably the most important step is to define that unique value proposition. How will you win? What type of innovations allow the company to capture that value and achieve competitive advantage? Because the purpose of innovation is to create competitive advantage, you should focus on creating value that either saves your customers money and time or makes them willing to pay more for your offering, provides larger societal benefit, makes your product perform better or more convenient to use, or becomes more durable and affordable compared to the previous product and the ones in the market.

4.3.4 Assess and Develop Your Core Capabilities. The first three steps in the strategy choice cascade really come down to one thing; *your fundamental capabilities* required for winning. When assessing your set of capabilities that need to be in place, consider the following:

• Culture

• R&D

• Behaviors

• Values

• Knowledge

• Skills.

4.3.5 Establish Your Innovation Techniques and Systems. Last but not least, to be able to execute your innovation strategy in a scalable and integrated manner, you should find out what systems need to be in place. Define: which innovation techniques and systems do we need in order to be able to link our innovation infrastructure elements together? What are the most important systems that support and help measuring the results of our innovation strategy? (Kylliäinen, 2018, https://www.viima.com/blog/innovation-strategy). The various examples of leading global organizations with effective innovation strategies will be covered in the next section.

4.4 Example of a leading global organization with effective innovation strategies

Nowadays in the global business world across different industry sectors there are many leading organizations that have managed to position themselves as global leaders of innovation by adopting highly effective and anchoring innovation strategies that have consistently propelled them to grow, enhance their corporate brands and market position. One of the typical good example of a leading global organization that currently has effective innovation strategies is depicted in Figure 4.2 below.

Figure 4.2 An example of a leading global organization with effective innovation strategies
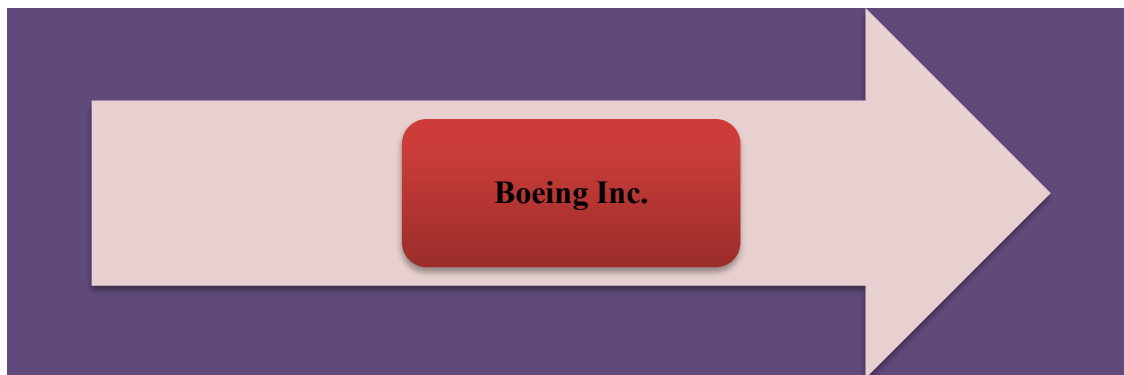
Source: Modified: (Boeing, 2019, www.boeing.com).

4.4.1 Boeing Inc.

Today one of the world's leading aircraft manufacturer and innovation centered organization is the Illinois, Chicago, United States of America headquartered Boeing Corporation founded on July 15, 1916 by Bill Boeing who had an inspirational philosophy that stated; '*build something better*'[95] (Boeing, 2019, https://www.boeing.com/history/). [96]"*Boeing Overview*. Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners, defense, space and security systems, and service provider of aftermarket support. As America's biggest manufacturing exporter, the company supports airlines and U.S. and allied government customers in more than 150 countries. Boeing products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training. Boeing has a long tradition of aerospace leadership and innovation. The company continues to expand its product line and services to meet emerging customer needs. Its broad range of capabilities includes creating new, more efficient members of its commercial airplane family; designing, building and integrating military platforms and defense systems; creating advanced technology solutions; and arranging innovative financing and service options for customers. With corporate offices in Chicago, Boeing employs more than 153,000 people across the United States and in more than 65 countries. This represents one of the most diverse, talented and innovative workforces anywhere. Our enterprise also leverages the talents of hundreds of thousands more skilled people working for Boeing suppliers worldwide. Boeing is organized into three business units: Commercial Airplanes; Defense, Space & Security; and Boeing Global Services, which began operations July 1, 2017. Supporting these units is Boeing Capital Corporation, a global provider of financing solutions. In addition, functional organizations working across the company focus on engineering and program management; technology and development-program execution; advanced design and manufacturing systems; safety, finance,

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[95] Boeing Inc., *History: Thank You for Celebrating Our Centennial with Us!,* [Website], 2019, https://www.boeing.com/history/, (accessed 12 October 2019).

[96] Boeing Corporation, *Overview,* [Website], 2019, https://www.boeing.com/company/general-info/index.page#/overview, (accessed 12 October 2019).

quality and productivity improvement and information technology" (Boeing Corporation, 2019, https://www.boeing.com/company/general-info/index.page#/overview). "The Boeing Company [NYSE: BA] announced investments in two early-stage technology companies through the ventures arm of a new group called Boeing HorizonX, an innovation cell focused on accelerating potentially transformative aerospace technologies, manufacturing innovations and emerging business models. Boeing HorizonX has made a venture investment in Washington, D.C.-based Upskill, a provider of enterprise software for augmented reality wearables focused on enhancing productivity, quality and safety in manufacturing, field service and logistics. Boeing has been working with Upskill for more than two years to evaluate the use of its technology across multiple locations nationally. Boeing HorizonX will operate as part of the Corporate Development & Strategy group, which reports to Greg Smith, chief financial officer and executive vice president of Corporate Development & Strategy at Boeing, with alignment also to Boeing's chief technology officer and senior vice president of Boeing Engineering, Test & Technology, Greg Hyslop. In line with Boeing's plan for investing in future growth, Boeing HorizonX will have three focus areas: making targeted investments in new ventures and startups; seeking unique business opportunities for the company's aerospace technology; and assessing disruptive innovations and business strategies. '*The Boeing HorizonX team will build on Boeing's advanced technology and depth of aerospace expertise in design, development and manufacturing while bringing in outside perspectives and leveraging the speed and agility of a wide range of companies and research organizations*,' Smith said. '*As part of our company strategy to accelerate growth and productivity, we intend to be flexible and move quickly to identify technologies, business models and market opportunities that hold the promise of creating and delivering more value for our customers and other stakeholders.*'"[97] (Boeing Inc., 2019, https://boeing.mediaroom.com/2017-04-05-Boeing-Forms-New-Innovation-Cell-Invests-in-Tech-Companies-Upskill-Zunum-Aero). "Boeing's autonomous passenger air vehicle (PAV) prototype completed a controlled takeoff, hover and landing during its first flight test Tuesday in Manassas, Va. Boeing NeXt, which leads the company's urban air mobility efforts, worked with

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[97] Boeing Inc., *Boeing Forms New Innovation Cell; Invests in Tech Companies Upskill, Zunum Aero,* [Website], 2019, https://boeing.mediaroom.com/2017-04-05-Boeing-Forms-New-Innovation-Cell-Invests-in-Tech-Companies-Upskill-Zunum-Aero, (accessed 12 October 2019).

Boeing subsidiary Aurora Flight Sciences to design and develop the electric vertical takeoff and landing (eVTOL) aircraft. Tuesday's test verified the vehicle's autonomous functions and ground control systems. '*In one year, we have progressed from a conceptual design to a flying prototype*,' said Boeing Chief Technology Officer Greg Hyslop. '*Boeing's expertise and innovation have been critical in developing aviation as the world's safest and most efficient form of transportation, and we will continue to lead with a safe, innovative and responsible approach to new mobility solutions*'"[98] (Boeing Inc., 2019, https://www.boeing.com/features/2019/01/pav-first-flight-01-19.page). "Boeing announced a partnership with Aerion, a Reno, Nev.-based company pioneering next-generation supersonic aircraft. As part of the agreement, Boeing made a significant investment in Aerion to accelerate technology development and aircraft design, and unlock supersonic air travel for new markets. '*Boeing is leading a mobility transformation that will safely and efficiently connect the world faster than ever before*,' said Steve Nordlund, vice president and general manager of Boeing NeXt. '*This is a strategic and disciplined leading-edge investment in further maturing supersonic technology. Through this partnership that combines Aerion's supersonic expertise with Boeing's global industrial scale and commercial aviation experience, we have the right team to build the future of sustainable supersonic flight*.' Boeing will provide engineering, manufacturing and flight test resources, as well as strategic vertical content, to bring Aerion's AS2 supersonic business jet to market. The AS2 is designed to fly at speeds of up to Mach 1.4 or approximately 1,000 miles (1,609 kilometers) per hour. With the ability to fly up to 70 percent faster than today's business jets, the AS2 will save approximately three hours on a transatlantic flight. The aircraft is slated for first flight in 2023"[99] (Boeing Inc., 2019, https://www.boeing.com/features/2019/02/aerion-partnership-02-04-19.page). The reasons why the alignment of innovation strategy to business strategy often fails in organizations will be covered in the following section.

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[98] Boeing Inc., *Boeing Autonomous Passenger Air Vehicle Completes First Flight,* [Website], 2019, https://www.boeing.com/features/2019/01/pav-first-flight-01-19.page, (accessed 12 October 2019).

[99] Boeing Inc., *Boeing Partners with Aerion to Accelerate Supersonic Travel,* [Website], 2019, https://www.boeing.com/features/2019/02/aerion-partnership-02-04-19.page, (accessed 12 October 2019).

4.5 Why aligning innovation strategy to business strategy fails in organizations

Today the number one reason why board of directors or business executives are failing to align their innovation strategy to corporate/business strategy is due to the failure to properly understand the principles behind the interrelation between innovation and corporate strategy. This has resulted in most of the business executives investing the organization's scarce resources (*financial and human intellectual capital*) into innovation projects with a high level of uncertainty while simultaneously being guided by either the '*try and error' or making a 'blind bet*' philosophy. [100]Some of the business executives nowadays are simply aware of the fact that innovation is the gateway to change and growth but in reality they have not yet developed strategies that properly align to innovation strategy and they still do not know how to align the two concepts together in order to produce the desired results (Eden, 2019, https://www.movestheneedle.com/). The various reasons why the misalignment of innovation strategy to corporate strategy occur published by Aaron Eden (2019) at www.movestheneedle.com in an article titled: '*The Importance of Aligning Innovation Strategy with Business Goals'* are depicted in Figure 4.3 below.

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[100] Eden, A. (2019) *The Importance of Aligning Innovation Strategy with Business Goals.* Available from: https://www.movestheneedle.com/all-blog/2019/1/21/the-importance-of-aligning-innovation-strategy-with-business-goals

Figure 4.3 Four reasons why misalignment of innovation strategy to corporate strategy occurs

Source: Modified: (Eden, 2019, https://www.movestheneedle.com/)

As previously depicted by Figure 4.3, "There are a number of reasons why misalignment can occur:

4.5.1 Exploring Solutions for the Wrong Reasons. The first reason is based on a flaw with human nature" (Eden, 2019, https://www.movestheneedle.com/). Generally the misconception that any new technological invention not yet available to everyone is the ultimate breakthrough idea to

pursue. One of the biggest mistake innovators and executive management commonly make is investing lots of resources in flawed ideas under the influence of deception that all new technologies are breakthrough ideas that will enable the organization to gather all the fortune or wealth it desires. For instance, the recent introduction of virtual reality (*VR)*, augmented reality (*AR*) and so on into the market has seen many organizations investing huge sums of monies into developing products aligned to the technology without first taking into account their organization high priority goals (Eden, 2019, https://www.movestheneedle.com/). "The fact is, exploring these new technologies can be exciting on the individual level, so teams may be drawn in those directions not based on any higher level strategic objectives, but rather, because it might be more fun and interesting for them on a personal level. While exploring these new concepts is not inherently bad, in fact, quite the opposite if it actually makes sense to do so - just because something is not aligned with strategy today doesn't mean that it won't be in ten years time. But teams can become easily distracted by the trends of today and lose sight of the end goals for a project if careful attention is not paid to corporate strategy and vision throughout the process"[101] (Eden, 2019, https://www.movestheneedle.com/).

4.5.2 "Changes in Leadership. Another reason for a breakdown in strategic alignment can be attributed directly to the decisions made at the top. One leader's personal goals may influence the direction of the entire organization, for better or for worse. We've seen many examples where an executive determined that a certain product or idea should be killed based on their own beliefs about where the organization should be investing, (even in situations when these beliefs were contrary to the actions of employees and customers). Then, a year or two later, a new leader comes in and sees these discrepancies and decides to reverse the decisions of previous leadership. Now all of a sudden, current innovation projects are misaligned with corporate strategy as the bias of leadership has shifted. The bigger issue here though is that when changes in leadership disrupt not only the innovation side but also the corporate strategy, you have to wonder whether decisions are being made based on the assumptions of the highest paid person in

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[101] Eden, A. (2019) *The Importance of Aligning Innovation Strategy with Business Goals.* Available from: https://www.movestheneedle.com/all-blog/2019/1/21/the-importance-of-aligning-innovation-strategy-with-business-goals

the room or based on providing value to the individuals the company aims to serve" (Eden, 2019, https://www.movestheneedle.com/).

4.5.3 "Poor Communication of Corporate Vision and Strategy. This is probably the biggest issue when it comes to alignment, yet you would think this would be less prevalent considering how straightforward the concept is. When corporate strategy is not clear to the innovation teams, it is almost certain that they will fall off course" (Eden, 2019, https://www.movestheneedle.com/).

4.5.4 "Poor Communication of Innovation Strategy. Business strategy is not the only piece of the puzzle. On the flip side, poor communication of innovation strategy can hold teams back from generating results that are in line with corporate goals. In this situation, corporate strategy is clear, but the goals, outcomes, and expectations with regard to innovation are not. All companies know they need to innovate - but what does that even mean? The problem here arises when companies don't make strategic decisions about how they want innovation to live within the organization. If leadership does not clearly paint the picture of how innovation fits within the wider context of the company, teams will essentially be flying blind and creating the random acts of innovation we discussed before. Ultimately, innovation initiatives without clear strategic goals are unlikely to align with overarching business objectives and are a waste of resources" (Eden, 2019, https://www.movestheneedle.com/). The various ways an organization can use to avoid misalignment of business strategy and innovation strategy will be covered in the following section.

4.6 Ways to avoid misalignment of business strategy and innovation strategy in organizations

The lack of successful innovation processes and or slow progress of innovation projects as a result of the consistent failure by the board of directors to properly align the innovation strategy to the business strategy has enormously put pressure on board of directors to devise ways they can use to avoid this misalignment challenge. The ways an organization can use to avoid misalignment were presented in an article published by Aaron Eden (2019) at www.movestheneedle.com titled: '*The Importance of Aligning Innovation Strategy with*

Business Goals'. [102]According to Aaron Eden (2019): in order to ensure that strategic alignment is occurring across all innovation projects, organizations must constantly work to:

• *Understand Customer Pains* **-** pursuing solutions based on new technologies or deciding to pull a product are decisions that need to be made based on customer evidence. Relentlessly seeking to understand the customer will help leadership and innovation teams with corporate and innovation strategy alignment in the long-run.

• *Create a Feedback Loop* - Business strategy should inform innovation strategy and vice versa. Keeping these two engines running simultaneously and continuously feeding both sides with key learnings from Lean Innovation work will ensure that they are working in harmony.

• **"***Communicate Vision and Strategy Clearly* **-** Make sure everyone is on the same page with regard to company vision and strategy by taking as much time as needed to explain these concepts. Check in regularly with team members to make sure everyone is still aligned, and focus employees around big picture goals.

• *Consider the Context* **-** *Not* all H3 projects that are misaligned today will be misaligned in the future. There is a time and a place to leave things alone to develop. Killing projects too early can lead your organization away from true innovation and keep you from producing high impact projects that help you reach your goals (Eden, 2019, https://www.movestheneedle.com/). In the following section the common myths about innovation will be discussed.

4.7 Myths about innovation

The fast changing business environment as a result of technology has made innovation to become a popular topic in boardroom meetings across the world while on the other hand the culture of innovation is now what every business leader wants to adopt in their organization in order to remain highly competitive in the global marketplace. Surprisingly, today there are still some 'board of directors' and managers who are highly compromised or biased in their decision-making on issues related to innovation in the organization as a result of myths or wrong perceptions about innovation and this is common behavior in the business world. In some of the

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[102] Eden, A. (2019) *The Importance of Aligning Innovation Strategy with Business Goals.* Available from: https://www.movestheneedle.com/all-blog/2019/1/21/the-importance-of-aligning-innovation-strategy-with-business-goals

organizations today the innovation process is negatively affected by wrong misconceptions and in most instances innovation related projects often fail to succeed. Some of the common myths about innovation were presented by Greg Satell (2017 & 2018) in articles published by www.innovationexcellence.com. The various myths about innovation include:

4.7.1 "Innovation Is About Ideas. The most pervasive myth about innovation is that it is about ideas. Sure, every great innovation — or accomplishment of any kind — has an idea behind it, but so do most failures. The real trick is to come up with a good idea, execute it effectively and then get other people to buy into it so that it spreads and makes an impact. That's a much higher hill to climb, because there are far more bad ideas than good ones and a vanishingly small percentage of good ideas ever become transformative. It's always tough to tell if an idea is good until you put it into practice and once you do that you take on the risk of failure, which is often painful. Nobody ever seems to want to talk about the pain. What I found in researching my book Mapping Innovation is that the truly innovative organizations — not just the one-hit wonders, but those who can reproduce success over many years — don't look for ideas but for problems to solve. A good problem leads to a sense of purpose and that's where good ideas really come from. Another thing I noticed was that great innovators had to persevere. They were able to do so not because they had better ideas, but because they felt strongly that the problem they were working on needed to be solved. So they stuck with it until it was. *Revolutions don't begin with a slogan, they begin with a cause. So don't look for a great idea, find a good problem*"[103] [104](Satell, 2017 cited in Satell, 2018, www.innovationexcellence.com).

4.7.2 "Innovators Are Risk Takers. Sure, innovation involves risk, but so does everything else. When you invest in a marketing campaign, hire a new employee, take out a loan to finance expansion or do many other things associated with running a business, you are taking a risk. That doesn't mean the element of risk itself is what makes you effective. Suffice it to say, in my research of superior innovators, not one mentioned taking risks as an important element of their

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[103] Satell,G. (2018) *Four About Innovation that Gurus Love to Tell*. Available from:
https://www.innovationexcellence.com/blog/2018/03/07/four-myths-about-innovation-that-gurus-love-to-tell/
[104] Satell, G. (2017) *All Great Innovators Have One Thing In Common — They Stick It Out.* Available from:
https://www.digitaltonto.com/2017/all-great-innovators-have-one-thing-in-common-they-stick-it-out/

success. What I did hear — and quite often — was about the importance of managing risks. So if you want to innovate, first make sure that you're not betting everything on one crazy idea" (Satell, 2018, www.innovationexcellence.com).

4.7.3 "There Is One 'True Path' To Innovation. In researching my upcoming book, Mapping Innovation, I looked at innovators of all shapes and sizes, from major corporations to exciting new startups to world class scientists. While all were tremendously successful, they had little else in common. In fact, I found them to vary widely in their approaches, their practices and their organizational cultures. Some moved fast and iterated their way toward a solution, while others moved deliberately and spent years on a single problem. Some had massive R&D budgets, while others spent little. Yet all of them made important impacts in the world, such as breakthrough products, cures for terrible diseases and exciting new technologies. [105]The truth is that no one true path to innovation. You need to define your own innovation playbook based on your strategy, capabilities and culture. In the final analysis, innovation is about problem solving and there are as many ways to innovate as there are types of problems to be solved" (Satell, 2017, www.innovationexcellence.com).

4.7.4 Additional myths

Furthermore, additional myths about innovation were presented by Jorge Barba in an article titled: '*The Five Myths of Innovation'* published by www.game-changer.net. [106] "In this webinar, Professor Julian Birkinshaw talks about his research on the myths and realities of innovation in large organizations. The myths are:

4.7.5.1 Let the data speak for itself. Using data to come up with insights? It's risky to believe that data will tell you what customers want. The point is that the bigger that data set, the more thoughtful you have to be. Computers are very good at answering questions, we're better at asking questions; start by asking better questions to get better answers, and don't let the data tell you the answer before doing that.

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[105] Satell, G. (2016) *There Is No One True Path To Innovation*. Available from:
https://www.digitaltonto.com/2016/there-is-no-one-true-path-to-innovation/

[106] Barba, J. (2016) *The Five Myths of Innovation*. Available from: http://www.game-changer.net/2016/08/11/the-five-myths-of-innovation/#.XSmoAvlKjIV

4.7.5.2 Build it and they will come. Social networks have given rise to idea portals, where people can join a challenge and post their ideas. The assumption is that a portal will get people to contribute ideas. The truth is, just like any app or website, *people need to be given a reason to keep coming back.*

4.7.5.3 Pay is paramount. Purpose matters, not just pay; it's what most bosses don't understand about getting the best from people.

4.7.5.4 Bottom up innovation is best. Innovation comes from everywhere, unfortunately it doesn't happen that often. Most innovative organizations are driven by a combination of bottom down and bottom up. A good sign that an organization is innovative, is that it is led by an innovative leader. The challenge for organizations that are not let by innovative leaders is to create the conditions for innovation to happen, bottom up, and step in when it's necessary to make a tough decision" (Barba, 2016, http://www.game-changer.net/). The conclusion of this chapter will be covered in the following section.

4.8 Conclusion

Strategic planning is one of the many critical responsibilities of the board of directors in any type of organization. Business executives successfully devise innovation strategies through carrying-out strategic planning. In this modern day business world there are still some 'board of directors' and managers who are highly compromised or biased in their decision-making on issues related to innovation in the organization as a result of myths or wrong perceptions about innovation. Today there are numerous examples of leading global organizations that have successfully developed effective business models around the innovation concept by devising effective innovation strategies that have consistently propelled them to grow, enhance their corporate brands and market position. It can therefore be concluded that in some of the organizations the number one reason why board of directors or business executives are failing to align their innovation strategy to corporate/business strategy is due to the failure to properly understand the principles behind the interrelation between innovation and corporate strategy.

4.9 Review Questions

1) Define the term 'innovation strategy' and give relevant examples?

2) Discuss the various methods an organization can use to develop an innovation strategy?

3) Describe why aligning innovation strategy to business strategy fails?

4) Identify the different ways on how to avoid misalignment of business strategy and innovation strategy?

5) Explain the 10 myths about innovation?

Chapter 5: The impact of recruitment on boosting innovation in the boardroom

After reading this chapter you should be able to:

- Describe the terms 'recruitment' and 'innovators'. Outline the objectives of recruitment in an organization.

- Explain why leadership support is critical during the recruitment of new board members in an organization. Identify the five parties that are responsible for the recruitment of new board members in an organization.

- Describe the various advantages of recruiting to boost innovation. Explain how an organization can successfully hire innovators in the organization and the board.

- Outline four ways an organization can use to identify innovative driven job candidates to offer employment. Discuss the five reasons why an organization must conduct a board recruitment process.

- Explain in detail the four steps involved in the board recruitment process.

5.1 Introduction

People with the right skills, knowledge and experience generally add value into the organization's operational activities. Technology has become the central point to achieving high innovations, profitability, increased productivity levels and branding. Thus this has made organizations to invest a lot of their scarce financial resources into finding people of the right caliber while on the other hand this has increased the general demand for knowledge workers in the global labour market. "Hiring for innovation requires that we identify people who can 'think outside the box.' Let's not assume that everyone is equally innovative, but instead let's recruit people for their innovation capabilities. Are they inquisitive? Are they locked into one viewpoint or willing to consider others? Are they open to new ideas, new concepts? These questions have a lot to do with how people are recruited and how their skills are improved to welcome innovation. The ability to help create, protect and build organizational culture is a critical role for HR to play, as it is a major driver for innovation. However, management needs to support, plan for and

nurture an innovation culture for innovation to be successful"[107] (Stanleigh, 2015, https://bia.ca/innovation-a-strategic-hr-imperative/). "Having the right people on your board is absolutely fundamental to ensuring the organisation is run effectively and efficiently. As with any recruitment exercise, it is important to consider what role the board members will have, and the skills, knowledge and experience they need. The purpose of this Board briefing is to highlight the key steps in recruiting Board members" (Leading Governance, 2013, www.leadinggovernance.com). The meaning of the term recruitment and innovator will be covered in the following.

5.2 Definition of the terms 'recruitment' and 'innovators'

In general having a clear understanding of the meaning of the term 'recruitment' is critical for each and every business executive today. According to Hunter (2002:83) *recruitment* is the process of encouraging people to apply for jobs in an organisation and its objective is to have a pool of suitably qualified and experienced applicants from whom one or more employees can be selected (Hunter, 2002:83). *"What Exactly Is an Innovator?* Before you can find innovators, recruiters need to know what to look for. *I define innovators as those who had and implemented a corporate idea that improved product or process performance or features by at least 25 percent*. And when you are looking, also target serial innovators, those who have successfully implemented their innovative ideas multiple times" (Sullivan, 2019, https://www.ere.net/). The objectives of recruitment in an organization are discussed in detail in the following section.

5.3 Objectives of recruitment in an organization

The ultimate aim of recruitment is to recruit and select employees of the right caliber while simultaneously adhering to the set codes of ethical practice and government legislation. Its main purpose is to ensure that the hiring of employees adheres to the organization's code of conduct and the labour legislation of the country through the guidance of the organization's recruitment policies such as the recruitment of women and people living with disabilities[108] (Izuogu,

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[107] Stanleigh, M. (2015) *Innovation: A Strategic HR Imperative*. Available from:
https://bia.ca/innovation-a-strategic-hr-imperative/

[108] Izuogu, S. A. (2015) Impact of Organizational Culture on Recruitment & Selection Practices in the Oil & Gas Construction Industry in Nigeria: SAIPEM in Focus. *European Scientific Journal June Vol 11(16),* p161-165. Available from: https://eujournal.org/index.php/esj/article/viewFile/5861/5584

2015:162). Effective recruitment practices play a critical role in lowering the organization's employee turnover rate and improving employee motivation (Izuogu, 2015:162). The six objectives of recruitment in an organization will be depicted in Figure 5.1 below.

