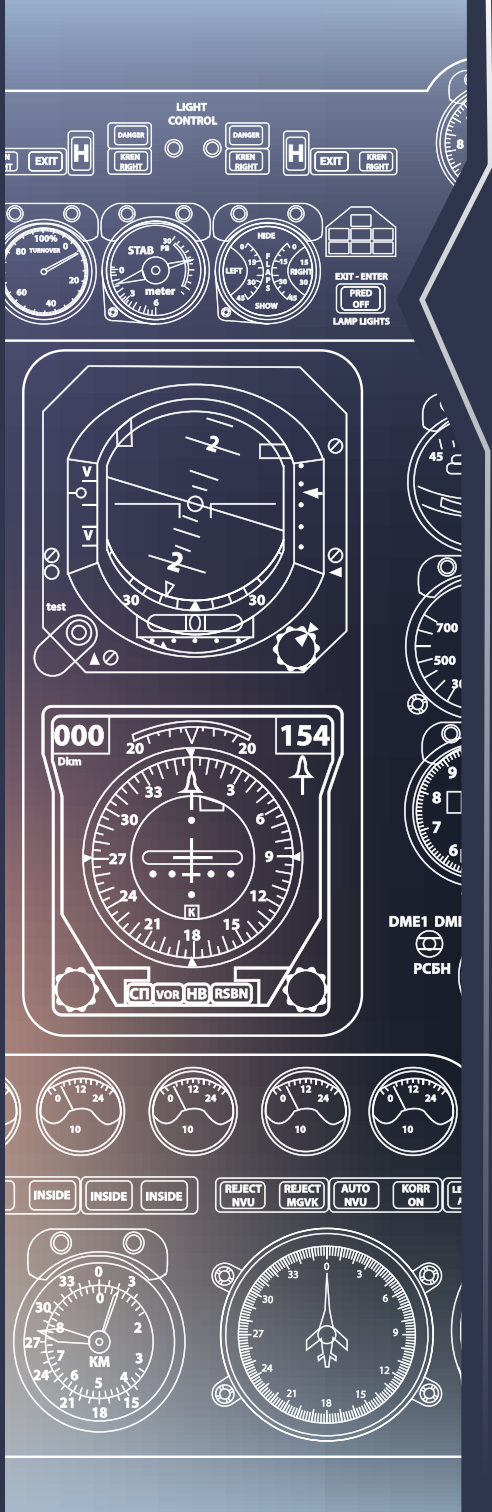

Responsible board leadership in a digital age

Edited by

Daniel Malan

International Board Foundation

RESPONSIBLE BOARD LEADERSHIP IN A DIGITAL AGE

International Board Foundation, St Gallen

Daniel Malan
Editor

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E-mail: info@boardfoundation.org
Phone: +41 71 224 21 99

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ABOUT THE EDITOR

Dr Daniel Malan is an assistant professor in business ethics at Trinity College Dublin. Formerly, he was an associate professor in ethics and governance and director of the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School in South Africa. He is the regional partner for Africa at the International Center for Corporate Governance in St Gallen, Switzerland. His focus areas are corporate governance, business ethics, and corporate responsibility. He is a member of the World Economic Forum's Global Future Council on Transparency and Anti-Corruption and a co-chair of the B20 task force on Integrity and Compliance.

ABOUT THE AUTHORS

Dr. Maclyn Clouse is the Sorensen distinguished professor of finance in the Reiman School of Finance at the Daniels College of Business at the University of Denver. His areas of teaching are corporate finance, investment banking, and microfinance. His publication topics include corporate governance, forensic accounting, corporate finance, and business ethics, and he has developed and presented many customized financial management seminars for corporations. Over three different periods, he served as the Finance Department Chair and the Reiman School of Finance Director for 25 years.

Prof Dr. Marjo-Riitta Diehl is a professor of organizational behavior and Human Resources Management in the Management and Economics Department at EBS Business School in Germany. She received her Ph.D. from the London School of Economics and Political Science with research interests including organizational justice, exchange theory, diversity, and digitalization. Marjo-Riitta's work has appeared in various national and international publications, including the *Journal of Management, Human Relations*, and the *Journal of Managerial Psychology*. She currently serves on the review boards of the *Journal of Organizational Behavior* and the *International Journal of Human Resource Management.*

Prof Tom Donaldson is the Mark O. Winkelman professor of legal studies and business ethics at the Wharton School, University of Pennsylvania. He has consulted and lectured to many organizations, including the Business Roundtable, Goldman Sachs, Walt Disney, the United Nations, Microsoft,

The Tata Group, Exelon, Motorola, AT&T, JP Morgan, Johnson & Johnson, KPMG, Los Alamos National Laboratory, ConocoPhillips, Shell, IBM, Western Mining-Australia, Pfizer, the AMA, the IMF, Bankers Trust, and the World Bank. He served as an appointed member of the National Adjudicatory Council of the Financial Industry Regulatory Authority (FINRA, formerly the NASD) between 2004 and 2009. He was named the most influential thought leader in *Ethisphere* magazine's 2007 ranking of the 100 most influential people in business ethics. In 2009, he won the Aspen Institute's Pioneer Award for Lifetime Achievement. He has written extensively in the areas of business ethics, values, and leadership with his most prominent work: *Ethical Issues in Business.*

Dr. Colina Frisch is the academic director of the Swiss Board School and the managing director of the IWE-HSG Competence Center for Responsible Leadership at the University of St. Gallen. Her work in research, teaching, consulting, and coaching focuses on tackling the challenges of board- and C-level responsible leadership in an ever more complex and digitalized environment. She is the co-founder of the Circle for Responsible Leadership and serves as a member of the board of trustees of the SHG Foundation. In 2013, she received the SBE Society for Business Ethics Founders Award; and in 2015, *Women in Business* magazine selected her as one of the "40 under 40 – 40 women under the age of 40 who move Switzerland".

Prof Bob Garratt is a 'pracademic' – a businessman and director who has always kept one foot in academia to ensure that he keeps his clients, and himself, honest. He has consulted at the highest levels in some 40 countries and been chairman of consultancies in Hong Kong, Singapore, and London. Bob has worked with the International Monetary Fund in Washington DC, the Saudi Arabian Monetary Authority, and has testified to the UK Treasury Select Committee on the restructuring of the corporate governance of the Bank of England. He was on the faculties of The Judge Institute of Management of the University of Cambridge and the Imperial College in London. He is a professor extraordinaire at the University of Stellenbosch and chairs its Centre for Corporate Governance in Africa, and he is a visiting professor at the Cass Business School of London University. He was an external examiner for the chartered director examinations at the Institute of Directors, London, and is a past master of the Worshipful

Company of Management Consultants. His public awards include the 2015 Outstanding Achievement prize from the Global Forum for Leadership, Organisational Development and Business-driven Action Learning.

Prof. Hugh Grove is an emeritus professor at the Daniels College of Business at the University of Denver, with more than 150 publications in academic and practitioner journals and more than 100 presentations at various international and U.S. conferences. He is and has been a co-chair of the European Institute of Advanced Studies in Management's Corporate Governance Workshop for all 16 years of its existence. He is an associate editor of the *Journal of Forensic and Investigative Accounting* and serves as a reviewer for various journals.

Prof Dr. Andreas Hesse is a professor of business administration and marketing in the Business Faculty of Koblenz University of Applied Sciences in Germany. He received his doctoral degree from EBS Business School in Oestrich-Winkel, Germany, with research interests including digital leadership, cross-sector collaboration, green marketing, and digital commerce. Andreas has published in the *Journal of Business Ethics* and presented his research at various international research conferences. Before his academic career, he worked in executive marketing, sales, and customer service positions in Deutsche Telekom for more than 15 years.

Prof Dr. Martin Hilb is the chairman of the Board Foundation and managing partner of the International Center for Corporate Governance, St Gallen, Switzerland. He is also president of the Swiss Institute of Directors and Member of the executive committee of the Global Network of Director Institutes. In 2010 he received the International Academy of Quality's Gold Medal Award in Corporate Governance for exceptional contributions to the principles and practices of quality in governance.

Prof Laura Schaffner has 15 years of experience in information security management. Her Ph.D. thesis focused on the interrelationship between ISS and business strategy. As a Ph.D. candidate, she was a visiting research student at LSE in London. Graduating with high distinction, she worked for eight years as a management consultant. From 2015 to 2017, she headed the Norwegian Information Security Laboratory, one of the largest European research laboratories in security, with over 50 full-time staff

members. Since 2017, she is an associate professor in Information Systems at the Ecole de Management Strasbourg, University of Strasbourg.

Julie Streicher is a South African-based editor and freelance journalist.

Ronell van Rensburg has extensive experience as a company secretary in the listed and unlisted private sector in South Africa, including financial services, technology, education, banking, retail, and manufacturing industries. She holds a Master's degree in Coaching from the University of Stellenbosch Business School, South Africa.

Prof Jim Walsh is the Arthur F. Thurnau professor and the Gerald and Esther Carey Professor of Business Administration at the University of Michigan's Ross School of Business. His research interests lie in the area of corporate governance. Initially doing work framed by the neoclassical model of the firm, he has since expanded his conception of governance to more broadly consider the purposes, accountability, and control of the firm in society. At the moment, he is working to develop a theory of business. Jim was a founding co-editor of the *Academy of Management Annals,* a senior editor and associate editor-in-chief for *Organization Science*, a consulting editor for the *Academy of Management Review,* and an associate editor for the *Strategic Management Journal*. A recipient of the Academy of Management's Distinguished Service Award. He has served both as the dean of its Fellows Group and as its 65th president.

1
INTRODUCTION

This publication explores responsible board leadership in a digital age, the topic of the year for 2018 of the International Center for Corporate Governance (ICfCG). The project kicked off at the 2017 Research Workshop on Corporate Governance of the European Institute of Advanced Studies in Management (EIASM). Here three eminent scholars and practitioners in the field – Tom Donaldson (Wharton School, University of Pennsylvania), Bob Garratt (University of Stellenbosch Business School and Cass Business School), and Lee Howell (World Economic Forum) explored the topic in a lively panel discussion. A summary of the panel discussion is included as the final chapter of this publication.

The modern business environment is both complicated and complex, with the Fourth Industrial Revolution adding new challenges by blurring the lines between the physical, biological, and digital worlds. Now, with an increasing rate of change due to rapidly developing technology, and accompanied by new ethical dilemmas associated with this new context, boards of directors are often ill-prepared to manage the so-called director's dilemma – to lead their enterprise into the future while still keeping it under prudent control.

This book brings together the views of established and emerging scholars in the field. The first four contributions focus on the broader concepts of responsible board leadership, board maturity, and the value of business. In the final part, the focus shifts to the impact of the digital age on governance, leadership, and communication.

Colina Frisch uses the image of the responsible board leadership cockpit to illustrate how a responsible board leader should pursue a multidimensional set of goals using a broad set of board leadership tools in the areas of strategy, implementation, control, and responsibility. In a summary of their seminal article published in *Research in Organizational Behavior*[1], **Tom Donaldson** and **Jim Walsh** explore the purpose of business and propose a set of formal definitions for the concepts of value, dignity, and business success. They define the purpose of business as the optimization of collective value and introduce an initial framework for a proposed theory of business. **Bob Garratt** describes four levels of board maturity through which all boards need to develop before they can prove their competence and professionalism. He describes these as the accidental board, the grumpily compliant board, the learning board, and the integrative board. **Ronell van Rensburg** and **Daniel Malan** explore how coaching can prepare newly appointed directors to operate within this context. It is proposed that coaching facilitates the development of the director towards optimal performance, amongst others, through enhanced self-reflective awareness on mature confidence, interpersonal skills, strategic thinking, and moral courage.

Andreas Hesse and **Marjo-Riita Diehl** ask the question: How do digital communication technologies, especially social software platforms, shape organizational communication from the perspective of leadership? They illustrate how communication from the perspective of leadership is influenced by the medial capabilities of digital communication tools in both good and bad ways. In a second contribution, Hesse further explores the perspectives of leaders on the interplay of digitalization and leadership. Finally, **Hugh Grove**, **Mac Clouse,** and **Laura Schaffner** describe cybersecurity risks concerning recent attacks and hacking examples. They describe how cybersecurity strategies can be developed by corporate executives and boards of directors to help mitigate such risks in the future.

1 Donaldson, T., & Walsh, J. P. 2015. "Toward a Theory of Business." *Research in Organizational Behavior*, 35: 181-207.

Over the last few years, this topic was discussed at the EIASM Research Workshop on Corporate Governance, an ICfCG Partner Meeting in St Gallen, Switzerland, as well as a meeting of the Swiss Institute of Directors. The perspectives contained in this publication only scratches the surface of a rapidly developing field that will be critical for the development of responsible board leadership. We should also alert readers to the fact that all contributions were received before the outbreak of the Covid-19 pandemic. While the impact of the pandemic has been fundamental and will remain a board priority for the foreseeable future, the relevance of the topics addressed in this publication will endure. We hope that you will find it useful and we will continue the discussion at future events.

Prof Martin Hilb, Chairman of the Board Foundation and Managing Partner of the International Center for Corporate Governance

Dr Daniel Malan, Regional Partner for Africa of the International Center for Corporate Governance and Trinity College Dublin (editor)

October 2020

2

THE RESPONSIBLE BOARD LEADERSHIP COCKPIT: HOW TO DO GOOD AND DO WELL AS A BOARD MEMBER

Colina Frisch
University of St. Gallen

Abstract

The responsible board leadership cockpit offers a bird's-eye view of crucial areas of responsible board leadership to enhance board leaders' understanding of how to do both good and do well as board members. The responsible board leader defines success not only as increasing shareholder value but also as promoting the well-being of other stakeholders while taking responsibility for his or her own health and personal development as a leader. The responsible board leader pursues this multidimensional set of goals using a broad set of board leadership tools in the areas of strategy, implementation, control, and self-responsibility. Legal and ethical guidelines serve as safety barriers on the road to success, which prevent corporate and personal crashes such as scandals and legal prosecution. Furthermore, as the environment today is volatile, uncertain, complex, and ambiguous (VUCA), the responsible board leader has to make a concerted effort to leave the cocoon of the leadership cockpit for a proper bird's-eye view of emerging trends and to frequently challenge, rethink, and adapt the board leadership cockpit to the specific needs of the organization and changing business environment.

Why Responsible Board Leadership?

Every member of an organization's board wants his or her organization to be successful. Effective board leaders strive to enable or enhance the organization's success through their competent leadership – they want to do good. However, there has been increasing discussion about what it means to achieve success or do good in a business context.

In a capitalist market, profit maximization has been the ultimate goal of business organizations for a long time (Friedman, 2007), but business for pure profit is changing. Nowadays, leaders such as long-time Unilever CEO, Paul Polman, have started questioning whether businesses can "thrive in a world in which people do not". The World Economic Forum echoed this sentiment on their website when they revealed that "profit with purpose is set to become the new norm" (Zapulla, 2019). Simultaneously, new concepts of corporate leadership and governance have evolved, emphasizing a broader stakeholder focus, such as responsible leadership (Maak & Pless, 2006), shared value (Porter & Kramer, 2011), and new corporate governance (Hilb, 2008).

There may be many reasons for these changes, and chief among them is that boards have increasingly been under scrutiny following a growing number of scandals, crises, and environmental catastrophes. Events like the financial crisis, the Enron case, the Swissair grounding, the Volkswagen emission scandal, the Deepwater Horizon oil spill, and the Facebook data privacy scandal, have triggered tremendous public outrage and board members have increasingly faced the consequences of this indignation through a loss of confidence, even legal prosecution. Secondly, *millennials* – the new generation consumer and employee – are rapidly gaining influence. They advocate for social and environmental values in business and strongly disapprove of companies with a singular profit focus who disregard their legal and ethical duties (Deloitte, 2018).

Until relatively recently, a non-executive board member's role involved much prestige and limited responsibility, but this has become a relic of the past. Instead, boards have awoken to a world with raised standards of board responsibilities and where failing to meet these standards results in a great deal of unwanted attention from the media, the public, and the

authorities. It has become more and more challenging to do well in a board position as business environments become increasingly more complex and volatile, and where digitalization, disruption, and cybercrime have become significant challenges for boards of every size and flavor (Hilb, 2017). There is, therefore, a demand for an evolving board leadership that can battle these modern challenges with success.

In reaction to these challenges, today's boards strive to fill the gaps in leadership skills by employing professionals in board positions. Boards have realized that a professionally recruited, competent, and diverse board is a critical success factor in a complex, diverse, and rapidly changing world. Board members ought to cleverly complement each other's competencies, experiences, and networks rather than constituting a group of buddies with identical backgrounds and opinions (Hilb, 2008). Unsurprisingly then, many boards, including non-executive boards, have resorted to professional recruiting processes instead of merely picking candidates from their networks.

Boards are also striving for professionalism by continually educating their members and enhancing their knowledge and skills to meet newly emerging challenges. On a diverse board, all members should share a thorough understanding of how they define success and how they are going to achieve it responsibly, despite a difference in backgrounds and specializations. In other words, a successful board should have a thorough understanding of the various facets of responsible board leadership.

This chapter explains the concept of responsible board leadership in detail and introduces a framework for responsible board leadership – the responsible board leadership cockpit. The aim is to give members of non-executive and mixed boards an overview of the essential aspects to be considered in their board work and to provide useful board leadership tools. In essence, it shows how to do both good and well as a board leader.

What is Responsible Board Leadership?

In our modern context, responsible leaders on both non-executive and executive boards strive to enhance the well-being of people. They streamline their decisions, actions, and communication; firstly, to meet the

needs and interests of other people and secondly, to balance these with their own needs and interests. Thirdly, they take both a short-term and a long-term perspective in their evaluation of their decisions and actions. Therefore, the guiding principle is this:

> *As a responsible leader, you make sure that your decisions are good – not only for yourself but also for others, and not only today but also for the future. (Frisch, 2018: 333)*

"Others" here refers to the organization's stakeholders, which is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984: 46). Usually, the most important stakeholders of a board include the owners, such as shareholders and C-level executives, especially the CEO (if they are not already a member of the board). The interests of the other stakeholders, like employees, customers, suppliers, authorities, financiers, partners, competitors, local society, NGOs, and the media may also be relevant when making important decisions in the boardroom. Managing the interests of so many stakeholders with often opposing needs and desires in a complex and rapidly changing environment can be a tall order. Therefore, a vital aspect of being a responsible leader is to care for one's personal well-being (doing well), not only for the well-being of the other stakeholders.

Lastly, responsible leaders focus not only on short-term results, but in their strategic function, they keep a watchful eye on the mid- and long-term development of their organizations.

The Responsible Board Leadership Cockpit

In the face of these challenges, the question remains of how to do good and do well as board members. The responsible board leadership cockpit (see Figure 2.1) gives an overview of the most important aspects to be considered by board members. Developed at the University of St. Gallen, it is based upon the concept of responsible leadership by the Circle for Responsible Leadership (Frisch, 2018) and the board leadership training programs and tools of the International Board Foundation and its Swiss Board School (2019).

In essence, the responsible board leadership cockpit comprises the following elements:

- The responsible board leader pursues multidimensional goals using a broad set of board leadership tools in the areas of strategy, implementation, control, and self-responsibility.
- Legal and ethical guidelines serve as safety barriers on the road to success, and respecting them prevents corporate and personal crashes, such as scandals and legal prosecution.

In our current volatile, uncertain, complex, and ambiguous (VUCA) (Mack & Khare, 2016) environment, the responsible board leader has to make a concerted effort to leave the cocoon of the cockpit for a proper bird's-eye view of emerging trends and to frequently challenge, rethink, and adapt the board leadership tools in the cockpit. The following section explains the aspects of the model in more detail.

Success

Although the legally defined responsibilities of board members vary in different countries, it may be assumed that it is vital for the vast majority of board members to enable, safeguard, and enhance the success of their organization. If an organization is unsuccessful, then the owners may well decide to replace board members. The question arises of how success is defined as definitions vary widely between a more narrow shareholder focus (focus on shareholder value only) and a broader stakeholder focus (focus on stakeholder value, shareholders being chief amongst the stakeholders) (Freeman, 1984). However, even firm supporters of shareholder value agree that organizations have stakeholders that can have a severe impact on shareholder value and, therefore, should be considered strategically. The concept of shared value among stakeholders may be more appropriate to define success. This concept argues that businesses are most successful financially if they bring about win-win situations for shareholders and stakeholders (Porter & Kramer, 2011). One example is employees who are more intrinsically motivated and productive because they receive better training and work under better conditions. Another is suppliers in developing countries who deliver more and better quality supplies, and, therefore, earn more because they receive assistance through training and better technology.

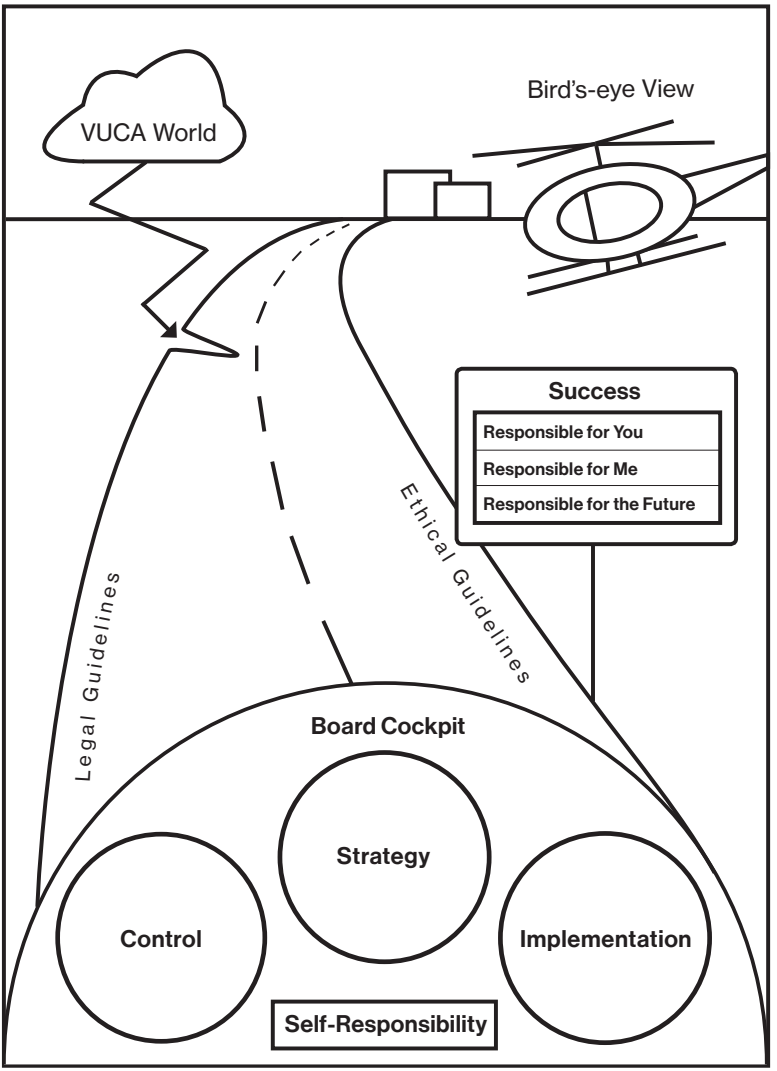

Figure 1.1: The responsible board leadership cockpit

Board members need to have a common understanding of how they define success; otherwise, they will not be able to communicate and implement clear and motivating goals. Following the responsible leadership concept (Frisch, 2018), the responsible board leadership cockpit suggests that board members should consider three areas for their definition of success:

- meeting the needs and interests of their owners and stakeholders (doing good, or, being *responsible for you*),
- meeting one's own needs for health and well-being and ensuring one's personal development to deliver the best possible working performance (doing well, or, being *responsible for me*), and
- ensuring not only short-term success, but also mid-term and long-term success (being *responsible for the future*).

The following section explains the three dimensions of success in more detail.

The "responsible for you" success dimension

Board leaders are successful in the dimension of being *responsible for you* if they manage to meet both the owners' goals and interests and those of other stakeholders while preserving the environment for present and future generations. In other words, they pursue the triple bottom line of people, planet, and profit (Elkington, 1998). All this is easily said but much less easily achieved. While profit as a goal can be defined quite straightforwardly, social and ecological goals require much more discussion. Which stakeholders should be considered, and how do we define social and ecological success? Furthermore, stakeholders often have harshly conflicting needs and goals, and a win-win situation, unfortunately, is not always easily achieved. Nonetheless, every board needs to discuss these questions and define what being *responsible for you* means for their organization; otherwise, they will lack a shared understanding of what the company wants to achieve as a basis for a clear-cut corporate strategy. Although this shared understanding should preferably be tailored to suit the specific nature of an organization, orientation and inspiration can be found in various legal and ethical guidelines (see section 2.3.2), and several tools have proven useful in the process (see section 2.3.4).

The "responsible for me" success dimension

Meeting both the owners' and other stakeholders' needs within a fast-changing and complex environment can be quite challenging, requiring maximal personal commitment and effort. Board leaders, therefore, have to keep an eye on *their* well-being, *their* physical and mental resources, and *their* own development. Board leaders are successful in the dimension of being *responsible for me* if they manage to preserve a good quality of life, health, and well-being, and if they continuously develop their hard and soft skills to meet newly arising challenges.

Being *responsible for me* must not be mistaken for egotism or selfishness. It is not about getting a bigger slice of the cake; it is about being in good health, being strong, and having enough clarity, peace of mind, competency, self-awareness, and self-esteem to be the best leader one can be. Conversely, if a leader is burnt out, miserable, and ailing, he or she cannot be a good leader for anyone. As a member of the Circle of Responsible Leadership put it:

> *In the airplane, you are asked to put on your oxygen mask first before you help your fellow travelers. The same is true for responsible leadership: Without oxygen, meaning without energy, joy, balance, health, self-awareness, and self-esteem, it is almost impossible to build good relationships with your followers. (Frisch, 2018: 338)*

Self-awareness is essential for responsible leaders as it is a crucial aspect of emotional intelligence (Mayer, Salovey, Caruso & Cherkasskiy, 2011) and the basis of all leadership development. If leaders are not aware of their strengths and weaknesses, they may lack both self-esteem and the ability to develop themselves and adapt to newly arising challenges. They may also have difficulties in recruiting and leading excellent staff, as they may not be aware which people will best complement their skills. Furthermore, as they lack the emotional intelligence necessary to understand the needs of their employees, they may have difficulties maintaining good relationships with them. Therefore, being *responsible for me* is a fundamental basis for being

responsible for you. Particular attention has to be paid to recruitment, development, and evaluation of the board and C-level executives as the tone at the executive level has a significant influence on the whole organization. Leadership styles, both good and bad, tend to trickle down in an organization, as top-level managers are role models for mid-level managers (Mayer, Kuenzi, Greenbaum, Bardes & Salvador, 2009).

How does one then deal with the *responsible for me* success dimension in the boardroom? Acting responsibly for oneself firstly needs to be addressed individually by every board member (for further suggestions, see section 2.3.4). Nonetheless, because being *responsible for me* is so crucial for bringing out the best in leaders to ensure success in the other areas, it makes sense to discuss this dimension openly in the boardroom. First of all, the board needs to reach a common understanding of how being *responsible for me* is to be defined for this board and the whole organization. Which personal values, competencies, skills, personalities and leadership styles are crucial? How important is the short-term and long-term health, well-being, and personal development of members of this organization? Answering these questions is the basis for a comprehensive strategy for recruiting, employee development, and employee retention at all levels of the organization (see section 2.3.3.2, human resource governance).