Figure 5.1 Six objectives of recruitment
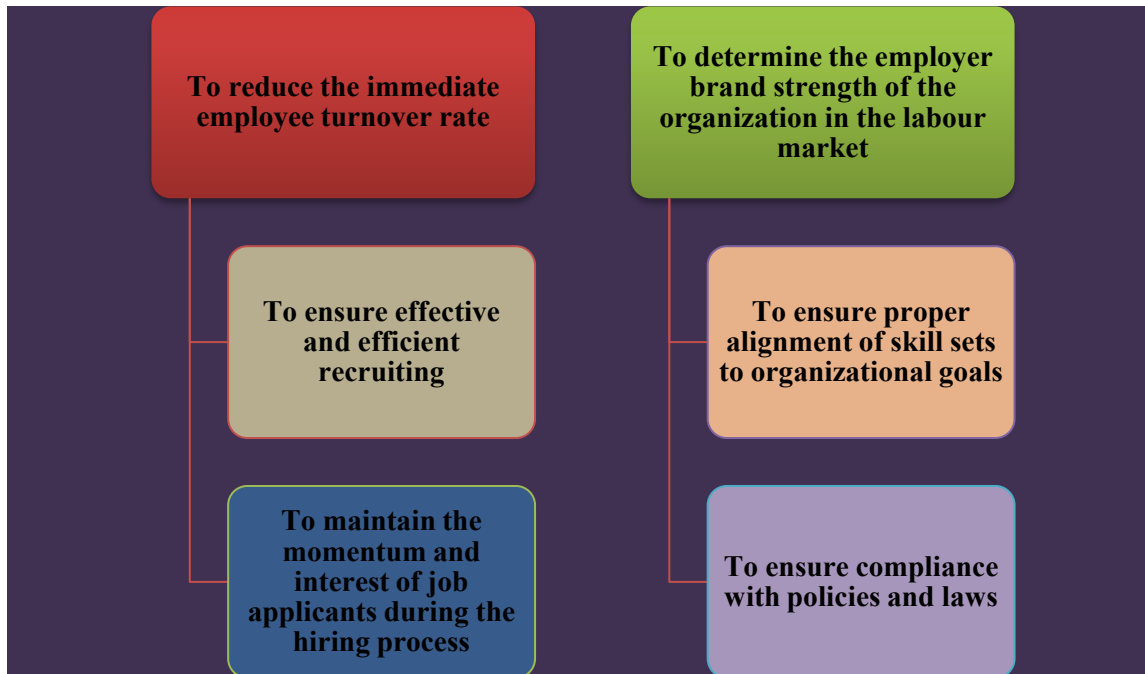
Source: Modified (Martin Luenendonk, 2016, https://www.cleverism.com/)

As depicted by Figure 5.1 the six objectives of recruitment include the following:

5.3.1 To reduce the immediate employee turnover rate is one of the main aim of any recruitment process and also to lower the intention to leave and or potential to leave of newly hired employees by practicing ethical and professional recruitment processes. "Immediate employee turnover is the rate at which new employees resign from their positions. This rate is different for every organization and also for different positions. If the rate is high, the hiring process becomes expensive for the organization. This is because, you will have spent a lot of money, resources, and time when advertising for the position, interviewing the candidates, and training the new hire. You can lower the rates by carrying out the necessary background checks, increasing the

assessment quality, and screening the reference"[109] (Martin Luenendonk, 2016, https://www.cleverism.com/8-proven-recruitment-strategies/).

5.3.2 *"To ensure effective and efficient recruiting.* Effective recruiting means that the person employed for the job is the best possible candidate for it, with all the required skills, talents and qualifications of the job. Efficient recruiting, on the other hand, means that the process has been carried out without incurring a lot of costs on the part of the organization. By following the process, there is a greater chance that the human resources department can get the best possible person for the job" (Martin Luenendonk, 2016, https://www.cleverism.com/what-is-recruitment/).

5.3.3 *To maintain the momentum and interest of job applicants during the hiring process.* Job applicants (*in particular highly qualified and experienced individuals*) often get easily frustrated with slow and time consuming recruitment processes as this is one good indicator of an organization categorized as a poor employer brand status. Generally job applicants must not quit the application process before they are hired by the organization therefore it is critical for the organization to ensure that the latest recruitment technology is adapted or implemented during the hiring process for instance the use of the 'applicant tracking system' (*ATS*), database software, social media communication platforms, video interviewing and so on. It is the duty of the recruitment function/nominations committee of the board in the organization to keep job applicants interested and committed towards working for the organization while simultaneously boosting the image of the organization as a great employer of choice to job applicants in the labour market.

5.3.4 *To determine the employer brand strength of the organization in the labour market.* A recruitment process provides the organization with the opportunity to determine the current employer brand status of the organization in the labour market. The strength of the employer brand of the organization can be determined through (1) assessing the quantity and quality of job applications it receives for an open vacancy, (2) newly hired employee turnover rate, (3) recruitment industry independent survey employer brand ratings by job seekers or professional

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[109] Martin Luenendonk (2016) *8 Proven Recruitment Strategies.* Available from: https://www.cleverism.com/8-proven-recruitment-strategies/

associations and so on[110] (Martin Luenendonk, 2016, https://www.cleverism.com/8-proven-recruitment-strategies/).

5.3.5 "To ensure proper alignment of skill sets to organizational goals. Through recruitment, organizations make sure that the skill sets of the staff or manpower of the company remains aligned to its initiatives and goals"[111] (Martin Luenendonk, 2016, https://www.cleverism.com/what-is-recruitment/).

5.3.6 "To ensure compliance with policies and laws. There are various rules, laws and regulations that organizations must adhere to when it comes to its human resources management. Equal opportunity employment and non-discrimination in hiring are two of them. By following a recruitment process, the chances of the organization violating these policies will be low" (Martin Luenendonk, 2016, https://www.cleverism.com/what-is-recruitment/). The importance of leadership support during the recruitment process will be discussed in the following section.

5.4 Importance of leadership support during the recruitment process

Organizations' that generally have a leadership support approach of doing things tend to be value driven. Top management in general plays a critical role in the success of any recruitment activity that is conducted in the organization. There are numerous ways an organization's top management can provide leadership support during the recruitment process. Some of the three ways an organization's business executives or top management can support the recruitment process include:

• *Adopting a friendly and accommodating leadership style* – a business leader often leads by example and is willing to listen, assist and motivate the people he or she leads. The recruitment process in an organization can only start after it has been authorized by the organization's human resources manager and CEO including the Chairman especially when it involves the recruitment of the board of directors. *"As the leader of a company, it is your responsibility to foster and*

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[110] Martin Luenendonk (2016) *8 Proven Recruitment Strategies.* Available from: https://www.cleverism.com/8-proven-recruitment-strategies/

[111] Martin Luenendonk (2016) *What is Recruitment? Definition, Recruitment Processes, Best Practices.* Available from: https://www.cleverism.com/what-is-recruitment/

nurture the attitudes of your individual team members. Being a leader, you cannot develop a culture of innovation if you fail to show them the way to innovation through your own attitude and behavior. Rather than resorting to a 'do more' approach, you need to give your employees the room to experiment and learn so that they can improve, remember that innovation develops from trial and error and it demands an investment of time. But when you deprive your employees of time, you suffocate the urge of your employees to learn different perspectives to their work."[112] (Park, 2019, https://recruitloop.com).

• *Offering adequate financial budgets* – in general every recruitment activity in any type of organization whether small or large costs money despite the fact that it is being done internally or externally and in general outside recruitment methods tend to be much more expensive than internal recruitment methods. Business leaders in organizations must ensure that they offer adequate financial budgets or resources to the recruitment function in order for their organization to successfully recruit board of directors of the right quality and caliber (*with the required innovation mindsets or values*) that can help the organization achieve its strategic goals via its innovation strategies.

• *Consistently being part of the recruitment process* – the most impactive leadership support any recruitment function in an organization can receive is having business leaders (*such as the CEO, COO, Chairman and so on*) who are consistently willing to be part of the panel of recruiters when the recruitment task involves hiring new board of directors. The presence of the CEO, COO and Chairman helps the organization to maintain the type of innovation culture and focus it wants in its board's decisions, strategic planning, governance and performance. The parties involved in the recruitment of board of directors will be discussed in detail in the next section.

5.5 Who is responsible for the recruitment of the board of directors

The hiring of new employees in the organization involves many people. "Although the ultimate responsibility for board recruitment should fall on the shoulders of the board itself, CEOs can and must take a proactive leadership role to ensure an organization is recruiting the best possible

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[112] Park, C. (2019) *8 Ways to Bring Innovation Into Your Organisation*. Available from:
https://recruitloop.com/blog/workplace-innovation/

people for its board"[113] (Nelson, 2015, https://www.nscstrategies.com/governance/ceo-board-recruitment-responsibilities/). It is important to point-out that some organizations today recruit employees and offer them job opportunities that allow them to do what they are good at and strongly passionate about in their career field. The human resources department and the nominations committee play a pivotal role in ensuring that the recruitment process commences and adheres to the organization's human resources policies. The parties that are responsible for the recruitment function are depicted by Figure 5.2 below.

Figure 5.2 Parties responsible for the recruitment of board of directors in an organization

Source: Modified: (Nelson, 2015; Institute of Directors, 2018, www.iod.com; Jo Iwasaki cited in Acca Global, 2019).

The parties that share the responsibility of the recruitment process of board of directors in an organization include the following:

• *Chief Executive Officer (CEO)* – "A CEO's recruitment responsibilities range from ensuring that a vibrant and effective nomination / selection process is in effect to identifying potential

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[113] Nelson, R. (2015) *CEO Board Recruitment Responsibilities*. Available from:
https://www.nscstrategies.com/governance/ceo-board-recruitment-responsibilities/

candidate prospects to creating a governing environment that is attractive to great candidates. As a CEO, it is your responsibility to stay current on the latest developments and nominating processes/systems and introduce these concepts to the board for a full and complete dialogue, and consideration. If you don't have a clear set of *attributes* against which to evaluate prospective candidates, one should be developed. In drafting the attributes, you might consider talking with some current board members to get their input on what attributes they think are most critical. Likewise, it is the CEO's responsibility to write draft job descriptions for the board, which the board can ultimately adopt. Written job descriptions are a useful tool to keep the selection process focused on finding talent that meets the organization's needs and serve as an aid when clearly communicating expectations to prospective candidates. CEOs are also perfectly situated to conduct a gap analysis. Prior to the beginning of the nominating process a CEO should conduct a gap analysis that contrasts the current make up of the board with what might be considered the ideal board make up, based on the current realities of the environment, the strategic direction of the organization, and significant opportunities or challenges the board / organization will be facing over the next few years. The identified gaps can inform the candidate selection process. With a comprehensive gap analysis in hand, it is a matter of board members proactively identifying, cultivating and recruiting the best possible cadre of candidates for the job at hand. As part of the quest for increasing diversity of thought on the board, CEOs can act as catalysts for encouraging the identification of board candidate prospects that fall outside of the typical circles in which the board or governance committee members operate. In part, this begins with creating valuable experiences for new and fresh people to engage or interact with current leadership in the creation of member value" (Nelson, 2015, https://www.nscstrategies.com/governance/ceo-board-recruitment-responsibilities/).

• *The executive vice president of human resources or human resources director and or the human resources manager* – is the head of the overall functions of the human resources department namely; compensation, training & development, human resources management information systems & technology, talent management, labour relations, recruitment, employee wellness programs, workplace health & safety and so on. In multinational or global conglomerate organizations the head of the human resources department is called the executive vice president of human resources or the human resources director. All the managers who are responsible for the above mentioned human resources department functions all report to the

executive vice president of human resources or human resources manager and or the human resources director. In general the human resources manager is responsible for the recruitment function in an organization and he/she ensures that they work closely with the recruitment manager, recruitment officers (*also known as recruiters*) and the line manager in the department where the vacancy exists in order to ensure that they gather accurate information to use in drafting the job description and person specification. The human resources manager must first be consulted for permission before a job advert is posted and he/she is responsible for ensuring that the job adverts meet the organization's human resources policy required standards. The human resources manager is responsible for the following: (1) creating the human resources budget and ensuring that the recruitment budget is sufficient to allow the organization to fulfill its human resources objectives on a regular basis, (2) drafting the recruitment policy that is in direct alignment with the organization's human resources strategy, (3) approving the form of media to use to advertise open vacancies in the organization, (4) approving the forms of technologies to use when conducting the recruitment process, (5) liaising with the recruitment manager and the head of the department where the open vacancy exists on all matters pertaining to the open vacancy, (6) designing the training and development programs of the human resources department employees such as the recruiters, (7) ensures that all recruitment activities in the organization are adhering to the organization's human resources policy (*which also includes the recruitment policy*) in order to directly align the above mentioned activities with the business strategy.

• *Chairperson* – "The chairman's primary role is to ensure that the board is effective in its task of setting and implementing the company's direction and strategy. The chairman is appointed by the board and the position may be full-time or part-time. The role is often combined with that of managing director or chief executive in smaller companies. The main features of the role of chairman are as follows: • As well as being chairman of the board, he/she is expected to act as the company's leading representative which will involve the presentation of the company's aims and policies to the outside world. • To take a leading role in determining the composition and structure of the board. This will involve regular reviews of the overall size of the board, the

balance between executive and non-executive directors and the balance of age, experience and personality of the directors"[114] (Institute of Directors, 2018, www.iod.com).

• *The Nominations Committee* – "The *nomination committee* is responsible for leading the board appointment process, considering the requirements of the company and making recommendations to the board. This responsibility covers both executive and non-executive directors. Historically, the nomination committee might have attracted less attention from stakeholders than the audit and remuneration committees. This is changing, however, as the benefits of diversity on boards have become more widely recognised. The aftermath of the financial crisis reinforced the importance of oversight and rigour in the boardroom. The diversity debate first focused on the board as a whole, and on diversity of gender. Now, the scope of the debate is widening to include the executive pipeline and diversity beyond gender. Some countries encourage or require an employee representative on the board"[115] (Jo Iwasaki cited in Acca Global, 2019, https://careers.accaglobal.com).

• *Job applicants* – the potential board members who are the people searching for employment play a vital role during the recruitment process of a board by sending their curriculum vitaes/resumes and application forms to the organization's human resources department to apply for open vacancies. Thus an organization's hiring process cannot commence if the job seekers in the labour market are not consistently sending their job applications to the organization's human resources department in order for it to submit to the nominations committee in most instances. The various advantages an organization can enjoy as a result of recruiting new board members to boost innovation will be covered in the following section.

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[114] Institute of Directors (2018) *The Role of the Chairman*. Available from: https://www.iod.com/news/news/articles/The-role-of-the-chairman

[115] Jo Iwasaki cited in Acca Global (2019) *Sectors and Specialisms: NED and Trustee Advice.* Available from: https://careers.accaglobal.com/careers-advice/sectors-and-specialisms/neds-and-trustees-advice/what-are-board-committees-and-their-functions.html

5.6 Advantages of recruiting to boost innovation

There are many advantages that are enjoyed by an organization that conducts its recruitment process of its board of directors with the main aim of improving its innovation culture and focus. Nowadays the number one essential quality some of the organizations look for in potential board candidates is their ability to innovate in a manner that helps to add value to the organization, its shareholders and other stakeholders. It is the responsibility of the human resources function and the nominations committee to ensure that in each and every board recruitment exercise that is conducted by the organization all the activities are guided by the philosophy of hiring 'innovators' when assessing potential board job candidates. The five common advantages of recruiting to boost innovation are depicted in Figure 5.3 below.

Figure 5.3 The five advantages of recruiting to boost innovation

As depicted by Figure 5.3 the five advantages of recruiting to boost innovation include the following:

5.6.1 Newly recruited board of directors will be more engaged

Numerous research studies, industry experts' reports, books and online journals have pointed-out that the key to attaining a highly engaged board or employees in an organization is hiring job candidates with a strong positive attitude towards an innovation-centered working environment. The most common challenge organizations are facing in boards nowadays is having board of directors who are consistently 'actively disengaged' and with a negative innovation culture. Thus, one of the key advantages of hiring innovation focused job candidates is that they are more likely to remain highly motivated and passionate about achieving outstanding innovation progress in the organization. Furthermore, employees who are highly engaged are more likely to achieve personal growth during their employment tenure in the organization and they are also more likely to have high levels of organizational commitment which helps to keep them willing to work for the organization for longer time periods.

5.6.2 It helps to reduce unnecessary costs of operation

The new buzz word in the innovation field is 'operational efficiency' also known as 'operational effectiveness'. The term 'operational efficiency' or 'operational effectiveness' measures the ratio of output to input used during the production process of the business and the main aim of this concept is to maximize sales revenue into the organization whilst operating at the lowest possible cost in a manner that enables the organization to maintain its competitive advantage. The interrelation between innovation and operational effectiveness is unquestionable. Nowadays when organizations implement innovation projects they aim to reduce unnecessary costs of operations such as costs of rework after producing faulty products or services, automation of services to reduce labor costs and so on. Thus, in order for all these above mentioned benefits to be enjoyed by an organization the organization must ensure that it recruits business leaders with a strong work culture that is innovation centered mindset.

5.6.3 It helps to improve the competitiveness of the organization

The world's most successful organizations share one thing in common that is '*innovation thinking is at the forefront of their regular boardroom meetings*' and other levels of the organizational hierarchy. In essence any form of organization that aims to become a market leader whilst remaining highly competitive at the same time can easily attain this goal through recruiting job candidates who are 'innovators' in their different areas of expertise. Recruiting to boost innovation is one of the guaranteed ways an organization can successfully out maneuver its competitors in the marketplace through gaining a competitive advantage in the core business area of the organization at a profit.

5.6.4 It helps to improve the corporate and employer brand of the organization

Another main advantage of recruiting to boost innovation in an organization is that it helps to improve the corporate and employer brand of the organization in the market place. When organizations recruit people with innovative skills and mindsets they often increase their prospect of success via implementing effective branding strategies. Organizations that are innovation centered are well known in the marketplace for producing high quality, fulfilling and technological products or services and this often helps them to boost their corporate brand image and market position. Highly talented job seekers tend to look for employment in organizations with a good corporate brand in the marketplace as they are more likely to be highly profitable and afford to offer their employers highly conducive working environments in order to boost their employer brand status in the labor market. A typical good example of a leading global organization with a powerful employer brand, large market presence, high quality products and is considered to be an employer of first choice for many highly talented job seekers is LafargeHolcim, headquartered in Jona, Switzerland. "LafargeHolcim is the global leader in building materials and solutions. We are active in four business segments: Cement, Aggregates, Ready-Mix Concrete and Solutions & Products. With leading positions in all regions of the world and a balanced portfolio between developing and mature markets, LafargeHolcim offers a broad range of high-quality building materials and solutions. LafargeHolcim experts solve the challenges that customers face around the world, whether they are building individual homes or major infrastructure projects. Demand for LafargeHolcim materials is driven by global

population growth, urbanization, improved living standards and sustainable solutions construction. Around 75,000 people work for the company in around 80 countries"[116] (LafargeHolcim, 2019, https://www.lafargeholcim.com/our-strategy). The global building materials and solutions company's large global market presence, high quality products and sales make it highly attractive to talented job seekers in the global labour market and a suitable employer brand they are willing to be associated and identified with in their working life.

5.6.5 It helps to bring in new people with proven unique methods into the organization

People who are innovative often do things differently therefore the recruitment of new people to boost innovation helps the organization to employ people with proven unique methods of carrying-out various tasks on a daily basis. *"Why recruit board members?* A healthy turnover of board members helps to ensure that fresh and independent thinking is available and strengthens the corporate governance of the organization. This should be balanced with the need for continuity, and keeping board members who understand the history and context of the organization"[117] (Leading Governance, 2013, www.leadinggovernance.com). Discussions on how an organization can successfully recruit innovators will be covered in the next section.

5.7 How to successfully recruit innovators in the organization and the board

"Why are innovators so crucial for your company? Because innovators are the people that drive your company forward and prepare it for the future. Innovators make the difference"[118] (Brenner, 2014, https://www.viasto.com/en/blog/attract-innovators-cool-recruiting-processes/). In today's modern-day business world it has become a prerequisite for organizations to employ innovators since they play a crucial role in directing the path an organization must follow in order to attain its innovation strategies, vision and performance objectives. The tips on how to effectively recruit innovators in an organization and its board were outlined by Falko Brenner (2014) in an

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[116] LafargeHolcim (2019) *Our Strategy*. Available from: https://www.lafargeholcim.com/our-strategy

[117] Leading Governance (2013) *Board Member Recruitment*. Available from:
https://www.leadinggovernance.com/sites/default/files/briefings/Board%20Member%20Recruitment_0.pdf

[118] Brenner, F. (2014) *Attracting Innovators with Innovative Recruiting Processes*. Available from:
https://www.viasto.com/en/blog/attract-innovators-cool-recruiting-processes/

article titled: 'Attracting Innovators with Cool Recruiting Processes' published by www.viasto.com are depicted in Figure 5.4 below.

Figure 5.4 Three tips on how to successfully recruit innovators in a board
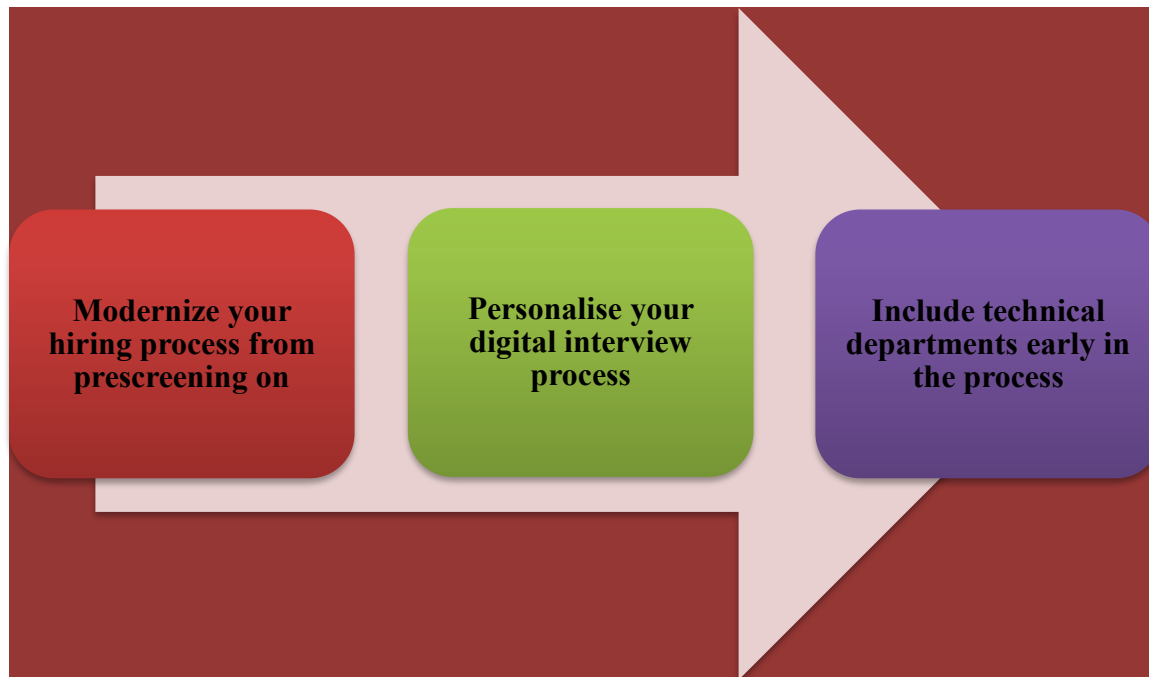
Source: Modified: (Brenner, 2014, https://www.viasto.com/).

As previously highlighted by Figure 5.4 the three ways that can be used to successfully hire innovators into the organization's board will further be explained. According to Brenner (2014):

5.7.1 "Modernize your hiring process from prescreening on. No matter how much money you spend on boosting your image as an attractive employer, most motivated candidates will drop off if your hiring processes are slow and frustrating for them. Innovators have high requirements for a process. They draw conclusions about your degree of innovation from the way you set up your process, the way you communicate the different steps and the tools that you use. Be sure to provide attractive recruiting processes from the very first step on — the prescreening step. Why not use innovative technology such as pre-recorded video interviewing software to provide them with a great candidate experience?" (Brenner, 2014, https://www.viasto.com/en/blog/attract-innovators-cool-recruiting-processes/).

5.7.2 "Personalise your digital interview process. If you think that technology may be too impersonal, you are mistaken. Pre-recorded video interviewing, for example, is a powerful means for presenting your company, the job and the future team on the one hand, and for getting to know your candidate's skills and personality early in the selection process on the other hand. Imagine you are inviting your candidates to record a video interview. Before they do, they will see authentic welcome videos of you and your team giving them a warm impression of what they can expect from your company as an employer and providing them with relevant information about the team and the job. *Either way, innovation-driven people will be happy to see you combining technology and personal touch with an innovative approach to recruiting"* (Brenner, 2014, https://www.viasto.com/en/blog/attract-innovators-cool-recruiting-processes/).

5.7.3 "Include technical departments early in the process. It is important that you include those people early in the interview process who would potentially work with the candidate, because they can give candidates the most accurate picture of the job, what they will be doing and the challenges they will be facing. Additionally, they know best what requirements each particular job has, so that they can directly evaluate the candidate based upon these requirements as well as assess if the candidate fits in the team and shares their values" (Brenner, 2014, https://www.viasto.com/en/blog/attract-innovators-cool-recruiting-processes/). The different approaches that can be used by an organization to identify innovative job candidates will be discussed in the following section.

5.8 How to identify innovative job candidates

Some of the notable techniques an organization can use to identify innovative job candidates will be depicted in Figure 5.5 below.

Figure 5.5 Four techniques to use to identify innovative job candidates
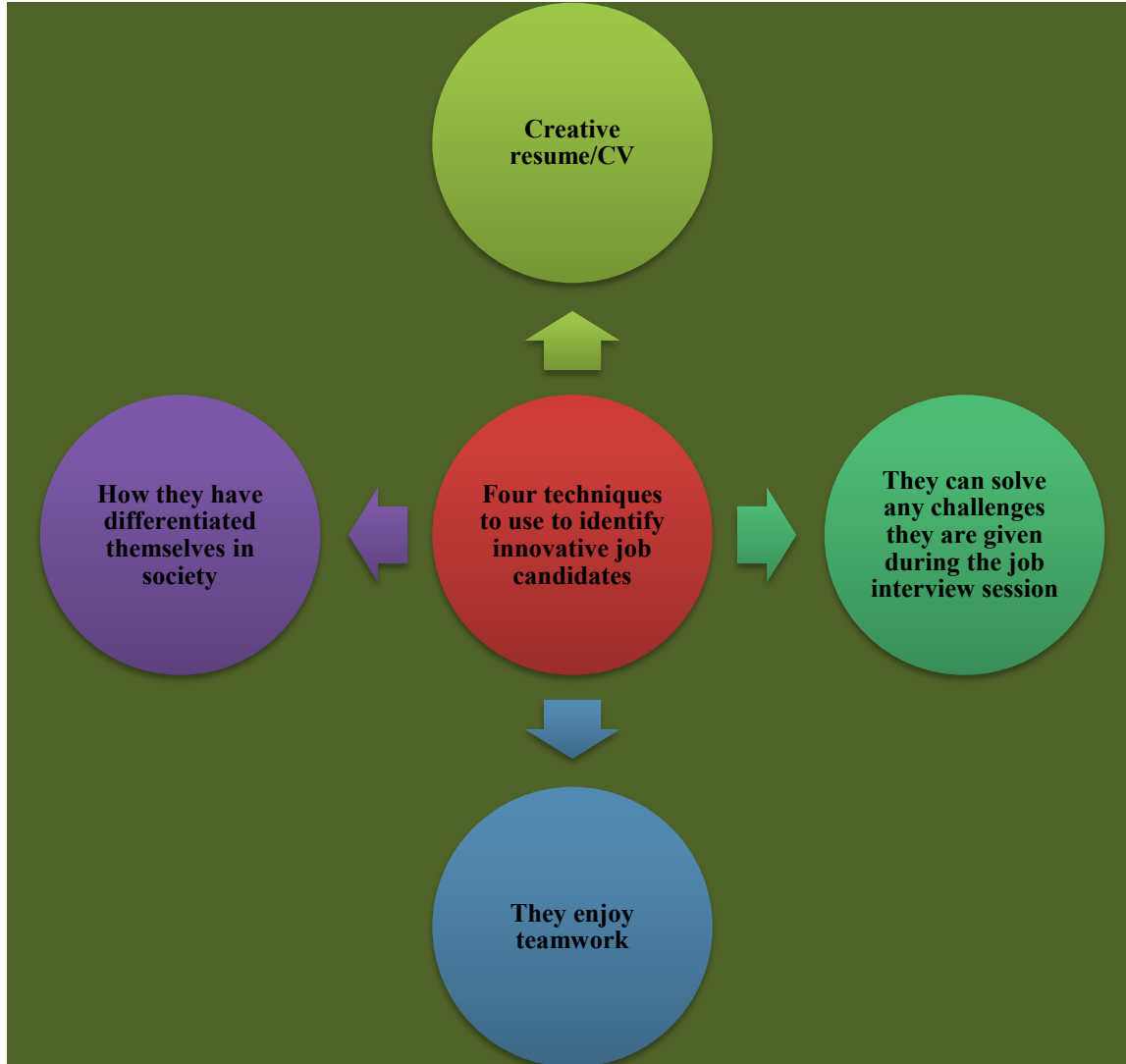
Source: Modified: (Schroeck-Singh, 2019, https://skillmeter.com/).

The techniques that are used to identify innovative job candidates that were previously highlighted by Figure 5.5 include the following:

5.8.1 Creative resume/curriculum vitae. Innovative job candidates are usually identified by their well prepared creative resumes or curriculum vitaes (*CVs*) that clearly display their creative abilities. The resume/CV can be presented in a highly attractive manner for instance in the form of a leaflet or infographic and in certain instances they may go the extra mile of creating recorded video clips where they discuss their biographical, educational and career backgrounds

including their social or business network influence if any[119] (Schroeck-Singh, 2019, https://skillmeter.com/).

5.8.2 They can solve any challenges they are given during the job interview session. One of the key indicators of an innovative thinker is that whenever they are presented with a current challenge an organization is facing they ensure that they attempt to solve it by any means necessary. During job interview sessions organizations can share with their interviewees' case studies or actual problems they may be facing and provide them with an opportunity to generate solutions to these problems (Schroeck-Singh, 2019, https://skillmeter.com/). While on the other hand when interviewees come to interview sessions unprepared they may perform poorly whilst in reality they may be competent on how to perform the tasks of the vacant job position they have applied to fill-in. "Candidates should be challenged in multiple ways, not just with one single task. The result of one task might not truly reflect the real potential of a candidate. It would be a more insightful and revealing experience for the Recruiter if candidates would be exposed to various scenarios. The candidate who is able to impress in all given challenges should be the real winner for the job. This would make the hiring decision for the recruiter so much easier" (Schroeck-Singh, 2019, https://skillmeter.com/).

5.8.3 They enjoy teamwork. People who thrive at innovation often enjoy working in team environments and this is supported by the notable trend in most of the leading global information, communication and technology (*ICT*) organizations that have adopted partnerships as part of their innovation strategy. Team collaborations help to make the innovative skills of employees improve and become highly effective. Freedom to work independently or autonomy is one of the major characteristic that is found in highly skilled employees nowadays and it is generally necessary when they are doing their day-to-day routine tasks but in terms of achieving highly impactive innovation projects a team work approach works much better.

5.8.4 How they have differentiated themselves in society. Generally people who are 'great and ethical' innovative thinkers often enjoy distinguishing themselves in society in a personal life building or life changing manner. During the recruitment process job candidates for board

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[119] Schroeck-Singh, K. (2019) *How to Hire Creative Candidates*. Available form: https://skillmeter.com/blog/how-to-hire-creative-candidates

appointments must be asked *'how they have made a positive difference in society and their career-field and what were the various challenges they faced in the process and how they managed to overcome these challenges?'* The following section will help to highlight the reasons why an organization must develop a board recruitment process.

5.9 Reasons for developing a board recruitment process

 "Why develop a board recruitment process? While the task of recruiting board members might seem a little daunting, it's important to take the time to find candidates with the right values, skills, attitude and commitment. After all, even though this is a volunteer job, being a board member is a crucial leadership role! These folks are going to be responsible for the financial and cultural well-being of your organization. They are defending and promoting your mission; acting as key spokespersons and possibly driving fund raising too. For small volunteer-led organizations, the board may be managing the day-to-day operations as well. In going through a structured application and review process, you can take the time to really get to know the potential board members and lay the foundation for building a strong relationship. This is critical, since this new recruit will become a very active member of your immediate board family or team, which will be working together to lead the organization for one or two years. It's not about 'filling seats'. An established recruitment process (that includes a well-defined role and expectations as well as an application and screening process) ensures that all candidates are qualified and evaluated using consistent criteria and process. So it won't come down to a question of a referral gone wrong, an awkward situation or even worse, the desire to 'uninvite' a candidate who turns out to be a bad fit or poses any potential conflicts of interest. Finally, this is not a one-time exercise – you are building a long-term relationship. So it's important to have a process in place rather than a stop-gap measure. While you'll want to revisit the specific criteria on a regular basis to ensure they suit your current needs, having a recruitment process in place takes the pressure off"[120] (Wild Apricot, 2019, https://www.wildapricot.com/articles/developing-a-board-recruitment-process). The following section will cover the various steps involved in the board recruitment process.

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[120] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:
https://www.wildapricot.com/articles/developing-a-board-recruitment-process

5.10 The board recruitment process

The steps involved in the board recruitment process of an organization are depicted in Figure 5.6 below.

Figure 5.6 Four step board recruitment process

Source: Modified: (Apricot, 2019, www.wildapricot.com)

[121]According to Wild Apricot (2019) *4-step board recruitment process*. After reviewing articles, guides and posts from a range of experts, we've compiled a 4-step board recruitment process to get you started.

5.5.1 Who should manage the recruitment process?

The key is to have a group of individuals committed to taking the time to establish and follow a structured process.

Step 1: Define your needs

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[121] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:
https://www.wildapricot.com/articles/developing-a-board-recruitment-process

But how can you know a candidate is a good match unless you've identified what you are looking for? To ensure an effective, highly functioning board, you need to define the role and expectations for board members. This means defining the job, understanding the skills required to be successful in that job, and identifying the values and qualities that will enable the new recruit to become part of a cohesive board team. It's also important to establish specific expectations for individuals and the board as a whole in order to set goals and evaluate performance.

Do you have a job description?

Just like the hiring process for a paid job, when you are recruiting board members, you start with a job description that outlines: the position's key duties and responsibilities; the necessary requirements to fulfill those; and details on what the commitment entails. Here's an outline of the type of information to include in your job or role description. You can use this as a guideline to draft a job description that meets your organization's specific needs[122].

Benefits:

• What benefits are involved with being a board member for your organization? (e.g., making a difference (how?); satisfaction in working with an energetic, committed board team, attending special events, etc.)

Responsibility and Authority:

• To whom is the board member accountable?

• What authority does each board member have?

• What are the general responsibilities board members are expected to take on?

Term:

• How long are board members expected to serve?

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[122] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:
https://www.wildapricot.com/articles/developing-a-board-recruitment-process

• What are the conditions under which a board member can resign before the term is ended?

• What are the conditions under which a board member may be removed from the position? (this may be stipulated in your bylaws – so check wording)[123]

General Duties:

• What are the typical duties expected of a board member? (e.g., attends regular (monthly?) board meetings; reviews monthly financial statements; participates in fundraising; participates in/manages committees; etc.)

• Are board members expected to manage or mentor the organization's staff?

Time commitment:

• Approximately what is the time commitment expected of board members? (e.g., number of hours for reviewing materials; attending board meetings; attending committee meetings, annual meeting, other tasks?)

Legal / Financial commitments:

• What are the legal implications of taking on this role? (e.g., liability; accountability?)

• What are the expectations in terms of bylaw development, monitoring, etc.?

• Are there financial expectations? (e.g., are board members expected to raise funds, provide sponsorships, etc?)

• What is the board member's role in the organization's finances? (e.g., is the board responsible for budget management? Is the board responsible for the organization's financial health?)

Qualifications / Skills Requirements:

• What general skills are needed? (e.g., inter-personal, problem-solving and communications skills, etc.)

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[123] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:
https://www.wildapricot.com/articles/developing-a-board-recruitment-process

• What are some of the other skills or expertise you may be looking for? (e.g., board governance, policy development, financial expertise, strategic planning, marketing skills, event management experience, etc.)

Are there specific skills or attributes you need right now?

Along with the specific job responsibilities, you need to think about the type of skills sets you need on the board – which skills are missing that are required to round out the board's framework? It can be helpful to have a diverse board composition – with members from different backgrounds and with different skills-sets that complement one another, like players on a sports team.

What qualities do new recruits need to bring to the boardroom table?

While skills are definitely important, when it comes to guiding your non-profit's or association's mission, looking at the fit for values and qualities is also essential[124] (Wild Apricot, 2019, https://www.wildapricot.com/articles/developing-a-board-recruitment-process).   Furthermore, according to Wild Apricot (2019):

Step 2: Find candidates

The best case scenario is to develop leads (e.g., through a nominating or board development committee) and maintain a list of potential candidates throughout the year. If your organization has a process in place to keep track of individuals who offer to volunteer throughout the year, you can simply pull that information and begin screening those candidates. However, if there is no pre-existing list or database of volunteers, you might want to develop a process for gathering and storing this information from here on in. This could involve creating a specific Board Application Form, or a more general volunteer application form, online database or at the very least, a spreadsheet. *(If you are a Wild Apricot Membership Management Software client, you can capture this information a number of ways, such as creating a Volunteer Database and/or creating groups on Volunteer/Membership Application forms to enable data management and customized emails.)*

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[124] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from: https://www.wildapricot.com/articles/developing-a-board-recruitment-process

Getting the word out:

The first step is letting folks know that you have an opening on your board. As we noted in our <u>Getting Started with Volunteer Recruitment</u> guide, there are a number of ways to get the message out, including:

• Referrals and word-of-mouth:
The first place to start is with the standard request for referrals from existing board members and volunteers. Ask your existing team to look for candidates from among:

º Friends

º Family

º Colleagues and associates

º Neighbors

º Community members (at church; clubs; sporting teams, etc.)

• Publicize within your network:
To identify candidates from a wider network, consider:

º Writing a newsletter article or a post on your organization's blog or forum

• External promotion:
You might need to widen your search to include:

º Putting an ad in your community newspaper

º Posting a request through your municipal or state/province volunteer center

• Using online resources to find candidates:
You can consider finding candidates using some online matching or volunteer programs such as:

º   <u>LinkedIn   Board   Connect</u>   (Wild   Apricot,   2019, <u>https://www.wildapricot.com/articles/developing-a-board-recruitment-process</u>).   *"Used   with permission from Microsoft"*. *[An Excellent & Innovation-Orientated: A North America, Asia, Africa, Oceania & Europe Perspective 1ˢᵗ Edition] is an independent [publication] and is neither affiliated with, nor authorized, sponsored, or approved by, Microsoft Corporation.* Furthermore, according to Wild Apricot (2019):

Step 3: Screening and selection

Application form:

The application form (which can also be an online form) will help you gather and collect information about each applicant. Although board members may refer or recruit colleagues or friends, it's important that all candidates or prospects go through the full application and screening process to ensure consistency and to avoid any conflicts of interest or potential issues down the road[125].

Screening/interview process:

Once you've reviewed the applications, you need to develop a process for screening potential candidates so that you can develop a short-list for interviews.

Interview tips:

Holding an interview with all potential candidates offers an opportunity to discuss the role and find out about the candidate's: background, skills, interests, qualifications, personal goals. And, generally, to see if he or she is a good fit for the role, the board team, and the organization as a whole.

In preparing for the interview consider:

• Developing a standard set of questions (these should include questions around: skills to meet job description; values and attitude; time commitment; potential conflicts of interest based on career or other volunteer activities; discussion of any legal and financial commitments, etc.)

• Start the interview with an overview of the selection process

• Provide an overview of the organization and its mission/objectives

• Go over the board role description (even if they've received it beforehand)

• Create a form to document responses consistently across all applicants

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[125] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:
https://www.wildapricot.com/articles/developing-a-board-recruitment-process

Short-list:

Some organizations develop a short-list of candidates through the screening and interview process and actually invite them to attend a board meeting. Since the selection process may have only involved a few of the board members, this meeting offers an opportunity for the board to meet and interact with the candidates. It also lets the individuals see first-hand what a board meeting is all about.

Selection:

The final step in the screening process is for the nominating committee to choose the finalist from among the short-listed candidates. Again, the final selection should be made based on a set of criteria in terms of a skills-set fit, as well as a discussion of the candidate's ability to fit with the board and the organization in terms of values, attitude and personality. *Some organizations also require that screening of board candidates involves a police record check*.

Once the choice has been made, each of the candidates needs to be notified (preferably through a personal call from the chair of the nominating committee) to officially invite them to join the board, or else to thank them and let them know if their services aren't required. If, however, any of the other short-listed candidates were considered a good fit, consider letting them know you'd like to call on them if there are any future openings on your board.

Along with the call, the new board member should receive a letter confirming his/her invitation to join the board and outlining the role, timelines, commitment and all pertinent details[126] (Wild Apricot, 2019, https://www.wildapricot.com/articles/developing-a-board-recruitment-process). Furthermore, according to Wild Apricot (2019):

Step 4: Provide an orientation for new board members

According to Wild Apricot (2019) congratulations – you've selected a new board member. But the process isn't quite done yet – you need to orient the new member so that they are ready to take on their new role. The orientation format can be done through providing a welcome package

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[126] Wild Apricot (2019) *Developing a Board Recruitment Process*. Available from:
https://www.wildapricot.com/articles/developing-a-board-recruitment-process

of information, an orientation video, a presentation or a training session – depending on your organization and its specific resources and needs. However, at a minimum, new board recruits should receive the following information:

• An overview of the organization – its mission, vision, values

• Organization chart – outlining structure (e.g., board, committees, staff roles & responsibilities, etc.)

• Organization's annual report and any other pertinent financial reports

• Role description (and any additional documentation or forms that need to be completed)

• The organization's strategic plan

• Most recent board meeting minutes

• The organization's most recent newsletter and/or brochure

• Schedule of board meetings (and locations), annual meetings and any other events he/she is required to attend

• Contact information – board chair, members, staff contacts etc. (Wild Apricot, 2019, https://www.wildapricot.com/articles/developing-a-board-recruitment-process). The conclusion of this chapter will be covered in the following section.

5.11 Conclusion

The central point towards achieving high innovations, profitability, increased productivity levels and branding is through adopting new technology and as a result this has made organizations to invest a lot of their scarce financial resources into finding people of the right caliber while simultaneously increasing the general demand for knowledge workers in the global labour market. An organization that intends to employ new board members with scarce innovative skills must first identify the job candidates with the ability to think outside the box. Generally the main aim of recruitment is to offer employment to job candidates with the required person characteristics while simultaneously adhering to the recruitment policy, the codes of ethical practice and government legislation. The recruitment of new employees is the main responsibility of the CEO, Chairperson, the Human Resources Manager, Nominations Committee and the Job Applicant. It can therefore be concluded that an organization that wants

to recruit top talent it must not only focus on experience, educational qualifications and rather instead it must also focus on other qualities that a job candidate can offer 'on-the-job' in order for them to go the 'extra mile' in performing their day-to-day work duties or tasks. Organizations' that generally have a leadership support approach of doing things tend to be value driven.

5.12 Review questions

1) What is the meaning of the term 'recruitment' and 'innovators'? Outline the main aims of the recruitment function in an organization?

2) Explain why leadership support is critical during the recruitment of new board members in an organization? Identify the five parties that are responsible for the recruitment of new board members in an organization?

3) Discuss the various advantages of recruiting to boost innovation? Describe how an organization can successfully hire innovators in the organization and the board?

4) Identify four ways an organization can use to identify innovative driven job candidates to offer employment? Discuss five reasons why an organization must conduct a board recruitment process?

5) Describe in detail the four steps involved in the board recruitment process?

Chapter 6: How the organization's functional departments contribute to the innovation agenda

After reading this chapter you should be able to:

- Describe the terms 'functional department', 'human resources', 'marketing', 'finance', 'R&D' and so on.
- Explain the advantages of functional departments in an organization.
- Describe why boards must have a specialist from each functional department in the organization.
- Highlight the role played by the different functional departments in an organization in boosting innovation.
- Explain the interrelation of R&D and innovation.

6.1 Introduction

Boards that are highly effective often adapt a general rule that in each and every board meeting they must analyze or discuss any input of ideas or useful information that has been submitted by all the organization's departments on all matters related to the organizations' processes, systems, policies and plans. In general 'an organization is a system that is composed of interrelated parts' (Hunter, 2002:6). "Within the process part of the system there are usually various elements or subsystems working together to convert the inputs into outputs. In the example, we could view the various departments such as production, stores, administration and distribution departments as subsystems. The way these subsystems operate is to provide inputs to each other so that the total system operates effectively"[127] (Hunter, 2002:6). Each and every functional department in the organization has its strategy that forms part of the business strategy for instance, human resources strategy, marketing strategy, operations strategy, research & development (*R&D*) strategy and so on all form a corporate/business strategy. Thus, 'an organization's board' is the

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[127] Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions.

key driver or central point of the organization's system where all the critical decisions, ideas and innovations that shape the future of the organization are made in order to: represent shareholder's interests, increase both the market/customer value and business performance. Innovative ideas from the board of directors often succeed when they are implemented and this is also due to the fact that some of these ideas are comprised of input from the various departments in the organization such as human resources management, marketing, research & development (*R&D*), operations management, finance, information & technology (*IT*) and so on. The following section will cover the definition of terms that will be discussed in this chapter.

6.2 Definition of terms

Most of the words that are used in the business field nowadays have numerous definitions that have been developed by industry experts and academics. '*Specialization*' refers to the separation of labour into different tasks based on the individual's knowhow or skills of performing these tasks/duties and this maybe done at the workplace (Rudolph. Patrick. T. Muteswa, 2019). The term '*departmentalization*' is when an organization places jobs into groups in order to form working units that are known as departments, units or divisions[128] (Ferrell and Hirt, 2000:194). In addition the term a '*functional department*' refers to the placing of jobs that carry-out the same functional tasks for instance operations & production, marketing, human resources, R&D and so on (Ferrell and Hirt, 2000:194). The term '*human resources management*' encompasses all the functions that are aimed at assessing the labour requirements of the organization, as well as hiring, educating and developing, remunerating people to satisfy the labour requirements of the organization. '*Marketing*' consists of various activities combined together after being devised to facilitate the exchange of goods/services and operations through developing, delivering, pricing, advertising and selling value adding products, services and ideas customers needs or wants (Ferrell and Hirt, 2000:194). Generally the words finance and accounting are interrelated. The term '*accounting*' refers to the recording, quantification, analysis and the extraction of meaning from financial data (Ferrell and Hirt, 2000:358). '*Operations management*' refers to the creation and management of the activities in the organization that are concerned with the

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[128] Ferrell, O. and Hirt, G. (2000) *Business: A Changing World*. 3rd Edition, New York: McGraw-Hill Incorporation, p167-358.

transformation of resources into goods or services (Ferrell and Hirt, 2000:218). The term '*research & development*' refers to the activity of continuously developing, learning, diffusion and the understanding of various new theoretical or experiment ideas and concepts that are carried-out by organizations or the State with the aim of achieving innovation through the creation of new products/services and or alternatively by adding more value to already existing products or services in the form of modifying their features, utility, robustness, design, quality and so on. (Rudolph. Patrick. T. Muteswa, 2019). Lastly, this chapter contains a new popular job title in the field of information & technology (*IT*) namely; chief innovation officer (CINO) who has the responsibility of handling all the day-to-day duties that are linked to innovation in the organization and its systems as a whole. There are various advantages that are enjoyed by an organization as a result of its functional departments' day-to-day activities and these will be covered in the following section.

6.3 Advantages of functional departments in an organization

It is important to point-out the fact that innovation takes place across the entire organization (*that is in each and every department*) therefore there is no single department in an organization that exclusively enjoys innovation progress. The various advantages of functional departments in an organization are depicted in Figure 6.1 below.

Figure 6.1 Four advantages of functional departments in an organization
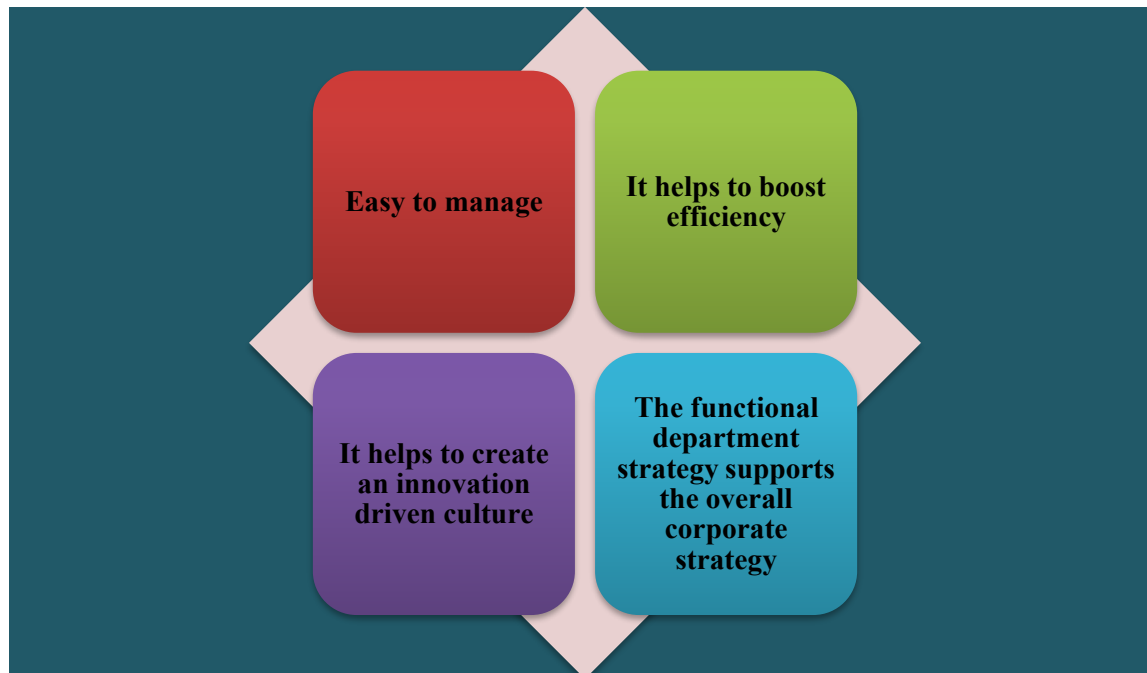
6.3.1 Easy to manage

One of the key advantages of functional departments in an organization is that they enable the organization to easily manage the various tasks that are carried-out by the different specialists employed in these job groupings. Functional departments are characterized of people with high knowledge, experience and interest in the particular field of specialization. Generally board of directors often rely on the reports and information that is produced and submitted to them by the functional departments in making critical strategic decisions and setting the corporate governance practices to adopt.

6.3.2 It helps to boost efficiency

When jobs are performed based on specialization, tasks are generally completed at a much faster rate, with limited errors and this therefore enables the department in question to become much more efficient. A skilled individual can use fewer inputs to produce more output of a product/service without compromising the quality and utility of the end product or service. Therefore, efficiency is one of the main advantages of the division of work into groups based on specialization. When all

the functional departments in an organization are totally efficient in the way they conduct their activities this often helps the board to easily attain its operational efficiency goals.

6.3.3 It helps to create an innovation-driven culture

Functional departments are comprised of people who have similar educational backgrounds, experience and knowledge in a specific business related field. When people who work together in a department share similar interests it often becomes much easier for them to share ideas or motivate each other to become creative in order to improve the organization's processes, systems, policies, products or services and so on. Therefore, by doing so a culture of innovation is inevitably developed in the functional department. In general an innovation culture in an organization must first start from the board of directors and then it proceeds all the way down to the CEO, COO, functional department managers, supervisors and the employees. In a nutshell organizations that appoint board of directors or leaders who do not believe in the importance of an innovation culture are more likely to have functional departments that have stagnant innovation processes.

6.3.4 The functional department strategy supports the overall corporate strategy

In general all the functional departments in an organization implement their key strategy which must be aligned to the overall corporate strategy of the organization. Notably, the fact that the strategy of a functional department is implemented on a day-to-day basis tends to ultimately enable the organization to achieve its set strategic and innovation goals. When functional departments achieve their set operational and strategic goals which are aligned to the business/corporate strategy of the organization they inevitably strengthen the overall performance of the board of directors in the organization. This is due to the fact that an organization is a system that is made up of interrelated parts thus the board of directors and the CEO form the central point of the system. Even in the top management structures (*such as board of directors/board of management*) in some of the organizations there is always a sit that is reserved for a certain specialist area(s) that are found in the functional departments of the organization for example a human resources management, R&D, operations management, finance & accounting, ethics & compliance and information technology specialists. A good example of a leading global with different specialists that are part of its board is automobile manufacturing firm *the BMW Group*

which has its headquarters in Munich, Germany which greatly values its human resources function. *"Establishment of BMW*. BMW can trace its roots back to Karl Rapp and Gustav Otto. In 1916, the Flugmaschinefabrik Gustav Otto company had merged into Bayerische Flugzeug-Werke AG (BFW) at government behest. Elsewhere, in 1917, the Rapp Motorenwerke company became Bayersiche Motoren Werke GmbH, which was duly converted into an AG (public limited company) in 1918. BMW AG subsequently transferred its engine construction operations - including the company and brand names - to BFW in 1922. The date of BFW's founding, 7 March 1916, has therefore gone down in history as the foundation date of Bayerische Motoren Werke AG"[129] (BMW Group, 2019, https://www.bmwgroup.com/en/company.html). The BMW Group currently has a human resources management expert and many other experts who are currently part of its board of management (BMW Group, 2018). In general when human resources management experts in an organization are part of an organization's board of management they help to align the organization's human resources management strategy to its corporate strategy in order to help the organization achieve its set goals and objectives. The various reasons why specialists from the different career fields that are found in the organization's functional departments must be appointed as board of directors will be covered in the following section.

6.4 Why boards must have a specialist from each functional department in the organization

Over the past number of years or decades some of the organizations have specifically chosen the recruitment policy of nominating board of directors with vast work experience and high educational backgrounds whilst placing less emphasis on the abilities of the job candidates to be creative, innovative and strategic on-the-job. Today value-driven organizations tend to place more emphasis on the job candidate's innovativeness, specialty area and educational background. Organizations that are considered to be highly successful in global business in this present day have boardrooms that are filled with specialists with qualifications and expertise in various fields of specialization that are similar to the organization's functional departments. A board of director with expert knowledge in a certain career field often helps to increase the

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[129] BMW Group (2019) *Five BMW Milestones*. Available from: https://www.bmwgroup.com/en/company.html

knowledge capital of the organization and the board. An individual with the adequate theoretical knowledge and capabilities to propel the organization to its maximum greatness in the marketplace as a result of innovative thinking is the ultimate job candidate every board nominations committee desires. The hiring of specialists in the boardroom often helps organizations to achieve sustainable greatness via numerous accomplishments. Some of the notable advantages of hiring specialists in the boardroom are depicted in Figure 6.2 below.