The "responsible for the future" success dimension

Board leaders are successful in the *responsible for the future* dimension if they manage to ensure not only short-term but also mid-term and long-term success. Just as in the previous dimension, for a compelling vision and strategy, board members should develop a shared understanding of how they define long-term success. However, in a rapidly changing environment, it is difficult to make reliable long-term plans. What seems like a sound strategy today may be useless in five years. Accordingly, long-term plans have to be revised and adapted regularly; otherwise, the organization may quickly cease to exist. The best life insurance for a company is to have (not only at present but also in future) excellent leaders and staff who are capable of identifying newly arising challenges early and continually adapting to them – having agile, responsible leaders. It again shows how important the HR governance of an organization is.

In conclusion, board leaders need to develop a clear, shared understanding of how they define success as a basis for a compelling and expedient corporate vision and strategy. In essence, before one can choose the best path, one needs to know where one wants to go. Responsible board leaders consider several dimensions of success for their definition, such as being *responsible for you, responsible for me,* and *responsible for the future*.

Legal and ethical guidelines

Every definition of and strategy for success should be in line with legal and ethical guidelines. These serve as safety barriers on the road to success and prevent dangerous crashes. Ignoring the law may lead to legal prosecution, convictions, and fines. Neglecting ethical conduct may evoke significant damage to corporate reputation, create fiascos, and lead to consumer and employee boycotts. Therefore, responsible board leaders have to be well informed about both their legal duties and the ethical conduct expected by the organizations' stakeholders and the public in general.

Legal guidelines

Board members should be especially aware of and fully comply with the legal guidelines concerning corporate governance. Usually, these can be found in company law and securities law. While the specifics vary from country to country, the OECD summarizes for all jurisdictions: "Company laws set forth the default option concerning corporate structures whose detailed framework is determined by the company's articles and bylaws. Securities laws set forth binding requirements, making shareholder protection enforceable for regulators." (OECD, 2017). However, as national laws vary concerning requirements for rights, duties, and the civil and criminal liability of board members, the reader is strongly advised to consult local experts or sources specializing in specific jurisdictions (for Switzerland see Müller, Lipp, & Plüss, 2014).

Ethical guidelines

Besides national legal guidelines (hard law), a fair number of both national and international codes and standards (soft law) apply to corporate governance and corporate responsibility. These are mostly legally non-

binding; however, they set standards for best practice and follow a "comply or explain" framework (e.g., for Switzerland see the *Swiss Code of Best Practice for Corporate Governance*, Economiesuisse, 2014. For a comprehensive overview of national codes of corporate governance see OECD, 2017; or the website of the European Corporate Governance Institute, ECGI). **Codes of corporate governance** focus on topics such as protecting shareholders' interests and structure, duties, transparency, reporting, and compensation of the board.

While codes of corporate governance have primarily been developed to protect the interests of the owners, such as shareholders, **codes of corporate social responsibility** focus on protecting other stakeholders' interests. They address topics such as fair treatment of employees, human rights, long-term profitability, transparency, consumer protection, anti-corruption, and environmental protection. Table 2.1 provides an overview of the relevant international social and ecological codes and standards. As many of these codes have been developed in multi-stakeholder processes, they serve as useful indicators for what a broad range of stakeholders and the public regard as ethical conduct.

Table 1.1: International guidelines relevant for corporate responsibility, sustainability and corporate ethical conduct

Universal Declaration of Human Rights	Fundamental social, economic, political, cultural, and civil rights (UN General Assembly, 1948)
International Labour Standards of the International Labour Organization (ILO)	Conventions and recommendations based on four fundamental principles: freedom of association, the elimination of forced labor, the abolition of child labor, and the elimination of discrimination (International Labour Organization (ILO), 2017)
United Nations Global Compact	Ten principles for corporate sustainability covering topics such as human rights, labor, environment, and anti-corruption (United Nations Global Compact, 2017)
ISO 2600 Standard of the International Organization for Standardization ISO	Extensive social responsibility standard. It defines seven principles (accountability, transparency, ethical behaviour, respect for stakeholders' interests, respect for international norms of behaviour, respect for human rights) and seven core topics (human rights, labour practices, the environment, fair operating practices, consumer issues, community involvement and development) (International Organization for Standardization ISO, 2010)

OECD Guidelines for multinational corporations	Recommendations for responsible business conduct concerning human rights, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition, and taxation (OECE, 2011)
Sustainable Development Goals (SDGs) of the United Nations	Seventeen goals for the sustainable development of the world to be achieved by 2030. They focus on challenges such as "poverty, inequality, climate, environmental degradation, prosperity, and peace and justice" (United Nations, 2019)

(Frisch, 2018, updated)

The cockpit

To define and pursue the organization's goals while keeping well in line with legal and ethical guidelines, the board may use a wide variety of leadership tools. The board leadership cockpit gives an overview of useful tools (see Figure 1.2). It clusters the tools into four main categories: tools for strategy – defining where the organization wants to go and how it is going to get there; tools for governing implementation – enabling the execution of the strategy in the daily business and preparing for unexpected events; tools for control – monitoring success; and tools for self-responsibility – fostering one's own health, well-being, and personal development as a leader. The first three categories build a continuous cycle: strategy is the basis for implementation, which is followed by controlling to understand where endeavors have been successful and where not. These insights into the present state of the organization form an essential basis for adapting the strategy to current developments. The fourth category, tools for self-responsibility, enables the leader to be the best possible leader he or she can be and to make the best use of all the other tools.

Strategy

When developing a strategy, every board needs to know, as far as possible, who the owners of the organization are and what they want for the organization. Different types of owners may have different interests. For example, a shareholder activist's primary objective may be to raise the stock price and dividend quickly, while owners of a family business may prioritize its reputation and the longevity of the company. The

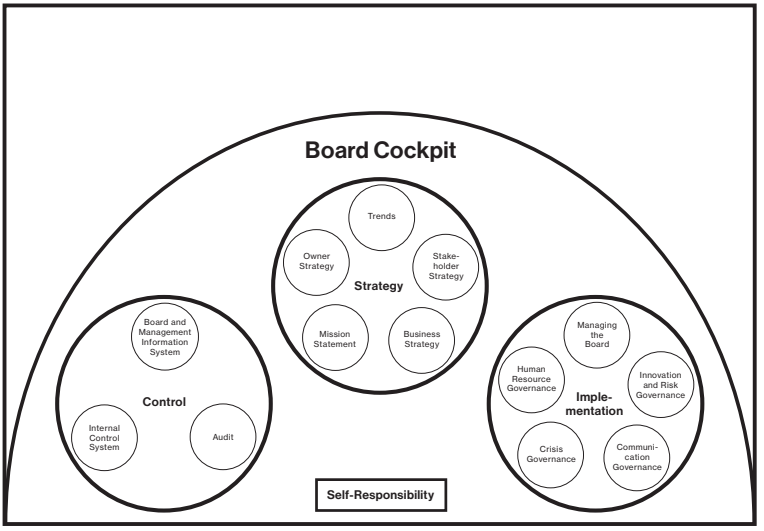

Figure 1.2: Cockpit

board, therefore, has to engage proactively with the owners about their expectations and formulate the **owners' strategy**. This document clarifies and summarizes the owners' expectations on topics such as values and strategic goals, financials (e.g. how to allocate profits), possible changes of ownership, succession planning, and strategic and executive leadership (e.g., composition and remuneration of the board and C-level management) (Müller *et al.*, 2014, p. 738).

Apart from an owners' strategy, it is also essential to define a **stakeholders' strategy,** which answers the following questions: Who are the organization's stakeholders? How do they influence the organization? How does the organization impact them? What do they want or need? How would the organization meet these interests or needs? Useful tools for defining a stakeholder strategy include stakeholder dialogue, stakeholder maps, materiality matrices, and the ethical guidelines mentioned in section 2.3.2.2. The owners' and stakeholders' strategies help the board to define how the organization is being *responsible for you*.

Apart from these, board members need to be well informed about newly-arising **trends** in the market and society in general. Market analysis, competitor analysis, trend scouting, and monitoring (e.g., technological innovation) are standard tools to receive early notice of potentially influential shifts in the market and society in general.

Both of these strategic documents take cognizance of owners' and stakeholders' interests and offer a thorough understanding of where the market is going, thus providing a basis for the **business strategy**. Furthermore, a thorough understanding of the present state of the organization, as delivered by controlling tools, is a vital prerequisite for defining the business strategy. Usually, both the board and C-level executives are involved in the development of the strategy (Lombriser, 2015). Firstly, the board may formulate general strategic guidelines in accordance with owners' and stakeholders' demands. Secondly, the management develops – while respecting legal and ethical guidelines – strategic alternatives, which then have to be evaluated. Thirdly, the board decides on a particular strategy, which, fourthly, has to be implemented by the management.

Lastly, the essentials of a long-term strategy can be communicated to various stakeholders in the form of a **mission statement.** A well-formulated mission statement informs stakeholders about the purpose, goals, core values, and core activities of the organization and motivates stakeholders, such as employees and customers, to support the mission of the organization.

Implementation

Even a fabulous strategy is useless without competent and motivated people capable of successfully implementing the strategy, monitoring success, and, if necessary, adapting the strategy to newly arising challenges. **Human resource governance** (Hilb & Oertig, 2010) should, therefore, be given high priority by responsible board leaders. Firstly, the strategic composition of the board and its committees is of utmost importance, and the board should align the recruitment and succession planning, regular evaluation, compensation, and personal development of board members with their overall strategy. Secondly, the board should take a particular interest in the performance of the positions or teams critical to the success

of the organization. C-level management positions are an example of such critical positions. However, other positions of strategic importance that are not marked by high rank may nonetheless be crucial for specific organizations. Thirdly, the board should ensure that critical functions of HR management, such as employer branding, recruiting, talent management, remuneration, and incentive schemes are in line with the organization's core values and strategy.

Having excellent and dedicated management and teams in the organization eases the burden on board members considerably. However, the continuous **management of the board** remains with the board, especially with its chairperson and board committee chairpersons assisted by the board secretary. Legal and ethical guidelines have to be respected while organizing board or board committee meetings and, if applicable, shareholders' general meetings. Organizing the board meeting includes the preparation (planning, agenda, invitation including meeting documents), conduct, and chairing the meeting itself, and follow-up, such as finalizing and distributing the written minutes of the board meeting (Dubs, 2012).

To achieve success, organizations have to be innovative and create and seize opportunities, but they also need to anticipate and carefully avoid or neutralize risks. **Innovation and risk governance** have more in common with each other than one might think. Innovation management is the answer to one of the most significant risks that many business organizations face nowadays: that despite the current success of the organization's primary products or services, it may no longer be in demand in the foreseeable future. This was the fate of Kodak, for example, because its board did not understand the disruptive force of the digital camera and did not drive innovation for new products early enough to serve as future revenue streams (Mui, 2012). Accordingly, innovation governance is closely linked to risk governance because to mitigate risks, innovation is necessary. Risk governance is essential for every responsible board leader, as minimizing risks for both owners and stakeholders is an essential aspect of being *responsible for you.* Therefore, board leaders should ensure the implementation of a proper risk management system in line with the overall values and strategy of the organization. Significant steps in the implementation process are risk identification, risk analysis and

prioritization, in-depth analysis of high risks, action planning, and controlling (Kalia & Müller, 2015).

Another particular type of risk in organizations is that its members may violate legal or ethical guidelines, such as those summarized in an organization's code of conduct. Traditionally, this type of risk was addressed through a compliance management system. However, as many boards have realized, it is rather costly and inefficient to address employee misconduct with a traditional command, control, and punish approach of compliance. A **compliance and integrity management** system is more efficient. Integrity management focuses on strengthening the ethical culture in an organization through leadership and incentive systems rewarding ethical conduct (Paine, 1994). However, this only works if leaders, right through to top management, can serve as attractive role models through their responsible conduct (Frisch & Huppenbauer, 2014; Mayer *et al.*, 2009).

Despite all the precautions of risk governance, an unexpected crisis may occur at any time and force immediate action by the board. For such cases, a previously prepared and rehearsed **crisis management** plan should be at hand to help the board prevent chaos and act quickly and responsibly. The crisis management plan should also include a crisis communication plan because most crises quickly entail a reputational crisis too. Fast, effective, and honest communication with stakeholders is crucial for keeping reputational damage to a minimum (Kash & Darling, 1998). In times of crisis, it may not be sufficient to leave addressing the public to the corporate media spokesperson; board members themselves may have to communicate, so it may be advisable to prepare for such events in a timely way through media training.

However, **communication governance** is not only important in times of crisis. Therefore, the board can formulate communication guidelines that state which board members are to communicate what to whom, at what time, and in which manner. Furthermore, depending on the type of organization and local jurisdiction, official financial or integrated **reporting** may be legally required or advisable to transparently inform shareholders

and stakeholders of the development of the organization as the board is responsible for the accuracy of the reporting.

Control

Controlling for whether and how much the implementing activities have brought about the desired success, as defined by the board, is necessary for every board. A significant area to control is, of course, the financials, because problems in this area may quickly threaten the viability of an organization. However, as responsible board members may define success in more dimensions than merely the financial bottom line, it is highly advisable to control aspects such as value creation for stakeholders and any risk that may affect owners and stakeholders.

Control mechanisms have to be customized to the specific organization's needs and legal and ethical guidelines. However, certain pillars of control have become quite generic: A board and management information system (Laudon & Laudon, 2016) promptly provides the board with the most critical resource of control – information. The board has to decide what kind of information it needs (both financial and non-financial) at what intervals, differentiating between normal times and times of crisis (for an example of a strategic management information system concept on board level, see Müller *et al.,* 2014: 993-940).

The internal control system provides the database for the board and management information system. It aims to continually control the accuracy and compliance of financial accounting and reporting, the efficiency and effectiveness of operations, employee compliance, and other risk and success factors as defined by the board and management according to the organization's needs (Pfaff & Ruud, 2016). Finally, the internal and external audit serves as an examination of annual financial reporting to provide accurate information primarily for shareholders (Müller *et al.,* 2014: 542-545).

Tools for self-responsibility

While all the tools in the cockpit help the board leader to be *responsible for you* and *responsible for the future*, in other words, to do good in

both the short term and long term, board members should also take responsibility for doing well, or being *responsible for me*.

Firstly, board members may be liable under civil or criminal law if something goes wrong (Müller *et al*., 2014). Therefore, before committing to a board position, candidates must be able to answer three basic questions with a definite "yes" in their interest:

1. **Do I have enough time for this board position?** Non-executive board members, in particular, have to make sure to dedicate enough time to the board position. They should, therefore, be sufficiently informed before making a decision.
2. **Do I have the right competencies and skills for this board position?** Board members who lack suitable skills, industry knowledge, and the experience to critically and efficiently assess information to make responsible decisions, are entirely at the mercy of their fellow board members and senior management to protect them from making bad decisions and to keep the organization running smoothly.
3. **Are the values and decisions of the board and the organizational leadership culture in favor of responsible leadership, or, if not, is there at least a keen owner's will for a turnaround?** If this question cannot be answered affirmatively, breaches of legal and ethical guidelines are likely and pose a personal risk for board members.

Once a board position has been accepted, the board member must take responsibility for continual **personal development.** Further developing his or her knowledge and skills (e.g., through training, seeking further experience, or consulting) is necessary for adapting to newly arising challenges. Furthermore, the board member should take care to maintain personal health and well-being, even in stressful circumstances. Sufficient sleep, relaxation, exercise, and balanced nutrition are essential promoters of **physical well-being**. Timely medical treatment for pain and disease is highly advisable. Coaching, consulting, and mentoring can promote self-awareness and self-esteem and, therefore, **mental and emotional well-being.** Another important factor of stress resiliency and personal well-being is **positive interpersonal relationships,** such as with family and friends (Kesselring, 2017).

Being *responsible for me*, or investing time and effort in these areas to do well and be well as a board member, is not only good for the board member but also the organization. As mentioned earlier, only a healthy, mentally and emotionally stable, and competent member of the board will be able to develop his or her full potential as a responsible board leader and drive the organization towards being successfully *responsible for you* and *responsible for the future*.

Responsible board leadership in a VUCA world

The acronym VUCA stands for volatility, uncertainty, complexity, and ambiguity (Mack & Khare, 2016). It has been used to describe the increased complexity and speed of development, accompanied by more sudden, unpredictable, and potentially threatening changes in the business environment. The acceleration of technological developments and general interconnectedness (e.g., digitalization, artificial intelligence, machine learning, and the Internet of things) have brought many significant innovations for consumers all over the world. However, they also lead to the disruption of organizations not able to adapt to such fundamental changes early enough.

Operating in a VUCA world poses several challenges for a responsible board leader (Frisch, 2018). Firstly, digitalization is on the brink of leading to enormous societal changes (Schwab, 2016). Accordingly, the goals of the organization, and, therefore, its definition of responsible success, continuously have to adapt to these changes. Technological developments offer great opportunities, such as new products and technical support for dangerous or tedious work. Still, they also pose significant threats for various stakeholders, like disruption, cybercrime, surveillance and manipulation, and job loss due to automatization. Therefore, board members need to be extremely attentive to how these changes affect both shareholders and stakeholders and adapt their goals accordingly. Unfortunately, legal and ethical guidelines tend to lag behind the speed of actual developments, so board members have to find other means of keeping up with reality (see section 1.3.2).

Secondly, as goals change, the tools to achieve success also have to change. Accordingly, board members always need to be on their toes concerning **revision and adaption of the tools** in the cockpit. Finally, operating in a VUCA world brings about a possible **increased experience of personal insecurity, lack of control, and stress.** Being *responsible for me*, therefore, becomes even more important as higher stress-resilience is required to face the stressors in a VUCA world.

In conclusion, responsible board leaders have to cope with the challenges of the VUCA world by continually detecting changes, understanding their impact on the stakeholders, and responsibly adapting goals and tools accordingly. Concomitantly, they need to work on their strengths and resources and commit to constant development and improvement while understanding that failures are part of the process of learning and adapting.

Getting the bird's-eye view

Lastly, to detect upcoming trends, changes, opportunities, and threats early on, it is imperative for responsible board leaders to regularly leave the familiar cocoon of their leadership cockpit for a change of perspective. A proper bird's-eye view of current general developments and trends helps the board leader to reflect on possible impacts on the organization and its stakeholders. Thus, board members need to make time to gain, reflect upon, and discuss fresh input. Board members may do this individually or with other board members by, for example, going to conferences focusing on trends and cutting-edge technology, or by engaging in discussions with researchers, developers, early adopters, leaders of other organizations, and, of course, important stakeholders.

Conclusion

The responsible board leadership cockpit aims to enhance board leaders' understanding of how to do both good and well as board members. It offers a bird's-eye view of crucial areas to be considered by board members favoring responsible board leadership.

A responsible board leader pursues a multidimensional set of goals, defining success as

- promoting the wellbeing of the organization's owners and stakeholders (doing good or being *responsible for you*),
- promoting one's health, quality of life, and constant personal development to meet newly arising challenges (doing well or being *responsible for me*),
- promoting not only short-term but also long-term success (being *responsible for the future*).

The responsible board leader pursues these goals using a broad set of board leadership tools in strategy, implementation, control, and self-responsibility. Legal and ethical guidelines have to be carefully respected as this prevents harmful conduct for stakeholders, owners, and the board itself, such as corporate and personal scandals and legal prosecution. Furthermore, ethical guidelines, such as codes of corporate governance and corporate responsibility, are valuable resources for best-practice in dealing with owners and stakeholders.

The specific design of all the tools mentioned here should be individually tailored to the needs of the particular organization. Furthermore, as board members nowadays have to operate increasingly in the quickly changing, complex, and uncertain environment of the VUCA world, a responsible board leader has to make a concerted effort to get a proper bird's-eye view of the emerging trends and to challenge continually, rethink, and adapt the goals and board leadership tools in the cockpit. This enables responsible board leaders to promote the well-being of owners, stakeholders, and themselves, both at present and in the future.

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3

THE VALUE OF BUSINESS[1]

Thomas Donaldson
The Wharton School, University of Pennsylvania

James P. Walsh
Ross School of Business, University of Michigan

While most agree that the purpose of business minimally involves the creation of value, we believe that a blurred double image of value haunts the discussion of the purpose of business. The image of what value is for a single firm overlays the image of what value is for business in general, and these two images cannot match. Indeed, the resulting conceptual blurriness is a classic example of a composition fallacy – we should never mistake the properties of a part for the properties of the whole. We have asked business students and colleagues alike to fill in the blank below:

> *"Law is to justice, as medicine is to health, as business is to _____."*

1 This essay is drawn from a much longer published article, "Donaldson, T., & Walsh, J. P. 2015. "Toward a Theory of Business." Research in Organizational Behavior, 35: 181-207.

The first reaction is always one of awkward silence. People are surprised that the answer does not roll off the tongue. There is always a sense in the room that we should know the answer, and yet, we do not. Then the answers come. A cluster of people will focus on profit, money, and wealth. Others, more expansively, will talk about value creation and prosperity. Still others will focus on the likes of coordination, exchange, production, and innovation. Some even shift gears and focus not on wealth and well-being, but on greed, power, and oppression. This exercise points out three challenges when thinking about the nature of business. One is that we grapple with its purpose. The second is that we have a hard time detangling our thinking about a single business firm from business more broadly. Finally, business is not always an unalloyed good.

A goal we have been pursuing for the last few years is to fill in the blank space for the "purpose" of business (Donaldson & Walsh, 2015). In so doing, we have arrived at a set of formal definitions that define such everyday concepts as value, dignity, and business success – terms that we think capture the purpose of business. In the end, we think that business is about nothing less than the optimization of collective value.

We want more and less from business these days. Tellingly, Margolis and Walsh (2003:268) began their paper entitled "Misery Loves Companies," with the words, "The world cries out for repair." With firms' wealth and capabilities so clearly on display, Margolis and Walsh observed that they are a ready target for appeal. Beyond providing quality goods and services at a fair price, as well as local employment and investor wealth, firms are also asked to sponsor all manner of public health and community development initiatives.

However, many fear the firm. We have been witness to what can only be called dreadful corporate behavior during the past three decades (Greve, Palmer & Pozner, 2010). Business legitimacy and the social trust that serves as its foundation has been damaged. The concern born of the turn-of-the-century scandals such as Enron, WorldCom, and Tyco were fueled anew in September 2008 with the collapse of Lehman Brothers and Washington Mutual. As the financial crisis worsened, the U.S. government had to bankroll scores of troubled firms, and it spent billions of dollars to prevent a total economic collapse.

Even before the financial crisis, confidence in big business was dropping. The Gallup organization has queried the U.S. public about its confidence in society's institutions since 1973. Figure 3.1 reveals the responses they received over those forty-two years (Gallup, 2015), illustrating the contagious loss of business legitimacy that we have witnessed over the past decade or so.

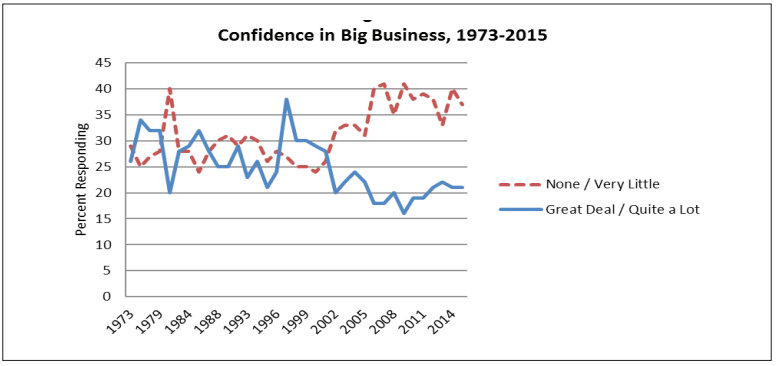

Figure 3.1: Confidence in big business, 1973–2015

Legitimacy has fallen in tandem with rising expectations: society expects more from businesses these days than merely creating wealth. For example, a recent survey tells us that just seven percent of the U.S. population believes that business should only make money for its shareholders (Cone Communications, 2013).

A Beleaguered Straw Man

Our current understanding of business is mainly drawn from economics, specifically from what is known as neoclassical economics. Economists offer us a theory of the firm, telling us why the firm exists and how business in a world of firms differs from business in a world of market exchange. Known broadly as the neoclassical theory of the firm, the power and reach of this work are impressive. Indeed, William Allen, former Chancellor of the Delaware Court of Chancery, once remarked, "One of the marks of a truly dominant intellectual paradigm is the difficulty people have in even

imagining an alternative view" (Allen, 1993:1401). Alternative theories have had a hard time gaining traction.

Despite this, the neoclassical theory of the firm has been under scrutiny for decades. Its salience and very success no doubt elevated its status as a high-value target for academic critics. However, the parade moves on without jostling the dominance of neoclassical theory. Sensing futility, we are reminded of Winston Churchill's now-famous words to the House of Commons on November 11, 1947: "No one pretends that democracy is perfect or all-wise. Indeed it has been said that democracy is the worst form of government except for all those other forms that have been tried from time to time…." Channeling Churchill, one might say, "No one pretends that the neoclassical theory of the firm is perfect or all-wise. Indeed it has been said that the neoclassical theory of the firm may be the worst theory of the firm, except for all those other theories that have been tried from time to time."

On balance, the neoclassical theory of the firm serves business leaders reasonably well. The problem is that the theory was not developed to address society's broader interest in business activity – the source of the problems we identified above. We need a theory that can answer the riddle posed at the beginning of this work: "Law is to justice, as medicine is to health, as business is to _____?" In the absence of such a theory, we suffer a fallacy of composition.

A Fallacy of Composition

A fallacy is a form of a deceptively bad argument. A fallacy of composition occurs when one assumes that the property of a part, or all parts, can be taken to represent the whole. Just because every member of the investigative team is an excellent researcher, it does not follow that the team is an excellent research team. It will not be an excellent one if the members do not work well together.

Such a deceptive line of reasoning can tempt false conclusions in management theory. Imagine that the purpose of a firm is to maximize its shareholders' wealth or, say, to delight its customers. We must remember

that a single firm is just one part of the broader agglomeration of firms that comprise business activity – activity that sits squarely in an institutional and historical context. We should take great care before we conclude that the purpose of business is to maximize shareholder returns or to delight customers. The composition fallacy alerts us to the possibility that the attributes of a successful firm (or firms) may not be the same as the attributes of successful business in general. A closely related confusion, while not a fallacy *per se*, is the conflation of business means with business ends. Operational efficiency, for example, may be crucial to a firm's success and even to business success, but it would be a mistake to conclude that efficiency itself is any ultimate firm or business goal. The temptation to do so is real, but we need to be alert to the problem of goal displacement as we consider purpose, i.e., the problem of confusing the means to the goal, in this case, efficiency, with the goal itself (Warner & Havens, 1968).

Consider engines. At a time when the social sciences grapple with bouts of physics envy (Flyvberg, 2001), a look at the limitations of physics is instructive. One can define a mechanical engine as a machine with moving parts that converts power into motion. There have been and are many engines: the ancient Greek (Hero) wind-wheel engine that drove an organ, the steam engine that drove locomotives, the modern internal combustion engine that is ubiquitous today, and the atomic fission engine that powers nuclear submarines. Physical theories dealing with one particular aspect of engines, namely, their efficiency in overcoming friction and converting power into motion, have inspired better and better engines. But, as powerful as these ideas have been for improving efficiency, we do not fully understand what an engine really is until we relate it to its human value. Even a supremely intelligent scientist from another galaxy would not know what an "engine" is without some theory that references its use and purpose, such as in transportation. Otherwise, it is simply a "machine with moving parts." Similarly, it is impossible to understand the nature of business fully in society by merely looking at the descriptive principles that undergird the efficient creation of a firm in society.

Our goal, thus, is to begin to develop a conceptually robust theory not of firms, but of business.