Figure 6.2 Four advantages of hiring specialists in the boardroom
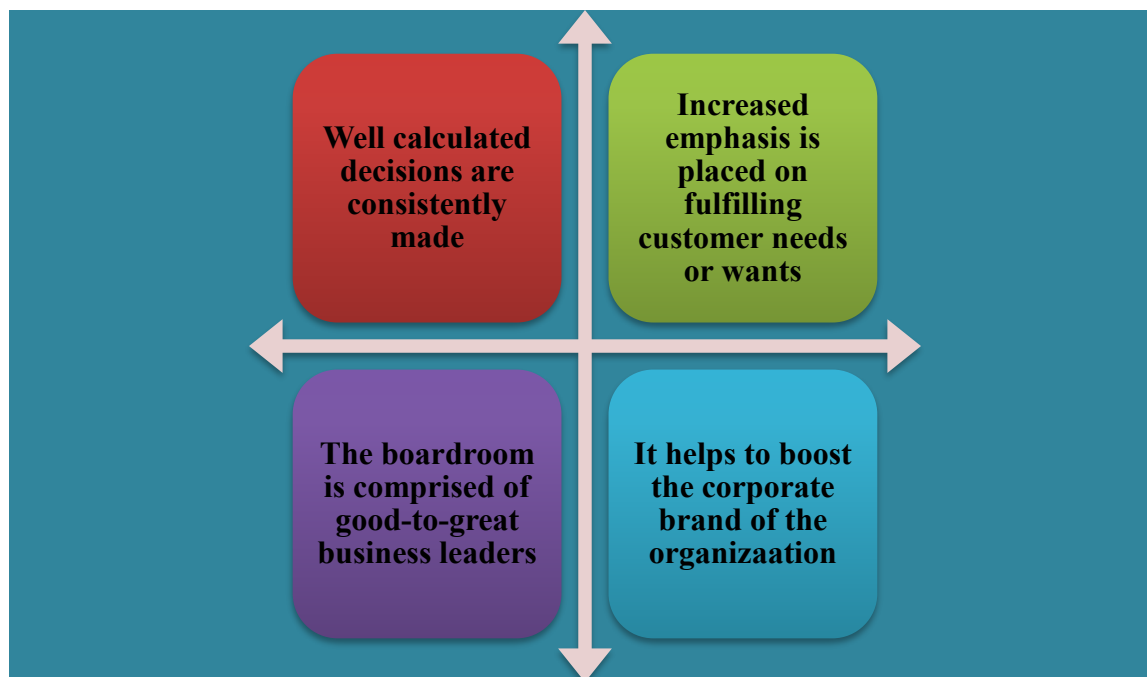
6.4.1 Well calculated decisions are consistently made

In general specialists in various career fields are people with vast knowledge and unique philosophical thinking capabilities that are visible in each decision they make since they often go the 'extra mile' in ensuring that they assess risks, identify opportunities and threats associated with the decision before finalizing their decision. This therefore results in the organization enjoying well calculated decision making processes that help it to: ((1) reduce the risk of error, (2) reduce customer dissatisfaction, (3) reduce the losses in sales revenue or market share, (4) reduce management incompetency and so on. Boards that are comprised of specialists often

make accurate future projections or forecasts on activities such as strategic human resources/marketing planning and so on.

6.4.2 Increased emphasis is placed on fulfilling customer needs or wants

Every business related specialist who is well qualified or who received his/her education in this modern day business world must be knowledgeable of the fact that the number one goal in each and every task he/she must perform at any organization is to serve and satisfy the needs and wants of customers including other stakeholders of the organization. In addition nowadays effective training & development programs in organizations helps to ensure that all employed specialists are well educated about the benefits of adopting a marketing and customer-orientation approach at the workplace. Therefore, when all the specialists employed by an organization in the boardroom adopt a marketing and customer-orientation approach this therefore makes the organization to easily become a market leader in its particular industry sector as a result of being customer driven in all its functional departments, processes, systems, products or services, policies and so on.

6.4.3 The boardroom is comprised of good-to-great business leaders

People who possess the required educational background knowledge in a certain career field are more likely to make well calculated decisions that help the organization to keep moving forward with its innovation projects, performance and growth objectives. Therefore, when organizations continue to progress as a result of the good decisions and actions that are regularly made by its specialist board of directors' naturally 'good-to-great' business leaders are born inside the organization. Great business leaders adopt effective leadership styles that help to empower and create a conducive working environment for those they lead while simultaneously increasing shareholder value or interest in the boardroom. A boardroom that is made-up of various specialists from different career-fields is more likely to enjoy maximum support for all its innovation projects that are introduced by its different functional departments. Thus by doing so good-to-great business leaders are born since one of the qualities of being a great leader is to have the willingness to support all change and innovation initiatives in the organization in order to improve business performance and shareholder value.

6.4.4 It helps to boost the corporate brand of the organization

Board appointments are part of the reputation building process of any organization and they also help to boost investor or market confidence in the organization if the recruitment process of directors is ethically and professionally managed consistently. The appointment of specialists in an organization's board helps to show the following: (1) the organization highly values its customers' needs/wants; (2) the organization is highly committed to creating sustainable competitive advantages and (3) improving operational efficiency. Organizations that are efficient often attain high productivity levels and enjoy high customer satisfaction levels therefore this automatically makes their corporate brands much more powerful in the marketplace. The role played by the different functional departments in an organization in boosting innovation will be covered in detail in the next section.

6.5 Role played by the different functions in an organization in boosting innovation

An organization is comprised of six main functional departments and it is important to point-out that in some organizations there are more than six functional departments depending on the type and size of the organization. The various functional departments in an organization are depicted in Figure 6.3 below.

Figure 6.3 Six functional departments in an organization

Source: Modified: (McFarthing, 2017; Hengsberger, 2019; Kidd, 2019; Koutkis, 2019; MacDonald, K. cited in Deloitte Canada Centre for Financial Reporting, 2018; Davis, Aquilano and Chase, 2003:4; Rosales, 2019).

The six functional departments that were highlighted by Figure 6.3 include: human resources, marketing, research & development (*R&D*), finance and accounting, operations & production departments. These are further discussed in detail and how they help to improve innovation in an organization.

6.5.1 Human Resources Function

Generally in organizations all people-related issues fall under the scope of; (1) the human resources department and (2) other line managers in other functional departments. Innovation is part of the objective of the human resources strategy since in an organization the human resources are the key drivers of the culture of innovation. The human resources function plays a

critical role in boosting innovation in an organization. Interestingly, nowadays the human resources function is now at the forefront of achieving the corporate innovation objective in organizations under the expert guidance of the board of directors. The human resources function has the duty of ensuring that the organization recruits and selects business leaders who will apply innovative leadership in its day-to-day activities. In an organization corporate innovation can be enhanced by the human resources function in several ways. According to Rosales (2019) human resources as the facilitator of a culture of innovation. Creating, maintaining, and managing skills orientated towards innovation must be one of HR's main objectives. But *honing these skills and guaranteeing their sustainability goes through generating a culture of innovation.* How can human resources contribute to building an innovative culture? Some ideas:

• *Implementing policies on incentives for innovation***.** These incentives should be financial, but can also be recognition.

• *Implementing specific training programmes on innovation* for key leaders.

• *Disseminating the importance of comprehensive innovation***:** innovation in products, processes, and the business model.

• *Leading campaigns that ease employees' fear of failure***.**

• *Ensuring a real budget for innovation***.** New ideas need to be prototyped and tested. Without real resources for this, ideas may always remain as that: just ideas.

• *Facilitating mobility and collaboration between people from different departments***.** Innovation often comes about when you bring together minds that have different knowledge, backgrounds, and perceptions of the world[130] (Rosales, 2019, https://inusual.com/en/blog/why-should-human-resources-lead-the-innovation-agenda).

 "*Human resources can lead a training agenda for innovation.* In companies, employee training programmes tend to be the responsibility of human resources departments. HR should assume that *it cannot delegate the responsibility for continuing education solely on the employee.* Therefore, it is the responsibility of the corporation to find opportunities for training and design programmes so that employees understand current changes and those that are to come *in order to build teams that are proactive when faced with changes in the business world. In other words, it is the human resources department's responsibility to find ways to sponsor and*

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[130] Rosales, P. (2019) *Why Should Human Resources Lead the Innovation Agenda?* Available from: https://inusual.com/en/blog/why-should-human-resources-lead-the-innovation-agenda

promote innovative leadership. For example, if a corporate strategy points towards ensuring the company stays modern, with digital solutions, human resources should take charge of scheduling a training agenda on new technologies: What is block chain and what possible applications does it have in our market? How can we apply machine learning in the digital solutions we offer our clients? Could 3D printing have a revolutionary effect on our manufacturing costs?" *(*Rosales, 2019, https://inusual.com/en/blog/why-should-human-resources-lead-the-innovation-agenda". Therefore, human resources departments significantly contribute to boosting innovation rates of organizations and their boards. The role played by the marketing function in improving innovation will be covered in the following section.

6.5.2 Marketing function

"Marketing should play the lead role in defining priorities based on strategy. Priorities include targets for idea generation and defining the boundaries. This does not mean that Marketing should dictate ideas; rather, they should lead the process, involving other parts of the company and diverse external sources as appropriate. Innovation is as much about insights as ideas. The insights come from knowledge of consumers, users and customers (terminology differs by industry and company……), and provide opportunities to meet recognized needs, as well as to identify potentially unrealized ones. Marketing should lead the search together with colleagues in Market Research. Innovation is all about establishing desirability, feasibility and viability. Do customers want it? Can we make it? Can we make money from it? Desirability is led by marketing and market research. A lot of skill and intuition is needed to have a concept description or a Minimum Viable Product (or Prototype) that gives the closest experience to the final target as possible"[131] (McFarthing, 2017, https://www.innovationexcellence.com/blog/2017/06/27/marketing-and-innovation-are-inseparable/). [132]According to Hengsberger (2019) what does marketing have to do with innovation? Much, much more than most people can see or show in their organisation! On the one hand, innovation can only be successful with marketing; on the other hand, marketing needs

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[131] McFarthing, K. (2017) *Marketing and Innovation are Inseparable*. Available from:

https://www.innovationexcellence.com/blog/2017/06/27/marketing-and-innovation-are-inseparable/

[132] Hengsberger, A. (2019) *What is Innovation?* Available from: https://www.lead-innovation.com/english-blog/innovation-marketing

innovation for product success. Innovation marketing as a discipline encompasses marketing activities in the innovation process. This includes, for example, research into customer needs, concept and prototype tests with customers and the marketing of new products. These are all key tasks in innovation management and ***innovation marketing*** plays a very important role in securing and increasing the success of innovation. Marketing has a very comprehensive role. These include the famous 4P, market research and strategic task.

• Market research comprises the identification of customer needs, on the one hand current and future market needs, and on the other hand the exploration of possible market potentials.

• Marketing also plays a strategic role. Based on the corporate strategy, marketing plans are drawn up. In many cases, marketing also plays a leading role in the development of strategies, as they are able to identify strategically important markets on the basis of market information, for example.

• 4P is the marketing mix for marketing products. Four levers are available for this purpose: product design, pricing policy, communication and the type of distribution and sales.

As the listing of marketing tasks shows, there are many overlaps between marketing and innovation management. For example, analysing trends, researching customer needs and defining product policy in the marketing mix with product development and product design are also tasks that can be found in the function of innovation management (Hengsberger, 2019, https://www.lead-innovation.com/english-blog/innovation-marketing). *"Why Innovation Marketing is used?* The main purpose of innovation marketing is to open up new markets and ultimately lead to an increase in the business' sales. Innovation marketing also aims at newly positioning the business' products as well as addressing the customers' needs. As the dynamics of business keep changing on a daily basis, so are the marketing strategies. However, the old conventional marketing strategies are no longer effective due to the advancement of the business world more so propelled by advancement in technology. One of the main features that distinguishes innovation marketing is the fact that it signifies the company's or business departure from the old marketing strategies. Thus, innovation marketing should be able to highlight the progress in business by using new marketing methods that have not been used

before"[133]   (Luenendonk,   2016,   https://www.cleverism.com/lexicon/innovation-marketing-definition/). Therefore, the marketing function will always play a pivotal role in boosting the innovation levels of the organization in a sustainable manner. The research & development function's role in boosting the innovation levels of an organization will be covered in the following section.

6.5.3 Research & development (*R&D*)

The current high competitive pressure in the global marketplace due to globalization has also resulted in countries across the world becoming borderless. Organizations that aim to consistently boost their performance levels while simultaneously remaining competitive at the marketplace are now investing more resources (*money and intellectual capital*) in the research & development (R&D) functional department activities. *Importance of the R&D function nowadays*. One of the main reasons why R&D is a critical function in an organization is due to the fact that it is responsible for continuously developing and diffusing various new theoretical or experiment ideas and concepts with the aim of achieving innovation through the creation of new products/services and or alternatively by adding more value to already existing products or services in the form of modifying their features, utility, robustness, design, quality and so on. Adequately investing both financial and human resources into the R&D function is the gateway to achieving increased innovation rates in the form of advanced technology capacities, products or services, design, systems and processes. *"Funding* - But recent research on digital firms in particular shows that R+D is essential. R+D is a necessary and important piece of operating expenses because, without it, most digital firms would be stopped in their digital tracks altogether. Today, economic success is measured less by a single product and more by the confluence of ideas, strategies, software and algorithms, the ever-elusive innovation. All these efforts require R+D. Sure, traditional companies may work in other ways, but the way to fund R+D is changing, too. In the 20th century, obtaining financial capital necessary to fund innovative science research was difficult – you needed a lot of money with little tangible or guaranteed outcome. Today, though, financial capital isn't the problem – digital companies bring

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[133] Luenendonk, M. (2016) *Innovation Marketing?* Available from: https://www.cleverism.com/lexicon/innovation-marketing-definition/

in billions and many know how to obtain it from outside sources"[134] (Kidd, 2019, https://www.bmc.com/blogs/innovation-r-and-d/). The R&D function operates under the guidance of its R&D strategy which must be directly aligned to the corporate strategy. In addition the R&D strategy also helps to clearly highlight how the activities of the R&D department will help it to achieve both its short and long-term objectives in a manner that helps the organization to achieve its vision and mission statement including its innovation agenda.

Generally ideas of developing new products or services and or modifications of currently existing products are often created by the R&D function therefore most of the patents in an organization are a result of the high efficiency and effectiveness rate of the function. An organization that consistently registers a significant number of patents at the Government Patents Registry Office automatically becomes innovation-focused and this ultimately propels its competitive advantage in the marketplace. A highly functional R&D department enables an organization to achieve a sustainable competitive advantage as a result of its strong innovation culture. Today the global labour market is experiencing huge shortages of highly qualified scarce skills as a result of the current 'war for talent' in the fields of human resources management, finance, education, marketing, supply chain management, information & technology, engineering, mathematics and science related career fields. A highly effective R&D function consistently develops new life changing and value adding innovative ideas by developing new products or services, processes and systems that help to improve business performance and this ultimately results in the organization gaining a positive reputation in the marketplace. In general highly talented job seekers or knowledge workers (*people with highly scarce skills*) are often attracted to powerful corporate brands as they are more likely to offer them better career development opportunities, high competitive remuneration packages and a highly conducive modern working environment. Therefore, one of the notable contributions of R&D is its positive impact on the innovation agenda of the organization and this has also significantly helped many organizations to develop a highly powerful attractive employer brand status as 'employers of choice' in the global labour market.

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[134] Kidd, C. (2019) *R&D and Innovation: What's the Difference, How they Work Together, and How to Fund Both*. Available from: https://www.bmc.com/blogs/innovation-r-and-d/

"Creating a positive correlation between R+D and innovation. Another practice is to plan for two types of risks inherent in any business: technical risk, which relates to whether a business is able to create new, working technologies, whereas market risk considers whether customers will buy and use the product, even when the technology works. Perhaps, then, innovation that results in a positive market impact requires both technical risk and market risk. Traditional R+D, on the other hand, focuses solely on technical risk, leaving market risk to other company departments. Perhaps, instead of considering innovation as the natural result of sustained R+D, we revamp what innovation means: invention (via R+D) + customer value + a business model = innovation" (Kidd, 2019, https://www.bmc.com/blogs/innovation-r-and-d/). In a nutshell the R&D is generally an innovation department itself or the origin of most of the breakthrough innovations in the organization since all its activities of the department are innovation-related in order to improve customer satisfaction, business performance and growth. The role played by the information technology function in boosting innovation levels in an organization will be discussed in the following section.

6.5.4 Information & technology (*IT*)

[135] *"Information technology helps your business to innovate and thrive.* Both are key to ensuring sustained success in the digital age – you can't have one without the other. In an increasingly competitive and complex business environment, it's a matter of either you innovate and thrive – or struggle to survive. And this relies on information technology. Here's what I mean. *Innovation and business.* In business terms, innovation means doing things differently, more efficiently, or just plain better. It's all about leveraging available technology to make a positive difference to productivity, quality or value (internal and external). Over the past two decades, the driver of innovation has been information technology (IT), and this continues to be the case. It's no surprise that in 2018, global IT spend is forecast to increase by 4.5% to nearly US$3.7 trillion (R44.6 trillion). IT is to business today what steam was to the Industrial Revolution – it's powering the next major era in the history of work. IT has already revolutionised the daily lives of individuals and organisations. Social media, digital communications, online shopping and

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[135] Source: Internet Solutions (2019) *Innovation and Information Technology re Terms that Can Be Used Interchangeably.* Available from: https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/

cloud computing are just a few examples of the change that we've seen. And we can expect even greater transformation with the rise of the Internet of Things, big data, artificial intelligence and blockchain. Today, whether you're a farmer or a pharmaceutical company, it's impossible to achieve optimal marketing, sales, customer support, business planning, management, monitoring and growth without flexible IT solutions that allow for innovation"[136] (Koutakis, 2019 cited in Internet Solutions, 2019, https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/).

Furthermore, according to Koutakis (2019) cited in Internet Solutions (2019) *information technology powers business growth.* Information technology has reshaped the business landscape. First and foremost, it's equipped enterprises with the tools they need to solve complex problems. Smarter and faster hardware and software, bolstered data storage and streamlined communications have made it easier to collate and analyse data and expand operations based on quicker, better-informed decisions. Errors – and subsequent risks – have been greatly reduced. IT has also boosted marketing (in terms of reach and efficacy) and customer support (by improving relationship management systems and allowing multiple channels and types of contact). While the methods of doing business may be changing, knowing what makes customers tick remains the secret to success – and IT has now made it possible to gain a more in-depth understanding than ever before. *Finding the right IT solutions.* Information technology is here to stay. There's no going back to the pre-digital, pre-Internet age. Embracing IT is necessary for innovation and success – and that means across the enterprise. The days of siloed IT departments are long gone. The information technology team now plays an integral role in business strategy and development with the potential to improve processes throughout the organization (Koutakis, 2019 cited in Internet Solutions, 2019, https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/). Therefore, the IT function is a key contributor in the organization's innovation agenda. The role played by the finance & accounting function in boosting innovation in the organization will be discussed in the following section.

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[136] Source: Internet Solutions (2019) *Innovation and Information Technology re Terms that Can Be Used Interchangeably.* Available from: https://www.is.co.za/blog/articles/the-importance-of-information-technology-for-innovation-in-business-today-mofu/

6.5.5 Finance & accounting

In an organization when every new idea is generated the department that ultimately decides on the funding of the implementation of that new idea is the finance and accounting function thus this function plays a key role of ensuring that all new innovative ideas are properly supported financially. "When we think about the innovative leaders within an organization, the chief financial officer (*CFO*) is rarely the first to come to mind. As the steward of the organization's resources, the finance department can often be seen as stifling innovation by expecting innovation teams to do things like control spending, hit revenue targets, etc. But as a key leader in the organization, the CFO is critical to helping establish the 'tone at the top' around innovation culture. In their role, the CFO can not only support but also actively encourage the innovation process as a catalyst for growth. The desire to be innovative seems to be everywhere. It is now included in many mission statements and used to describe anything from a suggestion box to continuous improvement to transformative breakthroughs and new product launches"[137] (MacDonald, K. cited in Deloitte Canada Centre for Financial Reporting, 2018, www.iasplus.com/). The role played by the operations and production functional department will be covered in the following section.

6.5.6 Operations & production

When operations management is defined based on its contribution to the innovation agenda of the organization the explanation encompasses all the activities involved in the department. The meaning of the term '*operations management*' involves the administration of the inputs that are needed to make and distribute the organization's products or services to the end user or consumer[138] (Davis, Aquilano and Chase, 2003:4). A marketplace often plays a critical role in determining the corporate strategy of the organization (*in terms of how it will utilize its resources and organizational departments namely; IT, R&D, Human Resources, Operations Management*

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[137] MacDonald, K. cited in Deloitte Canada Centre for Financial Reporting (2018) *The Chief Financial Officer's Role As An Innovation Leader*. Available from: https://www.iasplus.com/en-ca/cfos-corner/leadership/the-chief-financial-officer2019s-role-as-an-innovation-leader

[138] Davis, M., Aquilano, N. and Chase, R. (2003 *Fundamentals of Operations Management*. 4th Edition, New York: McGraw-Hill Incorporation, p3-288.

and Marketing) while on the other hand the operations strategy helps to highlight how the operations department will utilize its production capabilities in order to attain its corporate strategy. There are generally three broad areas of management decisions inside an operations department and these are: (1) Strategic decisions (*for example decisions about the production process to be used to make the new product and or where to open a new plant*), (2) Tactical decisions (*for example, determining the number of human resources needed to properly produce the goods or services and determining during which time periods or seasons of the year*), (3) Operational planning and control decisions (*for example decisions about job allocation and deciding high priority jobs in order to fulfill production schedules*) (Davis, Aquilano and Chase, 2003:6). In a operations functional department the daily routine tasks that are carried-out tend to place more emphasis on value addition via the 'transformation process' or the 'technical core' and some of the typical examples of transformations include: (1) physical (*used in manufacturing processes*), (2) exchange (*used in service orientated processes such as retailing*) (Davis, Aquilano and Chase, 2003:7). Notably, when the operation's department transformation processes add value they help to boost the innovativeness of the organization thereby positively contributing to the innovation agenda of the organization and its board. The conclusion of this chapter will be covered in the next section.

6.6 Conclusion

A competent board highly prioritizes reports and information submitted to it from its functional departments in order to analyze or discuss any input of ideas or useful information on all matters related to the organizations' processes, systems, policies and plans. All the organization's departments are interrelated since they are all guided by the corporate strategy, vision and mission statement of the organization. Each and every functional department in the organization has its own strategy that forms part of the business strategy for instance, human resources strategy, marketing strategy, operations strategy, research & development (*R&D*) strategy. One of the common characteristic of a highly competent board is that it is filled with specialists with qualifications that are similar with the fields of specialization found in the organization's functional departments. A board of director with expert knowledge in a certain career field often helps to increase the knowledge capital of the organization and the board. It can be concluded that the six functional departments that immensely drive the innovation agenda of the

organization and its board include: human resources, marketing, research & development, finance and accounting and the operations departments.

6.7 Review questions

1) Define the following: terms 'departmentalization', 'human resources management', 'marketing', 'research & development', 'operations management', 'finance' and 'functional department'?

2) Identify the advantages of functional departments in an organization?

3) Explain why boards must have a specialist from each functional department in the organization?

4) Discuss the role played by the different functional departments in an organization in boosting innovation?

5) Describe the interrelation of R&D and innovation?

Chapter 7: Ethics & compliance of the board of directors

After reading this chapter you should be able to:

- Explain the meaning of the terms ethics and compliance.
- Identify the key components of business ethics. Describe the difference between ethics and compliance.
- Highlight the benefits of ethics and compliance in an organization and its board. Explain the role played by ethics & compliance committees of boards in the organization
- Outline the purpose of a code of conduct.
- Identify the different ways to reduce ethics and compliance risk.

7.1 Introduction

The number one question most of the world's largest corporations keep asking themselves is *'who will get there first?'* in terms of being considered to be a 100% ethical & compliant organization in the global marketplace. This golden question has immensely put pressure on board of directors, CEOs and managers in organizations around the world to continuously shift their focus on re-inventing their core beliefs, principles and corporate culture to reduce their ethics and compliance risk. According to the Corporate Finance Institute (2019) by definition, *business ethics* are the moral principles that act as guidelines for the way a business conducts itself and its transactions. In many ways, the same guidelines that individuals use to conduct themselves in an acceptable way – in personal and professional settings – apply to businesses as well[139] (Corporate Finance Institute, 2019, https://corporatefinanceinstitute.com). [140]"This form of ethics deals with the moral questions that arise in business settings. The implementation of business ethics begins at the top. Business leaders, directors, and CEO's have the responsibility

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[139] Corporate Finance Institute (2019) *Business Ethics*. Available from:
https://corporatefinanceinstitute.com/resources/knowledge/other/business-ethics/

[140] Upcounsel (2019) *Different Types of Business Ethics*. Available from: https://www.upcounsel.com/different-types-of-business-ethics

to show good business morals. Employees will follow the lead of those in charge. If their bosses adhere to ethics, so will they. And the opposite is also true: if the leadership ranks don't use ethics as their driving force, the employees below them won't, either. You must motivate everyone in your company to have good ethics by setting a good example and defining the consequences of being unethical" (Upcounsel, 2019, https://www.upcounsel.com/different-types-of-business-ethics). The following section will deal with the definition of terms used in the field of business ethics in detail.

7.2 Definition of terms

In general the field of ethics is broad therefore numerous definitions have been developed by academics, experts and authors in the field over the past number of years. The term *'ethics'* refers to a set of principles that help to shape an individual's or organization's culture, thinking or mindset towards their behavior, morality, conscience and ethos on what they believe is right or wrong in general (Rudolph. Patrick. T. Muteswa, 2019). "In a business context, *ethics* involves the exercise of values – such as trust and integrity – which influence and determine the day-to-day behaviours and actions of a company. A *code of ethics* is a written set of guidelines issued by a company to its management and staff to help them conduct their behaviour and actions in accordance with its values and ethical standards"[141] (Duffy, 2017, www.charteredaccountants.ie/). *"Code of Conduct* can refer to a listing of required behaviors, the violation of which would result in disciplinary action. In practice, used interchangeably with Code of Ethics. *Compliance* - conforming or adapting one's actions to another's wishes, to a rule or to necessity. A compliance code would be intended to meet all legal requirements. *Ethics culture* includes ethical leadership (tone at the top); supervisor reinforcement of ethical behavior; and peer commitment to support one another in doing right. *Credo* - fundamental beliefs (or a set of beliefs) or guiding principles" (Ethics & Compliance Initiative, 2019, https://www.ethics.org/resources/free-toolkit/toolkit-glossary/). *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna,*

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[141] Duffy, D. (2017) *Ethics and Role of the Board*. Available from:
https://www.charteredaccountants.ie/Accountancy-Ireland/Articles2/Spotlight/Latest-News/ethics-and-the-role-of-the-board?AspxAutoDetectCookieSupport=1

VA 22180, www.ethics.org". *'Values'* these represent what we stand for and what we want to be associated with in terms of our core beliefs, culture and identity in general (Rudolph. Patrick. T. Muteswa, 2019). In the following section the key components of business ethics will be outlined in detail.

7.3 Key components of business ethics

[142]"There are many different types of business ethics that professionals should be familiar with. Also known as corporate ethics, business ethics regulate the way that businesses conduct themselves and provide guidelines for behaving in positive, moral ways. Business ethics have various components that govern how businesses and companies should operate. Some of those components include the following:

• Trustworthiness and solidarity.

• Respect and responsibility.

• Fairness and equality.

• Caring and dialogue.