Definitions for a Theory of Business

Language brings our world into relief. Specialized languages such as mathematics, logic, topology, and yes, economics, systemize thinking with extreme clarity. The linguistic philosopher, Ludwig Wittgenstein, compared specialized languages to new suburbs in urban areas – they are new entrants to an existing linguistic territory (Wittgenstein, 1953). As we have seen, however, the critics and defenders of the beleaguered straw man – the neoclassical theory of the firm – often talk past one another because the specialized language of neoclassical theories has difficulty interpreting issues lying outside its scope. The strength of specialized languages is that they embody sharper tools for particular purposes. Their weakness connects to their strength; their acuity comes at the cost of conceptual narrowness. For example, the language of DNA and genetic biology may do an excellent job of explaining how a zygote becomes a human being, but it does a poor job of explaining how a human being will fall in love with another, create a new zygote, and reproduce the species. Neoclassical theories function reasonably well for their designed purpose. The issue is that their purpose is limited. In order to reach beyond their designed scope, we require different terms and different theories. If we want to achieve depth and clarity in capturing the purpose of business, we require a specialized language.

Any theory of business needs to focus on four key ideas. Three of these are common to the contemporary literature on corporate governance; namely, we must consider the purpose, accountability, and control of business. Also, given that ours is to be an action-guiding or "normative" theory as well as a factual or empirical one, we will consider the nature of business success. With these four aspirations in mind, we offer the following definitions.

1. **Business**: a form of cooperation involving the production, exchange, and distribution of goods and services to achieve collective value.
2. **Business participant**: someone who affects or is affected by the pursuit of collective value. Some business participants are identified through their membership in entities that affect or are affected by the pursuit of collective value.
3. **Positive value**: a reason for acting where the object of the act is seen as worthy of pursuit.

4. **Negative value**: a reason for acting where the object of the act is seen as aversive.
5. **Intrinsic value**: a positive value whose worth does not depend on its ability to achieve other positive values.
6. **Benefit**: the contributions made by business to the satisfaction of a business participant's positive and intrinsic values, net of any aversive impact on the satisfaction of those same values.
7. **Collective value**: the agglomeration of the business participants' benefits, again, net of any aversive business outcomes.
8. **Dignity**: an intrinsic value prescribing that each business participant be treated with respect, compatible with each person's inherent worth.
9. **Dignity threshold**: the minimum level of respect accorded to each business participant necessary to allow the agglomeration of benefit to qualify as business success.
10. **Business success**: optimized collective value, optimized subject to clearing the dignity threshold. Equifinality assumed, alternative states of Business Success are possible.

We understand business to include a system of production, exchange, and distribution relationships among and between the entities that constitute firms' value chains: firms themselves, civil society, institutions of government, and the communities that both sustain and benefit from business activity. All of these entities, and the individuals that comprise them, participate in business activity. However, we reserve the term "business participant" for those who are the ultimate bearers of value, namely, persons.

It may strike some as odd that our definition of business emphasizes cooperation instead of competition. To be sure, competition plays an essential role in business. Many see it as the heartbeat of market capitalism. Still, if we want to understand the purpose, accountability, control, and success of business, we must place competition in its proper context. The market is a form of cooperative institution. Moreover, competition is significant because it serves as an important means to maximize value. However, it is not the only means to create value. The ability of groups to cooperate in competitive systems is also recognized as a critical economic success factor (Markussen, Reuben & Tyran, 2014; Lado, Boyd & Hanlon, 1997). With competition so celebrated in contemporary society (Stalk & Lachenauer, 2004; Stalk, 2006), we need to be alert to goal displacement

(means/ends inversion). We need to keep in mind that competition itself is not the goal of business.

We define a positive value as a reason for acting when the object of the act is seen as worthy of pursuit. Put another way, it is someone's reason for acting. This definition taps a deep legacy in moral philosophy, one that defines values in terms of reasons and one that relates values to human interests (Perry, 1914:1926). Scanlon's view, reflected in the approaches of contemporary moral theorists, is that "to call something valuable is to say that it has other properties that provide reasons for behaving in certain ways with respect to it" (Scanlon, 1998:96).

Some values are not agent-specific. They are intrinsic values. Suppose that owning more land is a value for you, and someone asks you why you value owning more land. If you attempt to give a persuasive answer, you need to appeal to a higher-order reason that is understandable to the person asking the question. You might reply that owning more land gives you a sense of security, with the implication that your higher-order reason is the value of security. This answer may well satisfy your questioner since both of you probably agree that security is a value. However, suppose the person surprises you and follows up with another question, "Why do you value security?" Here, your reply might be something like, "I do not value security for some further reason; rather, security is something I think has intrinsic worth." In other words, you would be saying, "I think security is an intrinsic value." When something that is "worthy of pursuit" does not have its value derived from a higher-order value, it counts as an intrinsic value. It is a final reason for acting. Intrinsic values, in turn, possess an "objective" normative status. Even if society were to form an overlapping consensus affirming the rightness of slavery, society would be wrong. The intrinsic value of personal freedom tenders a non-relative claim.

One might challenge the idea of intrinsic values by saying, "Show me a definitive list of intrinsic values!" Philosophers have constructed and defended many such lists over the years. Two of the best known are W.D. Ross's list of "*prima facie* duties" (Ross, 1930) and William Frankena's list of "intrinsic goods" (Frankena, 1973). Frankena's long list includes such values as cooperation, experiences of achievement, self-expression, freedom,

peace, security, adventure, and novelty (Frankena, 1973: 87–88).[1] Of course, people investigate these lists to see if they are, in fact, intrinsic.

Collective value is the total of business participants' benefits. While the meaning of that sentence is clear, the ability to understand this statement in practice is anything but clear. Einstein reportedly said, "**Not everything that counts can be counted, and not everything that can be counted, counts.**" Not all benefits can be easily appraised, much less combined in a fashion that allows for easy summation and comparison. Acknowledging severe limitations in our ability to measure benefit and collective value, we hasten to add that not all is lost. Some states of value satisfaction are clearly better than others – the existence of practical wisdom tells us that this is so (Aristotle, 1962). If values, or bundles of values, were truly incommensurable, we could not speak rationally about some all-things-considered value choices being better or worse than others.

We can make good "all-things-considered" choices, even in multi-valued contexts. Imagine an employee, Bob, who reasons about whether to choose job A or job B. Bob thinks: "In job A, I have a monthly salary that is $10 higher than in job B, and I am treated with disrespect and ignominy. In job B, I have a monthly salary that is $10 lower than in job A, and I am treated with respect and dignity. I conclude that job B is a better job than A." Here Bob compares two things that appear to be incommensurate at first blush, namely, the value of dignity and the value of money. However, Bob reasons well. The objectivity of Bob's choice is reflected in the fact that a vast majority of people would reason in the same way if confronted with this choice. Neoclassical economists view human beings as rational economic agents, as *homo economicus*. We view our fellow men and women as practical reasoners, as *homo practicus*.

If business exists to create collective value, it follows that any theory of business must be action-guiding or normative. A theory like this must say something about the world we hope to inhabit. We need to come to terms

1 Psychologists also pursue this quest. Milton Rokeach (1973), an eminent social psychologist, developed a value survey comprised of eighteen terminal values (identifying desirable end-states) and eighteen instrumental values (identifying desirable means to those ends). The former include such values as a world at peace, family security, and freedom; the latter include such values as being honest, ambitious, and responsible).

with how business creates value and serves society. Recognizing that aversive outcomes can attend the conduct of business, we also recognize that some aversive outcomes are simply out of bounds. Our challenge as a people is to determine just what behavior is acceptable and what is unacceptable. In legal terms, we are looking for a moral "bright-line rule," one that tells us what kind of business activity is to be strictly forbidden (Schlag, 1985). We suggest that, at a minimum, dignity establishes that decision criterion.

Our understanding of human dignity tells us that our fellow humans are not to be treated as mere objects or instruments in a business organization's production function. Business participants are to be treated with respect. As such, the dignity threshold establishes a moral foundation for business activity. The challenge, of course, is to identify what treatment does or does not clear the threshold. Borrowing language from the world of statistics, we can say that dignity is both a "categorical" and "continuous" idea. When we speak of an indignity, we speak of dignity as a categorical idea. Hold someone as a slave, for example, and regardless of how well you might treat that person, you fully deprive that person of his or her dignity. There is absolutely no dignity in slavery. Thomas Jefferson may have fathered six children with Sally Hemings, but by owning her as his property until the day he died, he denied her dignity (Gordon-Reed, 2008). Article 4 of the U.N. Declaration on Human Rights is unequivocal: "No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms." The US-South, in the first half of the nineteenth century, relied upon the institution of slavery to support its expansive system of plantation farming. Even if slavery enhanced the GDP or PPP of the region, plantation farming could not be considered as business success. Slavery stripped its captive people of their dignity; therefore, the institution of slavery does not pass the dignity threshold.

Writing about the nature of society, Margalit (1996:10–11) observed, "A society is decent if its institutions do not act in ways that give the people under their authority sound reasons to consider themselves humiliated." Expanding on Margalit's notion, we would say, "Business is decent if its institutions do not act in ways that give the people under their authority sound reasons to think their inherent worth has been denied." Beyond that, if business is to be considered successful, the collective value must be optimized and enhanced as much as possible. That optimization process

must include the recognition of participants' dignity. Rosen (2012:157) got it right when he said, "In failing to respect the humanity of others, we actually undermine humanity in ourselves".

If we are correct, any attempt to separate business activity from values is akin to trying to separate a vase from its shape. Business activity always reveals the values that shape it. Such values are uncovered in any consideration of the purpose, accountability, control, and success of business. As such, we offer the following four propositions as corollaries to a theory of business:

- P1: The purpose of business is to optimize collective value.
- P2: Business is accountable to those who affect and are affected by its activities – in the present, past, and future.
- P3: Business control must prohibit any assault on participants' dignity.
- P4: Optimized collective value is the mark of business success.

We need to consider carefully what a theory of business implies for any single business firm. Instead of drawing inferences directly from our broader theory of business to any single firm, we should ask whether what is true at the level of business as a whole is compatible with what is true at the level of the firm. Several open questions about such compatibility emerge when we juxtapose a theory of business with a theory of the firm. Table 3.1 briefly contrasts the two perspectives and then raises a series of open questions for us to consider.

What is the purpose of a firm when the purpose of business is to optimize collective value? One might be tempted to reason that every firm must simply work to optimize collective value. This view, however, would evidence the reverse of the composition fallacy, namely, the division fallacy. Consider the human heart. The purpose of the heart is to pump blood. However, it is important to note that different parts of the heart, the ventricles, valves, septum, aorta, and more, have their own, discrete purposes. Now consider business. Just as the septum is a part of the heart that pumps blood, a firm is a part of the ecology of business that creates collective value. Few firms may be entirely focused on creating collective value, and that is fine. Still, they are not exempt from playing some role in that effort. After all, a firm is a moral entity that works in and for society. As such, a firm holds two interrelated purposes: one, a focal purpose – a

purpose that reflects its work *in* society, and two, a contextual purpose – a purpose that reflects its work *for* society.

Table 3.1: Open Questions: Contrasting a Theory of Business with a Theory of the Firm

	Theory of business	Neolassical theories of the firm	Open questions for corporate leaders
Purpose	Optimize collective value	Maximize firm value	Is our corporation's purpose compatible with business achieving optimized collective value for all business participants?
Accountability	To all business participants	To the law and to the firm's owners	Is our form of corporate accountability compatible with business achieving optimized collective value for all business participants?
Control	Prohibit assaults on participants' dignity	Guard against self-seeking with guile	Is our form of corporate control compatible with business achieving optimized collective value for all business participants?
Success	Optimized collective value	Shareholder wealth creation	Is the form of our corporation's success compatible with business achieving optimized collective value for all business participants?

The firm's focal purpose is familiar to every business student. Fail to provide customers with a high quality good or service at a competitive, profit-making price, and the firm may well go out of business. Fail to reach those customers with an effective sales and marketing campaign, raise and manage capital, recruit and manage human resources, and efficiently manage their operations, and the firm may go out of business. Moreover, to be sure, managers cannot ignore those who hold the firm's residual claims, those who hold common stock. The neoclassical economists persuasively point out that these risk-bearing shareholders are the ones most interested in maximizing the value of the entire corporation. Shareholders can keep managers ever attentive to creating a sustained competitive advantage.

All of that said, the firm's contextual purpose cannot be ignored. A firm is a human creation, one designed by humans and for humans. At a minimum,

all of its activities must clear the dignity threshold. No firm should disrespect the inherent worth, the dignity, of its many business participants. It must treat each one with respect. Moreover, no firm should forget that the final justification of its activities from a social perspective lies in its contribution to collective value.

To say that a theory of business must account for the purpose of business is one thing; it is something else entirely to articulate just what that purpose is. We have tried to step up to that challenge. In doing so, we have outlined a normative theory. We can now answer the riddle we posed at the paper's beginning: "Law is to justice, as medicine is to health, as business is to optimized collective value." We admit that the phrase "optimized collective value" does not roll off the tongue in the same way that the words "justice" and "health" do. If forced to sum up the phrase in a word, we would choose the word "prosperity", but we would do so with a caveat. The definition of prosperity must be an expansive one. Some view prosperity as simple financial well-being. We are interested in a special kind of well-being, one that honors the dignity of those who affect and are affected by the creation of that wealth. We are interested in the kind of well-being that reflects a world of business where its focal and contextual purposes are met.

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4

THE FOUR LEVELS OF BOARD MATURITY: A MAP FOR BOARD DEVELOPMENT

Bob Garratt

Abstract

This chapter proposes that there are four levels of maturity through which all boards need to develop before they can prove their competence and professionalism. Given an increasingly sceptical public view of board competence internationally, a conscious development process is no longer an option for a board but has become a necessity.

Two Directorial Paradoxes

Chairmen, boards, and directors are in a paradoxical position. On the one hand, the public, politicians, regulators, and stakeholders are angered deeply by boards' perceived lack of competence, especially since the Western financial crisis of 2008. The public now demands higher standards of accountability and professionalism from boards across the listed, private, public, and not-for-profit sectors. On the other hand, boards and directors often resent such charges because they feel that they are rarely adequately resourced or trained to accept the increasing responsibilities and liabilities

demanded of them by politicians and regulators. This is understandable. It is no secret that boards are rarely fully competent because so little time and money are invested in developing them. This is made worse by the current trend of appointing inexperienced, younger directors with no training or understanding of their roles, duties, and liabilities. Neither is the directorial role understood or appreciated by the public. Yet, boards feel that they cannot admit this open secret because of the public's underlying assumption that directors must know what they are doing – or why they were appointed as directors in the first place?

A second paradox follows: despite the public demand for effective corporate governance, investors often consider the board's two fundamental roles – giving the business overall direction to ensure its future while simultaneously ensuring that it is under prudent control – as unworthy of time or financial investment to ensure even the basic competence of board members. The public and stakeholders view this as an unnecessary expense, and few directors expect that they will be assessed regularly on their competence. Why would one then invest in developing competence in these areas? There is an alarmingly common assumption that upon becoming a registered director, one must somehow automatically gain the necessary skills, attitudes, and judgment to perform one's duties as a director competently.

Moreover, in the increasingly rancorous public debate over effective corporate governance, neither side feels that they can be seen to lose face by openly admitting these secrets without grave political and societal repercussions. We, therefore, find ourselves at an impasse – the fish currently rots from the head (Garratt, 2010a), and we urgently need to take action to stop the rot by reframing governance for directors, owners, regulators and politicians (Garratt, 2017).

The Four Levels of Board Maturity

I have been working internationally on the development and review of boards of directors for over 25 years. Looking back on the hundreds of boards with whom Sally, my wife and business partner and I have worked internationally, we see a lack of a basic map for board competence

development – a need to identify and codify the *developmental maturity* level of a board before deciding the appropriate processes for its review and development.

We have identified four levels of board, chairman, and developmental maturity:

Level zero	The accidental board
Level one	The grumpily compliant board
Level two	The learning board
Level three	The integrative board

Level Zero: The accidental director and the accidental board

Sadly, this is the default level of developmental maturity internationally. Most legislatures insist that upon the legal formation of a company, one or more persons register as "a director". There is no insistence that they prove their competence for this onerous role nor that they even understand the corporate and personal liabilities to which they have contracted. This applies as much to small businesses, start-ups, family businesses, and, sadly, charities. Many such "accidental directors" are later horrified to find that from the moment of their signature as registered directors, they are locked into a 24-hour, seven-days-a-week commitment with corporate and personal liabilities. "Directing" is not just attending the occasional board meeting; it is a continuous job for which most are unprepared professionally and emotionally.

However, this is also true of the larger corporates and their subsidiaries. Often well-performing executives are asked (or told) to become a director on their own or other boards. Initially, they consider this to be a great honor and a career highlight. Frequently, however, the opposite is found with directorships often bringing about a demotivation in their career and causes personal worry. Why would this be?

The differences between a "director" and an "executive"

Few executives realize the fundamental legal differences between being an "executive" and a "director". Yet, the roles of directors, not executives, are the basis of company law. It is commonly assumed in companies and

by most owners and stakeholders that executives are the supreme beings in an organization, with the chief executive at the helm. This is not legally correct. Such ignorance erodes the supremacy of the board of directors and reinforces the myth of the chief executive as a god-like being. The ultimate responsibility for a company's actions resides with the chairman of the board of directors. The chairman is the "boss of the board". The chief executive is the chief of the day-to-day operations of the business. If one person holds both positions, this negates the legal position and leads to trouble over time.

Such an understanding of the board's supremacy is often met with disbelief by executives. Matters worsen when an executive joins a board and is expected, by law, to learn these new directorial roles and values and to accept levels of liability 24 hours a day. Again, this knowledge often challenges the personal comfort of new directors when their responsibilities and liabilities highlight the implications and risks for their future family wealth. Such ignorance of, or refusal to accept the liability is no basis for a defense in the law. Ignorance does not allow them to avoid their directorial responsibilities and liabilities once they have signed the company's register as a director. They are legally bound and often only realize this too late when the law questions their liabilities and responsibilities. It is then too late to realize that being a director means developing and demonstrating specified competencies. They have become an unwitting accidental director; and often on an accidental board. What can be done to move from this dangerous *level zero*?

Actions needed to escape level zero:

Accidental directors face a stark choice.

- They can refuse to acknowledge the legal position in the hope of never facing the consequences – a very high-risk strategy that rarely seems so at the time.
- Alternatively, they accept that they must obey the company law on the general duties of a director and start a process that allows them to become at least minimally compliant.

By so doing, all directors accept the prime role of the chairman of the board and the legal relationship with the chief executive.

Level one board maturity: Grumpily compliant complacency

Once a director accepts their role and liabilities through induction by the chairman and company secretary, it is a human reaction for a newly registered director to say "OK, I may be uncomfortable with what I have signed, but what is the minimum I now need to do to perform this new role successfully?" They will seek the cheapest program to become minimally compliant. This is the classic "tick box" approach and has no developmental dimension as it is not linked directly to board and business performance. It is a grudging acceptance of an additional standard imposed by regulators, politicians, and bureaucrats, but without any real developmental benefits to the director. It is a negative and defensive mindset, yet it is exceedingly common. The details of such compliance are listed under *The Basics below.*

A board can exist in a minimally compliant mode. Indeed, in the US, this "*CRG*'-mindset – a focus on minimal compliance, risk, and governance – is quite common. However, since 2008, boards are under increasing pressure internationally by irate shareholders, stakeholders, regulators, and legislators to reign in their professional under-performance and demonstrate their competence. This is highlighted by the recent surge of auditing and accounting scandals. The perceived lack of professionalism from corporate directors, auditors, accountants, and lawyers, combined with the rising demand for integrated accounting, '*ESG*' (environmental, societal, and governance) reporting by a board, shows national demands for more inclusive capitalism and ethical behaviors. These are forcing boards to face the proposition that "directing" is a proper job, distinct from the executive's role, and one that demands professional development and assessment with funding to match. It is an entrepreneurial activity that demands taking considered risks where failure has increasingly corporate and personal repercussions.

The basics

The move away from complacent compliance towards effective corporate governance builds on two building blocks internationally. The first building block is resolving "*the directors' dilemma*" – how to drive an enterprise towards a healthy future while keeping it under prudent control. This sounds deceptively simple, but it needs balancing and continuous rebalancing around the boardroom table. Directing is 24-hour-a-day responsibility and

the reason why a board needs to develop competencies to focus primarily on resolving this dilemma. Many compliant boards fail at this first hurdle as they do not see their role as dynamic. At worst, they see it as an imposition on their executive time to have to attend four board meetings a year. They may look at their mobile phones under the table to see the earliest return flights so that they can get on with their "proper" jobs of managing. This is unacceptable directorial board behavior. Compliance alone is not enough to ensure the competence of a board.

The second building block is that boards need to understand and then commit to "the seven duties of a director". Two things are astonishing; the first is the similarity of prescribed directors' duties around the world, and the second is the inability of most directors to name more than two of these duties. These duties are rarely seen as the underlying architecture of a director's job, yet this is what they are. Anything not built on these foundations will fail. For the sake of clarity, the duties of a director are:

1. To act within their powers (the constitution)
2. To promote the success of their company
3. To exercise independent judgment
4. To exercise reasonable care, skill and judgment in their decisionmaking
5. To avoid conflicts of interest
6. To declare interests in third-party transactions
7. To not accept benefits from third parties (The United Kingdom of Great Britain and Northern Ireland, 2006)

These duties sound deceptively simple. Understanding what "care, skill and diligence" means for a board takes time to agree upon and develop. "Independence of thought" is more tricky. By law, a registered director must be a free agent, independently able to decide what is best for the business to which they must demonstrate *primary* loyalty. However, if a director has been appointed as a representative of a block of shareholders, or stakeholders, and feel that they must act according to their wishes rather than exercise their independent judgment, then they are acting unlawfully (Boulting v Association of Cinematography Television and Allied Technicians, 1963). Most directors do not know this, especially if they are stuck in the accidental director's mindset. Many think that their election or selection is to be a representative of other, more powerful parties. An

awareness of the law can create high personal tension and is something many directors do not want to hear. Coming to terms with this reality is what releases a board to develop and take the necessary step-change in maturity that enables the creation of a professional board.

Actions needed to progress from level one

- Subscribe to a developmental program for the board and each director with a focus on learning.
- Commit to living the director's dilemma and the seven general duties of a director with an annual assessment of performance. This builds the foundations towards a more professional board.

Progression is significantly helped by an initial board review to create an outline of development plans for the board, the business, and individual directors so that the board can move to level two maturity.

Level two board maturity: Towards the learning board

A conscious move to level two maturity (the learning board) signals a significant mind-shift and commitment to directorial competence by the chairman and directors. It is a move to diminish the dominance of "executive thinking" and to rebalance board time towards developing "directorial thinking", including policy formulation and strategy development.

To become a learning board, they need to agree with each other and with the executive team and formulate a vital document called *the reserved powers of the board*. This makes the supremacy of the board's powers explicit; usually in areas such as who appoints the chairman, who proposes directors and selects senior executives, who has the final say on capital expenditure above agreed limits, who determines the business model and strategy, and who has the final say on issues such as media releases. Such clarity gives a business performance focus to each party and much reduces the chances of later confusion and splits between the board and the executive.

To reinforce the distinction between directorial and executive roles, we have found it helpful for executives who are also registered directors to

have two distinct contracts. We advocate a contract for services for *all* registered directors, including the executives. This puts all directors on an equal contractual footing of rights and duties. For such misnamed "executive directors", we advocate an additional contract of employment for the 80–90% of their time working as an executive. This highlights that they have two very different roles that are paid, developed, and assessed separately. This helps significantly in developing their independence of thought and clarifies their need to develop new levels of care, skill, and diligence.

Once the board has agreed on the director's dilemma and the seven duties are being developed, the focus can then turn to ensure that the board moves from trying to "manage from the boardroom table" (wasting valuable board time by second-guessing the executives) to concentrating their primary focus on to the *four main tasks of a learning board* (Garratt, 2010b), which are:

- Policy formulation and foresight
- Strategic thinking
- Supervising management
- Ensuring accountability

External help is often needed for a board to move into new thinking required for a "helicopter view" of the business. This requires a move away from the usual internally (executive) focused prioritization of accountability and management supervision towards the necessary externally-focused thinking and directorial decision-making, which focuses on policy formulation, foresight, and strategic thinking. This is where the board's understanding, imagination, and risk-taking is tested against the messy, complex, and changing external and interlinked dynamic environments of politics, physical environment, economics, social and demographic trends, technological advances, and world trade. It is the stress test of the business model. Few boards do this in any rigorous way and rarely demand the resources needed to do this well.

It is the responsibility of the chairman, aided by the company secretary, to oversee this rebalancing process. The transition is aided by developing a *board dashboard* that visually shows the monthly trends on key business

indicators within agreed upper and lower limits of acceptable deviations. This dramatically reduces the board's need to second-guess the executive from the boardroom table, especially on operational issues. Most importantly, it releases significant board time to concentrate on policy and strategy formulation to ensure the long-term health of the business.

The learning board model encourages a dynamic board to design an annual plan, which, at a minimum, abandons a standard agenda format and starts its year with a board meeting focused strongly on policy formulation concerning the messy, uncertain, and ever-changing external world in which it maintains its viability. Few boards make the time to become sensitized to their company's changing needs in their changing external environments, but without a specific focus on this at board meetings at least every quarter, it is impossible to develop a business model against which to test the current strategies.

The development of the board and individual directors' strategic *thinking* capabilities is an essential part of moving to achieve level two board maturity – the basis of the learning board. Diminishing the board's focus on supervising management and accountability is significantly helped by accessing any deviances shown on the board's dashboard at least once a month, and an agreement to debate only the crucial issues rather than having long and unfocused discussions of issues of which everyone is already aware.

We have developed a well-tested board review and development instrument through a process of rigorous development.

Actions needed to progress from level two development

- Agree and commit to developing a learning board, starting with the reserved powers of the board.
- Refocus and develop the board away from executive thinking towards more policy and strategy formulation.
- Create a board dashboard to test the business model.
- Agree on the annual rhythm of board meetings.
- Agree on board selection, induction, development, assessment, and deselection processes.

Level three board maturity: Integrating the learning board with the learning organization

Becoming a learning board within two years is a demanding yet achievable target. It frees time and energy for the board and the executives to fulfill their proper roles, especially by taking thoughtful entrepreneurial risks to ensure the long-term health of the business. The final level of board maturity, level three, is then to integrate the *total* organizational structure, processes, and climate to free the subsequent internal and external learning across *all* levels of the business. This is not just a nod to such fashionable notions as "creating a culture" – it is much harder-edged than that. The board commits to encouraging open learning across the organization that reflects the way the board itself is seen to be learning its role as the central processor of business information and the guardian of its strategy, values, and culture.

It is a surprise to many boards and executives that such apparently "soft" areas such as culture and learning are measurable, let alone that they add value. This is often because the more mechanical areas of management and accountancy have dominated board thinking for so long. It takes a paradigm shift for a board to move from a focus on parametric statistical analysis to non-parametric analysis. Such "soft" analyses reap great rewards because the resulting differential measures better harvest the learning in the business. We have developed a well-tested instrument – the *Organisational Capability Survey* (Garratt, 2010b) to track the dynamic trends of just twelve key organizational dimensions and show these trends regularly and openly within the business, and as openly for owners and stakeholders as the law allows for listed businesses. This creates a continuous learning climate that, over time, ensures a robust business culture – a true learning organization.

A key focus of the board dashboard is then not just on the "hard" business results but includes the trends in the organization's total performance, including its learning, emotional climate, directorial learning, and levels of commitment. The primacy of the board in valuing and processing this information is then seen by all as crucial to developing its unique business culture. This regular tracking process applies to "mature" boards; otherwise, they can revert to level one complacency.

Level three integrated development plans

- Move to publish internal trends on combined learning across the business.
- Develop a regular and open organizational climate survey process.
- Accept that the board is the central processor of all business information across the enterprise.
- Acknowledge that the ultimate responsibility of its business results, culture, and values run parallel to each other.