These key components should be taken into consideration when developing a business ethics plan. They will create a strong foundation for your business so that you can operate in a moral way. Bringing trustworthiness and honesty to all of your communications and actions will encourage your customers to continue giving you their business. Your customers will feel appreciated when you take responsibility for your actions and operate in a fair and caring manner. Keeping your word also proves your trustworthiness. All the members of a business should know that they are important and have the opportunity to succeed. But employees should also prove they have integrity through their words and actions. Character matters in business. When interacting with customers and employees, it's imperative to be fair and just. Never take advantage of other people's mistakes, and treat all people equally" (Leonard, 2019; Upcounsel,

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[142] Upcounsel (2019) *Different Types of Business Ethics*. Available from: https://www.upcounsel.com/different-types-of-business-ethics

2019, https://www.upcounsel.com/different-types-of-business-ethics). The next section will discuss the role that is played by ethics & compliance committees of boards in the organization.

7.4 Role played by the ethics & compliance agenda of boards in the organization

"Directors must understand the vital role of ethics in establishing the values and behavioural DNA of a board and its organisation. The ethics and values of an organisation are generally formed and espoused by the founders. They can be based on a set of strong beliefs about a particular issue such as ethical beauty products, climate change or a particular way of doing business. Ethical behaviour instils trust and empathy. It also enhances reputation, which can in turn improve income by attracting more customers who are attracted by the associated brand. It should in turn mean greater financial sustainability and finally, while good behaviour engenders more good behaviour, the opposite is also true. Therefore, ethical standards and the associated behaviours must be led, developed and disseminated by the board. The board – both as a collective and as individuals – set the ethical tone from the top of the company and must ensure that it becomes part of the DNA of the company. *Ethics in practice* - the larger the company, the more difficult it is to maintain consistency in the application of values and ethical behaviour. It is unlikely that all staff can be relied upon to react in the same way, particularly where there is significant cultural diversity in the countries in which a company operates. This is why a code of ethics is essential. A well-written code, consistently applied, will minimise uncertainty and raise awareness of ethical issues in the company. The code should help to operationalise ethics and values by developing an associated set of behaviours that will help guide the actions of staff in situations where they may face ethical challenges" (Duffy, 2017, https://www.charteredaccountants.ie/Accountancy-Ireland/Articles2/Spotlight/Latest-News/ethics-and-the-role-of-the-board?AspxAutoDetectCookieSupport=1). The purpose of a code of conduct will be discussed in the following section.

7.5 Purpose of a Code of Conduct

In an organization one of the most valuable documents after a 'Vision and Mission Statement' is a 'Code of Conduct' since its helps to shape the behavior of the board of directors, management and employees while simultaneously outlining the corporate culture identity of the organization. [143] [144]The purpose of a Code of Conduct in an organization was clearly pointed-out in an article by the Ethics Compliance Initiative (2019) *titled 'Code of Conduct'* published by https://www.ethics.org and the purpose of a code is clearly depicted in Table 7.1 below.

Table 7.1 Different purposes of a code of conduct

Purpose of a Code of Conduct
• "Regardless of whether your organization is legally mandated to have a code of conduct (as public companies are), every organization *should* have one.
• A code has value as both an internal guideline and an external statement of corporate values and commitments.
• A well-written code of conduct **clarifies an organization's mission, values and principles**, linking them with standards of professional conduct. The code articulates the values the organization wishes to foster in leaders and employees and, in doing so, defines desired behavior.
• As a result, written codes of conduct or ethics can become **benchmarks** against which individual and organizational performance can be measured.

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[143] Ethics Compliance Initiative (2019) *Code of Conduct.* Available from: https://www.ethics.org/resources/free-toolkit/code-of-conduct/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".*

[144] Ethics Resource Center (2003) *Creating a Workable Company Code of Ethics: A Practical Guide to Identifying and Developing Organizational Standards.* Ethics Resource Center, June Paperback, p3 – 4 and p6 – 9.

• Additionally, a code is a **central guide and reference for employees** to support day-to-day decision making. A code encourages discussions of ethics and compliance, empowering employees to handle ethical dilemmas they encounter in everyday work.

• It can also serve as a valuable reference, helping employees locate relevant documents, services and other resources related to ethics within the organization" (Ethics Compliance Initiative, 2019).

Source: Modified: (Ethics Compliance Initiative, 2019, https://www.ethics.org/resources/free-toolkit/code-of-conduct/). *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".*

The various ways an organization can reduce ethics and compliance risk will be discussed in the following section.

7.6 Ways to reduce ethics & compliance risk

The various ways an organization can reduce ethics & compliance risk will be depicted in Figure 7.1 below.

Figure 7.1 Six ways an organization can use to reduce ethics & compliance risk

Source: Modified: (Ethics Compliance Initiative, 2019, https://www.ethics.org/ & Institute of Business Ethics, 2019, www.ibe.org.uk)

[145]According to the Ethics Compliance Initiative (2019) your company's good name and the trust of stakeholders are two of its most important assets. You can protect your company's reputation and increase employee engagement by creating a workplace where ethical conduct is the norm. Reduce ethics risk by taking these five key steps:

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[145] Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk. Available from:* https://www.ethics.org/resources/free-toolkit/reducing-risk/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180,* www.ethics.org*".*

7.6.1 Honestly assess your needs and your resources

Successful businesses start with a good plan. So do successful ethics and compliance programs. In order to create a relevant and meaningful plan, you have to know the lay of the land. It's important to know:

• What ethics challenges are common in the work we do? In our workplace?

• Where are our greatest areas of risk? Which groups of employees, locations, business units, etc. are potential "hot spots"?

• What values are important to our company and its employees?

• What values are necessary for our business, our work in particular?

• What ethics and compliance resources will be most beneficial for employees? What vehicles of support (a phone line, an email, an individual or committee, internal social network, etc.) are likely to be most utilized and helpful?

• In developing our code and values, which groups' input is necessary? Who would be helpful? (For more information on this, see our resources on writing a code.)[146]

Your program will only make a difference if you begin by having an accurate picture of existing strengths and areas of vulnerability. Risk assessment should be the starting point of your internal efforts, followed by gap analysis and program assessment. Audit reports are also an essential piece of the puzzle. You can gather information in a variety of ways. Focus groups allow representative samples of the larger population to share their opinions and experiences; they provide a deep, rich "snapshot" of the state of ethics in your organization. Surveys (internal or conducted by a third party) provide the opportunity to gather information from a much larger

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[146] Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk.* Available from: https://www.ethics.org/resources/free-toolkit/reducing-risk/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".*

group of your employees, to compare results and to analyze data by relevant subgroups (i.e., employee levels, departments, units, etc.)[147]

7.6.2 Establish a strong foundation.

Once you know your needs, you can put in place the resources to address them by establishing a robust ethics and compliance program. The good news is that such a program makes a difference.

7.6.3 Build a culture of integrity — from the top down.

People have an innate desire to get along and (long-past high school) want to fit in and conform to the norms of those around them. It may not be pleasant to admit it, but most people's ethics standards are fairly malleable. Although most people retain a desire to "do the right thing," the definition of right is significantly influenced by the company they keep. Culture matters. Fortunately, if your company has diligently built an ethics and compliance program and woven it into the daily operations of the organization, a strong ethics culture is far more likely. Research proves that an effective ethics and compliance program helps build a culture of integrity in which everyone "walks the talk." In a strong ethics culture, employees at all levels are committed to doing what is right and upholding values and standards. Leaders are powerful drivers of corporate culture; they set the tone in any organization. They decide who gets attention, who gets promoted, what merits rewards and recognition. They set the standard. They are the example. There are several things leaders should do to help promote a strong ethics culture:

• Talk about the importance of ethics.

• Keep employees adequately informed about issues that impact them.

• Uphold promises and commitments to employees and stakeholders.

• Acknowledge and reward ethical conduct.

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[147] Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk.* Available from: https://www.ethics.org/resources/free-toolkit/reducing-risk/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".*

• Hold accountable those who violate standards, especially leaders.

• Model ethical conduct both professionally and personally.

When it comes to ethical leadership, there are two key things to keep in mind: (1) Character is paramount. Ethical leaders show integrity not only in the way they conduct themselves at work, but in their personal relationships as well. (2) Leadership happens at all levels. While senior leaders set the tone for the entire organization, supervisors shape the everyday environments in which employees work and make decisions. The actions of supervisor have a profound impact on employees and their workplace conduct[148].

7.6.4 Keep a "values focus" in moments big and small.

Ethics is about choices-big and small. Organizations with integrity keep their values at the forefront in both mundane and the extraordinary moments. Corporate values should come into play and be reflected in multiple processes that drive the everyday life of the company, including:

• HR policies and their implementation

• Reward systems

• Hiring and retention

• Performance management and evaluation

• Promotion decisions

On those occasions when crises occur, leaders should recognize not only the ethical dimension of the moment at hand, but the 'teachable moment' it represents.

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[148] Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk. Available from:* https://www.ethics.org/resources/free-toolkit/reducing-risk/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180,* www.ethics.org*".*

7.6.5 Re-evaluate and revise as needed.

Situations and needs will change. You need to know what is working, what isn't, what new vulnerabilities have emerged, what progress you've made and where there's work yet to be done. Be disciplined about regularly revisiting the state of ethics and compliance in your organization. Risk assessments, follow-up surveys and periodic or ongoing focus groups will allow you to keep your program relevant and minimize risk[149] (Ethics Compliance Initiative, 2019, https://www.ethics.org/resources/free-toolkit/reducing-risk/). *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org"*.

7.6.6 "Hiring and appointment of Ethics Ambassadors.

What are ethics ambassadors? Ethics ambassadors are employees selected to formally assist senior management in promoting and embedding the ethics policies, codes of conduct, business principles, statements of values or other similar policies of their organisations. The post of ethics ambassador may be full-time or may be taken on in addition to an employee's day-to-day job. Ethics ambassadors will normally be positioned throughout the company; across business units, geographical locations, and the hierarchy of an organisation and may comprise an informal 'network' of diverse employees with similar responsibilities. In practice ethics ambassadors have a range of different job titles depending on the organisation and the scope of their responsibilities within it. Examples include:
• Ethics Champion
• Ethics Advisor
• Ethics Point of Contact
• Ethics Coordinator
• Ethics Officer
• Ethics and Compliance Focal Point
• Compliance and Ethics Leader

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[149] Ethics Compliance Initiative (2019) *Five Keys to Reducing Ethics and Compliance Risk. Available from:* https://www.ethics.org/resources/free-toolkit/reducing-risk/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org"*.

• Ethics Liaison

• Business Compliance Representative

• Business Conduct Officer

• Compliance and Ethics Ambassadors

• Operating Company Compliance Officer

• Ethics Star"[150][151] (Institute of Business Ethics, Steinholtz, R. and Irwin, J., 2010, https://www.ibe.org.uk). "Depending on the company structure, they will have either a solid or dotted reporting line to the head of whichever department is responsible for ethics and/or compliance" (Institute of Business Ethics, Steinholtz, R. and Irwin, J., 2010, https://www.ibe.org.uk). The two examples of organizations with ethical & compliance standards will be covered in the following section.

7.7 Two examples of organizations with ethical & compliance standards

The global mobility of people travelling to different parts of the world for various reasons keeps increasing on a yearly basis. It has become the responsibility of aircraft manufacturers to ensure that they operate in an ethical and transparent manner by setting *Ethics and Compliance Standards* that must be adhered to by their directors, managers, employees and other stakeholders on a day-to-day basis. Two examples of leading aircraft manufacturers with ethics and compliance standards in their organizations that guide their directors, managers, employees and other stakeholders on a regular basis are depicted in Figure 7.2 below.

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[150] Steinholtz, R.N. and Irwin, J. (2010) *GOOD PRACTICE GUIDE: Ethics Ambassadors*. London: Institute of Business Ethics, p4-10.

[151] Institute of Business Ethics, Steinholtz, R. and Irwin, J. (2010) *Ethical Ambassadors*. Available from: https://www.ibe.org.uk/userassets/pubsummaries/ea_gpg_exec_summary.pdf

Figure 7.2 Examples of two leading aircraft manufacturers with ethics & compliance standards
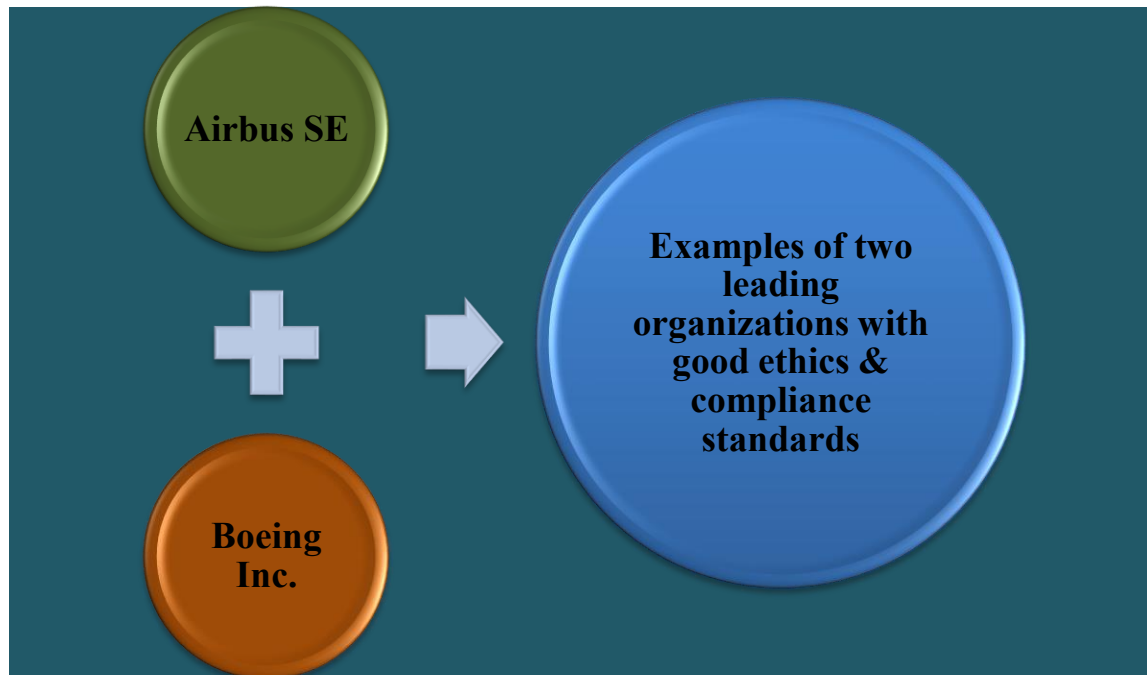
Source: Modified: (Boeing Inc., 2019, www.boeing.com; Airbus SE, 2019, www.airbus.com/).

7.7.1 Airbus SE

""Ethics and Compliance: How We Live Our Principles. Leading by example - The Airbus Ethics and Compliance Programme seeks to ensure that the company's business practices conform to applicable laws, regulations and ethical business principles, as well as developing a culture of integrity. *Our commitment.* [152]Over the years, Airbus has earned the trust of passengers, customers, operators and other stakeholders through the quality and safety of our products. To fully serve our communities and thrive in the future, our commitment to business integrity must be just as robust – this means conducting our business ethically and based on *Airbus Values*, and in compliance with all laws and regulations. Our goal is to be known as a company with 'integrity inside': integrity in its people, partners and suppliers. As part of this commitment, Airbus supports the principles of the UN Global Compact and *IFBEC's* Global Principles of Business Ethics which set a benchmark for high

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[152] Airbus SE (2019) *Ethic and Compliance*. Available from: https://www.airbus.com/company/ethics-compliance.html

ethical standards globally. Airbus is also committed to the *FX Global Code*, a joint initiative between major central banks and private sectors participants to enhance integrity of the foreign exchange markets. *Join me in focusing on what really matters: preserving our integrity and embracing our values for the purpose of serving the best interests of our great company Airbus* - *Guillaume Faury – CEO Airbus*. *Our standards*. The foundation for integrity at Airbus is our Code of Conduct (CoC). The Code is intended to guide daily behaviour and help employees resolve the most common ethical and compliance issues that they may encounter. The Code of Conduct applies to all employees, officers and directors of Airbus as well as entities that we control. Third party stakeholders whom we engage are also expected to adhere to Airbus Code of Conduct in the course of performing work on our behalf. *Programme and risk. Our programme* - While our Code of Conduct provides a useful starting point, they cannot answer all questions, nor are they sufficient to ensure that Airbus complies with the myriad legal requirements applicable to its business. Because of this, we have worked over the past several years to develop an **Ethics and Compliance programme** that is structured around four key risk areas: Business Ethics/Anti-Corruption Compliance, Export Compliance, Data Protection Compliance and Procurement Compliance. Each of these areas are in turn supported by dedicated compliance policies and a team responsible for their implementation, together with the identification and proposal of new measures to adapt to a constantly evolving regulatory landscape. **Improving our programme** is a constant and ongoing process, not only in the area of Business Ethics/Anti-Corruption but across the ethics and compliance spectrum more generally. [153]*Organisation and culture: Our organization* - Our Ethics and Compliance organisation is part of the Legal Department under the ultimate responsibility of the Airbus' General Counsel. The aim is to provide strong governance throughout the company with the global presence of qualified compliance officers who ensure the compliance programme is implemented in the different functional and operational areas. They do this in close cooperation with our employees and management, who are expected to lead with integrity by example and take responsibility for compliance within their scope of activity. *Our awareness and training* - Whilst the Tone at the Top and leading by example are critical for the success of the Ethics & Compliance Programme, it is equally important to

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[153] Airbus SE (2019) *Ethics and Compliance*. Available from: https://www.airbus.com/company/ethics-compliance.html

ensure that employees and Directors receive the right level of training and awareness around the key Directives. Airbus aims to educate its employees about the standards of conduct that apply to their jobs and the potential consequences, including on anti-corruption. All Airbus employees receive Ethics & Compliance training including on Anti-Corruption. Additionally, depending on the functions, the country and the level of risk implied by their role, some employees may be selected to attend enhanced Anti-Corruption trainings. Such trainings can be both delivered via the e-learning platform or during face to face training sessions. *Speak Up* - Airbus is committed to maintaining a Speak Up culture by promoting an open and trusting dialogue with employees at all levels. All employees are encouraged to express their views, defend their opinions, and point out unacceptable behaviour—especially behaviour that violates our Code of Conduct. Employees can raise concerns to their line manager, their Human Resources Business Partner, to a Legal & Compliance representative, or through the Airbus "OpenLine" (www.airbusopenline.com)""[154] (Airbus SE, 2019, https://www.airbus.com/company/ethics-compliance.html).

7.7.2 Boeing Inc.

[155] "**Overview:** At Boeing, ethical business conduct isn't just a part of what we do—it's at the very core of how we operate. Doing the right thing for our employees, customers, stakeholders and communities has helped us earn trust and build partnerships that will drive us forward in our next century, and beyond. Each year, Boeing's chairman hosts a live, company-wide broadcast event with employees across the globe to underscore the importance of intentional and ethical decision-making in everything we do. While each employee is accountable for upholding the Boeing Code of Conduct, ensuring that our enduring values remain foundational to our work, and following all applicable laws, regulations and company policies, Boeing advances its unified approach to ethics and compliance through the integration of key functions: Corporate Audit, Ethics and Business Conduct, Global Trade Controls, Security & Fire Protection, and other

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[154] Airbus SE (2019) *Ethic and Compliance*. Available from: https://www.airbus.com/company/ethics-compliance.html

[155] Boeing Inc., *Ethics and Compliance,* [Website], 2019, https://www.boeing.com/principles/ethics-and-compliance.page, (accessed 12 October 2019).

enterprise-wide services. These functions and operating groups constitute the Boeing Office of Internal Governance and Administration and represent approximately 1,700 employees worldwide. This office reports significant investigations, audit findings, or escapes to the Board of Directors and will disclose criminal conduct to appropriate regulators with the guidance and assistance of the Law Department. This structure creates a sustainable advantage for Boeing by enabling compliant company performance across all geographic locations—while also building on our legacy of integrity, transparency and an unwavering commitment to fair and ethical business practices. [156]*Leadership Matters: Ethical Business Conduct Guidelines.* Leadership Matters is a companywide initiative that focuses on enabling a culture of openness and accountability in order to sustain an ethical and compliant work environment and enhance business performance. The intent is to embed ethical decision-making into all aspects of business, and equip managers and employees with tools to confidently address ethics-related matters, and to raise questions without fear of retaliation. Boeing asks teammates around the world to provide answers to questions in a formal, confidential survey about their perceptions of the company, its direction, the quality of our managers, our shared values and ethics along with other important dimensions of corporate culture. Boeing specifically asks about employees' perceptions of retaliation for reporting wrongdoing and of their management's support of ethical decision-making to ensure a culture of openness and accountability. Focused surveys are also deployed to collect further details about employees' perceptions of the Boeing culture. Managers use the feedback to initiate conversations with their team, identify actions to improve the employee experience and fully engage the team to contribute their best every day. Company leaders take the results and supporting managers seriously, providing them the needed resources to change the company for the better. The ethics and compliance groups provide a range of tools and resources to help managers and employees discuss ethics issues and regularly practice ethical decision-making skills. The tools and resources include: • **Ethical Business Conduct Guidelines** . Please note: This document for Boeing employees is being provided for reference to stakeholders outside the company. However, it contains links to material accessible only from inside the Boeing computing network. • Workplace case studies based on actual events • Staff meeting materials that drive openness, trust, and personal accountability, and encourage speaking

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[156] Boeing Inc., *Ethics and Compliance,* [Website], 2019, https://www.boeing.com/principles/ethics-and-compliance.page, (accessed 12 October 2019).

up without fear of retaliation. Additional topics are provided to help employees respond ethically when faced with normal business pressures, such as workforce shifts, and cost or schedule constraints. • Training refreshers on company procedures and policies" (Boeing Inc., 2019, https://www.boeing.com/principles/ethics-and-compliance.page).

[157]"Code of Conduct - The Boeing Code of Conduct establishes behavioral expectations for Boeing employees at all levels of the company – wherever we are in the world. Along with Boeing's enduring values, the code serves as the foundation for our workplace culture and provides the basis for the way we conduct business. While we are committed to performing all business in accordance with relevant laws and regulations and provide our employees with a robust set of internal policies, we believe that it is our commitment to operating with integrity that ensures our long-term business success. Every year from January to February, managers and employees meet to review and discuss Boeing expectations to keep promises, hold ourselves and each other accountable, and model ethical behavior. As part of these discussions, all employees reaffirm their personal commitment by annually signing the code of conduct and acknowledging their responsibilities to ask questions, seek guidance and to raise concerns about potential violations. The code is available in English and these languages. Compliance - Complying with external regulations and our own strong internal policies and procedures is not only the right thing to do, it is vital to the ongoing success of our company. To ensure we maintain effectiveness and continually enhance in this area, compliance monitoring and assessments are built into all levels of the business. Senior leaders of every Boeing business and function are responsible for identifying, analyzing, raising and addressing key compliance issues. They do this through the Compliance Risk Management Board (CRMB), which is chaired by the Senior Vice President of the Office of Internal Governance and Administration, as well as involvement from other senior executive leaders. The CRMB's oversight enables the company to identify risk areas and ensure consistent actions across the company in order to remain compliant. It also facilitates cross-enterprise discussion to support proactive management of emergent risks. Boeing uses ongoing monitoring to track and assess effectiveness of internal controls and processes in meeting compliance goals. Each year, all compliance training is reviewed for

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[157] Boeing Inc., *Ethics and Compliance,* [Website], 2019, https://www.boeing.com/principles/ethics-and-compliance.page, (accessed 12 October 2019).

relevance and effectiveness, based on subject matter experts' feedback and effectiveness surveys from training completions. It is also refreshed as needed to ensure content is current and meaningful. From the company's most senior leadership to its newest workers, Boeing employees are committed to keeping compliance a core element of everything we do. Speaking Up - Speaking up is a cornerstone for building an open and accountable workplace culture. At Boeing, we believe that creating an environment where employees are comfortable raising issues and concerns without fear of retaliation enables openness which can lead to improved business performance and inspire greater innovation. Boeing maintains policies and procedures to encourage employees to report concerns and seek guidance, using confidential and, when preferred, anonymous methods, including contacting local ethics advisors, using toll-free phone numbers and accessing web-based portals. Anti-Corruption Program - Boeing strictly forbids bribery and corruption of any kind. It is imperative that we compete on the merits alone. Integrity is a core company value and in support of it, Boeing publishes an internal policy inclusive of anti-corruption and bribery requirements and expectations applicable to employees, Board of Directors, and other stakeholders. Boeing also provides employees and other stakeholders' detailed procedures to ensure compliance with the U.S. Foreign Corrupt Practices Act and other global anti-corruption laws and regulations; requires annual training related to ethics and compliance; and provides guidance and instructions on various reporting mechanisms. This guidance is clear that we must never sacrifice our ethical principles to win or keep business— that no business is worth it. [158]Competing Globally with Honesty, Integrity and Compliance - Boeing's anti-corruption program is organized into nine areas, and reflects the company's commitment to competing globally with honesty, integrity and in full compliance with all applicable laws and regulations. Detailed policies and procedures govern each area and demonstrate the company's zero tolerance for corruption, applicable to employees at all levels and in every location where we operate. We work with our partners, including through Boeing-appointed board members, to ensure that the joint ventures in which we participate adopt similar policies and procedures to govern their respective operation. Program risk is assessed throughout the year, and results are shared at the company's executive council and board levels. Assessment results are used to make improvements to further strengthen the program and sustain

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[158] Boeing Inc., *Ethics and Compliance,* [Website], 2019, https://www.boeing.com/principles/ethics-and-compliance.page, (accessed 12 October 2019).

effectiveness. Industrial Participation - Boeing enters into various industrial participation agreements with certain customers outside of the U.S., primarily as a result of country laws and regulations, to provide economic flow back or the transfer of technology or skills to their businesses or government agencies as the result of their procurement from us. These commitments may be satisfied by our local operations there, placement of direct work or vendor orders for supplies, opportunities to bid on supply contracts, transfer of technology or other forms of assistance as prescribed by country laws and guidelines. In certain cases, our commitments may be satisfied through other parties (such as our vendors) who purchase supplies from our non-U.S. customers. To be eligible for such a purchase order commitment from us, a non-U.S. supplier must have sufficient capability to meet our requirements and must be competitive in cost, quality and schedule. Even in these cases, Boeing retains the responsibility of the obligation. Boeing has dedicated departments focused exclusively on the management and execution of industrial participation commitments. Boeing has specific processes and procedures that layout responsibilities to address industrial participation activities and receive support from other functions to complete due diligence, comply with export restrictions and prevent corruption"[159]   (Boeing   Inc.,   2019,   https://www.boeing.com/principles/ethics-and-compliance.page). The glossary of terms in business ethics will be covered in the following section.

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[159] Boeing Inc., *Ethics and Compliance,* [Website], 2019, https://www.boeing.com/principles/ethics-and-compliance.page, (accessed 12 October 2019).

7.8 Glossary of terms in business ethics

Board of directors, managers, employees and other stakeholders of the organization must consistently be knowledgeable about the different definitions of terms that are regularly used in Business Ethics today. [160]Some of the popular glossary of terms were identified in the Ethics & Compliance Initiative (2019) *Home/Resources/Free Ethics & Compliance Toolkit/Ethics and Compliance Glossary*. [161]A few of the selected glossary of terms are depicted in Table 7.2 below.

Table 7.2 Business ethics glossary of terms

Definitions	Definitions
"Credo - Fundamental beliefs (or a set of beliefs) or guiding principles" (Ethics & Compliance Initiative, 2019).	*"Integrity* - Consistency of values and actions that breeds trust and confidence in stakeholders. When stated and operative values are in congruence" (Ethics & Compliance Initiative, 2019).
"Work Ethic - Dedication and commitment to fulfilling one's responsibilities and successfully completing assignments" (Ethics & Compliance Initiative, 2019).	*"Ethical Dilemmas* - Challenging situations that require or involve competing sets of values" (Ethics & Compliance Initiative, 2019).