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5

RESPONSIBLE BOARD LEADERSHIP: THE POTENTIAL VALUE OF COACHING

Ronell van Rensburg and Daniel Malan

Abstract

Independent non-executive directors are expected to make a meaningful contribution to governing bodies and organizations from day one. Inductions, as advocated in corporate governance guidelines, are important, given directors' roles and responsibilities towards governing bodies, organizations, and society. However, little research exists on why directors find these inductions somewhat lacking. This study considers coaching's contribution to inductions through the concepts of the purposes and limitations of induction programs, leadership traits they exhibit, challenges faced upon appointment, and what aspects coaching can cover.

Qualitative research was done by conducting semi-structured interviews with eight participants (four business executive coaches and four non-coaches, all who are experienced, independent non-executive directors, and company secretaries). Thematic analysis was used to analyze data. The findings confirmed that coaching contributed towards induction in that it provides a strategic thinking space for the director's contribution to the organization, the organization's expectations, strategic decisions, and to gain a better understanding of the organization. The findings further confirmed that coaching contributed in that it facilitated the development of

the director towards optimal performance through enhanced self-reflective awareness on confidence, interpersonal skills, strategic thinking, and moral courage; coach-space as a sounding board about challenges faced upon appointment (organization and board culture).

The findings suggest that coaching may be an enabler for the director to make a meaningful contribution in a relatively short space of time as it links to the limitations found in induction programs as well as challenges faced by leaders settling into new roles.

Introduction

Appropriate induction of newly-appointed, independent non-executive directors (INEDs) on governing bodies is often lacking (Hirt, Lund & Spielmann, 2018; Larcker, Miles, Griffin & Tayan, 2016). Effective induction of independent non-executive directors is vital as the governing bodies are the custodians of the corporate governance of organizations (Ezzine, 2017; Institute of Directors Southern Africa (IoDSA), 2016).

Governing bodies of public companies are the leaders and ambassadors of powerful organizations, which also implies an important level of responsibility. High-performing governing bodies are expected to provide strategic guidance concerning the company's growth and prosperity, ensure that a qualified and effective executive team manages the company, and monitor that the company is accountable to its stakeholders (IoDSA, 2016). They are cognizant that the public, individually or via institutional investors, invest their hard-earned money in these organizations (Ezzine, 2017; Epstein & Roy, 2004). The widely publicized Steinhoff case is an example of how quickly investments can erode when things go wrong – the share price of this organization that was developed over five decades fell by 80 percent in just two days following news about financial irregularities (Wild, Kew & David, 2017). These responsibilities and custodianship roles are challenging for leaders who are newly-appointed as independent non-executive directors (INEDs) on the governing bodies of public companies. Such directors are not involved in the day-to-day business of the organization, which makes the role even more challenging. High-performing governing bodies appoint directors who are individual leaders and are independent, diligent, competent for board membership,

have high regard for ethics, and portray strong ethical behavior (Epstein & Roy, 2004).

The inductions referred to above are intended to introduce these newly-appointed INED leaders to the organization and familiarise them with its vision, strategy, product offering, and key management. The expectation is that the director should fairly quickly start making a meaningful contribution to the organization (Long, 2008; Leading Governance, 2013) and "hit the ground running" (Dyer, 2011). Induction processes usually consist of formal induction programs. However, these induction programs do not necessarily consider the newly-appointed director's experience regarding settling into the role of director of that specific organization, the governing body's culture and the specific governance dynamics at play, nor does it consider what that director's developmental needs may be. All these factors influence the director's ability to adjust to the organization's specific dynamics without compromising independence while promoting the qualities of a high-performing director and contributing to the overall performance and effectiveness of the governing body (Epstein & Roy, 2004; IoDSA, 2016; Long, 2008).

The coaching potential to enhance these inductions of INEDs is the focus of this paper. Coaching purposes may cover aspects of those areas that induction programs generally do not cover and, as described above, as they promote learning agility by making sense of reflective practice, raising self-awareness and allowing new insights to develop during the process (Cashman, 2013; Du Toit, 2007; Passmore & Fillery-Travis, 2011; Reynolds, 2011). Coaching in the context of this study denotes business executive coaching, given that there is an organization, a fiduciary role, i.e., non-executive director involved, and it is for a specific purpose, i.e., to be part of the induction program of the organization.

For the purposes of this study, a definition for "non-executive coaching" was formulated following the study of business and executive coaching definitions (as cited in literature by Du Toit, 2007: 283; Passmore & Fillery-Travis, 2011: 74-75; Rostron, 2012: 41; Whitmore, 2017: 246; De Villiers & Botes, 2013: 53):

> *Non-executive coaching is a purposeful relationship whereby a coach, through apt inquiry and where applicable, feedback, supports non-executive directors, resourceful leaders themselves, to reflect, think and learn about their experiences/ events as directors. The result is new insights, realizations, and understanding of self, and self as part of the governing body, and an understanding of the organization and its systems, through sense-making and reflection, that further may result in choices made by the director for self-direction or action to move forward positively or towards leadership change.*

No evidence was found where coaching formed part of this kind of induction, although there is a well-established need for coaching when leaders settle into new roles (Terblanche, Albertyn, & Van Coller-Peter, 2017; Steyn & Bell, 2016). Therefore, it was unclear what coaching could offer as part of the induction of newly appointed INEDs on governing bodies. This led to the aim of the study: *What are the aspects that coaching can offer towards the induction of INEDs once appointed on governing bodies?* If inductions can be supplemented with non-executive coaching in particular areas, then directors may be supported more comprehensively to make a meaningful contribution to the governing bodies and organizations in a relatively short space of time. This chapter may be of interest to chairpersons, presidents, vice presidents, company secretaries, corporate governance professionals, INEDs, chief executive officers, and business executive coaches involved in inductions of governing bodies of organizations.

The aim was to use a qualitative approach in an interpretivist epistemology and particularly a phenomenological paradigm. This was done through semi-structured interviews with four purposively-selected coaches and four non-coaches (i.e., INEDs and company secretaries) who met specific selection criteria. In these interviews, a better understanding of the participants' views and experiences on and about the following, was gained:

- induction program purposes and limitations;
- the advocated standards and leadership traits for INEDs;
- the challenges faced when settling into new leadership roles; and
- the possible coaching areas and purposes.

Theoretical Background and Experts' opinions

The study aimed to determine what coaching can offer when it forms part of induction programs for newly appointed INEDs on the governing bodies. Three concepts were the focus of the study: leadership expectations and challenges, induction programs, and coaching.

INED Role and Governing Body, Leader Expectations and Challenges

Governing bodies guide and lead organizations with the fiduciary responsibility to act in good faith, diligently, and with due care. Governing bodies play a pivotal role in the corporate governance quality of organizations (Ezzine, 2017). Directors and governing bodies have many responsibilities centered around providing strategic direction to organizations, overseeing their effective management, and safeguarding their assets. This must be done in an integrated manner, keeping in mind the triple context of the economy, society and the environment towards a sustainable outcome, as well as ensuring that the organization they are governing is a concerned and responsible citizen (IoDSA, 2016; International Corporate Governance Network (ICGN), 2014). In addition, INEDs on governing bodies must provide objective and balanced perspectives, as they are not connected to the organization or its management. They must uphold high ethical standards and oversee the organization's corporate governance to safeguard it against fraud and corruption (IoDSA, 2016). They are accountable and responsible from day one of their appointment.

Literature and legislation define a non-executive director as a director not involved in the day-to-day management of the organization's affairs (IoDSA, 2016; Republic of South Africa, 2011). Practitioner literature and prescribed governance guidelines explain that an independent director is not connected to the business in such a way that it may impair the director's ability to be independent on the governing body, in mind, behavior, and action. Furthermore, the focus of the study was not on inexperienced non-executive directors (e.g., persons who had never previously been appointed as a director on a public organization's governing body) for whom extensive mentorship and development programs are prescribed in the literature (IoDSA, 2016).

These INEDs and leaders are usually from diverse backgrounds, professions, age groups, genders, races, and life cycles, with varied business experience, skills, qualifications, and career paths. They tend to have diverse levels of exposure on governing bodies, without necessarily having industry knowledge of the organization where they are appointed as independent, non-executive directors (IoDSA, 2016). It can, therefore, be a steep learning curve, particularly to understand the organization, when they are first appointed on a governing body (Dyer, 2011; Day, 2009; Long, 2008). To add to this is the pressure to contribute meaningfully to the performance of the governing body (Epstein & Roy, 2004; Long, 2008) while portraying high moral courage (Hannah, Avolio & Walumbwa, 2011). In addition, INEDs often struggle with balancing the establishment of trust with executive management while, at the same time, monitoring their performance and conduct (Taylor, Dulewitz & Gay, 2008; McNulty & Pettigrew, 1999). Furthermore, strategic thinking skills continued to be challenging for directors (McNulty & Pettigrew, 1999; Long, 2008; Schoemaker, Krupp & Howland, 2013; Boal & Shultz, 2007). For this study, the six core skills that had to be exhibited for a leader to be a strategic thinker, as found in the study by Schoemaker *et al.* (2013: 131-134), were applied; the essence of which included:

- anticipating signals for change in the organization and challenging assumptions;
- examining the issue from all the different lenses possible and making decisions after careful reflection;
- interpreting through the balanced processing of complex and large amounts of information;
- making robust decisions that are informed, taking the medium and long term into account;
- aligning stakeholders' views (including those with disparate views);
- learning from successes and failures and promoting this culture in the organization.

Diligence, informed judgment, competence, accountability, fairness, and transparency are also relevant to those core skills (IoDSA,2016).

There are similarities between the responsibilities of governing bodies and expectations for 21st-century leaders. In essence, they have to be stakeholder-inclusive and collaborative, perform under extraordinary

pressure, able to test and re-test reality for strategic fit, demonstrate high moral courage as well as ethical and pro-social behavior, have excellent strategic thinking skills, and learning agility abilities (Barton, Grant, & Horn, 2012; Hannah *et al.*, 2011; Schoemaker *et al.,* 2013; Boal & Schultz, 2007; Cashman, 2013). Furthermore, the review of the literature found that directors were expected to exhibit mature confidence (Epstein & Roy, 2014; Sonnenfeld, 2002). For clarity, moral heuristics, i.e., "rule-of-thumb-behavior" (Weaver, 2014), was not taken into account in this study.

Induction Programmes – Purposes and Limitations

When leaders are appointed on governing bodies, they experience inductions that tend to happen over a relatively short period and consists of workshops or programs covering information on the product offering, vision, strategy, and purpose of the business, their statutory responsibilities, duties, powers, the organization's structure and systems, and an introduction to the key senior leadership (Leading Governance, 2013; Long, 2008). These induction programs seldom include coaching (Leading Governance, 2013; The IoDSA, 2018), while several corporate governance guidelines and practices worldwide emphasize its importance (OECD, 2015; IoDSA, 2016; ICGN, 2014; Tricker, 2010; Financial Reporting Council, 2016; ASX Corporate Governance Council, 2014; OECD, 2017; Securities & Commodities Authority of the United Arab Emirates, 2016).

Studies indicate that the inductions tend to be lacking somewhat, but did not provide much information to clearly articulate the reasons for this lacuna (Hirt *et al.*, 2018; Larcker *et al.*, 2016). The results of a McKinsey & Company survey of 928 respondents indicated that 77 percent of participants believe that new directors did not receive sufficient induction to be effective in their roles (Hirt *et al.*, 2018). It was further found in this study that induction was one of the top three contributors to the high performance of organizations in the long term, which further emphasizes the importance of proper induction. In addition, the study found that only 58 percent of organizations in the sample had induction practices in place. They recommended that the induction had to ensure that the director had a good understanding of the organization and industry. These results were also supported by a study by Larcker *et al.* (2016: 15).

The potential limitations of information covered in induction programs were that:

- they did not cater for integrated learning and understanding of the vast amount of information given, to gain a better understanding of the organization and industry;
- they did not assist the director in establishing the trust of management relatively quickly;
- it was not clear whether induction programs allowed for a mechanism to assist the INED with any potential challenges they experienced with moral courage, mature confidence, strategic thinking, and learning agility abilities.

Potential Contribution of Coaching Towards Induction

There is a dearth of literature on coaching for the induction of newly-appointed INEDs, even though coaching is widely used in organizations, as was substantiated in a study by De Villiers and Botes (2013) where more than 80 percent of organizations in the United Kingdom and 90 percent in the United States of America made use of executive coaches. There is thus no need to prove the legitimacy of coaching as organizations often use coaching with the key stated purposes of talent and leadership development, performance and performance improvement, capability in complexity and ambiguity, transitions and role change, external relations, and leadership ability to be flexible and responsive (Buckle, 2009; Ridler & Co., 2016; Holmes, 2014; De Villiers & Botes, 2013; Coutu & Kauffman, 2009). The purpose statements on executive coaching found in the literature studied (Athanasopoulou & Dopson, 2018: 75; De Villiers & Botes, 2013: 53; Bono, Purvanova, Towler, & Peterson, 2009: 372; Feldman & Lankau, 2005: 835-836) broadly focused on embedding behavioral change; increasing self-awareness; increasing knowledge or producing learning, enhancement, and development of skills and confidence.

The coaching process includes making sense of specific things, increasing self-reflective awareness, and gaining new insights or learning (Cashman, 2013; Du Toit, 2007; Passmore & Fillery-Travis, 2011; Reynolds, 2011). This process is explained in more detail in Table 5.1 below. These elements of the coaching process are all necessary to promote leadership

attributes of learning agility and strategic thinking, which were found to be key leadership traits for high-performing INEDs and governing bodies.

Table 5.1: Elements of the coaching process explained

Element	Descriptive meaning
Apt inquiry	Appropriate questions that are mainly open-ended.
Client being resourceful	The client is regarded as a whole person and has access to resources to find solutions for issues or to make decisions.
Think	Direct the mind intentionally towards something/someone.
Reflect and reflection	That which one has made sense of is then being reviewed by evaluating it from different perspectives, contexts, and rationale.
Learn	By reflection, understanding is gained, which results in learning to take place.
Sensemaking	By becoming aware of or assigning meaning to something and then gaining clarity thereof as well as the schemas.
Self-direction choices/ change	The client chooses what he/she wishes to do or not to do, what direction to take or not to take, to change behavior or not. The locus of control remains with the client.
Schemas	Meaning systems that enable decision-making by interpreting the environment and automatic behavior responses. Evolved through personal experience and interaction with the social environment.

Sources: Du Toit (2007); Passmore & Fillery-Travis (2011); Rostron (2012); Whitmore (2017).

Thus, by taking cognizance of the leadership expectations and challenges that INEDs face, the induction program and coaching purposes, the potential contribution of coaching towards induction can be summarised as three core purpose statements:

1. To produce learning that increases an understanding of the organization;
2. To increase self-reflective awareness and to make the shifts in thinking and/or behavior necessary to enhance effectiveness as part of the governing body and organization in the role of the INED;
3. To determine specific induction needs and or specific strategies for the enhancement of leadership quality.

Method

Research strategy and study sample

The study aimed to explore INEDs' experiences of induction on governing bodies, to gain a better understanding of it from the participants' subjective and internal realities. Therefore, the study was a qualitative case study grounded in an interpretivist epistemology and, particularly, a phenomenological paradigm (Babbie & Mouton, 2001; Saunders & Rojon, 2014; Bryman, 2008; Smith, 2003).

The population comprised of executive coaches, independent non-executive directors, and company secretaries. Bryman (2008: 462) suggested a sample size of twelve to achieve data saturation for thematic analysis, whereas Smith (2003: 54) suggested that a sample size of six would be appropriate for qualitative research, while Blanford (2013: 13) suggested a sample could be anything between one and twenty participants. To obtain perspectives from coaches and non-coaches, a balance between coaches (four) interviewed and non-coaches (i.e. company secretaries and directors combined)(four), was sought to minimize bias, also contributing to the quality of the qualitative study. The participants were approached directly for voluntary participation. For purposive sampling, the following specific criteria were applied:

- Coach participants had coached a director of a listed organization in the last two years;
- Director participants were INEDs of a listed organization and served on more than one governing body;
- Company secretary participants had at least five years' experience in the role of company secretary for a listed organization.

Inclusion criteria not considered were age, gender, diversity, and career stages, or level of experience on boards. This limitation in sample selection could be addressed in future research.

Data collection and analysis

Semi-structured interviews were used to collect data for this study as it allows for probing, which enables the interview to be guided by the interviewee, while the interview guide provided a structure for interviews

to remain within the aim of the study (Smith, 2003). The interview guide design was based on literature review concepts, a pre-test followed by further adjustments, which further promoted the quality of the study (See Table 5.2).

Table 5.2: Interview guide questions linked to key concepts of study

Key concepts	Interview guide
Induction programme purposes and limitations	Questions about purposes and content covered in induction programmes. Questions about what enhancements could be made to induction programmes.
INEDs' leadership expectations and challenges once appointed.	Questions about challenges experienced when settling into the role. Questions about capabilities, enablers, and experiences when settling into roles. Questions about the experiences of participants about board dynamics, meeting the executives, learning, and understanding the organization.
Potential coaching contribution	Questions about participants' understanding of business executive coaching and experiences therein. Questions about experiences or perceptions on how coaching influenced the leader's self-reflective awareness capability, learning agility, strategic thinking to build and establish the trust of board colleagues and executive management and understanding the organization, or other leadership challenges the leader faced upon appointment. Question about the perception of how coaching can play a role in the induction of INEDs or any inhibitors.

Five interviews were conducted face-to-face, while three interviews were conducted telephonically. The guidelines by Smith (2003: 62-64) were applied in the interviewing. The data gathered was then analyzed and interpreted using thematic analysis to identify, analyze and report patterns (Vaismoradi, Turunen, & Bondas, 2013; Smith, 2003; Bryman, 2008: 554), as it was an inductive process whereby meaning was derived from the coded data (i.e., the participants' subjective and internal perspectives) from the interviews (Castleberry & Nolen, 2018). Table 5.3 provides further information on how thematic analysis was applied to the data collected:

Table 5.3: Application of thematic analysis to the data

Steps followed	How it was applied to the data
Familiarity with data	The researcher was the interviewer and transcriber and listened to data three times and read transcriptions four times
Disassemble data and code	The data was disassembled and coded.
Re-assemble data and identify themes	The coded data was organized according to the key concepts of the study (induction programs, leadership traits and challenges, and potential coaching contribution). Coded data was organized through pattern identification, and themes were chosen
Interpret relationships between the themes (by using visual presentation) and refine themes and names	The theme choice, names, and linkages were reviewed and visually presented.
Conclusion in narrative form with linkage to the research aim	See the concluding section of this paper.

Source: Castleberry & Nolen (2018: 2-6).

Results

Contextualising the results

The results are presented according to the three themes of induction program purposes and limitations, advocated standards and leadership traits for INEDs, and the challenges faced when settling into new leadership roles; and possible coaching areas and purposes.

For context, the participants that were interviewed were:

- Four executive business coaches (C) who had coached at the executive director level of organizations, with only one of the coaches having coached INEDs.
- Four non-coach participants (NC) who consisted of two participants who were directors that had more than ten years' experience as INEDs of governing bodies, and two participants who were company secretaries that had more than 20 years' experience as company secretaries.

Supporting quotes are provided from both groups unless otherwise noted.

Induction programme purposes and limitations

The data gathered assisted in gaining a better understanding of whether the induction programs were "fit for purpose" and identifying potential areas that could be supplemented by coaching. Only the non-coach participants were asked questions about the induction programs. Two themes emerged from the data (See Table 5.4 for examples of supporting quotations for each theme and category).

Table 5.4: Induction program purposes and limitations

Theme and category	Supporting quotations
Knowledge and understanding of the organization: • Information • See the business in action • Interact with key executives	NC: The induction process is that the appointee is exposed to the last strategic plan of the business because he might understand how the business works but must understand what the longer-term objectives are. NC: Firstly, exposure to the senior executive people in the company. NC: You get the director to visit all the businesses.
Not comprehensive enough for INEDs to make meaningful contribution quickly: • Understanding the business; • Identifying INED developmental needs	NC: During the induction you will pick up whether the person is not as financially numerate as he/she should be, whether the person knows absolutely zero about manufacturing or this or that and you also learn about the person's style, how they phrase questions and do they do it in an abrasive manner or do they do it politely. This thing all becomes part of the development, and you will have a much better feel when you come to the evaluation stage… NC: You go through induction, and you broaden your knowledge, but you still don't quite know how this whole thing fits together…

The advocated standards and leadership traits for INEDs and the challenges faced when settling into new leadership roles

The data gathered assisted in gaining a better understanding of what attributes INEDs should portray or the required development for

appointment and what challenges they faced once appointed. The first theme that emerged was about those traits that INEDs should exhibit. Similar traits stood out for coaches and non-coaches (See Table 5.5).

Table 5.5: Skills/attributes emphasized for the INED role

Skill/attribute	Supporting quotations
Mature confidence	**C**: They will be able to communicate more effectively what they need in terms of advising the business leaders. **NC:** How to challenge constructively and yet to provide support...
Inter-personal skills	**C:** You are helping them to understand their world and the experience they have, and you are helping them to understand their blind spots. **NC**: Becoming part of the team very quickly, because they have to do that.
Strategic thinking	**C**: To really help them think about the systemic aspect, the systems in the organization, and having a view on strategy, helping the executive leaders to understand what it means to execute on strategy. **NC:** Crossing the bridge from operational involvement to more strategic, big picture type of involvement.
Moral courage	**C**: What are your values, your intentions, and do you think you are consistent in the way they show up and how does that affect the people that you relate to **NC**: You should be the real deal; you should be authentic….. people will not trust you and without a situation of trust, you are not going to accomplish anything….It all has to do with integrity.

The second theme that emerged was that INEDs had to have a good understanding of the organization. For both coaches and non-coaches, two particular components stood out, namely the business aspects and the broad culture (See Table 5.6).

Table 5.6: INED and their ability or challenge to understand the organization

Component	Supporting quotations
The business aspects	**C**: Getting first to understand the organization, getting to know the networks, getting to understand the culture that is established, getting to understand the informal structures of the business. **NC**: Most challenging from the point of view that it was a completely different industry from the ones that I have been involved in previously…you can focus on the things where you have superior knowledge …. But, 90% of the strategy session and so on do not deal with those…They deal with what's happening in the industry and how to position the company etc. and you have a fair bit of catching up to do in order to contribute.
Board culture	**C**: Coaching helps them see what they are not seeing. So, they will go in and have a board meeting…They had a little bit of time to think about what had happened, they come to the coaching, and they relay what happened because coaching is learning from your experience. So, they relay what happened and relay where they had difficulty and what was difficult. So, the coach then challenges them about what worked and why did it work and what did not work and why didn't it work. So, then they go back to the next board meeting, and they change their behavior a little bit, or they ask their questions a little differently, or they go in less adamantly or less arrogantly. **NC**: Board dynamics that you need to become acquainted with. I have been lucky in the sense that I have not been on boards with corporate bullies and those sorts of people. However, you need to understand how it works. You must analyze and get to know the people around the table.

The possible coaching areas and purposes

The data gathered assisted in exploring the perceptions and experience of coaching for the induction of INEDs. Three themes emerged, two of which related to advocated traits for INEDs or challenges they faced with appointment, which confirmed the potential contribution towards induction. The first theme related to providing a strategic thinking space for the INED for particular aspects relevant upon appointment, and both coaches and non-coaches articulated that this was important for induction purposes (See Table 5.7).

Table 5.7: Strategic thinking space

Subject matter for thinking	Supporting quotations
How to contribute as an INED	**C**: Coaching will help them to think about their experience; like I said earlier, what worked, what did not work, what did they learn, what do they think they need to do better next time, what more do they need, what other work do they need to do to prepare for a board meeting, where is their experience valuable, how can they contribute. **NC**: To provide a little bit of coaching on how this new director must deal with different types of situations. You cannot sit there and keep quiet forever. At some stage, you need to open your mouth and make a contribution, but you also don't want to do that for the sake of saying something.
Enhancing the strategic thinking ability	C: Basically, the value of the execs working with a non-exec person is to coach them in understanding the culture they want to develop and what is in the culture that needs changing, what is working and what is not working. You can end up with conflict between the non-exec and exec, and you get that often. So, that is the negative side. The positive side is that they understand the values and help the company to implement the culture that they want. NC: The difficulty that one has at board level is that the short-term is very important, and so is the long-term. Some do it exceptionally successfully… some are more strategic in their thinking, longer-term, and some tend to be more short-term in their thinking than long-term strategic.

The next theme identified was to facilitate the development of INEDs towards optimal performance mainly through the capacity development of self-reflective awareness and the coaching space being a good sounding board for the INED, as can be seen in the remarks by both coaches and non-coaches (See Table 5.8).

Table 5.8: Coaching elements applicable

Element	Supporting quotations
Self-reflective awareness	C: Begin to understand the difference between mentoring, i.e., telling executives what to do and sharing their experience, which is what you do in mentoring, rather than giving a view on what is needed for the executives to think about. So, in other words, they have to develop some coaching skills themselves. NC: Because you need to open up a new executive, a new director. You need a mechanism to open them up… I have seen that on some boards, I have seen people left to their own and probably that is why it could be a good idea to have it in the induction process.
Sounding board	C: I sometimes straight out say to people: "what are you going to say?" What are the words that you are going to use? So that they can play those words back to me and that we can discuss the words that are being used. So, you may mean well, but if the way that you say it is not aligned to your intentions, then you lose people. NC: So, I think it is different for individuals, and we must not underestimate that sometimes people just do need that sounding board, around, how they are feeling at times when things are little bit tense in terms of the pressures they are under.

The last theme, coaching inhibitors, was an interesting finding in that particularly coaches remarked that INEDs had to know how to self-reflect before being coached. This was not mentioned at all by any of the INEDs. This was articulated well by one of the very experienced coach participants (see Table 5.9). Furthermore, both coaches and non-coaches remarked that coaching would only be successful if the INED wants to be coached (see Table 5.9).

Table 5.9: Coaching inhibitors

Coaching inhibitors	Supporting quotations
INEDs must be able to self-reflect	**C:** I can't coach people who can't self-reflect…. So, that takes practice… because if they are not going to do that reflective work, they are not going to get traction. That neuroplasticity in changing old patterns is not going to take off. And then if they consistently resist doing that and tell me that they know what they are doing, it stays at the cognitive and does not drop down to that deeper work, and then, I don't think I can coach them.

INEDs must want to be coached	**C**: Arrogance. Lack of knowledge of self. Perhaps they have never been coached before and therefore do not see the value of it. Or they don't think about getting coaching because they have never experienced it… I think those will be the key things. They are all blind spots, their own blind spots. **NC**: It is a big ego thing, it is bigger than this building, and it is natural… So, I have sat on 20 boards and have been a director for 30 years, you have to deal with that and in most cases, successful companies, so how do you deal with that.

Discussion

Discussing the results briefly in the context of theory, provided insights into findings and confirmed that coaching might positively contribute towards the induction of newly appointed INEDs in the following areas:

- Providing a strategic thinking space for the independent non-executive director's contribution to the organization; about the organization's expectations; strategic decisions; and how to gain a better understanding of the organization;
- Facilitating the development of INEDs towards optimal performance through enhanced self-reflective awareness of mature confidence, interpersonal relationships, strategic thinking, values clarity, identifying development needs or challenges faced, communication skills development, coaching skills, and board culture adjustment aspects;
- Facilitating the development of the independent, non-executive director towards optimal performance with coaching that provides a safe place for self-reflection on challenges faced with the role or role adjustment, preparation for board engagement, making sense of those things on which the independent non-executive director needs clarity.