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[160] Ethics & Compliance Initiative (2019) *Ethics and Compliance Glossary: Home/Resources/Free Ethics & Compliance Toolkit/Ethics and Compliance Glossary*. Available from: https://www.ethics.org/resources/free-toolkit/toolkit-glossary/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org"*.

[161] Ethics & Compliance Initiative (2019) *Definition Values*. Available from: https://www.ethics.org/resources/free-toolkit/definition-values/ *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org"*.

"Promise-keeping - Keeping your word that that you will certainly do something" (Ethics & Compliance Initiative, 2019).	*"Ethical Congruence* - A situation where one's decision is consistent with, aligns with, the applicable set(s) of values" (Ethics & Compliance Initiative, 2019).
"Obedience - Compliance with that which is required; adherence to the requests of legitimate authority" (Ethics & Compliance Initiative, 2019).	*"Corruption* - The abuse of public power for private benefit. Perversion or destruction of integrity in the discharge of public duties by bribery or favor or the use or existence of corrupt practices, especially in a state or public corporation" (Ethics & Compliance Initiative, 2019).
"*Ethics culture* includes ethical leadership (tone at the top); supervisor reinforcement of ethical behavior; and peer commitment to support one another in doing right" (Ethics & Compliance Initiative, 2019).	*"Code Provisions* - The specific standards of behavior and performance expectations that your organization chooses to highlight and address in your code" (Ethics & Compliance Initiative, 2019).

Source: Modified: (Ethics & Compliance Initiative, 2019, https://www.ethics.org/resources/free-toolkit/toolkit-glossary/; Ethics & Compliance Initiative, 2019, https://www.ethics.org/resources/free-toolkit/definition-values/). *"© 2019 Ethics & Compliance Initiative. Used with permission of the Ethics Research Center, 2650 Park Tower Drive, Vienna, VA 22180, www.ethics.org".*

The conclusion of this chapter will be covered in the following section.

7.9 Conclusion

In our society nowadays ethics helps to guide people or entities on what must be considered to be moral or immoral. Ethics is a broad field and one of its sub-elements is business ethics. Trustworthiness and respect are some of the key parts of business ethics. Organizations that create and adopt codes of ethics often create working environments where their board of

directors, managers and employees adhere to rules and standards on a day-to-day basis. Ethics and compliance is now an important topic in organizations across the world due to the fact that the performance of any organization in this modern-day business environment is now determined by the ethical practices of the organization. It can therefore be concluded that leadership and culture play a significant role in ensuring that an organization adopts ethical practices.

7.10 Review questions

1) Explain the meaning of the terms: ethics, compliance, code of conduct, code of ethics, ethics culture, values, morals and credo?

2) List the key components of business ethics? Outline the difference between ethics and compliance?

3) Explain the benefits of ethics & compliance in an organization and its board? Describe the role played by ethics & compliance committees of boards in the organization?

4) Discuss why culture is the driver of ethical behavior in the boardroom. Outline the purpose of a code of conduct?

5) Explain the different ways an organization can use to reduce ethics and compliance risk?

Chapter 8: Corporate Governance

After reading this chapter you should be able to:

- Explain the meaning of the term 'corporate governance'.
- Identify the two types of governance stakeholders.
- Outline the traits and or principles of effective corporate governance.
- Highlight a typical good example of a corporate governance statement of a leading global organization.
- Explain in detail what 'compensation governance' encompasses.

8.1 Introduction

According to Pearse-Trust Blog (2014) good corporate governance is a key factor in underpinning the integrity and efficiency of a company. Poor corporate governance can weaken a company's potential, can lead to financial difficulties and in some cases it can cause long-term damage to a company's reputation. A company which applies the core principles of good corporate governance; fairness, accountability, responsibility and transparency, will usually outperform other companies and will be able to attract investors, whose support can help to finance further growth. [162]*Fairness* refers to equal treatment, for example, all shareholders should receive equal consideration for whatever shareholdings they hold. In the UK this is protected by the Companies Act 2006 (CA 06). However, some companies prefer to have a shareholder agreement, which can include more extensive and effective minority protection. Corporate *accountability* refers to the obligation and responsibility to give an explanation or reason for the company's actions and conduct. The Board of Directors are given authority to act on behalf of the company. They should therefore accept full *responsibility* for the powers that it is given and the authority that it exercises. The Board of Directors are responsible for overseeing

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[162] United Kingdom Legislation.gov.uk (2018) *Companies Act 2006*. Available from; www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf [Accessed 2018, 25 November] © Legislation.gov.uk, 2018. This information is licensed under the Open Government Licence v3.0. To view this licence, visit http://www.nationalarchives.gov.uk/doc/open-government-licence/ OGL v3.0

the management of the business, affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the company. A principle of good governance is that stakeholders should be informed about the company's activities, what it plans to do in the future and any risks involved in its business strategies. *Transparency* means openness, a willingness by the company to provide clear information to shareholders and other stakeholders. For example, transparency refers to the openness and willingness to disclose financial performance figures which are truthful and accurate[163] (Pearse-Trust Blog, 2014, www.pearse-trust.ie/). The meaning of the term corporate governance will be discussed in the following section.

8.2 Definition of the term 'corporate governance'

Numerous definitions of corporate governance have been developed by academics, industry experts and business gurus over the past years. *"Worldwide, the definition of corporate governance may include regional nuances, but corporate governance in Canada involves regulatory and market mechanisms, and reconciling the roles and relationships between numerous corporate stakeholders within an organization and the governance goals within a corporation"*[164] (Governance Professionals of Canada, 2018, https://gpcanada.org/). [165]*"Corporate governance* is the system of rules, practices and processes by which a company is directed and controlled. *Corporate Governance* refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. It is, in essence, a toolkit that enables management and the board to deal more effectively with the challenges of running a company. Corporate governance ensures that businesses have appropriate decision-making processes and controls in place so that the interests

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[163] Pearse-Trust Blog (2014) *The Core Principles Of Good Corporate Governance*. Available from:
https://www.pearse-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance

[164] Governance Professionals of Canada (2018) *About Corporate Governance*. Available from:
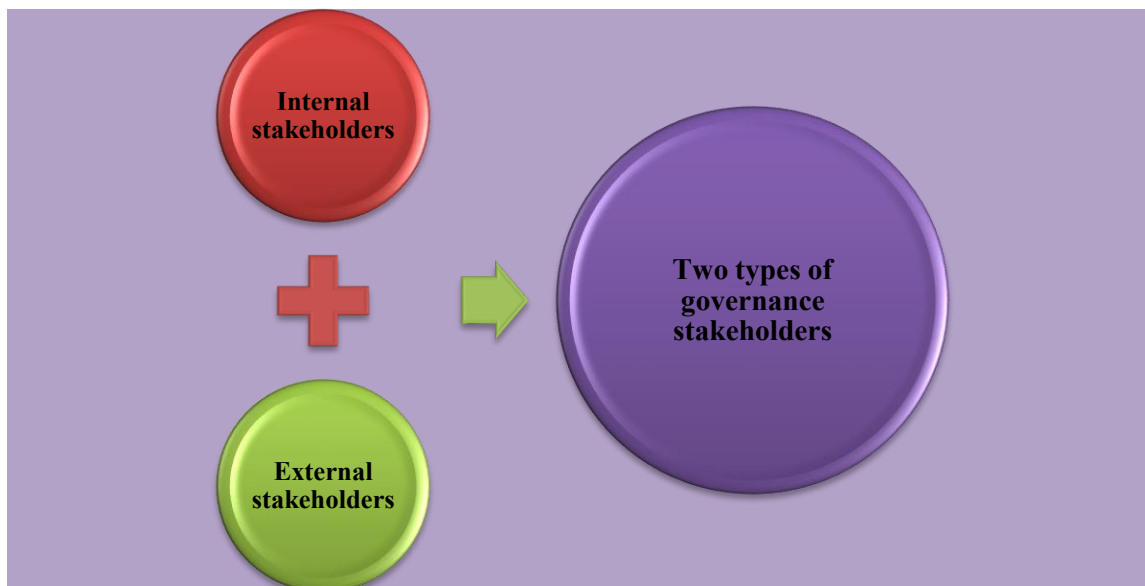https://www.gpcanada.org/About-corporate-governance

[165] ICSA The Governance Institute (2018) *What is Corporate Governance*? Available from:
https://www.icsa.org.uk/about-us/policy/what-is-corporate-governance

of all stakeholders (shareholders, employees, suppliers, customers and the community) are balanced"[166] (ICSA The Governance Institute, 2018, www.icsa.org.uk/). The two types of governance stakeholders will be discussed in the following section.

8.3 Two types of governance stakeholders

In general there are two types of stakeholders of corporate governance and these are depicted in Figure 8.1 below.

Figure 8.1 Two types of governance stakeholder

Source: Modified (Governance Professionals of Canada, 2018, https://gpcanada.org/)

The types of governance stakeholders include the following:

8.3.1 Internal governance stakeholders

According to the Governance Professionals of Canada (2018) internal governance stakeholders include:

• Company management

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[166] ICSA The Governance Institute (2018) *What is Corporate Governance*? Available from: https://www.icsa.org.uk/about-us/policy/what-is-corporate-governance

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• Executives

• Board of Directors

• Shareholders and other corporate stakeholders

• Employees[167] (Governance Professionals of Canada, 2018, https://gpcanada.org/).

8.3.2 External governance stakeholders

According to the Governance Professionals of Canada (2018) external governance stakeholders include:

• Shareholders

• Debt holders

• Trade creditors

• Suppliers, customers and communities affected by a corporation's activities[168] (Governance Professionals of Canada, 2018, https://gpcanada.org/). The advantages of good corporate governance by board of directors will be covered in the following section.

8.4 Benefits of good corporate governance

"How can corporate governance help companies and national economies? Corporate governance helps companies and economies to attract investment and strengthen the foundation for long-term economic performance and competitiveness in several ways. First, by demanding transparency in corporate transactions, in accounting and auditing procedures, in purchasing, and in all of the myriad individual business transactions corporate governance attacks the supply side of the corruption relationship. Corruption drains companies' resources and erodes competitiveness driving away investors. Second, corporate governance procedures improve the management of the firm by helping firm managers and boards to develop a sound company strategy, and by ensuring that mergers and acquisitions are undertaken for sound business reasons, and that compensation systems reflect performance. This helps companies to attract investment on favorable terms and enhances firm performance. Third, by adopting standards for

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[167] Governance Professionals of Canada (2018) *About Corporate Governance*. Available from:
https://www.gpcanada.org/About-corporate-governance

transparency in dealing with investors and creditors, a strong system of corporate governance helps to prevent systemic banking crises even in countries where most firms are not actively traded on stock markets. Taking the next step and adopting bankruptcy procedures also helps to ensure that there are methods for dealing with business failures that are fair to all stakeholders, including workers as well as owners and creditors. Without adequate bankruptcy procedures, especially enforcement systems, there is little to prevent insiders from stripping the remaining value out of an insolvent firm to their own benefit. This happened on a wide scale during many of the privatization efforts in transitional and emerging markets with disastrous results[169] (Center for International Private Enterprise, 2002:3, https://www.cipe.org/legacy/publication-docs/CGHANDBOOK.pdf).

"Corporate governance is also very beneficial in many regards. For instance, when running a company, it can be easy to violate rules and regulations if you don't have legal experience. Putting corporate governance procedures in place can help you comply with these laws so that you spend your time focusing on your company's success. Corporate governance provides a set of rules you can follow to better manage your company, while steering clear of ethical violations. If you're diligent about following corporate governance regulations, you can also boost your company's reputation. A company with a strong reputation will have an easier time attracting investors and developing strong relationships with customers. Corporate governance, because it helps your company abide by the law, can also reduce the likelihood of expensive fines or lawsuits"[170] (Upcounsel. 2019, www.upcounsel.com). According to Palmer, J. cited in the Corporate Governance Institute (2019) *holding directors accountable.* A clearly defined and tailored Corporate Governance Framework® enables the board to quickly adopt a stakeholder-inclusive approach, by overseeing the opportunities and risks within the organisation. Board members are required to evaluate and consider the legitimate and reasonable needs of all stakeholders when establishing and identifying those governance components which are

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[169] Center for International Private Enterprise (2002) *Instituting Corporate Governance in Developing, Emerging and Transitional Economies: A Handbook*. Available from: https://www.cipe.org/legacy/publication-docs/CGHANDBOOK.pdf [Accessed 2019, 10 August] p1-25

[170] Upcounsel (2019) *Pros and Cons of Corporate Governance*. Available from: https://www.upcounsel.com/pros-and-cons-of-corporate-governance

important to the organisation. The governance framework provides a mechanism for stakeholders (in particular investors) to more easily hold the board accountable for managing the organisation in a responsible and sustainable manner. *Improves enterprise wide risk management*. Although the Corporate Governance Framework® helps to identify governance components requiring urgent attention, it should not be substituted for a corporate risk register. The latter is integrated into a Corporate Governance Framework® as a subset of each governance component. The risk register records the granular details of the risks, impact thereof and associated action plans for each governance component and area of business – as such it can inform the RAG status of a governance component. The Corporate Governance Framework®, however, provides a holistic structure for governance processes starting with the board and strategic management, and extending to operations via the management level and the supply chain. The governance framework presents a singular high level view of the concentration of risk within the organisation. Such information can also be invaluable when evaluating an acquisition, or preparing for the organisation's next phase of growth. *Facilitates integrated reporting.* The availability of a Corporate Governance Framework® makes it much easier for an organisation to provide relevant, concise, holistic and timeous information on the strategic direction, performance, risks and opportunities facing the business. By focusing and reporting on material items — and how these are inter-linked — the board is able to foster a culture of transparent and meaningful communication and in so doing, continuously build a relation of trust with each of its key stakeholders[171] (Palmer, 2019, https://corgovinstitute.com). [172]According to E-Corporate Social and Responsibility (*E-CSR.net*) (2019) *9 Positive Impacts of Corporate Governance in Companies*. A good corporate governance system:

• Ensures that the management of a company considers the best interests of everyone;

• Helps companies deliver long-term corporate success and economic growth;

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[171] Palmer, J. (2019) *Tangible Benefits of a Corporate Governance Framework*. Available from: https://corgovinstitute.com/tangible-benefits-corporate-governance-framwork/ [Accessed 2019, 10 August] The Corporate Governance Framework® is a registered trademark of CGF.

[172] E-Corporate Social and Responsibility (*E-CSR.net*) (2019) *What are is the Purpose of Corporate Governance? What are the Benefits?* Available from: https://e-csr.net/definitions/corporate-governance-definition-purpose-and-benefits/

• Maintains the confidence of investors and as consequence companies raise capital efficiently and effectively;

• Has a positive impact on the price of shares as it improves the trust in the market;

• Improves the control over management and information systems (such as security or risk management);

• Gives guidance to the owners and managers about what are the goals strategy of the company;

• Minimizes wastages, corruption, risks, and mismanagement;

• Helps to create a strong brand reputation;

• Most importantly – it makes companies more resilient[173] (E-CSR.net, 2019, https://e-csr.net/). The various traits of good corporate governance will be covered in the following section.

8.5 The traits and or principles of effective corporate governance

There are various traits and or principles that can be used to identify good corporate governance in an organization. It is the fiduciary duty of the board of directors to ensure that good corporate governance principles are practiced in the organization on a continuous basis. [174]Some of the principles of good corporate governance were highlighted by the Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)* via www.coe.int/ © Council of Europe and these will be depicted by Figure 8.2 below.

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[173] E-Corporate Social and Responsibility (*E-CSR.net*) (2019) *What are is the Purpose of Corporate Governance? What are the Benefits?* Available from: https://e-csr.net/definitions/corporate-governance-definition-purpose-and-benefits/

[174] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

Figure 8.2 The 12 principles of good corporate governance
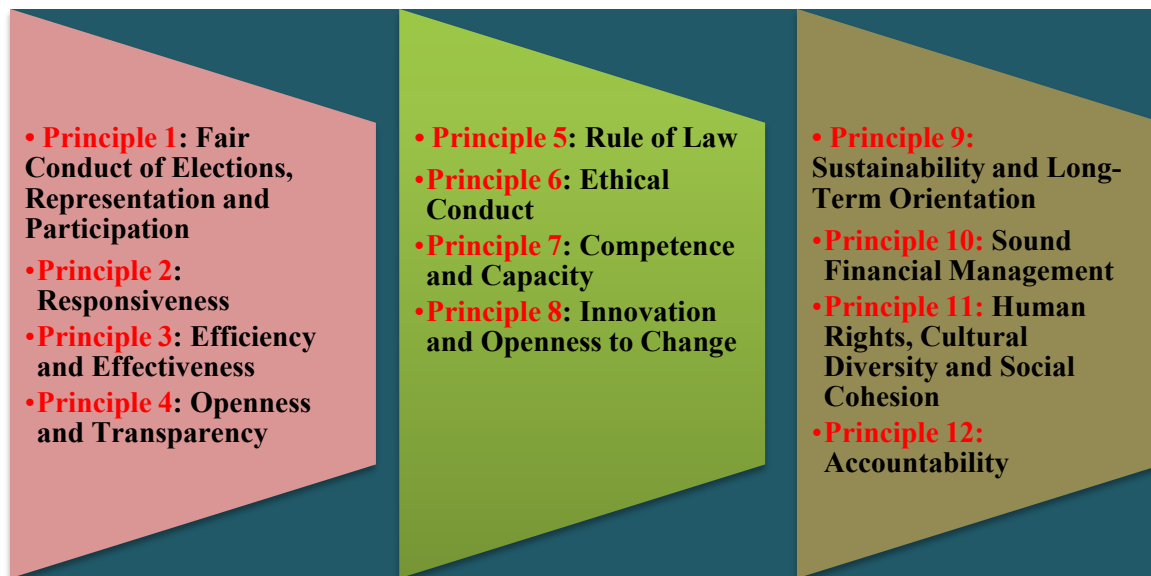
Source: Modified (Council of Europe, 2019, https://www.coe.int/) © Council of Europe.

The 12 principles of good corporate governance that were previously highlighted by Figure 8.2 above will now be further explained below. [175]According to the Council of Europe (2019):

Principle 1

Fair Conduct of Elections, Representation and Participation

• There is always an honest attempt to mediate between various legitimate interests and to reach a broad consensus on what is in the best interest of the whole community and on how this can be achieved.

• Decisions are taken according to the will of the many, while the rights and legitimate interests of the few are respected.

"Partial reproduction; please see [link] for full text". https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

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[175] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

Principle 2

Responsiveness

• Objectives, rules, structures, and procedures are adapted to the legitimate expectations and needs of citizens.

• Public services are delivered, and requests and complaints are responded to within a reasonable timeframe.

"Partial reproduction; please see [link] for full text". https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

Principle 3
Efficiency and Effectiveness

• Results meet the agreed objectives.

• Best possible use is made of the resources available.

• Performance management systems make it possible to evaluate and enhance the efficiency and effectiveness of services.

• Audits are carried out at regular intervals to assess and improve performance[176].

Principle 4
Openness and Transparency

• Decisions are taken and enforced in accordance with rules and regulations.

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[176] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

• There is public access to all information which is not classified for well-specified reasons as provided for by law (such as the protection of privacy or ensuring the fairness of procurement procedures).

• Information on decisions, implementation of policies and results is made available to the public in such a way as to enable it to effectively follow and contribute to the work of the local authority.

Principle 5
Rule of Law

• The local authorities abide by the law and judicial decisions.

• Rules and regulations are adopted in accordance with procedures provided for by law and are enforced impartially[177].

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Principle 6
Ethical conduct

• The public good is placed before individual interests.

• There are effective measures to prevent and combat all forms of corruption.

• Conflicts of interest are declared in a timely manner and persons involved must abstain from taking part in relevant decisions.

"Partial reproduction; please see [link] for full text". https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

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[177] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

Principle 7

Competence and Capacity

• The professional skills of those who deliver governance are continuously maintained and strengthened in order to improve their output and impact.

• Public officials are motivated to continuously improve their performance.

• Practical methods and procedures are created and used in order to transform skills into capacity and to produce better results.

Principle 8

Innovation and Openness to Change

• New and efficient solutions to problems are sought and advantage is taken of modern methods of service provision.

• There is readiness to pilot and experiment new programmes and to learn from the experience of others.

• A climate favourable to change is created in the interest of achieving better results[178].

Principle 9

Sustainability and Long-term Orientation

• The needs of future generations are taken into account in current policies.

• The sustainability of the community is constantly taken into account.

• Decisions strive to internalise all costs and not to transfer problems and tensions, be they environmental, structural, financial, economic or social, to future generations.

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[178] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

• There is a broad and long-term perspective on the future of the local community along with a sense of what is needed for such development.

• There is an understanding of the historical, cultural and social complexities in which this perspective is grounded[179].

Principle 10

Sound Financial Management

• Prudence is observed in financial management, including in the contracting and use of loans, in the estimation of resources, revenues and reserves, and in the use of exceptional revenue.

• Risks are properly estimated and managed, including by the publication of consolidated accounts and, in the case of public-private partnerships, by sharing the risks realistically.

Principle 11

Human rights, Cultural Diversity and Social Cohesion

• Within the local authority's sphere of influence, human rights are respected, protected and implemented, and discrimination on any grounds is combated.

• Cultural diversity is treated as an asset, and continuous efforts are made to ensure that all have a stake in the local community, identify with it and do not feel excluded.

• Social cohesion and the integration of disadvantaged areas are promoted.

• Access to essential services is preserved, in particular for the most disadvantaged sections of the population.

"Partial reproduction; please see [link] for full text". https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

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[179] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

Principle 12

Accountability

• All decision-makers, collective and individual, take responsibility for their decisions.

• Decisions are reported on, explained and can be sanctioned.

• There are effective remedies against maladministration and against actions of local authorities which infringe civil rights[180] (Council of Europe, 2019, https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]}) © Council of Europe. The governance of compensation will be covered in the following section.

8.6 Compensation governance

[181]According to the Governance Professionals of Canada (2018) for both for-profit and not-for-profit organizations, *governance of executive compensation* and *directors' salaries* can present major challenges. Disclosure practices may be scrutinized or subjected to ever-increasing requirements. Across the board, organizations need a clearly defined mission and vision that translates into concrete goals for measuring executive compensation and board of directors' pay. Effective governance is clearly the answer to resolving the pay-for-performance challenge. Each member of a board of directors owes a fiduciary duty to establish a compensation strategy that does not include excessive board compensation. The test of viability is the board's ability to translate that strategy into performance metrics for executive and director compensation.

Executive compensation governance:

• Should be based on established and clearly documented performance-based metrics

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[180] Council of Europe (2019) *12 Principles of Good Governance and European Label of Governance Excellence (ELoGE)*. Available from: https://www.coe.int/en/web/good-governance/12-principles-and-eloge#{%2225565951%22:[11]} © Council of Europe.

[181] Governance Professionals of Canada (2018) *Compensation Governance*. Available from; https://gpcanada.org/compensation

• Executive compensation programs must provide reasonable and competitive rewards based on performance

Director compensation governance:

• Director compensation may be in the form of annual retainer
• Like executive compensation, should be based on established and clearly documented performance-based metrics

Director Compensation

For any public organization, transparent disclosure of executive and **director compensation** is an essential component of good governance. In order to demonstrate accountability to stakeholders, organizations must employ **disclosure practices** that clarify and publically make known the roles and responsibilities of board and management with regard to director's salaries. They must also implement procedures to independently verify and safeguard the integrity of the company's financial reporting - including board compensation reports. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information[182] (Governance Professionals of Canada, 2018, https://gpcanada.org/compensation). Furthermore, according to the Canadian Coalition for Good Governance cited in Governance Professionals of Canada (2018):

Further reading - the Canadian Coalition for Good Governance (www.ccgg.ca)

In 2011 the Canadian Coalition for Good Governance released a set of principles for director compensation. According to the principles:

i. Director compensation should not be so high as to potentially compromise the independence of directors
ii. Compensation should reflect expertise and a director's actual time commitment to the board
iii. Director Compensation should vary for different roles

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[182] Canadian Coalition for Good Governance (https://ccgg.ca/) cited in Governance Professionals of Canada (2018) *Compensation Governance*. Available from: https://gpcanada.org/compensation

vi. Boards should consider requiring a minimum shareholding for directors, and encourage investment beyond the minimum

v. Boards should minimize the complexity of director compensation structures

vi. Directors should consider periodically seeking approval for directors' compensation from shareholders.

Executive Compensation, what must companies disclose?

•Any significant change to *executive compensation* policy the company plans to make in the next financial year,

• Whether or not officers or directors are permitted to hedge against declines in market value of equity securities received as part of executive compensation

• The aggregate value of vested share-based awards that have not yet been paid

• Information regarding how executive compensation decisions are made and how executive and director compensation relates to governance of the company[183] (Canadian Coalition for Good Governance cited in Governance Professionals of Canada, 2018, https://gpcanada.org/compensation). A typical example of a corporate governance statement or guideline of a leading global organization will be discussed in the following section.

8.7 A good example of a corporate governance rules & or statement of a leading global organization

It is important for each and every organization to have a well established corporate governance guideline or statement its employees, management and board of directors use in carrying-out the day-to-day operational activities of the organization. Corporate governance guidelines help organizations to uphold their social responsibility goals, ethics, put the interests of shareholders and employees in any action or decision making process. There are several governance statements that are used by different organizations located in different parts of the world. A

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[183] Governance Professionals of Canada (2018) *Compensation Governance*. Available from; https://gpcanada.org/compensation

typical good example of a leading global organization that has a remarkable corporate governance statement is depicted in Figure 8.3 below.

Figure 8.3 An example of a corporate governance statement of a leading global organization
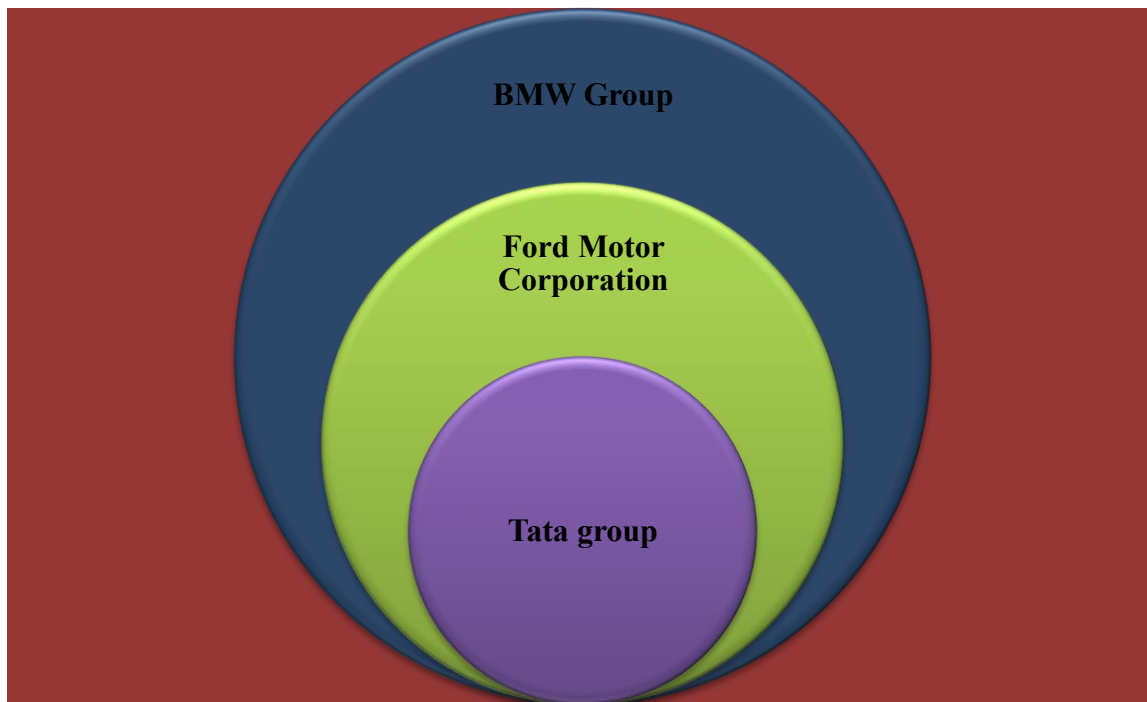
Source: Modified: (BMW Group, 2019; Ford Motor Corporation, 2018; Tata Sons Private Limited, 2019).

8.7.1 BMW Group

Global automobile manufacturer Bayerische Motoren Werke AG known as BMW is headquartered in Munich, Germany. [184] *"Establishment of BMW.* BMW can trace its roots back to Karl Rapp and Gustav Otto. In 1916, the Flugmaschinefabrik Gustav Otto company had merged into Bayerische Flugzeug-Werke AG (BFW) at government behest. Elsewhere, in 1917, the Rapp Motorenwerke company became Bayersiche Motoren Werke GmbH, which was duly converted into an AG (public limited company) in 1918. BMW AG subsequently transferred its engine construction operations - including the company and brand names - to BFW in 1922. The

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[184] BMW Group (2019) *Company Portrait. BMW Group Profile.* Available from:
https://www.bmwgroup.com/en/company/company-portrait.html

date of BFW's founding, 7 March 1916, has therefore gone down in history as the foundation date of Bayerische Motoren Werke AG" (BMW Group, 2019, https://www.bmwgroup.com/en/company.html). The BMW Group has two boards namely; the board of management and the supervisory board. Today the Chairman of the board of management of BMW AG is Mr. Oliver Zispe. The current Chairman of the supervisory board of BMW AG since 2015 is Dr E.H. Norbert Reithofer who has three deputies under his leadership namely: Mr. Manfred Schoch the current Deputy Chairman and member of the supervisory board since 1988, appointed until 2024, while Mr. Stefan Quandt is another Deputy Chairman of the supervisory board since 1999 (*also a member of the board of supervisory since 1997*) and Mr. Stefan Schmid is the other current Deputy Chairman of the board of supervisory since 2008 (*also a member of the supervisory board since 2007*) (BMW Group, 2019, https://www.bmwgroup.com/en/company/company-portrait.html). [185]"*Throughout its 100-year history, the BMW Group has always reinvented itself. As a pioneer of new technologies, the company has shaped change, within both the industry and the world of mobility,*' commented Harald Krüger of BMW AG**,** at the Annual Accounts Press Conference in Munich on Wednesday" (Harald Krüger, BMW *AG* cited in BMW Group, 2016, https://www.press.bmwgroup.com/global/article/detail/T0258269EN/bmw-group-driving-the-transformation-of-individual-mobility-with-its-strategy-number-one-next?language=en). "As a German stock corporation (Aktiengesellschaft) governed by German stock corporation law BMW AG has three organs: The Annual General Meeting (Hauptversammlung), the Supervisory Board (Aufsichtsrat) and the Board of Management (Vorstand). Their powers and duties are set out in the German Stock Corporation Act (Aktiengesetz) and BMW AG's Articles of Association, the full text of which is published on the BMW Group's website. As the Company's owners, the shareholders exercise their rights in the Annual General Meeting. The Board of Management manages the Company under its own responsibility. As part of a dual leadership system, the Board of Management is advised and supervised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and, if there is good cause, can remove them from office at any time. The Board of Management keeps the

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[185] BMW Group (2016) *BMW Group Driving the Transformation of Individual Mobility with its Strategy NUMBER ONE > Next.* Available from: https://www.press.bmwgroup.com/global/article/detail/T0258269EN/bmw-group-driving-the-transformation-of-individual-mobility-with-its-strategy-number-one-next?language=en

Supervisory Board informed and reports to it regularly, without delay and comprehensively according to the principles of diligent and accurate accountability in accordance with the law and the reporting duties laid down by the Supervisory Board. For certain important transactions the Board of Management requires the consent of the Supervisory Board. However, the Supervisory Board is not authorized to take any management measures"[186] (BMW Group, 2017:3, https://www.bmwgroup.com/content/dam/grpw/websites/bmwgroup_com/company/downloads/en/2018/CGC_BMW_AG_Dez_2017_English.pdf).

The Corporate Governance Code of the BMW Group

"*The Corporate Governance Code of the BMW Group*. In conjunction with the adoption of the German Corporate Governance Code by the German Government Corporate Governance Code Commission, the Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft adopted a corporate governance code for the BMW Group for the first time on 3 December 2002, based closely on the German Corporate Governance Code. In line with the German Corporate Governance Code, it describes the important statutory framework provisions and the more far-reaching principles of good and responsible corporate governance applied by the BMW Group. The aim is to provide shareholders and other stakeholders of the BMW AG with a comprehensive and stand-alone document covering the corporate governance practices applied by the BMW Group. The Corporate Governance Code of the BMW Group is normally reviewed annually and revised to take account of recent developments, in particular changes in legislation, new recommendations and suggestions of the German Government Corporate Governance Code Commission" (BMW Group, 2017:4, https://www.bmwgroup.com/content/dam/grpw/websites/bmwgroup_com/company/downloads/en/2018/CGC_BMW_AG_Dez_2017_English.pdf).

Corporate Governance

"Corporate governance at the BMW Group

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[186] BMW Group (2017) *Corporate Governance Code. Principles of Corporate Governance*. Available from: https://www.bmwgroup.com/content/dam/grpw/websites/bmwgroup_com/company/downloads/en/2018/CGC_BMW_AG_Dez_2017_English.pdf p1-3.

Corporate Governance: Corporate Governance at the BMW Group. For the BMW Group, corporate governance is an all-embracing topic which involves all areas of the company. Transparent reporting and a corporate governance policy aimed at the interests of stakeholders are well-established traditions within the BMW Group. Cooperation between the Board of Management and the Supervisory Board, in an atmosphere of commonly shared trust and responsibility has long been the basis for managing the BMW Group. The underlying corporate culture at BMW is based on the principles of transparency, placing trust in others and taking responsibility for one's own actions. The BMW Group believes that the recommendations and suggestions contained in the German Corporate Governance Code help make the German financial market more attractive, in particular for international investors. The Board of Management and Supervisory Board support the recommendations and suggestions contained therein and have developed a corporate governance code for the BMW Group, taking account of the specific circumstances of the BMW Group" (BMW Group, 2019, https://www.bmwgroup.com/en/company/company-portrait.html).

8.7.2 Ford Motor Corporation

"""**Governance**

Ford has a long history of operating under sound corporate governance practices. Our corporate officers and board of directors are dedicated to serving the interests of our shareholders and creating long-term value.

• Our Creating Value Roadmap Process is designed to ensure that our business manages risk and operates in a transparent and accountable way

• Our board of directors includes a diverse range of international experience and includes a Lead Independent Director in addition to the CEO and Chairman

• We have institutionalized the Creating Value Roadmap Process, which includes a Business Plan Review and a Special Attention Review process where the senior leadership of the Company regularly reviews the status of the business, the risk and opportunities presented to the business, and specific plans to address those risks and opportunities.

• Our executives' compensation is tied to performance against defined metrics that are aligned with our strategic objectives to incentivize focus on strengthening our business for the long term

• Our shareholders are asked to approve executive compensation with an annual say-on-pay vote; investors supported the compensation of named executives with 96.5% percent of votes cast "for" in 2017 and 97.5% of votes cast "for" in 2018

• We promote a culture of compliance and ethics across our business and around the world, formalized in company policies and reinforced by management and our brand promise to Go Further""[187] (Ford Motor Corporation, 2018, https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx).

According to Ford Motor Corporation (2018:14) Corporate Governance Review:

Governance Practices

• Annual election of all Directors

• Majority vote standard

• Independent Board

• Lead Independent Director

• Committee charters reviewed annually

• Independent Directors meet regularly without management and Non-Independent Directors

• Regular Board and Committee self-evaluations

• Independent Audit, Compensation and Nominating & Governance Committees

• Separate Chairman of the Board and CEO

• Mandatory deferral of compensation for[188]

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[187] Ford Motor Corporation (2018) *Corporate Governance.* Available from:
https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx
[188] Ford Motor Corporation (2018) *Corporate Governance.* Available from:
https://shareholder.ford.com/investors/corporate-governance/executive-team/default.aspx

Directors

• 75% attendance requirement

• Confidential voting

• Shareholders have the right to call special meetings

 • Shareholders may take action by written consent

• Strong codes of ethics

 • Compensation for NEOs focused on performance[189] (Ford Motor Corporation, 2018,

Corporate Governance Review. Available from:

https://s22.q4cdn.com/857684434/files/doc_downloads/governance/Ford-Corporate-Governance_May-2018.pdf).

8.7.3 Tata group

Values & Purpose: *Integrity, Responsibility, Excellence, Pioneering and Unity*

"*"Business, as I have seen it, places one great demand on you: it needs you to self-impose a framework of ethics, values, fairness and objectivity on yourself at all times."[190]* - Ratan N Tata, 2006

Core values:

Tata has always been a values-driven organisation. These values continue to direct the growth and business of Tata companies. The five core Tata values underpinning the way we do business are:

Integrity

We will be fair, honest, transparent and ethical in our conduct; everything we do must stand the test of public scrutiny.

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[189] Ford Motor Corporation (2018) *Corporate Governance Review*. Available from:
https://s22.q4cdn.com/857684434/files/doc_downloads/governance/Ford-Corporate-Governance_May-2018.pdf
[190] Tata Sons Private Limited (2019) *Tata Values-Purpose*. Available from: https://www.tata.com/about-us/tata-values-purpose

Responsibility

We will integrate environmental and social principles in our businesses, ensuring that what comes from the people goes back to the people many times over.

Excellence

We will be passionate about achieving the highest standards of quality, always promoting meritocracy.

Pioneering

We will be bold and agile, courageously taking on challenges, using deep customer insight to develop innovative solutions.

Unity

We will invest in our people and partners, enable continuous learning, and build caring and collaborative relationships based on trust and mutual respect"" (Tata Sons Private Limited, 2019, https://www.tata.com/about-us/tata-values-purpose).

Tata Code of Conduct

[191]"This comprehensive document serves as the ethical road map for Tata employees and companies, and provides the guidelines by which the group conducts its businesses. Tata companies have consistently adhered to the values and ideals articulated by the Founder for over 150 years. The Tata Code of Conduct was first formalized by Mr. Ratan Tata. It articulates the Group's values and ideals that guide and govern the conduct of our companies as well as our colleagues in all matters relating to business. Today, the Code is a bedrock on which we base our individual, as well as leadership commitments to core Tata values. The Tata Code of Conduct outlines our commitment to each of our stakeholders, including the communities in which we operate, and is our guiding light when we are sometimes faced with business dilemmas that leave us at ethical crossroads. The Code is also dynamic in that it has been periodically refreshed in order to remain contemporary and contextual to the changes in law and regulations. However it remains unaltered at its core. Our stellar reputation and success as a business entity has been defined by the powerful commitment and adherence to the core values and principles expressed

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[191] Tata Sons Private Limited (2019) *Tata Code of Conduct*. Available from: https://www.tata.com/about-us/tata-code-of-conduct

in this Code, by all our employees, directors and partners. I trust every Tata colleague and Tata company will continue to not only comply with the laws and regulations that govern our business interests around the world, but will continue to set new standards of ethical conduct that will generate deep respect and inspire emulation by others. *N Chandrasekaran, Chairman, Tata Sons, February 21, 2017"* (Tata Sons Private Limited, 2019, https://www.tata.com/about-us/tata-code-of-conduct). The conclusion of this chapter will be covered in the following section.

8.8 Conclusion

Today investors now look for organizations that have good corporate governance practices before investing their money. Organizations that practice good corporate governance practices gain a good reputation in the marketplace as an ethical business. Corporate governance helps to map the way forward the organization should follow in order to achieve its vision and mission ethically and responsibly. In general c*orporate governance guidelines promote positive behavior* and they help to boost the quality of decision-making by the board. It can be concluded that the characteristics that are associated with an organization that practices good corporate governance include: accountability, fairness and legal compliance.

8.9 Review questions

(1) What is the meaning of the term 'corporate governance'?

(2) Discuss the benefits of corporate governance?

(3) Describe the two types of governance stakeholders?

(4) Outline the traits and or principles of effective good corporate governance?

 (5) Explain what is compensation governance? Describe an example of a corporate governance statement of any leading global organization of your choice?

Chapter 9: Examples of profit making & nonprofit organizations

After reading this chapter you should be able to:

- Describe the terms 'profit-making' and 'nonprofit making' organization.
- Discuss why it is important to give examples of some of the leading boards found in various organizations located across the world.
- Explain the boards of at least six profit making global organizations. Discuss at least six nonprofit making organizations in the world and their leadership structures.
- Explain why you think these nonprofit organizations are outstanding in the world.
- Discuss why you think the boards highlighted in the examples of profit-making organizations are outstanding.

9.1 Introduction

Over the years they have been many theories or philosophical thinking surrounding the topic of leadership. One of the common traits of a great leader is that they consistently make an effort to inspire people and they do everything they can to avoid manipulating people. There are several business leaders located in different parts of the world with good business leadership qualities[192] (Muteswa, 2016). Leaders use their imagination to foresee the outcomes of opportunities. One of the most common personality trait that is shared by most of the greatest leaders in the world is humility. In general good leaders tend to listen to their employees' suggestions or grievances and they tirelessly make an effort to solve some of their employees' grievances on time in order to maintain their morale and support. Boards that tend to inspire the people they lead while simultaneously listening to their grievances are more likely to be highly functional boards due to the fact that they are more likely to earn their respect, loyalty and the unquestionable support of their subordinates in the organization. The two types of organizations that exist in the business

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[192] Muteswa, R.P.T. (2016) Qualities of a Good Leader and the Benefits of Good Leadership to an Organization: A Comparative Study. *European Journal of Business and Management, Vol 8(24)*, 135-140.

world today include: profit-making and nonprofit making organizations. In general the majority of nonprofit organizations are not managed by boards but they elect a council while on the other hand the majority of profit-making corporations are managed by board of directors. The definition of terms will be covered in the following chapter.

9.2 Definition of terms

The meaning of terms that are used in books often differs amongst authors, academics, business gurus and so on. A *profit-making* organization is an entity that operates in the business environment with the aim of selling its products/services to gain a profit. In addition a *non-profit making* organization is a registered organization that operates in its core business area without aiming to make profits in the process. The term '*exemplary*' refers to an individual or organization that sets an excellent example of how things or problems are solved and or must be done in order to inspire others to do the same in the future (Rudolph. Patrick. T. Muteswa, 2019). The next section will cover exemplary and globally board members.

## 9.3 Exemplary and globally recognized board members

Generally board of directors reinforce the organization's values, mission and vision amongst the people they lead in the organization so that they are willing to commit to be part of the future of the organization whilst simultaneously helping it to achieve its long term goals. Board of directors are generally found on the highest level of the organizational hierarchy and everyone in the organization looks up to them in almost everything related to decision-making, discipline, business growth, innovation, customer focus, change management, technology, brand management, new policy development, strategic planning, human resources management and so on. In essence a board of director is a symbol of success to employees as they inspire them to foresee the future and thus they must lead by example in everything they do in the organization. Board of directors' are often highly respected for their ethical behavior, expertise knowledge, strategic oversight and many other personal characteristics. Today the most powerful organizations in the world have highly effective good-to-great business leaders who sit in their boards. As mentioned earlier in the introduction that there are two types of boards in organizations namely: (1) a non-profit board and (2) a profit-making board. The different

examples of profit-making organizations with excellent board of directors will be covered in the next section.

9.3.1 Examples of profit-making organizations with outstanding board members

Some of the leading profit-making global organizations with remarkable board of directors are depicted in Figure 9.1 below including the names of some of their good-to-great board members.

Figure 9.1 Four leading global organizations with outstanding board members
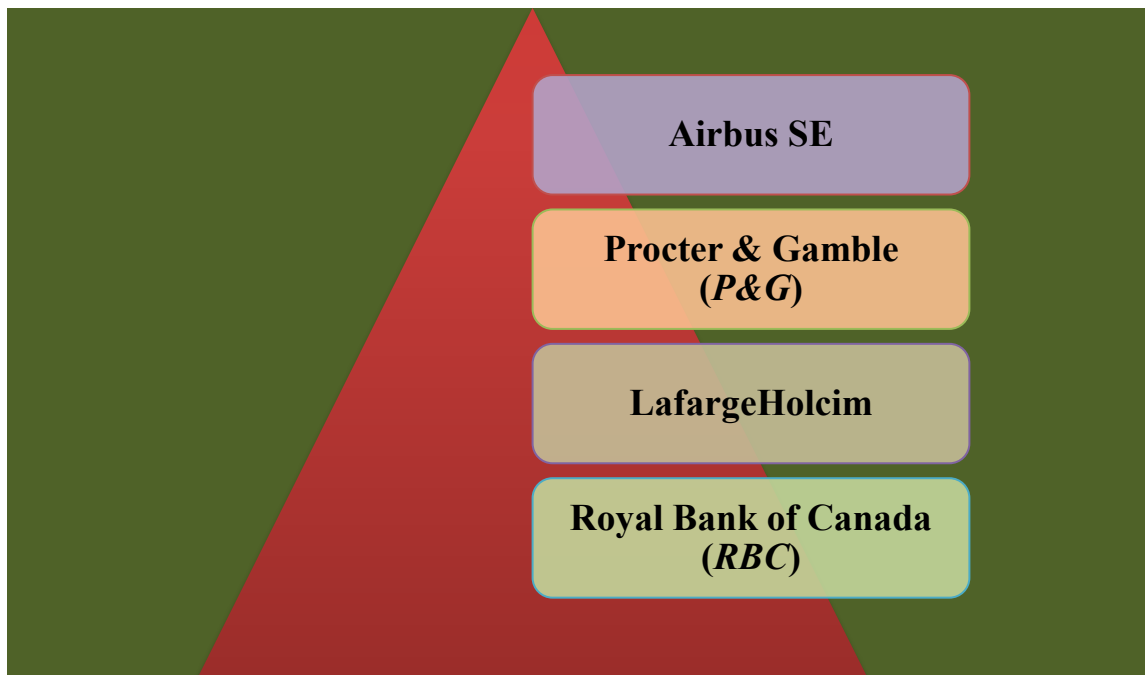
Source: Modified: (Airbus SE, www.airbus.com; Procter & Gamble, 2018, https://us.pg.com/; LafargeHolcim, 2019, https://www.lafargeholcim.com/; Royal Bank of Canada, 2019, http://www.rbc.com/).

9.3.1.1 Airbus SE

One of the organizations that have managed to set the pace of exemplary leadership and effective corporate branding as a result of its highly functional board of directors is the leading commercial aircraft manufacturer 'Airbus SE' which is headquartered in Leiden in the Netherlands. "The Board of Directors is responsible for the management of the Company and consists of a maximum of 12 members, appointed and removed at the Shareholders' Meeting. The Board is responsible for the overall conduct of the Company, the management, direction

and performance of the Company and its business. The [Board Rules](#) specify that in addition to the Board of Directors' responsibilities under applicable law and the Articles of Association, the Board of Directors is responsible for certain enumerated categories of decisions. Under the Articles of Association, the Board of Directors is responsible for the management of the Company. Under the Board Rules, the Board of Directors delegates day-to-day management of the Company to the CEO, who, supported by the [Executive Committee,](#) makes decisions with respect to the management of the Company. However, the CEO may not enter into transactions that form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors"[193] (Airbus, 2019, https://www.airbus.com/company/corporate-governance/board-and-board-committees.html). The current Chairman of the Board at Airbus SE is Denis Ranque and the CEO of Airbus SE is Guillaume Fury (*who is also a current Board Member*). The list of other current board of directors at Airbus SE includes: Victor Chu, Jean-Pierre Clamadieu, Ralph D. Crosby, Jr., Lord Paul Drayson, Catherine Guillouard, Hermann Josef-Lamberti, Amparo Moraleda, Claudi Nemat, Carlos Tavares (Airbus, 2019, https://www.airbus.com/company/corporate-governance/board-and-board-committees.html).

9.3.1.2 Procter & Gamble (*P&G*)

Multinational consumer goods manufacturer Procter & Gamble, headquartered in Cincinnati, Ohio, USA producers of personal care, grooming, hair care, baby diapers and feminine hygiene brands is another good example of an organization with good-to-great leaders who are members of its board of directors. P&G was founded by William Procter, emigrating from England, who established himself as a candle maker in Cincinnati while James Gamble, an immigrant from Ireland, apprenticed himself as a soap maker. These two entrepreneurs might never have met had they not married sisters called Olivia and Elizabeth Norris. It was their father, Alexander Norris that noted his two new sons-in-law were competing for the same raw materials. He suggested they become business partners. What began as a family-run candle and soap business during 1837 eventually grew into the largest and most profitable consumer goods company in the

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[193] Airbus (2019) *Board and Board Committees*. Available from: https://www.airbus.com/company/corporate-governance/board-and-board-committees.html

world[194] (Procter & Gamble, 2018). [195]The current chairman of the Board, President and CEO is David Taylor. Some of the current board of directors of Procter & Gamble include: (1) Francis. Blake (*Member of the Audit and Governance & Public Responsibility Committees*), (2) Angela F. Braly (*Chair of the Governance & Public Responsibility Committee and member of the Audit Committee*), (3) Amy L. Chang (*Member of the Audit and Innovation & Technology Committees*), (4) Scott. D. Cook (*Chair of the Innovation & Technology Committee and Member of the Compensation & Leadership Development Committee*) and many other board members[196] (Procter & Gamble, 2018). Procter & Gamble is a global consumer products company, serving consumers around the world with sales in more than 180 countries and territories. A company of our size must have strong governance, as well as leaders who understand our diverse consumers and global needs. The current composition of the Board reflects an appropriate mix of skill sets, experience, and qualifications that are relevant to the business and governance of the Company. Each Director epitomizes the Company's Purpose, Values and Principles, possesses the highest ethics and integrity, and demonstrates commitment to representing the long-term interests of the Company's shareholders. Each Director also has individual experiences that provide practical wisdom and foster mature judgment in the boardroom. Collectively, the Directors bring business, international, government, technology, marketing, retail consumer products, and other experiences pertinent to the Company's global operations. The Board has general oversight responsibility for the Company's affairs pursuant to Ohio's General Corporation Law, the Company's Amended Articles of Incorporation and Code of Regulations, and the Board of Directors' By-Laws. In exercising its fiduciary duties, the Board of Directors represents and acts on behalf of the Company's shareholders. Additional details regarding the role and structure of the Board are contained in the Board's Corporate Governance Guidelines (Procter & Gamble, 2018).

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[194] Procter & Gamble (2018) *History of Sustainability*. Available from: https://us.pg.com/sustainability/at-a-glance/history-of-sustainability

[195] Procter & Gamble (2018) *Leadership Team*. Available from: https://us.pg.com/who-we-are/leadership-team

[196] Procter & Gamble Inc. (2018) *Structure & Governance*. Available from: https://us.pg.com/structure-and-governance/board-of-directors-composition/

9.3.1.3 LafargeHolcim

A typical good example of a leading global organization with a powerful employer brand and an employer of first choice status for many highly talented job seekers and with a board that is comprised of good-to-great leaders is LafargeHolcim, headquartered in Jona, Switzerland. The current Chairman of LafargeHolcim is Mr. Beat Hess and the Vice Chairman is Mr. Oscar Fanjul. The other board of directors of LafargeHolcim include: Mr. Paul Desmarais Jr., Mr. Patrick Kron, Mr. Adrian Loader, Mr. Jürg Oleas, Ms. Hanne Birgitte Breinbjerg Sørensen, Dr. Dieter Spälti, Mr. Colin Hall, Ms. Naina Lal Kidwai and Ms. Claudia Sender Ramirez[197] (LarfargeHolcim, 2019, https://www.lafargeholcim.com/board-directors). "LafargeHolcim is the global leader in building materials and solutions. We are active in four business segments: Cement, Aggregates, Ready-Mix Concrete and Solutions & Products. With leading positions in all regions of the world and a balanced portfolio between developing and mature markets, LafargeHolcim offers a broad range of high-quality building materials and solutions. LafargeHolcim experts solve the challenges that customers face around the world, whether they are building individual homes or major infrastructure projects. Demand for LafargeHolcim materials is driven by global population growth, urbanization, improved living standards and sustainable solutions construction. Around 75,000 people work for the company in around 80 countries" (LafargeHolcim, 2019, https://www.lafargeholcim.com/our-strategy). "*Board of Directors*. The Board is comprised of eleven Board members, all of who are independent according to the Swiss Code of Best Practice for Corporate Governance and the criteria laid out by the DJSI. Furthermore, the company has set a policy that the majority of Directors on the Board shall be independent. Board members are expected to attend all regular meetings. With regard to Board composition, the Nomination, Compensation and Governance Committee considers diversity (including but not limited to: origin, domicile, gender, age and professional background) as well as such other factors necessary to address current and anticipated needs of the Company" (LafargeHolcim, 2019, https://www.lafargeholcim.com/board-directors).

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[197] LafargeHolcim (2019) *Committees*. Available from: https://www.lafargeholcim.com/committees

9.3.1.4 'Royal Bank of Canada' (*RBC*)

A typical example of a global organization with a board that is made up of good-to-great leaders with exemplary leadership qualities is the 'Royal Bank of Canada' (*RBC*). [198]The current Chair of the Board of RBC is Ms. Kathleen Taylor and the current President & CEO of RBC is Mr. David McKay (*Member of the Board*). The other board of directors of the 'Royal Bank of Canada' (*RBC*) include: Mr. Andrew A. Chisholm, Ms. Jacynthe Côté, Mr. Toos N. Daruvala, Mr. David. F. Denison, Mr. Frank M. Vettese, Ms. Alice D. Laberge, Mr. Michael H. McCain, Ms. Heather Munroe-Blum, Ms. Bridget A. van Kralingen, Mr. Thierry Vandal, Mr. Frank. M. Vettese and Mr. Jeffery W. Yabuki (Royal Bank of Canada, 2019, http://www.rbc.com/governance/directors.html). [199]"*Corporate Governance*: The strengths of our governance start at the top, with an independent chairman leading a board composed of independent, well-informed directors, who give priority to strategic planning, ensure that standards exist to promote ethical behaviour throughout the organization, and seek continuous improvement in governance practices. These strengths are fostered throughout the organization by a proactive governance culture that has consistently adopted industry-leading standards. Royal Bank of Canada was constituted in 1869 under a private act of Canada and is governed by the *Bank Act*, S.C. 1991, C. 46." (Royal Bank of Canada, 2019, http://www.rbc.com/governance/index.html). [200]"*Quick Facts*. Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC.

• We are one of Canada's biggest banks, and among the largest in the world based on market capitalization.