Induction programme purposes and limitations

The findings and theory on the purposes of induction programs (i.e., to assist the director with understanding the organization, interaction with the business, and with the key leadership) were the same (Financial Reporting Council, 2016; Higgs, 2003; Long, 2008; Tricker, 2010; Coulson-Tomas, 2008). Practitioner literature and peer-reviewed articles advocate

that induction programs must enable directors to make a maximum contribution in a relatively short space of time (Financial Reporting Council, 2016; IoDSA, 2016; Higgs, 2003; Long, 2008; Tricker, 2010; Coulson-Thomas, 2008). It is assumed that all directors contribute; otherwise, one could argue that the board did not apply its mind to the appointment of said director to the governing body during the recruitment process. It is with this context in mind that the limitations of induction programs are discussed.

The finding that inductions provide limited assistance to INEDs in understanding the business, which hampers them to make a meaningful contribution to the governing body in a relatively short space of time, is supported in the literature (Hirt *et al*., 2018; Long, 2008).

An INED brings his or her entire self to the organization upon appointment; i.e. a particular set of qualifications, skills, and experience; is from a specific background, diversity demographic; and identity. Therefore, based on the individual's particulars, there may be specific areas that require development when compared to what is expected from an INED from day one of appointment on a governing body. With governance practice and literature advocating the continuous development of directors of governing bodies, it is implied that there may be developmental areas (Long, 2008: 24; IoDSA, 2016: 55; Higgs, 2003: 98). Therefore, the finding relating to this category is supported in the literature

Leadership traits for INEDs and the challenges they face

A comparative analysis of the results and theory was done on the advocated standards and traits for INEDs, and it was found, at large, to be similar. The details thereof are contained in Table 5.10, and the discussion on each trait follows after that. In addition, the challenges that INEDs face when settling into new roles relate to gaining a good understanding of the organization (business and board culture).

Table 5.10: Leadership traits theory vs. findings

	Mature confidence	Inter-personal skills	Strategic thinking	Moral courage
FINDINGS	• Assertive Communication • Listening skills • Teamwork • Confidence levels • Influence • Openness towards engagement	• Building of relationships • Credibility • Communication skills • Political astuteness • Lack of awareness in the above	• Ability to absorb and understand vast amounts of information • Anticipate trends • Understand complex issues • Being able to think long-term	• Integrity concerning the trustworthiness of the INED • Integrity concerning the trustworthiness of the organization • Act according to their beliefs, thereby exercising influence. • Fully understand what their values are.
LITERATURE	• Diligence • Mature confidence • Responsibility • Competence • Accountability (answerable) • Transparency • Fairness	• Integrity (consistency between your moral principles and actions) • Competence • Responsibility • Accountability • Fairness (fair and equitable treatment of sources of value creation)	• Diligence • Informed judgment • Learning agility • Competence • Responsibility • Accountability • Fairness • Transparency (unambiguous and truthful exercise of accountability)	• Diligence • Informed judgment • Moral courage • Integrity • Competence • Responsibility • Accountability • Fairness • Transparency

Sources: Epstein & Roy (2014: 5-8); Hannah et al. (2011: 555); Cashman (2013: 2); Schoemaker et al. (2013: 131-134); IoDSA (2016); Weaver (2014).

Leadership trait: Mature confidence

The theory advocates that directors are expected to act with care (diligence and responsibility), to be able to look at legitimate needs (fairness) transparently and maturely, and to be answerable to one another, the organization and its stakeholders (accountability). Furthermore, without competence, one could argue the INED should not be considered for appointment. The findings further highlighted the impact of the INEDs'

confidence levels, and in some instances, the lack of awareness thereof, which was not explicit in literature.

Leadership trait: Inter-personal skills

Directors are required to establish relationships so that the board can function effectively as the board collectively is accountable to shareholders, society, and other stakeholders for its decision-making and activities. This is a necessary competence for success as a board member. Directors should have credibility, which is exhibited through integrity and responsibility. For the effective functioning of the governing body, the fair and equitable treatment of fellow board members substantiates the need for political astuteness and appropriate communication skills as the board forms part of the value creation of the organization as the ultimate body of accountability. As interpersonal skills are essential for directors to fulfill their responsibilities, continuous enhancement of these skills is necessary.

Leadership trait: Strategic thinking

Strategic thinking ability is necessary given that the governing body is ultimately responsible for setting the strategic direction of the organization and oversees the implementation thereof, and is, therefore, accountable. Upon reflection, the findings emphasized some aspects of strategic thinking as an attribute when compared to the literature. The need for the continuous development of strategic thinking skills cannot be under-emphasized as they are critical to the effective functioning of the governing body and for the understanding of the organization for which the governing body is responsible.

Leadership trait: Moral courage

Directors must uphold high ethical standards, as the governing body oversees the organization's corporate governance to safeguard it from fraud, corruption, and significant ethical breaches. Moral courage, as a necessary attribute, cannot be over-emphasized. The attribute found in the literature unambiguously supports this (IoDSA, 2016; Clark & Brown, 2015; Goldschmidt, 2004) and is supported in the findings. The findings emphasized the need for directors to understand their values fully and how it manifests, which directly links to being competent and have moral courage when appointed on governing bodies.

Challenge INEDs face relating to gaining a good understanding of the organization

The finding that INEDs should have a good understanding of the organization and their role as INED is well-supported in practitioner literature where these directors have particular responsibilities, such as providing strategic direction to organizations, overseeing its effective management, and safeguarding its assets. These duties cannot be performed without an integrated understanding of the organization (IoDSA, 2016; ICGN, 2014). This finding is further supported by the recommendation made by McKinsey and Company (Hirt *et al*., 2018) that induction had to ensure that the director had a good understanding of the organization and industry.

The understanding of board dynamics/culture as it pertains to the INED's role, is supported in the literature (Taylor *et al.,* 2008: 54; Long, 2008: 44-45; McNulty & Pettigrew, 1999: 13) as it pertains to the establishment of trust with executives, and balancing that with the monitoring role, as well as aspects about the quality of information submitted to governing bodies. The findings of this study provided additional insights, not explicitly found in the literature on specific challenges that newly appointed INEDs experienced once appointed on the governing bodies:

- the fiduciary role (rights and certain responsibilities),
- meeting protocols as these pertain to the chairperson's style,
- adjusting to the particular styles of fellow INEDs on the board, and
- organization-specific aspects (on a more practical level those things that are different from what the INED was accustomed to).

Possible Coaching Areas: Purposes and Coaching Inhibitors

The findings of the theme on what the potential contribution of coaching towards induction was, follows next, after which coaching inhibitors will be discussed.

Strategic thinking space

The finding that coaching can potentially contribute towards induction as it provides a strategic thinking space for the INED, is somewhat supported in

the literature. Although there is a dearth of literature available on coaching in the induction of INEDs, numerous studies exist about executive business coaching with stated purposes such as the development of skills, increasing knowledge, facilitating learning and thinking, increasing self-awareness, and achieving specific agreed-upon goals (Athanasopoulou & Dopson, 2018: 75; De Villiers & Botes, 2013: 53; Bono *et al.,* 2009: 372; Feldman & Lankau, 2005: 835-836; Reynolds, 2011: 48; Holmes, 2014: 396; Ridler & Co., 2016: 14; Fillery-Travis & Lane, 2006: 35). The executives and INEDs are human beings in specific leadership roles, and therefore, there is no reason why the coaching purposes for executives cannot be an acceptable practice for INEDs. However, the specific context and needs for the coaching of the INED may differ as it relates to that particular role.

Potential coaching areas for the INED that emerged from the findings of this study that are not explicitly found in the literature relate to providing a strategic thinking space for the INED with the core purposes of:

- Strategy formulation for the INED on where and how the INED's experience would be most valuable to the organization so that the INED could make a meaningful contribution in a short space of time and making sense of aspects that may inhibit their progress in achieving this;
- Making sense of the organization's specific expectations for the particular appointment as INED and determining the goals on how to achieve these aims;
- Making sense of which areas of the organization the INED required a better understanding and determining strategies for achieving such understanding.

Facilitate development towards optimal performance

The finding that coaching may potentially contribute to providing a space where the INED could develop optimal performance is supported in the literature. Governance practice advocates that directors appointed on governing bodies are to be competent, and therefore the assumption that directors are already high-performing is substantiated in the literature (IoDSA, 2016; ICGN, 2014). Furthermore, coaching advocates that the client being coached is assumed to be a whole person and has access to resources to find solutions for issues and to make decisions (Du Toit,

2007; Passmore & Fillery-Travis, 2011; Rostron, 2012; Whitmore, 2017). Therefore, reference made to "optimal" performance is fully supported by the literature. In addition, practitioner literature requires governing bodies and individual directors' performances to be evaluated, which implies that there may be some need for development in particular areas for the enhancement and effectiveness of the governing body.

In numerous studies where role change, onboarding or transitions were taking place, coaching was rated as the preferred choice for support and highlighted explicitly as the preference for leadership development at executive or vice-president level in organizations (Reynolds, 2011; Terblanche *et al*., 2017; Hagemann & Mattone, 2011). Furthermore, studies by Reynolds (2011: 48), Holmes (2014: 396), Ridler & Co. (2016: 14), Fillery-Travis and Lane (2006: 35), and De Villiers and Botes (2013: 53) proved that coaching added value for the clients and organizations as follows:

- developing new capacities (e.g., personal, social, strategic thinking);
- understanding sources of anxiety and how to change associated perspectives and behaviors;
- re-enforcing the building of confidence and client abilities;
- facilitating learning and thinking;
- building reflective capabilities;
- achieving the specific agreed-upon goals;
- developing greater awareness of the self and the self among others; and
- having a positive impact on the effectiveness of the client.

The literature further explained that coaching entails a process whereby the client becomes aware of or assigns meaning to something and then gains clarity as well as the schemas for understanding. That which one has made sense of is then reviewed by evaluating it from different perspectives, contexts, and rationales. This then results in a new understanding and thus learning (Du Toit, 2007; Passmore & Fillery-Travis, 2011; Rostron, 2012; Whitmore, 2017). Thus, the findings for self-reflective awareness and providing a space to make sense of the challenges the INED faces (i.e., a sounding board) are aligned with literature.

The literature did not explicitly explain what areas INEDs are specifically required to make sense of or become more aware of, whereas the findings provided some insight in this regard. In addition, the findings promoted external coaching as a preference for the coaching of INEDs, given that the risk of leakage of information within the organization is thereby limited, promoting safety for that person to open up about particular challenges faced.

Coaching inhibitors

The finding that there are certain inhibitors for coaching INEDs during induction is supported in the literature. Studies by Du Toit (2007: 285), Terblanche *et al.* (2017: 8), and Reynolds (2011: 49) describe reflection as a core element for the coaching process and therefore, without this ability or willingness to commit to learning, the coaching process will be hampered.

Even though the scope of this study does not include the process for effective coaching, one of the categories of the finding touched on a key matter about the commitment towards being coached. The coaching space is the client's space to think, reflect, make sense of things and learn, and therefore a vital necessity for any coaching intervention is a commitment to the process (Morgan & Rochford, 2017: 2-5; De Villiers & Botes, 2013: 53; Du Toit, 2007: 284; Reynolds, 2011: 48; Holmes, 2014: 396; Ridler & Co., 2016: 14; Fillery-Travis & Lane, 2006: 35).

Induction programs are tailor-made towards the needs of the INED. This could afford the ideal opportunity to introduce the INED to coaching, including the opportunity for the INED to think about any particular developmental needs that (s)he may have, from day one of appointment. However, the coach/es should be involved in this process to provide proper education on what coaching entails so that INEDs who have never been exposed to coaching or experienced coaching themselves are properly informed of the purpose, particularly highlighting that it is not for performance improvement but rather performance optimization. Furthermore, this opportunity could allow the INED to consider the due diligence outcome done before accepting the appointment in determining director-specific needs.

Conclusion

This study set out to explore what the potential contribution of coaching may be towards the induction of INEDs on governing bodies. Three concepts were the focus of the study: induction program purposes and limitations; the advocated standards and leadership traits for INEDs, and the challenges faced when settling into new leadership roles.

Insights into finding ways that inductions should be supplemented with non-executive coaching in these areas suggest that directors may be supported more comprehensively in the following ways to make a meaningful contribution to the governing bodies and organizations in a relatively short space of time:

- Provide a strategic thinking space for the INED's contribution to the organization; about the organization's expectations; strategic decisions; and how to gain a better understanding of the organization;
- Facilitate the development of INEDs towards optimal performance through enhanced self-reflective awareness of mature confidence, interpersonal relationships, strategic thinking, values clarity, identifying development needs or challenges faced, communication skills development, coaching skills, and board culture adjustment aspects;
- Facilitate the development of the INED towards optimal performance with coaching that provides a safe place for self-reflection, i.e., a sounding board for challenges faced with the role or role adjustment, preparation for board engagement, making sense of those things on which the independent non-executive director needs clarity.

However, the potential contribution of coaching is largely dependent on whether the INED is amenable to coaching. Whether they are amenable or not was found to be due to a lack of awareness of the need for coaching due to a limited understanding of coaching purposes.

Insights gleaned for practice and future research taking the limitations mentioned under methods, include:

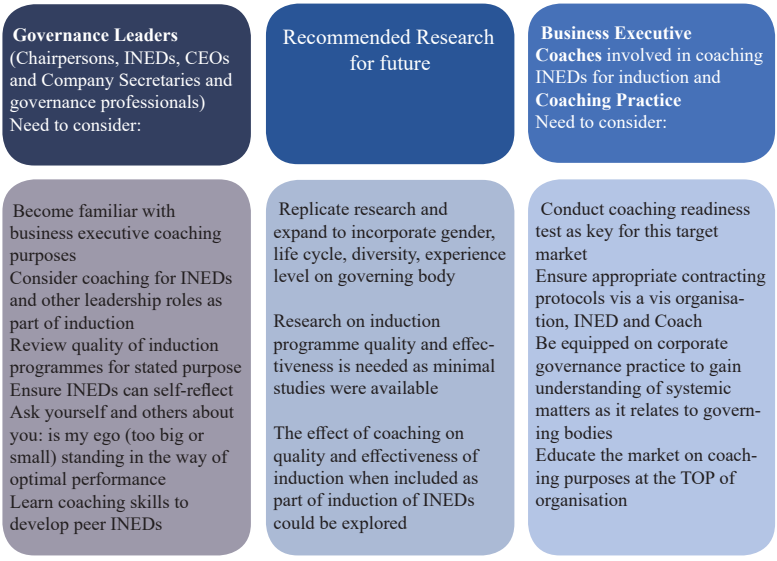

Figure 5.2: Empirical and theoretical implications

In conclusion, if the findings of the study are applied, non-executive coaching may, in the future, become the norm for the induction of INEDs on governing bodies. As these high-performing individuals are accountable from day one of their appointment, it is crucial to ensure that INEDs onboard quickly enough to make meaningful contributions to the governing bodies and organizations in a relatively short space of time.

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6

HOW DIGITALIZATION TRANSFORMS ORGANIZATIONAL COMMUNICATION – IMPLICATIONS FOR LEADERSHIP

Prof. Dr. Andreas Hesse & Prof. Marjo-Riitta Diehl, PhD

Abstract

In this conceptual paper we ask the question "how do digital communication technologies – especially social software platforms – shape organizational communication from the perspective of leadership"? Theoretically, we build on and employ media synchronicity theory, which focuses on the ability of media to support synchronicity – a shared pattern of coordinated behavior among individuals who work together – and ultimately the goals of leadership. In so doing, we illustrate how communication from the perspective of leadership is influenced – in good ways and in bad – by the media capabilities of digital communication tools. We also examine the underlying communication processes within a digital workforce in terms of the conveyance of information and convergence of meaning. Finally, we elaborate on the factors that influence the appropriation of digital media, i.e. the extent to which social software platforms are suited for the communication needs of leaders in digital work settings.

Keywords
Digitalization, leadership communication, media synchronicity theory, digital leadership

Introduction

> *At Neurozone, we don't have an office; we are in different cities and work in the cloud. I can honestly say I miss my people; I want to smell them, unconsciously – because we need that. It's trust, it's a sense of belonging, and it's good. Because of this innate need, the gig economy may be creating a new organic network, a sort of new organization, flocking together at worktables and workstations in cafés, delis, and other outlets with great coffee. It will be interesting to learn more about the characteristics of theses gatherings and tap into them.*
>
> *Etienne van der Walt, CEO, Neurozone: (McKinsey & Company, 2017)*

Communication is and remains at the core of leadership (De Vries, Bakker-Pieper & Oostenveld, 2010). Most of what we know about leadership and organizational communication is based on findings derived from analyses of last-century enterprises and organizations characterized by strict boundaries and hierarchical leader-member dyads concentrating on face-to-face communication as a means of interaction (Van Knippenberg, Dahlander, Haas and George 2015).

Work in the digitized economy is structured differently. Regardless of the effects of the pandemic on ways of working, which are not included in this chapter, what we are currently witnessing at workplaces involves new conditions characterized by increased uncertainty and equivocality, new forms of "fluid" organizations, a new digital workforce that holds different expectations and communication habits, and virtual working contexts shaped by geographical and cross-entity dispersity (Colbert, Yee & George, 2016). Importantly, the digital workforce relies mainly on advanced computer-mediated communication and collaboration tools often characterized as participative and user-generated "social technologies" (Bughin, Chui, Harrysson & Lijek, 2017). Employees – especially digital natives – expect to use such digital tools at their workplaces (Colbert *et al.,* 2016; Petry, 2016; Prensky, 2001). Social media, in particular, is stretching the traditional boundaries of electronic shapes of leadership captured by terms such

as e-leadership (Avolio, Kahai & Dodge, 2000; DasGupta, 2011) and leadership in virtual teams (Savolainen, 2014; Zigurs, 2013). Virtuality has become more a matter of degree as most teams in knowledge-intensive organizations are somewhere on a continuum between a traditional team with no electronic media and completely virtual teams (Joshi, Lazaroza & Liao, 2009; Novak & Bocarnea, 2008).

With the nearly unlimited accessibility of information, digital and mobile technologies are omnipresent in our private lives, and the use of various social media is increasingly spilling over into the business world. Digital tools, in particular, enterprise social software platforms (ESSPs), complement older technologies, such as e-mail, intranet, phone calls, and texting, and are presently used in an increasing number of firms to facilitate organizational communication (Richter & Wagner, 2014). As argued by Cao, Vogel, Guo, Liu, and Gu (2012:3940), ESSPs refer to "bundles of information and communication tools, providing multiple communication channels for information exchange and knowledge transfer". ESSPs – the most popular being Connections (IBM), Yammer (Microsoft), Chatter (salesforce.com), Work-place (Facebook), Slack, and Jive – offer a variety of communication options. Some of these options are synchronous (e.g., micro-blogging), whereby users can exchange information in real-time. Some are, in turn, asynchronous (e.g., blogs and online forums), where users are not simultaneously logged in (Cao *et al.,* 2012). What such new options imply for communication between leaders and members in (fluid) organizations and workplaces, is a question that scholars have only recently started asking. As noted by Avolio, Sosik, Kahai and Baker (2014: 126), "as yet, these [digital] technologies have not dramatically changed the way organizations are led, nor have they fundamentally changed the way we study leadership, or even theorize about it".

In this conceptual paper, we acknowledge that such important organizational processes as decisionmaking, trust, team cohesion, and knowledge management are closely impacted by the changes in communication and communication tools. Consequently, the question "how do digital communication technologies – especially ESSPs – shape organizational communication from the perspective of leadership" merits further study. We specifically focus on what we call digital leadership communication, referring to communication by and between leaders and followers in a

digital workforce setting.

Theoretically, we build on and employ media synchronicity theory (MST) by Dennis, Fuller and Valicich (2008), which focuses on the ability of media to support synchronicity – a shared pattern of coordinated behavior among individuals who work together – and ultimately the goals of leadership (Fiedler, 1967). In so doing, we illustrate how communication from the perspective of leadership is influenced – in good ways and in bad – by the media capabilities of digital communication tools. We also uncover the underlying communication processes within a digital workforce in terms of conveyance of information and convergence of meaning. Finally, we elaborate on the various factors that influence the appropriation of digital media, that is, the extent to which ESSPs are suited for the communication needs of leaders in digital work settings (Dennis *et al.,* 2008). Some of these factors play an important role in whether the communication is successful in the context of digital work settings.

With our work, we shed light on one of the core activities of leadership – communication – in the context of digital leadership. Our specific contribution is threefold. First, based on MST, we *highlight the media capabilities of ESSPs* for communication and the richness of digital mobile and social communication tools for reaching out to employees in comparison to older technologies, especially to e-mail and intranet communication, while acknowledging their weakness as well. Second, we illustrate the challenge of convergence (i.e., the establishment of a shared meaning) as a communication process for leaders in digital workforce settings, despite the richness of ESSPs as a media. Although rich information is more easily spread than ever before, the conveyance of information is not an automatic process. Third, we demonstrate the importance of appropriation factors for the success of communication in digital workforce settings, especially in terms of the role and capabilities of the (digital) leader. From a practical perspective, our argumentation is relevant for organizations that want to exploit the capabilities of ESSPs in digital workforce settings: Our work provides guidance on how to best utilize digital technology in the service of leadership.

Background on Digitalization and Communication

Digitalization. Digitalization started as a global "mega-trend" more than ten years ago (O'Reilly, 2006). Oftentimes the terms "digitalization" and "digitization" are used without being explicitly defined. In a narrow sense, "digitization" or "to digitize" can be understood as the process of transforming analog data (for example, documents, maps, and music) into a digital format (Greenstein, Lerner & Stern, 2010). In a broader sense, "digitalization" refers to "the adoption or increase in the use of digital or computer technology by an organization, industry, or country, etc." (Brennen & Kreis, 2014). In this paper, we focus on digitalization as a means of digital communication and collaboration in digital workforce settings in which team compositions are project- rather than function-based. As a result, remote work has become more commonplace (Bughin *et al.,* 2017). Such teams are composed of multiple entities, organizations, functions, levels, people, and thus backgrounds, as exemplified in Figure 6.1.

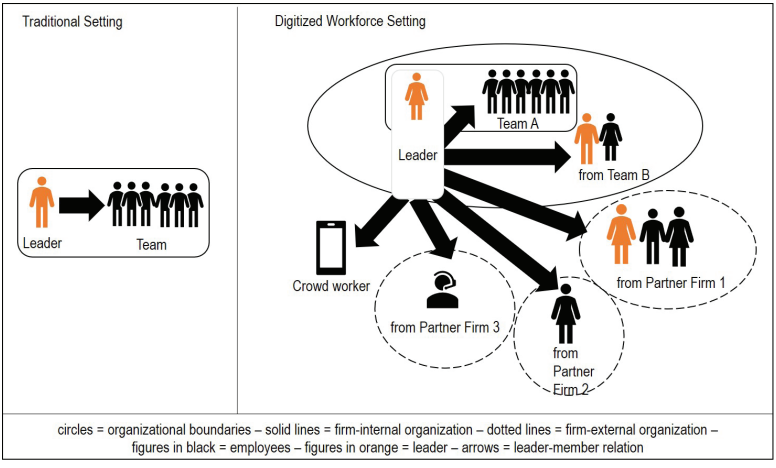

Figure 6.1. Example of leader-member team setting in the digitized economy

In the digitized economy, various forms of organizational communication are shifting to an advanced level of technology, mainly characterized by Web 2.0 applications that rely on interaction, participation, and user-generated

content (O'Reilly, 2006). Our focus is on digital leadership communication, which we define as communication by and between leaders and followers in a digital workforce setting. ESSPs, as well as their "forefathers", social media applications, offer an architecture of participation that incorporates features enabling and encouraging a two-way exchange of communication between an organization's members (e.g., leaders and followers) but also across firm-boundaries to customers and suppliers (O'Leary, 2016; Paroutis & Al Saleh, 2009). Cao ***et al***. proposed that "social media can promote work performance by stimulating trust among employees" (2012:3938). Despite their growing popularity, the successful use of such digital applications is still a challenge (Herzog & Richter, 2016) and merits further scholarly attention (Leonardi & Treem, 2012).

Media Synchronicity Theory. To elaborate on the implications of leadership communication utilizing digital tools, we employ Media Synchronicity Theory (MST), which is one of the most popular and widely proven theories explaining communication performance in an integrative way (Dennis ***et al.,*** 2008). Building on Media Richness Theory (Daft & Lengel, 1986), MST extended the perspective that communication performance is directly correlated to the choice of media (Dennis & Valicich, 1999). According to the theory, media richness refers to a medium's ability to convey information and its capability for immediate feedback, multiple cues, and personalization (Daft & Lengel, 1986). Media capable of sending "rich" information (e.g., face-to-face meetings) are better suited to equivocal and ambiguous tasks (where there are multiple interpretations for available information), while media that are less "rich" (e.g., computer-mediated communication) are best suited to tasks involving uncertainty (where there is a lack of information) (Dennis & Valicich, 1999:1).

Regardless of the type of task, communication performance is explained by the alignment of media capabilities that are closely related to media richness categories and communication processes, especially convergence and conveyance. As noted by Dennis *et al.* (2008:580), "without adequate conveyance of information, individuals will reach incorrect conclusions. Without adequate convergence on meaning, individuals cannot move forward to other activities as they will lack a shared understanding".

In 2008, Dennis and colleagues revised their theory by considering the

role of appropriation factors, e.g., training activities, familiarity or tech-savviness, and acknowledging the role of time. Within familiar settings, when participants know each other and share a common context, e.g., a firm context, communication processes do not need to emphasize convergence processes since participants already share a common understanding. In contrast, in a novel setting, MST illustrates the need for focusing on convergence processes to develop such shared knowledge and understanding over time (Dennis *et al.*, 2008). Hence the characteristics of the media, the underlying processes in terms of conveyance and convergence relating to the media, as well as the appropriation factors influencing the suitability of media, explain the success of communication and whether it helps to reach synchronicity. Through synchronicity, we can see a shared pattern of coordinated behavior among individuals who work together.

In the following section, we analyze the media capabilities of digital communication tools, digital communication processes (convergence and conveyance), and appropriation factors in digital workforce settings from the perspective of leadership.

Media Capabilities of Digital Communication Tools

Ten years ago, Dennis *et al.* (2008:576) predicted that in the digital era, "specific media tools [will] acquire new capabilities rapidly so that it is no longer appropriate to refer to a specific digital medium, but rather the set of features that medium offers". In order to illustrate the media capabilities of digital communication tools, we next compare the capabilities of e-mail and intranet, the dominant computer-mediated communication style of the last twenty years, to those of ESSPs, the (perhaps) dominant communication style of the coming years in digital workforce settings.

Our subsequent analysis of ESSPs as a communication tool employs five characteristics of media from Dennis and Valacich's (1999) terminology: 1) immediacy of feedback, 2) symbol variety, 3) parallelism, 4) rehearsability and 5) reprocessability. Additionally, we describe three further characteristics based on a review of the literature and perceptual data referring to ESSPs available to date, namely: 6) personalization (a concept that is derived from

from the original media richness theory (Daft & Lengel, 1986)); 7) risk of "de-personalization"; and 8) the level of integration. We briefly discuss each of the eight characteristics with references to ESSPs from the perspective of leadership in the following.

Immediacy of feedback. Dennis and Valacich (1999:7) argue that "more immediate feedback can have significant benefits in improving the speed and accuracy of communication". Compared to email, ESSPs offer incorporated public feedback functions, which means that any recipient is invited to comment, and any comment is visible to any participant. E-mail, however, isolates such exchanges into silos of defined senders and recipients who can respond to everyone in a list of recipients but cannot transparently publish their answer beyond that limited list. Since some users limit the dialogue by responding only to the originator, there is a high risk of knowledge silos and "containering" of information. In that respect, ESSPs offer more participation. Importantly, they also embody less hierarchy orientation than the hierarchical one-to-one communication format of e-mail.

From the perspective of leadership, employees can be invited to provide feedback, to comment, and to discuss in a real-time interaction without the established communication barriers of organizations. In other words, ESSPs offer a rich media (topped still by face-of-face to communication) to communicate with a large number of employees. It does, however, still necessitate time and resources from the leader.