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[198] Royal Bank of Canada (2019) Corporate *Governance: Board of Directors*. Available from: http://www.rbc.com/governance/directors.html *Reproduced with permission of Royal Bank of Canada.*

[199] Royal Bank of Canada (2019) *Governance*. Available from: http://www.rbc.com/governance/index.html *Reproduced with permission of Royal Bank of Canada.*

[200] Royal Bank of Canada (2019) *Quick Facts*. Available from: https://www.rbc.com/our-company/index.html *Reproduced with permission of Royal Bank of Canada.*

• We have 86,000+ full- and part-time employees who serve 16 million clients in Canada, the U.S. and 34 other countries.

• We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis" (Royal Bank of Canada, 2019, https://www.rbc.com/our-company/index.html). *Reproduced with permission of Royal Bank of Canada.* The various examples of non-profit making organizations will be covered in the following section.

9.3.2 Examples of non-profit making organizations with outstanding board members

Responsibility, accountability, strong governance and integrity are some of the qualities associated with all boards in general. A non-profit making organization's main purpose is not to make profit from the people it aims to serve with its products/services. There are many reputable and powerful non-profit making organizations around the world that are significantly contributing to the upliftment of societal development in the economic sectors they serve or operate as a result of their effective leadership team and boards. Some of the non-profit making organizations that have a global development impact are depicted in Figure 9.2 below.

Figure 9.2 Six examples of non-profit making organizations with outstanding boards

Source: Modified: (Australian HR Institute, 2018, www.ahri.com.au/; Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/; Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/; National Association of Corporate Directors, 2018, www.nacdonline.org; Institute of Directors, 2018, www.iod.com/; Governance Professionals of Canada, 2013, https://gpcanada.org/).

9.3.2.1 Australian Human Resources Institute (AHRI)

"The Australian HR Institute (AHRI) is the national association representing human resource and people management professionals. We have around 20,000 members from Australia and across the globe. AHRI sets the professional standard for HR in Australia through HR certification; provides formal education and training services in HR, people management and business skills; produces world-class conferences; and holds seminars and networking opportunities all over Australia – including our biggest annual event – the AHRI National Convention. Each year, AHRI commends excellence in HR practice across Australia through the highly regarded AHRI Awards. AHRI is owned by its members and governed by a Board of Directors with a Council of State Presidents that comprises an elected president representing each state and territory of Australia"[201] (Australian HR Institute, 2018, www.ahri.com.au/). The current National President and Chairman of the Australian HR Institute Limited is Peter Wilson while the Chief Executive Officer of the Australian HR Institute since December 2012 is Lyn Goodear. Lyn Goodear champions the standards of HR practice in Australia and is responsible for leading change that builds organisation capability for the future workforce in areas such as productivity and sustainability, as well as cultivating workplace cultures that are inclusive, diverse and ethical. Some of the board of directors of the Australian HR Institute Limited include: (1) Carmel McGregor who is currently an Adjunct Professor and a private consultant. McGregor was awarded the Public Service Medal in 2012 for her contribution to public sector reform, (2) Jon Scriven who retired from Qantas in December 2017 having joined Qantas in April 2009 as Group Executive People, (3) Caroline McGuire who is a commercially focused, strategic and passionate senior human resources professional with over 20 years of experience across a range of industries. Caroline is also the President of the Queensland State Council of AHRI, and sits on the Board of Management Re-think Re-engage Australia (Australian HR Institute, 2018, www.ahri.com.au/). [202]According to Australian HR Institute (2018) *Board of Directors*. AHRI is governed by a Board of Directors, which is vested with the overall responsibility of governance

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[201] Australian HR Institute (2018) *About Us*. Available from: https://www.ahri.com.au/about-us

[202] Australian HR Institute (2018) *Board of Directors*. Available from: https://www.ahri.com.au/about-us/the-organisation-structure/board-of-directors

of AHRI Limited and executes this responsibility independently, in the best interests of the company.

The *key functions of the Board* are to:

• Set strategies, goals and objectives in conjunction with management, as part of an institutionalised strategic planning process

• Appoint the CEO, approve appointment of the National President; and manage their performance
• Approve operational and capital budgets; and, monitor organisational performance
• Ensure existence of and approve an appropriate framework of operations, risk and compliance policies; and, exercise related controls
• Network on behalf of the organisation to assist in achieving organisational goals
• Communicate with stakeholders, particularly with members, as necessary (Australian HR Institute, 2018, www.ahri.com.au/).

9.3.2.2 The Institute of Directors in New Zealand

"The Institute of Directors in New Zealand connects, equips and inspires its more than 9,000 members, to add value across New Zealand business and society. Through thought leadership, our extensive network, professional governance courses, events and resources. The IoD in New Zealand began over 40 years ago as a division of the Institute of Directors in the UK. In 1989 the Institute of Directors in New Zealand (Inc) adopted its own constitution and became a separate legal entity" (Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/About-us). "The Institute of Directors is governed by a national council. In March of each year, branch committees elect members to represent them on the national council. The council elects the president and vice president annually. The Institute of Directors in New Zealand Limited (IoD Ltd) is the commercial arm of the IoD. Its purpose is to ensure our training and services are relevant to the ongoing needs of members and the governance community and perform robustly commercially. IoD Ltd has a separate board structure" (Institute of Directors in New Zealand, 2018, https://www.iod.org.nz/About-us/Council). The 2019 – 2020 current President of the Institute of Directors in New Zealand is Alan Isaac and the Vice President is Julia Hoare. Some

of the members of the IoD Council include: (1) Dr Helen Anderson, (2) Bryan Graham, (3) Jackie LIoyd, (4) Simon Lockwood, (5) Vincent Pooch, (6) Trish Oakley, (7) Clayton Wakefield and (8) Sarah-Jane Weir[203] (Institute of Directors in New Zealand, 2019, https://www.iod.org.nz/About-us/Council).

9.3.2.3 The Human Resources Institute of New Zealand (*HRINZ*)

According to the Human Resources Institute of New Zealand (2018) The Human Resources Institute of New Zealand (HRINZ) is the professional organisation for those who are interested in or involved in Human Resource Management and development of people. We represent the interests of 3000+ individual members, who represent around 45% of the known New Zealand HR market. HRINZ members include those working in private and public sector organisations, as well as students and academics[204] (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). "HRINZ is governed by a Board of up to eight elected Directors. These Directors serve for an initial three year term and can be re-elected once. There is a succession plan for elected Directors which means new people join and exit the Board each year"[205] (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). The current 2018 National President is Julia Stones while the national Vice President is Matt Carter and the National Chair Diane Edwards[206] (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). "The Human Resources Institute of New Zealand (HRINZ) was born on 1 April 1999 as a result of the rebranding of the Institute of Personnel Management (New Zealand). The parent body, IPMNZ, was established in 1985, as a result of a move away from the New Zealand Institute of Management. Previously the two bodies operated under the one broad umbrella" (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/). According to the Human Resources Institute of New Zealand (HRINZ) (2018) Role of National Board. The *objectives of the Institute* are to:

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[203] Institute of Directors in New Zealand (2019) *Council*. Available from: https://www.iod.org.nz/About-us/Council

[204] Human Resources Institute of New Zealand (HRINZ) (2018) *About HRINZ*. Available from: https://www.hrinz.org.nz/Site/About/

[205] Human Resources Institute of New Zealand (2018) *HRINZ Board*. Available from: https://www.hrinz.org.nz/Site/About/Committees/national_board.aspx

[206] Human Resources Institute of New Zealand (2018) *National Board*. Available from; https://www.hrinz.org.nz/Site/About/Committees/national_board.aspx

• encourage, and support the development of professional knowledge and competence and high standards of performance among its members;

• promote understanding of all aspects of human resources management and development and its contribution to the performance of individuals and organisations; and

• provide an authoritative and influential viewpoint on all matters affecting its members and the management and development of human resources.

This it achieves specifically by:

• establishing, maintaining and auditing high standards of professionalism for those who are admitted as certificate members of the Institute;

• ensuring members can access Institute initiated up-to-date, timely and relevant: information, development opportunities and networks[207] (Human Resources Institute of New Zealand, 2018, www.hrinz.org.nz/).

9.3.2.4 National Association of Corporate Directors (*NACD*)

A typical good example of a non-profit making organization that has effective board members with strong leadership qualities is the Virginia, United States of America-based 'The National Association of Corporate Directors (NACD)'[208]. "The National Association of Corporate Directors (NACD) empowers more than 19,000 directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards to strengthen investor trust and public confidence by ensuring that today's directors are well prepared for tomorrow's challenges" (National Association of Corporate Directors, 2018, www.nacdonline.org). The current Chairperson of the National Association of Corporate Directors (NACD) Board of Directors is Karen Horn while the current Vice Chairperson is William McCracken and the current CEO is Peter Gleason. Some of the board of directors of the board include: Sue Cole; the Honorable Cari M. Dominguez; Nicholas Donofrio; Brenda Gaines;

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[207] Human Resources Institute of New Zealand (HRINZ) (2018) *About HRINZ*. Available from:
https://www.hrinz.org.nz/Site/About/

[208] National Association of Corporate Directors (NACD) (2018) *About*. Available from:
https://www.nacdonline.org/about/press_detail.cfm?itemnumber=62216

Raymond Gilmartin and M. Christian Mitchell[209] (National Association of Corporate Directors, 2018, www.nacdonline.org). According to the National Association of Corporate Directors (2018) expectations of corporate directors have increased significantly in recent years and will continue to evolve as state and federal legislatures and regulators focus more attention on the governance of the nonprofit sector. This enhanced focus has brought increased scrutiny of individual director qualifications, executive compensation, leadership structures and the board's ability to assess risk. The National Association of Corporate Directors (NACD) has had an active board for many years, and in 1998 it adopted its initial board governance guidelines. As a leader in providing advice on corporate governance to directors, boards and management, NACD's goal is to serve as a model of good corporate governance[210] (National Association of Corporate Directors, 2018, www.nacdonline.org).

9.3.2.5 Institute of Directors (*IoD*)

One of the leading nonprofit making institutes that has good-to-great business leaders as board members is 'The Institute of Directors' (IoD) which is based in the United Kingdom. "The Institute of Directors (IoD) was founded in 1903 and within three years we were awarded a Royal Charter to support, represent and set standards for business leaders nationwide. We remain deeply proud of our Royal Charter and it stays at the forefront of everything we do as an organisation"[211] (Institute of Directors, 2018, www.iod.com/). "The board is responsible for the overall leadership of the Institute and setting its values, standard, aims and objectives and delivering them in line with the Charter Objects. The board is composed of the chair of the institute, a majority of non-executive directors, and the director general and executive directors"[212] (Institute of Directors, 2018, www.iod.com). [213]The current Chair of the Institute of Directors is Charlotte Valeur who was appointed Chair of the Institute in September 2018. As

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[209] National Association of Corporate Directors (2018) *Board of Directors*. Available from:
https://www.nacdonline.org/about/directors.cfm

[210] National Association of Corporate Directors (NACD) (2018) *Corporate Governance*. Available from: Available from: https://www.nacdonline.org/about/content.cfm?itemnumber=49125

[211] Institute of Directors (2018) *About*. Available from: https://www.iod.com/about

[212] Institute of Directors (2018) *Our Governance*. Available from: https://www.iod.com/about/our-governance

[213] Institute of Directors (2018) *Board Members*. Available from: https://www.iod.com/about/our-governance/board-members

Chair, Charlotte is responsible for championing the IoD's values, promoting its Objects and providing leadership to the Institute, ensuring it delivers maximum impact for its members and stakeholders. Some of the non-executive board of directors of the Institute of Directors include: (1) Deborah Davis who is a Fellow of the Institute of Directors, (2) Suzy Walton who was appointed on the Board of the IoD in December 2013. She is the Chairman of the Accreditation and Standards Committee of the IoD, (3) Stephen Martin who is the current Director General (Executive Director). "He believes his mission at the IoD is to make sure the Institute develops, supports and represents directors not just to ensure the success of the companies they lead, but to the benefit of the economy and country as a whole. Before joining the IoD in 2017 he worked for a series of construction and engineering firms"[214] (Institute of Directors, 2018, www.iod.com), (4) Louise Gulliver (Executive Director) is the current Managing Director Professional Development and Membership. As Managing Director for Professional Development and Membership at the IoD, Louise is responsible for the IoD's board-level training programmes with courses ranging from leadership and governance, to strategy and finance, (5) Jim Jordan is the current Finance Director (Executive Director) at the IoD. Jim was appointed to the Board in March 2017 (Institute of Directors, 2018, www.iod.com).

9.3.2.6 Governance Professionals of Canada (*GPC Canada*)

A typical good example of a non-profit making organization that has excellent leadership as a result of its staff and board of directors is 'The Governance Professionals of Canada' (*GPC Canada*). "The Governance Professionals of Canada (GPC) was created in 1994,... GPC's mandate is to be the voice of governance professionals in Canada. Its members deal with all matters affecting corporate governance, from board and committee processes, management and structure, disclosure, stakeholder engagement, legal and corporate compliance, as well as issues crucial to boards, their accountability and oversight. As such, GPC strives to provide valuable and timely information on recent changes and developments which affect our members – in all industries and sectors (listed, private, public, crown, not for profit, etc)"[215] (Governance

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[214] Institute of Directors (2018) *Board Members*. Available from: https://www.iod.com/about/our-governance/board-members

[215] Governance Professionals of Canada (2018) *Welcome to GPC*. Available from: https://www.gpcanada.org

Professionals of Canada, 2018, https://www.gpcanada.org). [216]The current President of GPC Canada is Lynn Beauregard. According to the Governance Professionals of Canada (2018) the board of directors of the Governance Professionals of Canada (Board) has the oversight responsibilities and duties described below. An individual director (Director) has the responsibility and specific duties prescribed in the GPC Director Mandate. *Composition:* The Board will be comprised of between five (5) and fifteen (15) Directors, as annually determined by the Board. The Board will use its best efforts to find at least one suitable nominee from each of the four major membership locations: British Columbia, Alberta, Ontario and Quebec. The Board will use its best efforts to ensure that the Board is comprised of Directors who collectively have the skills and abilities necessary to fulfill the duties of the Board and can ensure the Board is capable of meeting its responsibilities to the GPC membership and other stakeholders. Except as may be provided for in the by-laws, Directors will be elected at the annual meeting of members each year and will serve until their successors are duly appointed or elected. *Responsibility and Accountability.* The Board is responsible for:

I. the stewardship of the GPC, providing effective leadership to the management of the business and affairs of GPC

II. to provide its membership with access to education, knowledge, tools and opportunities to develop the skills and expertise in their roles as corporate secretaries and/or in the practice of corporate governance principles required under the guidelines and legislation in Canada. The Board is accountable to the membership of the GPC (Governance Professionals of Canada, 2013, https://gpcanada.org/page-130270). The conclusion of this chapter is discussed in the next section.

9.4 Conclusion

Effective business leaders make an effort to inspire people and they do everything they can to avoid manipulating people. The world has numerous remarkable business leaders with good business leadership qualities. The ability to listen is often one of the characteristics of a good

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[216] Governance Professionals of Canada (2013) *GPC Board Mandate*. Available from: https://gpcanada.org/page-130270

leader especially to their employees' suggestions or grievances and they also tirelessly make an effort to solve some of their employees' grievances on time in order to maintain their morale and support. Boards that inspire the people they lead are more likely to earn their respect, loyalty and their unquestionable support in the organization. The two types of organizations that exist in the business world today include: profit-making and nonprofit making organizations. In conclusion nowadays board of directors reinforce the organization's values, mission and vision amongst the people they lead in the organization so that they are willing to commit to be part of the future of the organization whilst simultaneously helping it to achieve its long term goals.

9.5 Review questions

1) Define the following terms: (1) Profit-making organization, (2) Non-profit making organization, (3) Exemplary?

2) Discuss why it is important to give examples of some of the few leading boards found in organizations located across the world?

3) Describe the boards of at least three profit making global organizations of your choice?

4) Identify at least six nonprofit making organizations in the world of your choice and their leadership structures? Explain why you think these nonprofit organizations are outstanding in the world?

5) Explain why you think the boards in the examples of profit-making organizations you provided above are outstanding?

Chapter 10: Evaluating the performance of a board in an organization

After reading this chapter you should be able to:

- Define the terms 'performance', 'evaluation' and 'assessment'.
- Explain the advantages of board evaluations to an organization.
- Identify the important questions the board should first answer and understand before conducting board evaluations.
- Describe the board assessment process.
- Describe what an organization can ask its board of directors during a performance self-evaluation process?

10.1 Introduction

In general performance management is the process that helps to boost the board of directors' morale so that they increase their focus towards attaining the organization's set strategic objectives and goals. Employee performance is critical in any organization and one of the simplest ways of ensuring that it is maintained is through implementing performance management. "A board of director's success mirrors its ability to administer governance. However, board members may not always have the resources to monitor current economic trends and understand their impact on an organization. It is essential that directors gather information on useful strategies and relevant issues to help pose informed questions at board meetings, supply in-depth analysis and share feedback. For a corporation to successfully ensure its board of directors has the capacity and skills to provide strategic guidance, regular board evaluation is essential. An effective *board committee* can help by ensuring that the board of directors meets all of its professional expectations, including maintaining a relationship with the responsible Minister and ensuring successful board compliance"[217] (Governance Professionals of Canada, 2018, https://gpcanada.org/board-effectiveness). The meaning of the term performance and evaluation will be discussed in detail in the following section.

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[217] Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: https://gpcanada.org/board-effectiveness

10.2 Definition of the terms 'performance', 'evaluation' and 'assessment'

The word '*performance*' in the field of human resources management refers to the level that an individual or group of employees can attain job standards[218] (Hunter, 2002:137). "Performance can apply to the way the job is done that is the work process and or the outputs" (Hunter, 2002:137). On the other hand the term 'evaluate' can be interchangeably be used to refer to the word 'assess' since they both share the same meaning. The terms '*evaluation and assessment*' refer to the measuring of something to check if it is performing as expected or below expectations. In addition, the term '*evaluation and or assessment*' is whereby something is measured to check if it is performing in a normal or abnormal way. The importance of board evaluations in an organization will be discussed in the following section.

10.3 Advantages of board evaluations

There are many advantages of board evaluations or assessments and these include the following:

• They help to ensure that the board of directors are accomplishing the organization's set goals and objectives while simultaneously aligning these goals to the organization's vision and mission statement,

• Board evaluations help to highlight the directors' areas of weaknesses to determine their training needs and be able to successfully set accurate training objectives,

• The fundamental goal of board evaluations is to promote and improve director effectiveness,

• They help to ensure that the organization is consistently provided with clear and detailed useful feedback that identifies the areas of weaknesses of the board in general and some of the policies currently being implemented by the organization,

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[218] Hunter, C. (2002) *Managing People in South Africa: a Systematic Approach to Human Resources Management*. Pietermaritzburg: Bytes Document Solutions.

• They help to provide each board of director with an opportunity to clearly express their inner feelings, thoughts and personal view points of what they believe is the solution to the current challenges being faced by the board and the organization,

• They help the organization to identify poor performing and highly competent board of directors since such information is useful when making employment contract termination decisions,

• They help to provide the organization with information to use in assessing its board of directors' recruitment, training & development processes are effective or not.

• They help to provide feedback on whether the current board compensation packages are highly competitive and effective to motivate the directors and commit to the organization,

• They help to create a clear line of communication between the board of directors and the organization about the board's fiduciary duties and accountabilities. Information about a board assessment process will be discussed in the following section.

10.4 The board assessment process

"The Assessment process. The nature of the assessment process for boards of directors varies widely - organizations should choose the methodology that best suits their operation. Regardless, the Chairman should choose the process with the support of the board of directors. Best practices for board committees suggest that the board compliance process should have four elements.

1). The participation of all individual directors to ensure a shared understanding and acceptance of the benefits of the board evaluation.
2). A well thought-out, systematic process to establish an effective board evaluation timeline.
3). Carefully selected board evaluation instruments to ensure that the resulting information is valid, efficient and accurate.
4). A thorough follow-up to confirm that areas of concern have been addressed, and board evaluation information has reached the right people"[219] (Governance Professionals of Canada,

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[219] Governance Professionals of Canada (2018) *Board Effectiveness*. Available from: https://gpcanada.org/board-effectiveness

2018, https://gpcanada.org/board-effectiveness). Questions that the board must first answer before conducting the board evaluation will be discussed in the following section.

10.5 Strategy related questions a board must ask itself

In the world of business the strategic thinking activity is at times wrongly perceived to be an activity that solely lies with the CEO and senior management in the organization thus board of directors need to place less emphasis on the task of 'strategic thinking' at the workplace when carrying-out their fiduciary duties (Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD - International Institute for Management Development, www.imd.org). "There is a widespread belief that strategic thinking is for CEOs and senior managers. As a result, some boards are just a rubber stamp for the CEO, while more strategically assertive ones find themselves at odds with the executive team. Neither approach is helpful"[220] (Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD - International Institute for Management Development, www.imd.org). Some of the strategy related questions board of directors in an organization must often ask themselves include:

10.5.1 Why is it important to define strategy as a board and conduct strategic planning? The answer to the above question is that strategy specifically prioritizes the organization's long-term goals while clearly determining where it wants to be, what it stands for and the main reason it is in business today (*vision, mission and purpose*). The fiduciary duty of every board is to manage the short and long term interests of shareholders and other stakeholders thus this can only be easily accomplished via having a clear understanding of strategy by the board and performing effective strategic planning (Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD - International Institute for Management Development, www.imd.org).

10.5.2 How does strategy redefine an organization's competitive advantage? (Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD - International Institute for Management Development, www.imd.org). The first advantage of strategic thinking by board

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[220] Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD -International Institute for Management Development, www.imd.org

of directors is that it helps them to quickly solve the organization's current challenges and be able to successfully identify business opportunities the organization must take advantage of in order to boost sales revenue in the long term. In addition strategic thinking enables the board to clearly establish the organization's core competencies that are sustainable and difficult for competitor's to imitate. When strategy is redefined by the board it helps the organization to innovate its product/service-offering to its customers in a manner that adds unquestionable customer benefit for instance by implementing transformative innovation which leads to the development of new businesses.

10.5.3 How can strategy add value to the organization's shareholders and stakeholders?[221] (Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD - International Institute for Management Development, www.imd.org). When the board and the CEO decide to shift the focus of a business for instance from being a customer oriented business to a technology, customer and production/service-orientated business it is often the end result of a properly conducted redefinition of strategy with the main aim of adding value to the organization's shareholders, stakeholders and its market value. The process that is used to evaluate a board of director's performance in an organization will be discussed in the following section.

10.6 Aspects covered in a board of director self-evaluation process

One of the most critical duties of any board is to assess the performance of its board members. There are many tools that have been developed by organizations, business management gurus, academics and industrial psychologists to use in evaluating the performance of a board. The various tools that are available today for organizations to use in evaluating a board's performance will be covered in the following section.

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[221] Source: Cossin and Métayer, 2019, "3 strategic questions your board must ask", IMD -International Institute for Management Development, www.imd.org

10.6.1 What to ask in a Board of Directors Self-Evaluation questionnaire

There are numerous questions that can be used to gather the right feedback and information about the current perceptions, attitude and performance of a board. [222]A good example is that of a list of questions that are used during the self evaluation of board of directors published on the Switzerland based International Centre for Corporate Governance which are depicted in Table 1.6 below (International Centre for Corporate Governance, 2018, https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf). *The meaning of the abbreviations (1) 'BoD' refers to board of director, (2) while 'EM' refers to executive management.*

Table 10.1 Typical questions used in a Board of Directors Self-Evaluation Questionnaire

Board of Directors Self-Evaluation Questionnaire, as of 2010	
1.0 "Composition and Remuneration of the BoD	**2.0 "Task performance by the BoD**
1.1 Is the current number of board members appropriate?	*2.1 What is your assessment of your ability to make time commitment to fulfill BoD duties?*
1.2 Is the current composition of the board, with regard to the necessary expertise, appropriate?	*2.2 What is your assessment of BoD commitment in setting of corporate strategy?*
1.3 Do members of the board work constructively in a team?	*2.3 How would you rate the appropriateness of the company's strategy in relation to the current economic situation?*
1.4 How do you assess the succession planning of the BoD?	*2.4 What is your assessment of the liquidity and financial planning at the BoD level?*
1.5 Is the financial compensation you have received in the previous year appropriate?	*2.5 How do you rate the quality and scope of monthly reporting to the BoD?*
	2.6 What is your assessment of your own knowledge

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[222] International Centre for Corporate Governance (2018) *Board of Directors Self-Evaluation Questionnaire, as of 2010*. Available from: https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf

	about the company's core business? *2.7 What is your assessment of the ways in which tasks are allocated within the board?*
3.0 Cooperation with Executive Management *3.1 How do you evaluate the current design of the management organization against the organizational chart?* *3.2 What is your assessment of the current composition of the EM in terms of functional performance?* *3.3 What is your assessment of cooperation between the BoD and EM with regards to exchange of information?* *3.4 What is your assessment of the objectives set by the BoD for the EM against last financial year?* *3.5 What is your assessment of the BoD's knowledge about employment contracts of the members of the EM?*	**4.0 Management of Meetings** *4.1 What is your assessment of the board meetings taking into consideration the company's situation?* *4.2 What is your assessment of documentation provided for your preparation for the meeting?* *4.3 What is your assessment of the BoD members' level of preparation for the meeting?* *4.4 What is your assessment of the chairman's management of BoD meetings?* *4.5 What is your assessment of how board members handle conflicts of interest?* *4.6 What is your assessment of the decision making by the board?* *4.7 What is your assessment of the quality of the minutes of the BoD meetings?*
5.0 Critical Success Factors *5.1 What is your assessment of the BoD knowledge of the opportunities and risks of the company?* *5.2 What is your assessment of BoD knowledge with regards to strengths and weaknesses of the company?* *5.3 What is your assessment of the board's contributions*	**6.0 Relationship with stakeholders** *6.1 What is your assessment of the considerations given to customers' interests?* *6.2 What is your assessment of the considerations given to interests of shareholders?* *6.3 What is your assessment of considerations given to*

towards the success of the company in the past fiscal year? *5.4 What is your assessment of the board's commitment to address current challenges?"* (International Centre for Corporate Governance, 2018).	*interests of employees?* *6.4 How do you assess the company's relationship with banks?"*[223] (International Centre for Corporate Governance, 2018).

Source: Modified: (International Centre for Corporate Governance, 2018, https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf)

The conclusion of this chapter will be covered in the next section.

10.7 Conclusion

Board of directors' performance is critical in any organization and one of the simplest ways of ensuring that it is maintained is through implementing performance management. When a board is managed effectively it is able to achieve its set goals and objectives. Thus continuous board evaluations help to administer the governance of boards and this helps to ensure that the board has long term credibility. One of the advantages of board evaluations or assessments is that it helps to ensure that the board of directors' are accomplishing the organization's set goals and objectives while simultaneously aligning these goals to the organization's vision and mission statement. It can be concluded that the main aim of board evaluations must first be understood by all parties concerned, including the key areas that will be evaluated and the method of evaluation that will be used so that transparency is maintained.

10.8 Review question

(1) Define the terms 'performance', 'evaluation' and 'assessment'?

(2) Discuss the advantages of board evaluations to an organization?

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[223] International Centre for Corporate Governance (2018) *Board of Directors Self-Evaluation Questionnaire, as of 2010*. Available from: https://www.icfcg.org/best-practice/49-bod-selfevaluation.pdf

(3) Describe the important questions the board should first answer and understand before conducting board evaluations?

(4) Discuss in-depth the board assessment process?

(5) Describe what an organization can ask its board of directors during a performance self-evaluation process?

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