Symbol variety. A lack of verbal and non-verbal systems can have significant effects on perceptions; thus, the number of ways in which information or knowledge can be communicated is highly relevant. In this respect, e-mail, intranet, and most ESSP channels are impaired; they have fewer or no nonverbal or paraverbal cues compared to face-to-face communication (Baltes, Dickson, Sherman, Bauer & LaGanke, 2002). Yet, ESSPs have the edge over e-mail and intranets since ESSPs allow for the integrated use of personal photos, live impressions, or voice messages in conversations. Especially in dispersed team settings, frequent travelers can benefit from ESSPs and maintain constant contact through personal posts (Weber Shandwick, 2012). With several different channels, the multiplicity of ESSPs is high, again pointing to its richness, while e-mail is primarily textual

(Bordia, 1997).

Parallelism. "As tasks become more complex and require interdependence, reciprocal communication and feedback among team members, synchronous media are found to be more effective than asynchronous media" (Hambley, O'Neill & Kline, 2007:3). Especially in creative or design processes, the fact that "everyone can 'speak' at once" (Hambley *et al.,* 2007:4) minimizes process losses, but it is, on the other hand, criticized for lacking focus. E-mail is limited in asynchronous communication. However, ESSPs, in particular with chat and online forums, allow for a synchronous exchange of communication and a high number of simultaneous conversations. In this way, ESSPs enable a faster pace in decisionmaking than e-mail – but probably not as fast as face-to-face meetings (Bordia, 1997). Furthermore, through parallelism, they enable rapid clearance of questions independent of physical distance.

Rehearsability. The fact that a communication medium offers rehearsability, implying that content and delivery can be tested before, allows the user to ensure quality and standardization of content (Deiser & Newton, 2013). Consequently, we can argue that e-mail, intranet, and ESSPs are rehearsable. In contrast, ESSP-use tends to be very fast, instant, and even spontaneous, and therefore, approval or standardization processes in ESSPs are unusual for leadership communication. Moreover, the implementation of ESSPs in several companies has initiated the downsizing of editorial departments, which are usually responsible for knowledge management. Formal "rehearsal processes" nonetheless have the advantage of guaranteeing certain standards in quality, approvals, and completeness. At the same time, "to thrive in the world of social media, leaders need to acquire a mindset of openness and imperfection, and they must have the courage to appear 'raw' and unpolished" (Deiser & Newton, 2013:5). The controllability of communication via ESSPs, especially online forums and chat, is, however, limited because everyone is invited to a rapid and immediate discussion with everyone else. In addition, communication on ESSPs is usually transparent for every user and not just a limited and defined group of recipients. Thus, "social media encourages horizontal collaboration and unscripted conversations that travel in random paths across management hierarchies" (Deiser & Newton, 2013:2). This is a new character of a media that can be considered as rich, which can, however, reduce the success of

communication in terms of synchronicity.

Reprocessability. The criterion of whether a communication medium offers reprocessable information and knowledge is important since complexity is increasing with digitalization. Digitalization is accompanied by the impressive storage capacity of IT systems as well as search engines with extended capabilities. When acting in Web 2.0 applications, readers can usually change their role immediately to authors (O'Reilly, 2006). This information and knowledge can be easily tagged and retrieved: "knowledge transfer based on social media has dramatically improved the effectiveness of coordination and teamwork." (Cao *et al.*, 2012:3942).

In contrast, e-mails are not easily reprocessable – instead, they encapsulate knowledge in silos between the sender and recipients and are archived, but due to a lack of accessibility, they are not retrievable for third parties. ESSPs regularly offer, for example, a so-called wiki-feature to utilize knowledge emanating from leader-member relationships. For example, Namics AG, an internet service company with 280 employees, reports that this advantage motivated employees to share more project information more accurately than before in their data bank management (Schopp, 2009).

Personalization. Communication via e-mail happens in one-to-one (dyadic) or one-to-many relations, and it requires a selection of recipients, either by name (mailing address) or, with some prerequisites, by function or organization. The group of recipients is limited due to technical restrictions. ESSPs offer one-to-one instant messaging features to leaders as well, but social networking platforms, in particular, can break through this limitation: A person can address questions to his or her networks or certain parts of the network without explicitly defining recipients. Such an effect of collective knowledge exchange starts with a critical network size. "Many-to-many" collective communication usually starts this way since more than one network follower will respond.

Risk of "de-personalization". ESSPs, e-mail, and intranet can also engender a risk of de-personalization of interaction. While computer-mediated communication can support leaders in working efficiently by stretching working time and place (e.g., on the move, and outside of regular working hours), they may also be used to replace face-to-face communication

and personal conversation. By over-relying on digital tools, leaders risk depersonalized interaction that can have a negative influence on leader-member relations (Boswell & Olson-Buchanan, 2007; Gilson, Maynard, Young, Vartiainen & Hakonen, 2015). The speed of information exchange, ease of use, and opportunities for personalization in ESSPs often lead to overuse among leaders. Successfully relying on an ESSP means using it wherever it makes sense or is necessary but not substituting it for personal conversation when personal conversation is possible, reasonable and necessary.

Level of integration. According to Daft and Lengel (1986), face-to-face communication is the "richest" medium. At the same time, they neglect critical aspects of face-to-face communication such as lack of structure (e.g., lack of an agenda, poor time-management, lacking summary at the end, no archiving, and no linkage to references) or influences by hierarchical status (e.g., seating arrangements, the weight given to the chair's opinion) that can impair communication. To this end, the integration of face-to-face communication and computer-mediated communication, especially the extended opportunities of ESSPs, may yield superior results (Baltes ***et al***., 2002). ESSPs allow, for example, for the archiving of documents, sharing and commenting on meeting minutes, voting through polls, or providing links to further web sources.

To summarize, ESSPs offer new ways of communication, collaboration, and knowledge management, which extend the opportunities for leaders to reach their followers and other employees in a digital workforce setting. For the first time, ESSPs offer a rich media much like face-to-face communication – to interact with a large number of employees. Yet using them to their full potential necessitates active leader engagement and resources, much like face-to-face communication. The openness of the media also increases the uncontrollability of communication. The question of the richness of different media should, however, from our point of view, not be a question of either-or but, rather, "and". It is a leader's job to "balance the traditional with the new" (Avolio & Kahai, 2003:331).

Conveyance and Convergence in Digital Workforce

Settings

According to MST, to understand the performance of communication, it is "necessary to look at the underlying communication processes (conveyance and convergence) as they are facilitated or constrained by the media used." (Dennis *et al.*, 2008:580). This is also the case with digital communication, which involves more than one person (a leader and at least one follower) and requires a mix of communication processes to perform different steps of communication.

Conveyance. A prerequisite for successful communication performance is the transmission and dissemination of relevant information. In digital workforce settings, leaders have to indirectly communicate with numerous followers rather than with only a few. Digital tools offer a variety of capabilities for presenting content in one-to-many directions, and in that way, make it easier for leaders to communicate. Moreover, ESSPs enable writing and posting of daily mini-reports such as micro-blogs that can be archived as with other documents. Utilizing this feature allows leaders to achieve a higher standard of quality in terms of feedback and transparency (Kahai, 2013). However, personalized leadership communication cannot be fully substituted for or digitized by ESSPs. As noted by Dionne and colleagues (2005:181): "in a similar vein, you note that some substitutes for leadership exist for specific leadership behaviors, without eliminating the need for all leadership behaviors." In our view, ESSPs offer multiple opportunities for conveyance in communication when compared to traditional media, such as email. However, the problem might be the multitude of information made readily available by digital media and the difficulty for employees to recognize what is, in fact, needed and necessary information. Successful conveyance may hence require new capabilities from organizational leaders that help them to differentiate themselves and prioritize their messages and the choice of their communication channels.

Convergence. Successful communication within a leader-member relationship and, in particular, within a group of people, is a matter of many-to-many exchange and discussion of information. Meaning evolves through interaction among the members of a group, or, as expressed by Dennis ***et al.*** (2008:578): "meaning is co-constructed by the communication participants." In order to reduce equivocality, large amounts of data are

not sufficient. Instead, rich face-to-face communication is traditionally seen as a means for managers to converge on a common interpretation (Daft & Lengel, 1986). Yet one of the most important features of ESSPs, as previously mentioned, is that users are forced to comment and provide feedback wherever possible, and their responses are directly incorporated into each communication object (for example, a posting). In this way, ESSPs provide a rich medium and encourage a "two-way exchange in communication" (Fulk, & Yuan, 2013:30) and thereby allow leaders to exert influence in novel ways (Bass, 1990). Accordingly, ESSPs and their dialogue mechanisms enable leaders to realize a leadership style that is more participative than directive. For example, USAA, a financial services firm, reports that this ESSP function was successful when new IT employees were free to post ideas and provide feedback using the function (Leidner, Koch & Gonzalez, 2010).

Dennis *et al.* (2008) expect a higher need for convergence processes with novel communication contexts where participants have less experience with each other, the task, or the media. In digital workforce settings characterized by agile team compositions, a high degree of diversity and dispersity, and without the traditional boundaries of organizations, this high need for convergence appears as a central concern. Returning to our argumentation regarding media capabilities, Dennis *et al.* (2008: 576) summarize it as follows: "convergence processes benefit from the use of media that facilitate synchronicity, the ability to support individuals working together at the same time with a shared pattern of coordinated behavior, while conveyance processes have a lesser need for synchronicity."

Concerning leadership communication, the co-construction of meaning based on the sharing of information and interaction in two directions is under the leader's control or guidance to a lesser extent. Consultants use the expression "digital letting-go" and make mention of the question of whether leaders should fear a loss of control by handing over responsibilities (for example, Buhse, 2014). The key issue is that with ESSPs, media richness is somewhat paradoxically not entirely restricted to personal face-to-face communication; however, it is possible indirectly, with large numbers of followers, but with less control.

Returning to the question of how communication performance evolves as

a process, conveyance processes are a *sina qua non,* while convergence processes can be characterized as a sufficient condition for successful digital leadership communication in digital workforce settings.

Appropriation Factors in the Digitized Economy

Dennis *et al.* (2008) emphasized that the appropriation of media is influenced by various factors, some of which, depending on the situation, play a dominant role in whether the communication is successful. In the context of digital workforce settings and the use of ESSPs, factors for appropriation can be divided into two groups: the "who" and the "how" of digital leadership communication. We also add a perspective on the specific role of leaders for appropriation of media.

The "Who". According to Dennis *et al.* (2008), understanding the context of those who use media provides insights as to the appropriation mix. As exemplified in Figure 4.1, the "normal" composition of a digital workforce is a hybrid team of members from different organizations. Such teams tend to have members who are digital natives, digital immigrants, as well as members who still rely on traditional communication channels. Individual differences in technology experience, as well as age, may play a role in different communication habits.

Furthermore, we argue that digitalization changes followers' expectations toward their leaders and leader behaviors, particularly when it comes to communication. As digital natives, in particular, are used to accessing information on the web as well as continuous contact and exchange with peers via social media, "they believe that power comes from sharing information and that leaders should serve rather than direct" (Avolio *et al.*, 2014).

Furthermore, openness in communication, feedback, criticism, and empowerment are the current top-listed skills expected of a leader, while experience and implementation skills are losing in importance (McGonagill & Doerffer, 2010; Petry 2016). Moreover, organizations may have set boundaries for technology use, whether an enterprise implements social technologies or not. The same factors (technology experience, age,

organizational background) may have an influence on the digital workforce concerning their openness or different social norms for knowledge sharing, how they cope with failure and mistakes, or how they handle rare information.

These thoughts can be extended to different experiences with different forms of leadership, even if they are on a continuum between "command-and-control" versus "distributed leadership". When exemplifying such forms of multiplicity, leaders in public-private partnerships (for instance, composed of crowd freelancers, employees of an advertising agency, and a public authority) are usually confronted with differences as previously described. What can be categorized as typical for digital workforce settings and particularly relevant for the appropriation of shared media is a lack of common context (Dennis *et al.* 2008). As introduced in Figure 4.1, we characterized digital workforce settings as a boundary-less composition of organizations that all bring their specific context with them. In addition, it is worth noting that digital workforce settings are often characterized by high equivocality and uncertainty since teams are confronted with fundamental transformations of enterprises or even industries.

Moreover, we argue that the type of work and gender of the parties involved play a role as well. Our analysis is especially applicable to the context of white-collar employees, for example, in the context of professional service work (Ryan & Wessel, 2015). However, we argue that blue collar and white collar workers are assimilating more and more concerning communication and digitalization (Ryan & Wessel, 2015). Nevertheless, the effects of digitalization may be rather different among the two groups. For example, among blue-collar workers, digitalization may increase autonomy and explicitly substitute for leadership. For example, with the help of digital tools, forest workers can carry out forest harvesting highly independently and without personal guidance from superiors. Finally, in a meta-analysis of 45 studies, Eagly, Johannesen-Schmidt, and Van Engen (2003) found that "female leaders were more transformational than male leaders" and "women are less hierarchical, more cooperative and collaborative, and more oriented towards enhancing others' self-worth" (2003:569). Considering the non-hierarchical emphasis and the importance of collaboration in digitalization, future research should explicitly examine whether female leaders might have a higher degree or

a different set of digital abilities than their male counterparts. All in all, the degree of heterogeneity clearly plays a role as an appropriation factor, and – following Dennis *et al.*'s (2008) logic – a high degree of diversity increases the need for media supporting high synchronicity.

The "How". Closely related to an analysis of the media capabilities (features and opportunities) of a technology, we now examine how users might use a software program and which factors influence that. Richter and Riemer (2013) defined enterprise social software as "malleable software" that does "not solve a predefined problem, but opens a space for social activity and thus will only become defined through appropriation and use in context." (Richter & Riemer, 2013:3). That such software does not have a predefinition of use-cases implies that it needs to be appropriated faithfully by users in a particular context (Richter & Riemer, 2013). The role of leaders is highlighted by Richter and Wagner (2014) in their seminal paper, which coined the term leadership 2.0 – implementing social software for communication and collaboration has to be encouraged and activated by leaders who can integrate digital tools in day-to-day processes, for instance, in managing information flows. Moreover, leaders should "sensitize (demonstrate the impact and develop new leadership models) and coach (help leaders to embrace the new tools and understand emergent use cases)" (Richter & Wagner, 2014).

Discussion

One of the most significant current trends in our society and economy is digitalization and its increasing pervasiveness in both private and work contexts. However, to date, scholars have paid surprisingly limited attention to how digitalization and, specifically, digital tools are shaping and influencing communication in organizations. We argued that by enhancing communication, as well as collaboration and knowledge management, digital tools – in particular, ESSPs – as rich media are complementary leadership instruments but not substitutes for leadership, especially in contexts in which participation and delegation are needed. ESSPs thus enlarge and enhance a leader's toolkit for communication and can be as rich media used for effective communication with large numbers of people. For example, they might be useful in situations with an increasing need

for computer-mediated communication and in increasingly dispersed work arrangements, what we called digital workforce settings (Joshi *et al.*, 2009). Digital tools may free resources and direct leader behaviors toward other tasks, such as coaching (Nübold, Muck & Maier, 2013).

Specifically, our analysis presents the following three contributions to the current literature on digital leadership and communication. First, in comparing the media capabilities of older technologies and current digital tools, we applied MST and demonstrated the applicability of ESSPs for leadership communication and conclude that ESSPs allow for much richer media than for example e-mail, especially regarding their transparency, their offer of a two-way exchange of information and many-to-many parallelism. Compared to face-to-face- communication, digital tools allow for complementary practices. However, we also acknowledge the challenge of digital letting-go and that through many-to-many parallelism and two-way exchange of information, communication is increasingly resource-intensive and reaching synchronicity beyond the control of leaders. These issues point to the challenges involved in appropriation.

Second, our analysis adds nuance to MST by illustrating the issue of convergence as a communication process in digital workforce settings stemming from the uncertainty and equivocality of the digital transformation era and the degree of variety of backgrounds and participants. We explained that conveyance is a *sina qua non,* which is threatened by the amount of information available, while convergence, as mentioned earlier, is a key to successful communication in digital workforce settings. Third, we highlighted the importance of appropriation factors that influence the communication processes, depending on, for example, the capabilities of the leader who is participating in digital workforce settings and the malleability of the end-user software. In doing so, we also confirmed the role descriptions from Richter and Wagner (2014), who explained how leaders could encourage the use of digital tools for enhancing collaboration.

From the perspective of practicing managers, our work expands the understanding of ESSPs as digital leadership communication instruments. We argue that the starting point is leader awareness of the new context of digitalization, with all its dangers and opportunities. We conclude that managers and leaders must become acquainted with digital tools and that

they should believe in, participate in, and actively utilize ESSPs as a tool for reaching out to their employees. Leaders are role models and send signals to the organization regarding digitalization (Avolio *et al.*, 2014), and they are the most important actors for the implementation of ESSPs in an organization (Brzozowski, Sandholm & Hogg, 2009). Indeed, leader openness and readiness to serve as a role model to employ digital media is one central factor affecting appropriation.

Limitations and future research. Our theoretical examination cannot be generalized to fit all leadership constellations or digital workforce settings. We call for further research to empirically examine the arguments we have put forward. Digital workforce settings could provide rich settings for fieldwork that examines – through interviews and observations, analysis of online discussions, posts, and blogs – how communication truly occurs and (digital) leaders communicate with their workforce and followers. Such studies could also yield interesting insights into how leaders and followers perceive organizational communication, leadership, leader-member relationships, or specific issues like trust or team cohesion in digitalized work settings.

Conclusion. It is beyond dispute that leadership is affected by digitalization, especially considering the communication preferences of the post-millennium generation. However, as we noted earlier, "as yet, these technologies have not dramatically changed the way organizations are led, nor have they fundamentally changed the way we study leadership, or even theorize about it" (Avolio *et al.*, 2014:126). In this paper, we attempted to explain how digital communication technologies shape communication and leadership in digital workforce settings. Successful appropriation of digital tools within digital workforce settings is possible and enriching for leaders, but digital tools should follow, not lead, new ways of working (Bughin *et al.*, 2017).

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7

CYBERSECURITY GUIDANCE FOR ENHANCED CORPORATE GOVERNANCE

Hugh Grove
Daniels College of Business, University of Denver

Mac Clouse
Daniels College of Business, University of Denver

Laura Georg Schaffner
Ecole de Management, University of Strasbourg

Abstract

The dangers of not properly focusing upon cybersecurity risks were emphasized by the recent, notorious attack and hack examples in 2016 and 2017 of Equifax, Deloitte, the Securities and Exchange Commission, the Federal Reserve Bank robbery, the massive DDoS (dedicated denial of service), the WannaCry ransomware, and the Democratic National Committee hacking. With guidance from key sources, general corporate governance principles and lifelong learning opportunities, as discussed in this paper, cybersecurity strategies can be developed by corporate executives and the Board of Directors to help thwart such attacks and hacks. Boards of Directors and corporate executives should pay attention to these emerging trends of cybersecurity risks, hacks, and cybersecurity strategies.

One immediate trend for data security is the General Data Protection Regulation adopted by the European Union in 2016 and enforceable on May 25, 2018. Corporate stakeholders also need to pay attention to these new cybersecurity threats and data security requirements. By developing cybersecurity strategies, an entity's corporate governance would be strengthened and enhanced by corporate executives and boards of directors who are the key gatekeepers for protecting and enhancing the investments of their shareholders and other stakeholders.

Keywords: cybersecurity, risks, EU General Data Protection Regulation

Introduction

"Once again in 2016, experience seemed to verify that there are only two kinds of companies – those that know they've been hacked and those that have been hacked but just don't know it" (Castelluccio, 2017).

The ongoing onslaught of cybersecurity breaches has finally motivated corporate executives and boards of directors. A 2015 board survey of 150 top executives by BDO International offered both good and bad news. The good news was that cybersecurity is finally getting the attention of corporate leaders. The bad news was that most organizations continue to face a significant cybersecurity blind spot at the board level. 54% of the interviewed directors indicated that they are briefed on cybersecurity only once a year, while 33% are briefed quarterly. Less than half of these surveyed companies have a cyber-breach response plan in place, and only one-third have documented and developed solutions to protect their business's critical digital assets. Also, only one-third of these companies have cyber risk requirements for third-party vendors who are a major source of cyberattacks (Greengard, 2015).

However, the procedural, economic, and managerial aspects of information security have motivated some corporate executives to grasp the risk landscape and include information security in the organization's decision-making process and business strategy. This accessibility has made information security a regular topic in some executive board meetings, along with the threat of losses in a digital economy, based on the

confidentiality, integrity, and availability of its core assets (Georg, 2007). Similarly, information security has attracted multi-faced managerial interest and has become the second biggest concern in a 2015 PWC survey of 103 US Chief Executive Officers (CEOs) (PriceWaterhouseCoopers, 2015).

For an elaboration of information security risks, seven cyber threats have been identified (Huber, 2017):

1. Phishing: Using emails to trick people into giving confidential information is one of the most common types of cyberattacks. A PWC survey found that 43% of financial services organizations experienced phishing attacks in 2016.
2. Software attacks as a service: Criminals can buy ready-made malware, such as viruses, worms, Trojan horses, and distributed denial of service on the dark web.
3. Malware that exploits software vulnerabilities: "Zero-day" (no warning) cyber-attacks exploit a previously unknown security vulnerability in software products.
4. Data loss by carelessness or bad luck: Examples are losing a USB stick, having a laptop stolen, or accidentally mailing a confidential file to the wrong recipient.
5. Data privacy and the risk of fines: The EU General Data Protection Regulation took effect in May 2018, with violators being fined up to 4% of revenue.
6. Identity fraud: It is a growing problem with a record 172 919 identity frauds recorded in 2016 per the Credit Industry Fraud Avoidance System in the UK.
7. Cyber-extortion: Ransomware is the most common type of extortion. It encrypts the victim's files and demands money before the encryption key is released.

Similarly, a cybersecurity consultant identified the top five cybersecurity risks that should be keeping corporate executives up at night (Traina, 2015):

1. Ignorance: A 2015 study by the cybersecurity company FireEye found that 97% of 1 200 organizations studied had already been breached. If a company does not realize that it is at risk, then it is not likely to take steps to identify and subsequently mitigate the risks.

2. Passwords: A 2013 study by Verizon found that 76% of corporate network breaches directly resulted from lost or stolen credentials. The impact of weak and repeated passwords is magnified now with so many cloud systems in use since hackers no longer have to be inside a company's network to use discovered passwords.
3. Phishing: The purpose of a phishing email is to entice the reader to click on a link or an attachment, opening the door for hackers to steal data or infect systems with malware, such as the recent Target company breach. Unfortunately, it is quite difficult to get users to slow down and think before opening emails and clicking on links and attachments.
4. Malware: Malicious software or malware is installed without the user's knowledge, typically from an attachment in a phishing email or from a user's visit to an infected website. Unfortunately, malware can be purchased online for a few hundred dollars.
5. Vulnerabilities: A vulnerability is a flaw or weakness in a system that hackers can exploit. Since software is written and released very quickly, the risk of security vulnerabilities is greater. Periodic updates to operating systems (like Windows XP, Windows 8) have diminished this risk, so hackers are looking for vulnerabilities in applications, like Adobe Flash and Java, which users often do not update because they are unaware of the risk.

She concluded: "Cyber risks are so great these days that management must get involved to ensure that appropriate mitigation strategies are in place. We all know the first step to treating addiction is admitting there is a problem. Similarly, the first step toward cybersecurity is acknowledging that you are at risk" (Traina, 2015). The remaining sections of this paper are the cybersecurity risks and recent notorious hacks, strategies for dealing with cybersecurity risks, corporate governance principles, lifelong learning in the digital and cybersecurity age, cybersecurity updates, including the EU General Data Protection Regulation, for lifelong learning, and conclusions.

Cybersecurity risks and recent notorious hacks

The 2017 WannaCry ransomware cyberattack was worldwide, using a ransomware cryptoworm that targeted computers running the Microsoft

Windows operating system by encrypting data and demanding ransom payments in the Bitcoin cryptocurrency. The attack started on Friday, May 12, 2017, and infected more than 230 000 computers in over 150 countries within one day. Shortly after the attack began, a web security researcher discovered an effective kill switch that slowed the spread of the infection, and Microsoft issued a security update as well. As of May 19, 2017, the attacks have slowed down and are presumed to be extinct, although a newer version of the virus may be released (Wikipedia, 2017).

Notorious hacks of 2016 included two bank robberies. In March, about $81 million of Bangladesh's money disappeared out of its account at the Federal Reserve Bank of New York that used the SWIFT international bank messaging system, billed as a super-secure system that banks use to authorize payments. In contrast, it took the notorious American bank robber, Willie Sutton, 40 years to steal $2 million. In August, almost 120 000 Bitcoin worth $78 million was stolen from Bitfinex, an exchange based in Hong Kong.

In October, a massive DDoS (dedicated denial of service) attack slowed Amazon, Twitter, Netflix, Paypal, online newspapers, and many other websites to a crawl. The weapon was a Mirai botnet that was mostly made up of IoT (Internet of Things) devices, like security cameras. In April, the Russian hacker, Guccifer 2.0, hacked the servers of the Democratic National Committee (DNC). He then created a WordPress page and posted emails, memos, and other information from the DNC files, which Wikileaks also published. The subsequent US government investigation continues to this day (Castelluccio, 2017).

Since cybersecurity risks change with every new digital innovation, potential threats continually emerge. Cybersecurity risks can be specific to a company's business model and values, possibly turning a threat into a vulnerability that must be addressed by the company. Both threat and vulnerability exposure must be regularly reassessed and organized in meaningful categories, such as security risks compromising the business processes, client-facing activities, and support functions. Technologically, these areas can be separated into architectural domains of information technology (IT), which can help managers and boards to understand and manage the business impact of IT and related cybersecurity risks (Georg, 2015).

Traditional customer needs are being modified and changed by new technology advances that present both threats and opportunities. For example, companies can suddenly be threatened by a new competitor who has an individualized design with remote control for customer convenience and satisfaction. Digitalization technology depends on networks that are often shared and do not follow typical geographical or industrial silos. Thus, there is an opportunity to share global networks to reach all types of customers and clients.

However, if these networks become infected, such infections can spread widely and affect the operation of the entire network. For example, an infection in a cloud provider with an international customer base offering virtualization technology would affect all such customers equally. An infected insurance company on the cloud could be facing an accumulation of claims that could threaten its survival and might also eliminate insurance coverage of individual customers. Discovering these hidden interrelationships between companies generates new assessment tasks, including new questions that cover such interconnectivity risks (Georg, 2015).

Strategies for dealing with cybersecurity risks

Thomas Friedman (2016) stated that a key or critical job requires lifelong learning, especially now in the rapidly changing age of digitalization and related cybersecurity risks. He used the year 2007 as an example of such rapid change:

1. Apple released its first iPhone, starting the smartphone revolution that can provide anyone with an Internet-connected phone.
2. Facebook opened itself to anyone with an email address, and Twitter started to scale globally.
3. Amazon released Kindle, which started the e-book revolution.
4. Google bought YouTube and introduced Android, an open-standards platform for devices that would help smartphones scale globally.
5. AT&T invested in software-enabled networks to expand its capacity to handle mobile cellular traffic, which then increased more than 100% from 2007 through 2014.

6. IBM started Watson, the world's first cognitive computer, which combined machine learning and artificial intelligence.
7. Intel introduced non-silicon materials into its microchip transistors, extending the duration of Moore's Law, the expectation that the power of microchips would double about every two years, with the exponential growth in computer power still continuing to this day.
8. Internet users worldwide exceeded one billion, which seemed to have been a tipping point for significant worldwide Internet use.

In summary, Netscape founder, Marc Andreessen, observed: "Software is eating the world", as emphasized by the year 2007, which was one of the greatest technological inflexion points in history. There were so many more things that could be digitalized, so much more storage for digital data, so many faster computers, so much more innovative software, and so many more organizations and people who could access and contribute to those benefits with their handheld computers – their smartphones (Friedman, 2016).

A 2016 McKinsey & Company report discussed a new class of problems caused by this digital and cybersecurity age where directors' experiences in managing and monetizing traditional assets are now insufficient. The evolving age has enabled the growth of new competitors, rapid-fire funding cycles, fluidity of technology, digital experiences demanded by customers, and the rise of non-traditional risks. Accordingly, McKinsey & Company has advocated four ways to help a board of directors deal with these digital and cybersecurity age challenges and view themselves as catalysts for digital and cybersecurity transformation efforts (Sarrazin & Willmott, 2016):

1. Close the insights gap.
2. Understand how digital can upend business models.
3. Engage more frequently and deeply on strategy and risk.
4. Fine-tune the onboarding and fit of digital and cybersecurity directors.

In this age of digitalization technology and cybersecurity risks, new metrics are needed for both "old" and "new economy" companies. Such emerging digital metrics could be inserted into a digitalization dashboard and used as benchmarks by a board of directors to question corporate executives

about strategies, competitive advantages and threats, and progress on such digital metrics. Board members have already become comfortable with metrics in traditional financial reports. Using new digital metrics should just be a reasonable learning extension for these competent and experienced people as part of their learning process to stay relevant for the company executives whom they are overseeing and the investors whom they are representing (Grove, Georg & Clouse, 2017). Warren Buffett has observed that the CEO of a company must also be the chief risk officer of the company in these rapidly changing times (Buffett, 2016).

Boards must be able to challenge executives and identify both opportunities and threats for their companies. One way to accelerate this digital and cybersecurity learning process has been advocated: the use of digital and cybersecurity apprentices for boards. For example, Board Apprentice, a non-profit organization, has been placing apprentices on boards for a year-long education in five different countries to date. One business analyst observed that a major role of a board is to allocate capital, but how can directors fulfill this role if they do not fully understand the implications of the digital economy with cybersecurity risks? Rather than treating digital and cybersecurity knowledge as a specialist skill, he argued that it is a skill that must be developed by all directors (Heimer & Valeur, 2016).

Corporate governance principles

To respond to these digital and cybersecurity changes and challenges, a comprehensive set of corporate governance principles was recently developed. In 2015, the CEO of JP Morgan Chase, Jamie Dimon, called the CEO of Berkshire Hathaway, Warren Buffett, and suggested that they get together and come up with general principles for corporate governance that would be a pathway for the future. Thirteen prominent US business leaders from industry, asset management firms, and an activist investment firm secretly worked for one year to develop corporate governance principles (Thakker, 2016). They also wanted to provide such guidance at a time when fewer entrepreneurs decided to sell shares on US public markets (Mathews, 2016). These 13 authors said that the resulting document was detailed and tough-minded with commonsense recommendations and guidelines about the roles and responsibilities of boards, companies, and shareholders (Governanceprinciples.org, 2016).

This document developed the following eight corporate governance principles:

1. Board of directors – composition and internal governance
2. Board of directors' responsibilities
3. Shareholders rights
4. Public reporting
5. Board leadership
6. Management succession planning
7. Compensation of management
8. Asset managers' role in corporate governance

A financial press commentator said that these principles may set a new standard in American corporate governance and that the stakes could not be higher as over 90 million Americans own US public companies through their investments in mutual funds, retirement plans, and pensions (Gara, 2016). A corporate governance expert commented on these principles: "I think it shifts the burden of proof onto any corporation that does not comply and I am delighted the signatories are such influential people" (McGregor, 2016).

The emerging opportunities and threats of digitalization and cybersecurity were addressed in these principles. This first principle generally discussed director effectiveness by stating that boards should have a robust process to evaluate themselves regularly and should have the fortitude to replace ineffective directors. The second principle stated that a board should be continually educated on the company and its industry and use outside experts and advisors when appropriate. The fifth principle stressed the importance of board leadership (Governanceprinciples.org, 2016). However, just the use of outside experts has been argued to be insufficient with the complex, evolving business environment of digitalization and cybersecurity (Sarrazin & Willmott, 2016; Heimer & Valeur, 2016). The duties of corporate executives and boards of directors of running and supervising their organizations have become significantly more challenging. In the spirit of lifelong learning, they need to develop digital and cybersecurity skills without having to become, or just rely upon, digitalization and cybersecurity experts.

Lifelong learning in this digital and cybersecurity age

Two examples of such lifelong learning in this digital and cybersecurity age for both corporate executives and boards of directors are provided with an education course on cybersecurity in this section and cybersecurity updates in the following section. The cybersecurity course is a nine-hour online or CD course of 18 lectures in *The Great Courses* series, *Thinking about Cybersecurity: From Cyber Crime to Cyber Warfare*, by Professor Paul Rosenzweig of the George Washington University Law School. He owns a security consulting company and was a Deputy Assistant Secretary for Policy in the US Department of Homeland Security and is the author of *Cyber Warfare: How Conflicts in Cyberspace are Challenging America and Changing the World* (2013).

The first eight hours of this nine-hour course develop the foundations of cybersecurity. This paper will focus on the thought-provoking last two lectures: 1) Critical infrastructure and resiliency and 2) Looking forward – What does the future hold? This first of these last two lectures discusses another way of thinking about cybersecurity that is not generally in vogue. Companies and boards of directors should stop planning for perfect security and instead focus on resiliency and recovery, i.e., a strategy that plans for a little bit of failure. The current approach for protecting cyber systems is often limited to just building defenses of firewalls, antivirus programs, and intrusion protection systems. The advocated new approach is to become resigned to reality or the fact that "shit happens". Cyber breaches are inevitable and a perfect 100% defense is a practical impossibility. Thus, cyber planning should be based on the assumption that some attacks will be successful and should focus on the concept of resiliency.

In a cyber domain, resiliency means that systems are robust, adaptable, and capable of rapid response and recovery. To create system-wide resiliency, a mixture of techniques and mechanisms is advocated and developed by the following building blocks:

1. Diversity: Companies need to build cyber systems with multiple forms of programming in their architecture so that a single form of attack is not successful against all company systems.
2. Redundancy: Companies need to create snapshots of their critical systems at a time and place where they are working in a known and stable condition to enable restoration if necessary.

3. Isolation: Companies need to isolate and segregate different parts of their cyber system from each other. Thus, any infected parts can be isolated so that a single failure cannot cascade across the entire system.
4. Internal monitoring: Companies need to watch what is happening inside their cyber systems, not just guard the entry points. Advanced cyber threats can be resident and unobserved for long periods. One of the most important ways to catch intrusions is to watch what traffic is leaving the system.
5. Human problem: Companies need to deal with the human problem, especially who gets access to which parts of the system. In addition to better personnel screening, companies should ensure that people with access to a system are given the least amount of privileged access necessary to do their jobs.
6. Change fostering: Companies need to create an infrastructure that distributes targets widely and varies defenses so their cyber systems will be better able to frustrate a malicious intruder who has a fixed objective against an unchanging defense.

Companies also need follow-up deterrence techniques against system hacking. A "hack back" strategy involves hacking into an attacker's computer to defeat his or her attempts to hack a company's system. Techniques include measures that cause damage to a would-be attacker, measures that ensnare hackers with honeypot traps, and preemptive attacks on parties who have shown some intent to hack. Many such "hack backs" are almost certainly illegal at times under US law. Despite such legal uncertainties, there are new companies that provide offensive response options for companies under attack. In summary, having only a firewall defense is a losing strategy. Companies need to plan for failure and systematically go on the offense as such strategies are realistic realities in today's cyber domain.

In the last lecture of this cybersecurity course, some basic observations on cyberspace are made before cyber domain predictions are offered:

1. Cyberspace is everywhere. The Department of Homeland Security has identified 18 sectors of the US economy as critical infrastructure with key resources. All of these sectors depend on cyber systems.

2. The fundamental characteristic of the Internet that makes it truly different from the physical world is the lack of any boundaries. It spans the globe almost instantaneously.
3. A critical question is the nature of Internet governance. Today, rules about the Internet domain are mainly set by nonprofit international organizations that are now being challenged by various sovereign nations.
4. The fundamental anonymity of the Internet is nearly impossible to change. The cyber domain is simply a giant switching system, routing data around the globe. However, for innocent Internet travelers, this anonymity can be pierced.
5. Cybersecurity is now generally based on firewalls. Companies need to look beyond Internet system gateways to assess patterns and anomalies to focus on preventing, not just detecting intrusions.
6. It is a certainty that companies' protective cyber systems will be ineffective. Thus, a critical component of any cybersecurity strategy is to plan for inevitable failure and recovery.
7. Companies must be aware that the cyber domain is a dynamic environment that changes constantly. Cybersecurity legislation and regulation must emphasize flexibility and discretion over mandates and proscriptions.

Finally, the following major predictions for the future of the cyber domain are offered:

1. Cloud computing is becoming widespread with its significant economies of scale. Its advantages include on-demand software, a cloud infrastructure of servers, operating systems, and storage hubs. Cybersecurity benefits include the limitation or modification of a malware's capacity for harm to companies' systems since the attack is on cloud software and hardware, not on an individual company. The cloud permits the creation of systems with different levels of access and interaction that limit malfeasance. However, a successful attack on the cloud system owner can be catastrophic, and lower-level users may not even know that the system has been compromised.
2. Virtual worlds are similar to Internet chatrooms. Since virtual worlds seek to simulate the real world, companies and individuals

can face the same sorts of potential for criminal or other malevolent behavior as exist in the real world.

3. Gated Internet communities have greater built-in security provisions. Thus, a series of alternate, gated Internets might be created. A prime example is a gated banking system that would be walled off from the public Internet with access limited to only those with valid identity checks.
4. Quantum computing operations are based on theories of quantum physics. Integrated silicon chips, which create the 1s and 0s of binary code at the heart of every computer and that drive the Internet, would no longer be needed. Quantum computers would make the power of contemporary computers look insignificant. Quantum computers would be smaller, possibly the size of a finger ring, faster, and possibly cheaper. Concerning cybersecurity threats, current encryption programs are based on large prime-number multiplications that are currently very difficult to break. However, for a quantum computer, the breaking of prime-number encryption codes would be trivial, according to theoretical physicists. In August 2017, China launched the first quantum communications satellite, designed to establish ultra-secure quantum communications by transmitting uncrackable, cryptographic keys from space to the ground (Castelluccio, 2017).

Cybersecurity updates for lifelong learning

The American Institute of Certified Public Accountants (AICPA) issued an attest guide in May 2017 – *Reporting on an entity's cybersecurity risk management program and controls*. The guide assists CPAs and others who are engaged to examine and report on an entity's cybersecurity risk management program. It focuses on description criteria and control criteria. Description criteria can be used to explain an organization's cybersecurity risk management program. Control criteria can be used to evaluate and report on the effectiveness of the controls within an organization's program (Tysiac, 2017).

The European Union's General Data Protection Regulation (GDPR) takes effect on May 25, 2018. It applies to every organization of any

size, industry, and geography that processes data from EU citizens. The rule subjects a violator to a fine of up to 4% of annual global turnover and has two primary objectives. The first is to provide EU citizens with control of their personal data, and the second is to simplify the regulatory environment by unifying regulation across the EU. The rule applies to personal data, including customer lists, contact details, genetic/biometric data, and potential online identifiers like IP addresses. The rule mandates that companies conduct privacy risk-impact assessments to analyze the risk of data breaches, including steps to minimize such risk.

Many US companies have been working on implementation plans for GDPR since it was passed in 2016, but other US companies are still determining whether the GDPR even applies to them. The GDPR does apply to companies that are not established in the EU as long as they provide services or offer goods to persons in the EU, or they monitor the behavior of persons in the EU, such as Facebook's EU subscribers. Thus, all such US companies are subject to the EU's GDPR. Examples include cloud-based businesses, companies that market to international client bases, pharmaceutical and medical device companies, hotels, universities, international professional organizations, and all companies with EU-based customers or their data. Also, should a personal data breach occur, companies must notify the supervising authority of the breach within 72 hours of becoming aware of the event, and they must notify impacted individuals "without undue delay," not waiting months while insiders sold their common stock in the Equifax data breach (McCallister, Zanfir-Fortuna & Mitchell, 2018).

If an organization already has good data protection measures, complying with GDPR should require tweaks rather than an overhaul. The Institute of Chartered Accountants of Scotland (ICAS) has provided six steps to comply with GDPR (Huber, 2018):

1. Review your data
2. Update your notifications about data privacy
3. Make someone responsible for data protection
4. Train staff in data protection
5. Check your suppliers and contractors if they handle the personal data of your customers

6. Double-check whether your organization complies with new data protection rights for individuals.

Similarly, the completion of the following four items concerning GDPR is recommended (Kalinich, 2017):

1. EU GDPR Readiness Assessment: Companies need to identify, prioritize, and remediate gaps in compliance programs and mitigate data protection risks.
2. Cyber impact analysis: Companies need to model the financial statement impact from data breaches and provide a comprehensive understanding of the cyber exposures facing the company.
3. EU GDPR insurance endorsement: Companies are required to address defense costs, expert cyber services, and regulatory defense costs.
4. Incident and claims response: Companies are asked to recruit post-event advisory services, including incident response, digital forensics, and claims handling to lower the total cost of risk.

The Institute of Chartered Accountants of Scotland has also provided five practical tips for robust cybersecurity (O'Neill, 2017):

1. Tailor your strategy: A company's approach to cybersecurity will depend largely on what it wishes to protect and on what scale that information exists. Developing an effective strategy relies on understanding a company's main risks, establishing effective monitoring, and having the right team of experts to integrate security measures throughout the business.
2. Keep up to date: Regular threat intelligence updates can provide an analysis of the biggest current or future risks to a company. If a company operates in the EU, it must meet the GDPR standard, which is effective as of May 2018.
3. Do patchwork: Device and equipment, like mobiles, laptops, and tablets, come with their own security and compatibility issues. Patching the vulnerabilities of these devices by adapting their existing software for a company's security defenses is essential.
4. Limit access: Restrict the amount of data that is accessed through public Wi-fi networks or unknown computer systems

to strengthen a company's security. Integrate endpoint security management, which requires all off-site devices to meet certain criteria and do protective monitoring.

5. Secure your first defense: Have a sturdy boundary firewall to repel online hacks with high-quality malware protection. Use firewalls, Internet gateways, and comparable network mechanisms. Malware protection software defends against viruses, digital worms, and malicious spyware, which can be unwittingly downloaded from emails, websites, or data-sharing platforms.

Conclusions

The following example demonstrates the dangers of not properly focusing on cybersecurity risks. Deutsche Telekom's Data Privacy Report from 2014 emphasized that many businesses still think of "IT security as an expense, not as an investment, despite the soaring financial damage caused by cybercrime and online espionage. Many only acknowledge the risks when it's too late – shutting the stable door after the horse has bolted." This type of serious error needs to be avoided for strong corporate governance in the evolving cyber domain (Georg, 2015).

The evolving cyber domain has created an ongoing problem: how to reap all the digital technology benefits from increases in efficiency and productivity while minimizing the risks of harm (Rosenzweig, 2013). The six building blocks of a resilient cyber system should be very helpful in addressing this challenge as are the deterrence strategies of "hack-backs" and other offensive response options to cyber-attacks. The seven basic observations and the four major predictions for the cyber domain should also be very helpful in learning about the ongoing benefits and threats from digital technology advances. Hopefully, with guidance from key sources, like this cybersecurity course, the AICPA cybersecurity guide, the EU GDPR, and the ICAS steps/tips, there are corporate governance lessons to be learned and employed for digital technology and cybersecurity strategies by corporate executives and Board of Directors members.

Corporate governance should be bolstered accordingly. Such knowledge can help strengthen both corporate executives and boards of directors as key gatekeepers to help protect investors. Another example to enhance

corporate governance relates to the growing robotics industry, which may reach $200 billion by 2020. In the Appendix, emerging robot security issues are identified and procedures for robot cybersecurity are then created, relating to such digital technology advances.

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Appendix: Robot Cybersecurity

Factories and businesses added 10% more robots in 2016 and 2015. Reports indicate that robot spending will reach up to $188 billion by 2020, so these security issues are serious. An international security consultant, IOActive of Seattle, Washington, tested mobile applications, robot operating systems, firmware images, and other software over a six-month study with robots from more than six vendors. The study focused on home, business, and industrial robots and robot-control

software common to several manufacturers. The study found nearly 50 cybersecurity vulnerabilities, ranging from insecure communications and authentication issues to weak cryptography, memory corruption, and privacy problems. A hacker could exploit these vulnerabilities, such as stealing personal information, enabling surveillance using the robot's microphones and camera, and capturing remotely and completely controlling the robot (Castelluccio 2017).

The study listed the following seven security issues for robots from its six-month study:

1. Insecure communications
2. Authentication issues
3. Missing authorization
4. Weak cryptography
5. Privacy issues
6. Weak default configuration
7. Vulnerable environments

A checklist for robot cybersecurity was developed with the following nine procedures:

1. Security from day one
2. Encryption
3. Authentication and authorization
4. Factory restore
5. Secure by default
6. Secure the supply chain
4. Education
8. Vulnerability disclosure
9. Security audits

In conclusion, the study recommended that since there is such massive potential for this new robotic and artificial intelligence technology, it cannot be as carelessly rolled out as the Internet of Things devices that recently proved to be vulnerable to all kinds of hacker exploits.

8

IMPACTS OF DIGITALIZATION ON LEADERSHIP: A GROUNDED THEORY APPROACH

Prof. Dr. Andreas Hesse
Koblenz, University of Applied Sciences

Executive Summary

More and more leaders and their followers around the globe use social media platforms for business reasons; in fact, mobile internet, cloud computing and data analytics have already fundamentally changed the entire business landscape. This paper examines leaders' perspectives on the interplay of digitalization and leadership. Employing a grounded theory approach, data from qualitative interviews of 29 experienced business leaders and several observations of various types were gathered and analyzed. In the text-material, leaders, as a unit of analysis, discuss environmental changes in leadership as well as updated practices of leaders' communication with their followers. In addition to that, leaders self-report context-transcendence of their individual leadership styles. The insights into how leaders operate in a digital world represent a relevant interpretive perspective that is lacking in the literature. Moreover, this study contributes to a more integrative building of a framework for the interplay of digitalization and leadership.

Introduction

"How digital leaders outperform their peers in every industry" – with that title Westerman, Tannou, Bonnet, Ferraris, and McAfee (2013) categorize "digital leaders" as generally superior. In the same sense, consultants and academics publish manuals and handbooks that are designed to help business leaders understand the new digital environment. However, their explanations of what to do and how to behave do not yet sufficiently reflect the realities for leaders trying to navigate their teams in the digital economy. How leaders see digitalization and how they exemplify leadership in the age of digitalization remains poorly understood (Richter & Wagner, 2014). Thus, interpretations by leaders of their daily realities are relevant for exploring the interplay of digitalization and leadership.

In building that mosaic, the validity of traditional leadership theories is scrutinized within the new digital environment and boundaries (Colbert, Yee & George, 2016). This is the case especially for those "new-genre leadership theories" (Richter & Wagner, 2014) such as transformational, authentic, or servant leadership that still enjoy scholarly and practitioners' confidence. One theoretical starting point of this study is to explore whether digitalization shifts such leadership styles and in what way as well as whether it expands or alters available leadership practices from the perspectives of those living in that reality: the leaders. This validation is of theoretical relevance since the theories were founded and proven in the pre-digital era. Practically, this is relevant as an input for developing leadership training as well as for setting up digitalization initiatives in organizations. The topic of how leaders should adapt their style or practice of leading is relevant as new competencies are ye tot gain importance while others become less critical (Petry, 2016). Accordingly, the findings of this study may provide another piece of guidance as to how to utilize digital technologies in the service of leadership.

Still, only a few academic studies deal with the question of e-leadership (Avolio, Kahai & Dodge, 2000), leadership 2.0 (Richter & Wagner, 2014), or digital leadership (Petry, 2016). The core of the scholarly debate in that field is whether such forms of leadership constitute a new leadership paradigm or something less than that (Richter & Wagner, 2014). Although leadership training and the consulting industry have transposed the

phenomenon of leadership in a digital world into digital leadership and leadership 2.0, it has received surprisingly limited scholarly attention. Petry (2016) illustrates digital leadership in a broader sense encompassing the drivers and consequences of digitalization. However, existing knowledge in the field of leadership does not provide an integrative view on the impacts of digitalization on leadership since the qualitative perspective of those living in that daily reality is not fully considered. Consultants, associations, and institutions have recently increased published studies containing leaders' more quantitative answers, e.g., by answering questions like "How many CEOs see a need for digital leadership training?" A few studies (Kasten & Diehl, 2017) have included open-ended questions so that they have a basis for the interpretation of such numbers. Nevertheless, leadership knowledge is "deficient because it fails to incorporate important perspectives" (Grant & Pollock, 2011:874) such as leaders' perspectives in terms of a qualitative understanding of the interplay of digitalization and leadership.

Table 8.1 – Self-estimation of digital maturity

Self-estimation of digital maturity: 2 of 5 stars --- "My team is far behind in how the digital forerunners in the US cope with digitalization." *Dominik Bauersch – Head of Customer Service Innovation Department – Telecommunication Industry – 2016*	Self-estimation of digital maturity: 4 of 5 stars --- "We have made big strides and I think we are ahead of others in using e-mail and conference calls for all our in-team conversation." *Stefan Günther – Head of Sales – Manufacturing Industry – 2016*

In Table 8.1 above, two business leaders quantitatively evaluated the digital maturity of their team and afterward described that in an open answer format. This example illustrates why quantitative surveys answered by leaders can lead to incorrect results (and thereby to incorrect predictions of the future). This was one rationale for a qualitative study based on questions to leaders. In doing so, this study did not aim to draw conclusions about an objective reality; instead, it sought to gain insight into how various individuals interpret reality. It focused on "the interpretations of … daily realities made by those who participate in them (the 'actors')." (Suddaby, 2006:634).

Similarly, the purpose of the study emphasizes an in-depth understanding of how leaders see the interplay of digitalization and leadership. Due to the exploratory and interpretative nature of the approach, the research question focuses on "how" leaders understand digitalization and leadership rather than testing "whether" or asking "how many" as other studies do. The research question is, therefore: How do experienced leaders interpret daily leadership realities in a digital world? The answer is an explanatory integrative framework of relations between both constructs. Through the concretization and structuring of this interplay, an integrative view is contributed to the aforementioned scholarly debate.

With a grounded theory approach (Glaser & Strauss, 1967), data from qualitative interviews of 29 experienced business leaders and several observations of various types were gathered and analyzed. In the text-material, leaders, as a unit of analysis, discuss environmental changes of leadership, new conditions under which they perform leadership as well as updated practices of leaders' communication with their followers. In addition to that, leaders self-report context-transcendence of their individual leadership styles. The insights into how leaders operate in a digital world represent a relevant interpretive perspective that is lacking in the literature. Moreover, this study contributes to building a more integrative framework for the interplay between digitalization and leadership.

Theoretical background

The starting point of the study is not solely theoretical. Emerging leadership theories related to the digitalization act as a guiding stimulus (Glaser & Strauss, 1967). Starting with a definition of leadership, it briefly summarizes links to leadership research on four dimensions: context, conditions, practices, and styles of leadership. The selection of these dimensions was driven, on the one hand, by their emergence during most of the interviews, and on the other hand, by observations added later, distinguishing the dimensions regarding digitalization and leadership more clearly.

According to Fiedler's 50-year-old definition, leaders are defined as "the individual in the group given the task of directing and coordinating task-relevant group activities" (1967). While early leadership research focused on the traits of leaders (Stogdill, 1948), a later focus was on the behaviors

leaders exhibit as well as on situational factors (Blake & Mouton, 1964; Hersey & Blanchard, 1969; House & Mitchell, 1975).

Context-sensitivity of leadership: Fifty years ago, Fiedler (1967) built an understanding of a context-sensitive manner of leadership that considers contingencies and determines the right balance of practices to be more effective. As a result, defining leadership today focuses on the process of influence and considers the significance of contextual factors (Bass, 1985; Bryman, Stephens & á Campo, 1996). It seems important to take that into account: "Leadership is a relationship among persons embedded in a social setting at a given historical moment." (Biggart & Hamilton, 1987:431). Thus, questions are being raised, such as: "Is digitalization more than a contextual change?"

Conditions of leadership: Venkatesh, Morris, Davis, and Davis (2003) complemented more technological studies by adding "social influence" and "facilitating conditions" as variables influencing the intersection between behavioral intention and the use of technology. In 2000, Avolio, Kahai, and Dodge (2000) coined the term, e-leadership, to describe leadership under conditions of dispersed and fluid teams where a significant amount of work is supported by IT. In their seminal paper, they focus on how virtual teams can overcome conditions of distance using computer-mediated communication. Like other authors, they define e-leadership as a behavior, the use of electronic media for leadership communication purposes, but they do not provide an in-depth discussion on underlying theories (DasGupta, 2011).

Multiple perspectives beyond the technical "digitization of analogue data" (Schmidt, Zimmermann, Möhring, Nurcan, Keller & Bär, 2015, p. 263) are required to define the term digitalization. The Gartner Glossary (2015) defines digitalization with a business-oriented focus: "Digitalization is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business." Focusing on conditional changes, digitalization in a broader sense refers to "the adoption or increase in the use of digital or computer technology by an organization, industry or country, etc." (Brennen & Kreiss, 2014). However, this phenomenon is not the first high-tech "trend" to change the world for businesses and their leaders; computerization

of administration and further functions is a second example. Regarding conditions of leadership overall, it is crucial answering questions like "Do technological trends change the conditions for leadership?" from a leader's perspective.

Originally, "digital natives" were a group of university students and teachers in a segmentation that is widely used today (Prensky, 2001). Prensky (2001) differentiates between the "first generations to grow up with … computers, video games, digital music players, video cams, cell phones and all the other toys and tools of the digital age." (Prensky, 2001:2), and "digital immigrants" – those "who are not born into the digital world but have, at some later point in our lives, become fascinated by and adopted many or most aspects of the new technology" (Prensky, 2001:3). The concept disregards the segment of people who are not born into the digital world and have not yet become fascinated by it as well as those who are born into a digital world but have not grown up in digital surroundings. Both groups are relevant to the debate on leadership.

Wang, Myers, and Sundaram (2012) extend Prensky's (2001) differentiation to include the concept of "digital fluency", describing additional factors to demographics that have a direct and indirect impact, namely organizational factors, psychological factors, educational factors (school/university), behavioral intention, opportunity (accessibility), social influence (family peers) and actual use of digital technologies (Wang, Myers & Sundaram, 2012:5). Experience with technology rather than generational membership seems to describe digital fluency best (Colbert *et al.*, 2016:732). How today's workforce, as a hybrid mixture of digital natives, and others behave or react to leadership stimuli, is rather under-examined (Colbert et al., 2016).

Leadership behavior and practices: Following Fiedler (1967), leadership behavior can be defined as "the particular acts in which a leader engages in the course of directing and coordinating the work of his group members" and will be used synonymously with leadership practices. It is beyond doubt that technology, IT, and thus digitalization, have an impact on tasks and practices such as communication, information management, coaching, knowledge management, collaboration, decision-making, and so forth (Haas, Criscuolo & George, 2015; Zhao, Zuo & Deng, 2015). Richter

and Wagner (2014) "define leadership 2.0 as a process of social influence that takes place in an organizational context where a significant amount of work is supported by social software". Thus, the scope of leadership 2.0 concentrates on communication and collaboration practices, but the authors also illustrate the role of leaders in the implementation of ESSPs and discuss indirect impacts on leadership.

Leadership communication or leaders' communication practices are theoretically focused on communication skills and their outcomes in terms of motivation or trust. Mayfield and Mayfield (2002) highlight the importance of "walking the talk" and the congruence of communication and behavior as a crucial success factor of leaders' communication. Along with the "what" that leaders communicate, the choice of communication channels is relevant for the outcome of communication (Daft & Lengel, 1986). In addition to that, the communication behavior of followers has emerged as a relevant issue within the digital world due to the omnipresence of smartphones, mobile internet, and social media. Owners of devices and accounts can easily network, share data, or access news and knowledge. While e-mail, voice over IP, and video-conferencing can be categorized as established ways of computer-mediated communication (or traditional IT), social software as bundles of communication channels is its advanced form, recently customized for enterprise requirements (Leonardi, Huysman & Steinfield, 2013). Thus, questions like "Do digital communication technologies yield for leadership purposes?" are of practical and theoretical relevance for the debate on digitalization and leadership.

***Leadership styles**:* Leadership style is "the underlying need-structure of the individual, which motivates his behavior in various leadership situations" (Fiedler, 1967, p. 36). Bass's (1985) transformational leadership theory was the starting point for "new-genre leadership" models, emphasizing that a leader's style should be visionary, ideological, participative, servant, or authentic (Richter & Wagner, 2014). These models revealed that reducing the distance between leaders and their followers while building on cooperation, delegation, participation, etc. improves the outcomes of leadership (Bass, 1985). It is vital to illuminate how leaders look at this. For instance, are different leadership styles more appropriate for different tasks (Phelps, 2014)? This study aimed to challenge these underlying assumptions by discussing with leaders whether digitalization disrupts cornerstones of

new-genre leadership theories that have their foundations in the pre-digital century.

Methods

One way to determine answers to the open issues in focus is to ask those who live in that reality – leaders. Building on what they think and say, this study sought to build categories, a framework, a structure, or elements of a theory to explain the phenomenon from the interior. This aim provided the initial reason for choosing qualitative methods for this study (Pratt, 2009). The rationale for this research design was to gain a thorough understanding of the real-life experiences of leaders regarding the interplay between leadership and digitalization.

While leadership is one of the most studied fields in organizational sciences, digitalization is a rather young and unexplored phenomenon. In answering the research questions focusing on leaders' interpretation, this study did not aim to draw conclusions about an objective reality; instead, it sought to gain insight into how various individuals interpret reality (Suddaby, 2006). The theoretical links between digitalization and leadership mentioned previously give an "initial direction in developing relevant categories and properties and in choosing possible modes of integration" (Glaser & Strauss 1967:79). Thus, this study builds a "theoretical explanation by specifying phenomena in terms of conditions that give rise to them, how they are expressed through action/interaction, the consequences that result from them and variations of these qualifiers." (Strauss & Corbin, 1990).

For the sake of clarity, the perspective of followers was excluded to keep the complexity of this study manageable. Moreover, dyadic relationships would have biased the answers due to interpersonal leader–member relations. In doing so, a related perspective was lost; however, the aim was for clarity. Nonetheless, the literature regarding followers' perspectives on leadership was considered, especially followership theory and studies concerning the younger generation in working contexts (Baker, 2007; Petry, 2016; Prensky, 2001).

Research Design

The research design of the study was twofold. In the first step – Patton (2005:67) calls it the "discovery mode" – the aim was to understand the variety of perspectives, identify unclarities, and enable a purposeful sampling for the second step. The first step followed a strategy between a "naturalistic inquiry" and "emergent design flexibility" (Patton, 2005:40). In doing so, no attempt was made to manipulate the research circumstances or the phenomenon itself. Twenty-nine interviews were conducted within the familiar environment of the interviewees in 20 different cities, and observations took place in real-world settings (Patton, 2005). Maximum variation sampling techniques were applied (Strauss & Corbin, 1990) to be open to a wide variety of possible outcomes. Since the aim of the study was to deepen understanding with that "discovery-oriented approach," there were no prior "constraints on what the outcomes of the research will be" (Patton, 2005:39).

In the second step – Patton (2005:67) referred to it as the "verification mode" – a purposeful sampling of focus-group interviews, direct and participant observations, as well as triangulated interviews, were conducted, focusing "on verifying and elucidating what appears to be emerging" (Patton, 2005:67). Two examples will illustrate the variety of the design strategy in this step: Participating in a leadership training program ("Führung 4.0" [Leadership 4.0]) for a full day as a participant and joining a leadership conference as a participant-observer does not produce quantitative data; instead data analysis is built on qualitative data alone.

Data Collection and Fieldwork Step A: The Discovery Mode

The sampling of the first block of interviewees was driven by Eisenhardt and Graebner's (2007) guidelines for finding interviewees who view the focal phenomena from diverse perspectives and, in doing so, the researcher gains maximum variation within the sample. Twenty-nine semi-structured interviews made up the heart of the data. The interviewees were leaders from for-profit enterprises of diverse sizes in Germany who operated on different hierarchical levels, including the top-level and the frontline (see Table 6.2). All of them had at least ten years of leadership experience.

This criterion sampling rule was defined to identify respondents within one regional market in an advanced industrial nation who are knowledgeable concerning leadership development over a longer period, starting from the early days of digitalization. This decision was driven by the awareness that different industries operate in different environments concerning digitalization challenges (Westerman *et al.*, 2013). Moreover, different personal and societal factors also play a role in the perception of challenges, so care was taken to consider gender balance and respondents with various educational backgrounds. Interviews were mainly held with leaders who operate in various functions, including leaders in supportive functions such as HR, quality management, and IT, to gain insights at the forefront of leadership. The multiplicity of the individual contexts of respondents reduced the contextual limits of the study, making the findings more generalizable, and mitigates the risk of a potential informant bias.

Table 8.2 – List of interviewees

No.	Industry	Size
1	Banking	M
4	Consumer & packaged goods	L, M, M, M
5	High technology	L, L, L L, M
1	Insurance	L
3	Manufacturing	L, M, S
1	Pharmaceuticals	L
2	Professional service firms	L, M
5	Retail	L, L, L, M, S
3	Telecommunication	L, L
2	Travel & hospitality	M, S
2	Utilities	L, M
		Large, Medium,Small

The sample size did not allow for analyzing characteristics across the interviews.

Interviewees were invited via e-mail with a standard invitation letter. This letter provided mainly administrative information to mitigate a potential

desirability bias (Conger, 1998). The topics and issues were specified in advance in an interview guide, but the researcher decided on the sequence and specific wording of the questions during the interviews (see Appendix). The interviews contained open-ended questions without predetermined response categories (Patton, 2005) about digitalization and its role in the respondent's industry, organization, and personal working life. Furthermore, the interviewees provided self-reports of their leadership styles, leadership practices, views on the development of followers, and finally, the use of social media and social software in their company. Each interview opened with a more informal conversational style as a dialogue among experienced leaders with the types of questions asked concerned participants' feelings, opinions, and values (Patton, 2005). Due to the expectations of the participants, it was necessary to demonstrate practical knowledge and contextual sensitivity to run a discussion at eye-level (Klenke, 2014). Thus, a conversational strategy was used combined with an interview guide (Patton 2005). During the interviews, the interviewer adopted a neutral role without predetermining answers and intending to gain answers from various perspectives. The interviewer's personal, professional experience enabled them to encourage intensive and rich dialogues.

"However, qualitative methodologists question the necessity and utility of distance and detachment, asserting that without empathy and sympathetic introspection derived from personal encounters, the observer cannot fully understand human behavior." (Patton, 2005:49).

The order and length of the different content blocks were designed to allow for flexibility in addressing the individual and the situation (Alvesson, 2003; Patton, 2005). Demographic questions were positioned at the end of the interview (Patton, 2005). All interviews were conducted face-to-face in the native language of the interviewee and interviewer. The interviews took place between the end of December 2015 and March 2016 in the offices of the interviewees or wherever the interviewees felt comfortable (all-in-all in 20 cities in Germany). The interviews were transcribed verbatim within the first ten days by a single writing-office employee to avoid transcription bias and to build a closer understanding of the topic. All transcripts were cross-checked, and, in five cases, issues were clarified with the interviewees. In parallel, a field note for each interview was written documenting specific observations or impressions beyond the words spoken (e.g., observations

of locations, offices, rituals, friendliness, or hierarchic symbols). In that first block of interviews, a saturation strategy was followed where interviews finished when the last one could no longer deliver new content.

Data collection and fieldwork step B: The verification mode

After reviewing and discussing step one in a research colloquium with researchers who did not know the topic but are familiar with the field of organizational behavior, the theory categories that are foundational to purposeful sampling and data gathering were identified. To understand the interviewees' background better, documents that were incorporated in the interviews, such as a company leadership principles brochure in one case or a news magazine article in a second, were examined. During that phase (April 2016 – December 2016), the enterprise websites and, in some cases, social media sites were visited to gain a better understanding of the context of the interviewees. For the sake of "crystallization" (Tracy, 2010:840) of thoughts and ideas that came up while rereading interview transcripts and field notes in-depth, a focus group of four leaders was gathered from different hierarchical levels in diverse functions to get their "member reflections" (Tracy, 2010:844) on first thoughts and ideas.

Furthermore, the researcher attended a digital leadership conference organized by an HR consultant and a business school – aiming to answer the question of how digitalization affects leadership, as well as a leadership 4.0 training organized for leaders in middle management at a telecommunications company. This second training was attended as a researcher (participant observation), not a participant, yet the researcher was not introduced as a researcher but a participant, thus the participant observation was naturalistic (Patton, 2005). In the leadership training context, there was a closer connection with the people under study through physical proximity for some time (Patton, 2005:48). In each of those observations, an extensive note was written and added to the research data. Finally, two conversational interviews were conducted with two younger start-up founders in different industries. Again, these insights were summarized and added to the research data with an extensive observation note. The latter dialogues extended "crystallization" and can

be understood as "triangulation" since the context of the two founders concerning age, size of the organization, and digital maturity was distinctive from the heterogeneity of contexts in the first block of interviews (Rowley, 2002). All in all, the variety of data sources generated richness (Tracy, 2010) and referred to the complexity and ambiguity of the interplay of digitalization and leadership.

Data Analysis

During the data collection phase, the data analysis was prepared by adding initial impressions, initial ideas about links, and initial questions to the field notes of the interviews. Before the computer-aided analysis was started, preliminary impressions were discussed in a colloquium with other researchers. The next step involved a fine-grained reading, after which nodes were defined that clustered significant excerpts from the material in the software. However, the goal was not yet to distill categories; it was primarily about collecting codes without viewing the material explicitly across interviews. That raw catalog revealed a high degree of complexity of interviewees' interpretations, which led to the start of a structure regarding the interplay of digitalization and leadership.

The next step concerned cycling between raw material, literature, and sketches. "Member reflections" (Tracy, 2010:840), e.g., the discussion involving a former CHRO and a CEO at a leadership conference, helped, for instance, to define the leaders' interpretation of the differences between changes in leadership styles or practices. The result of this phase of analysis was a second catalog of understandings, explanations, and examples of the impact of digitalization, followers' developments, leadership styles and practices from different viewpoints (see Figures 6.1–6.4).

Findings

The findings, which will be presented subsequently, build on the data structure that emerged during the process of data collection and analysis. To explicate the data structure, figures 8.1–8.4 reveal categories, codes, and second-order themes of how the respondents elaborated about specific topics. Figure 8.1 replicates how leaders understand digitalization and which first-hand impacts they expressed.

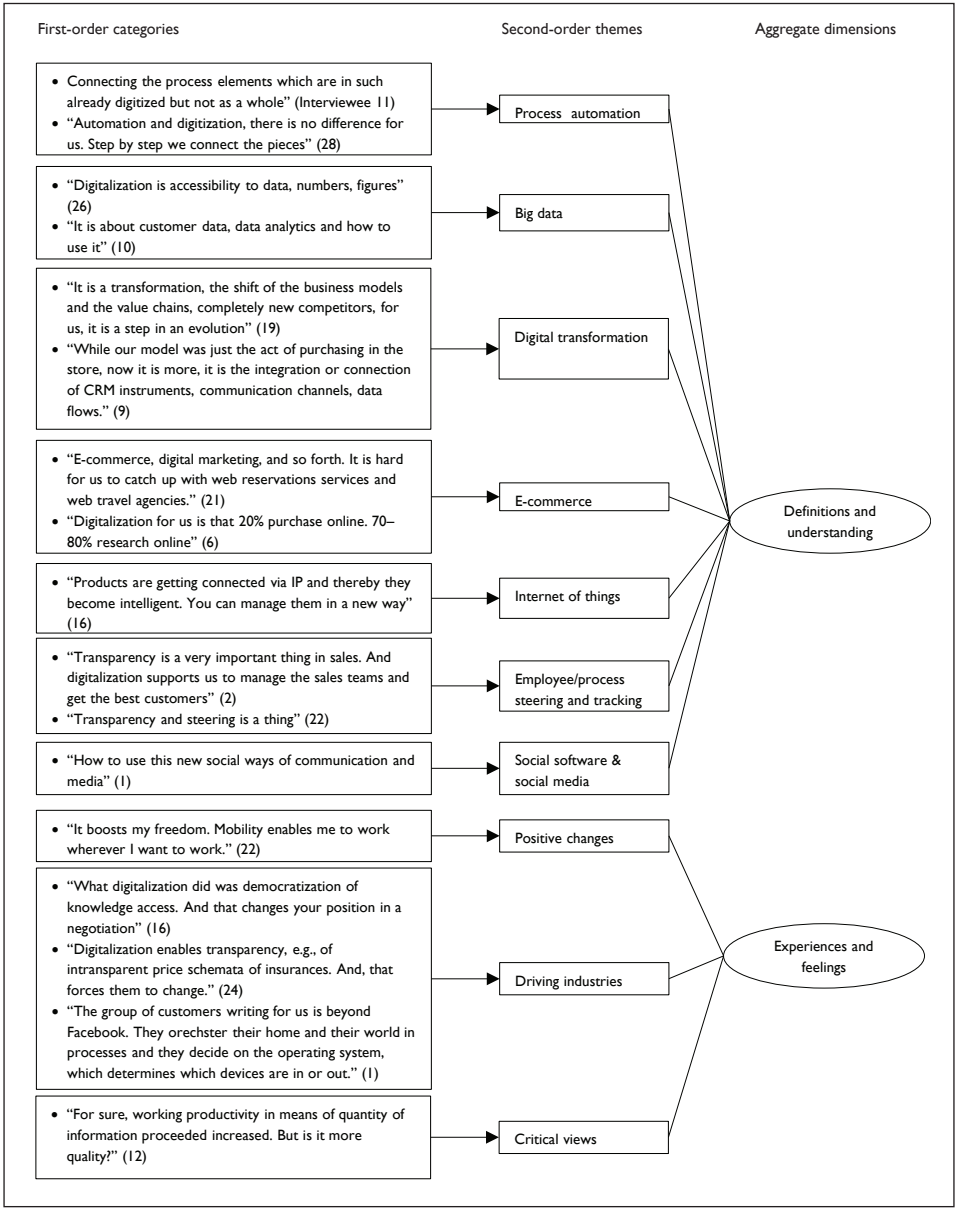

Figure 8.1 – Leaders' definitions and understandings of digitalization

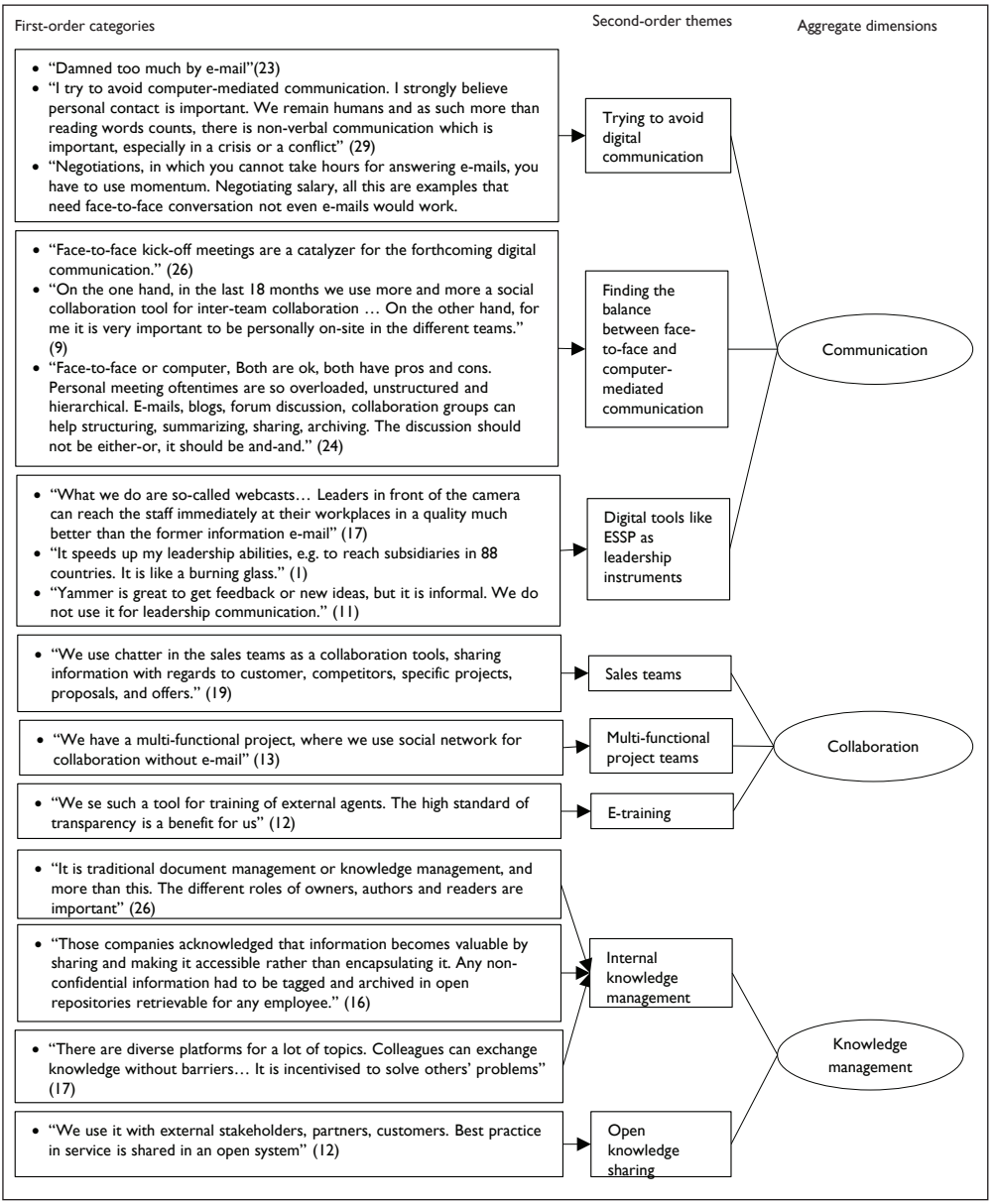

Figure 8.2 – Digitalization-driven changes

Figure 8.2 explicates quotes of leaders clustered in categories of digitalization-driven changes. In particular, changes in the field of communication technologies have been the object of analysis here. This prioritization emerged during the interviews and was driven by the content of the interviewees' answers.

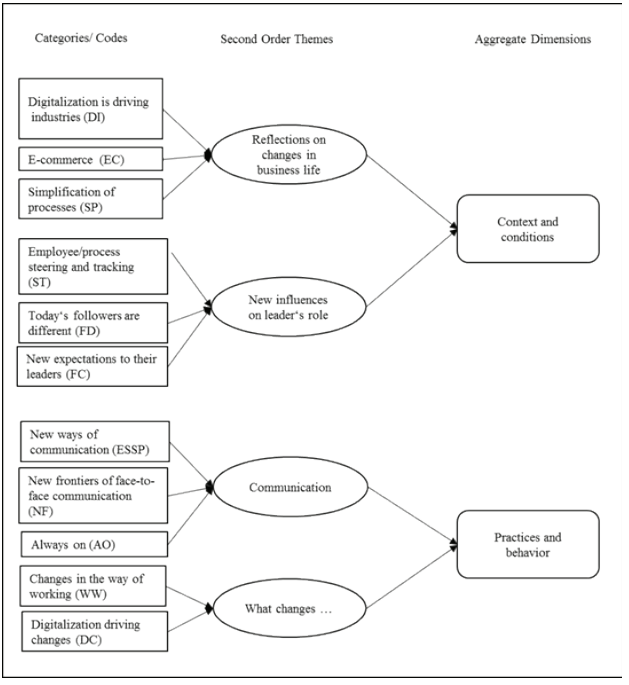

Figure 8.3 – Context and conditions of leadership/leadership practices and behavior

Figure 8.3 opens the categorization in the context and conditions of leadership as well as leadership practices and behavior. This Figure was drafted in an advanced stage of the inquiry after the first coding, the researchers' colloquium, and the focus-group discussion with operating leaders. In that stage, categories could be better structured to second-order themes (Gioia, Corley & Hamilton, 2013), though the need for a more integrative strategy to build a framework for the interplay of digitalization and leadership became apparent.

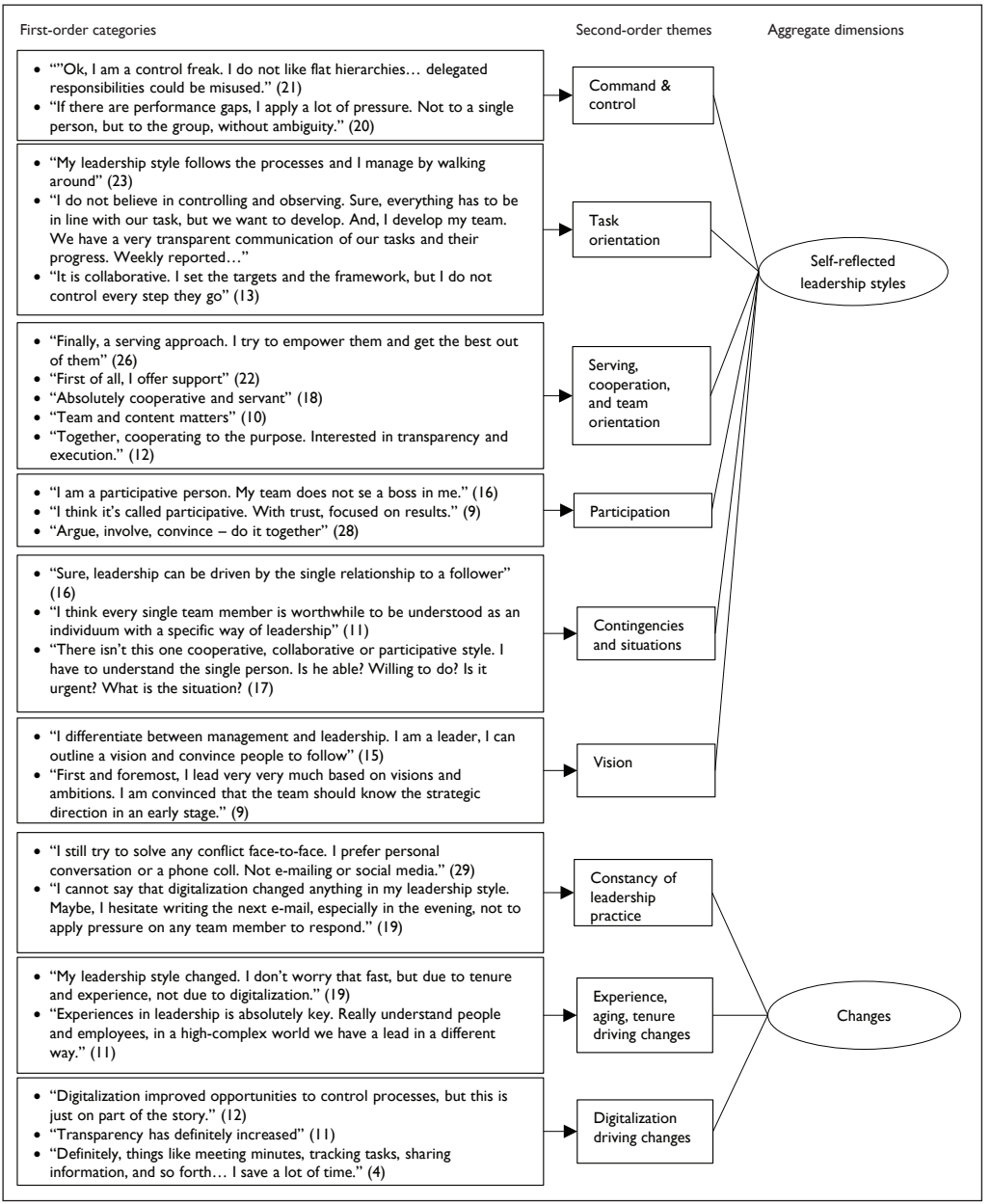

Figure 8.4 – Leaders' self-reports of leadership styles

Finally, Figure 8.4 provides exemplary quotes referring to leaders' self-reports and changes in leadership styles. As before, the categorization of second-order themes was not driven by theoretical dimensions but by the answers of what the real actors said.

Subsequently, the findings are structurally described, deriving at an integrative framework showing the interplay of digitalization and leadership. In doing so, digitalization is interpreted as a facilitator of leadership without specifying which kind of leadership outcome is influenced (e.g., team performance, leader-member relationship, employees' satisfaction).

Leadership in a digital world

Context of leadership: Interviewees argued that digitalization had caused various developments in the economic landscape, especially globalized competition and its consequences, e.g., harsh cost reduction programs. Leaders described digitalization-driven impacts that vary across organizational contexts, in particular, industry backgrounds. Within some industry sectors (e.g., retail), business models are changing in a more disruptive way so that leaders in such industries are confronted and challenged by multiple change management projects. "In the past, change management was a task to perform once or twice in a decade: now it is an everyday activity of my job." (Interview WS[1]).

Moreover, digitalization enables new levels of transparency, e.g., of business results; it offers ubiquitous Internet connectivity and information access as well as devices on an advanced level. "This transformation is so intense and comprehensive, not just in one field. Something like this has never taken place before" (Interview MP). Some interview partners emphasized that a new availability for business tasks or assignments has resulted in the consequence that they find themselves under increasing pressure. "In the 80s, leisure time and working hours were strictly separated; today, they are highly intertwined, and incoming messages are a pain for me." (Interview SD). Furthermore, they described how, especially, the younger employees

1 Throughout the paper numbers and initials are identifiers of the interviews. By doing so, the anonymity of interviewees is protected.

are establishing social media as their favorite private communication channel and thus have selected their own peer-to-peer channel of communication: "All of our teams use WhatsApp groups for informal chats and alignment of activities." (Interview MH).

Conditions of leadership: Interviewees discussed developments with a more direct influence on leadership. For instance, monitoring data increases the "ability to control and observe employees" (Interview DA) on the one hand, and options for an authentic leadership style, for instance, by sharing daily activity reports, on the other hand. According to the self-reports of the interviewees, relationships between leaders and their followers are changing compared to the past. Driven by competition, they are facing more virtual, dispersed teams, and within these teams, new interdependencies emerge based on digitalization trends: "Digitalization democratizes information. Access to knowledge changes bargaining power. Power and interdependencies change. There is less hierarchical distance between leaders and members." (Interview GJ). Consequently, leaders indicated that they feel that they are encountering well-informed, better-educated employees at eye-level who request task delegation and co-creation.

Relatedly, younger followers are described as having no experience with and no access to hierarchical behavior, attitudes, and policies. "Information for them is at their fingertips; they do not consider information as a source of power. I think that explains a bit why they are not used to hierarchies." (Interview WS). However, in a few cases, There was an impression from the interviewees' office and workplace situation that it was a more traditionally "closed" space, "protected" by secretaries with a kind of leader's privacy (Field notes interview EG, OF, PK).

Leaders' communication and digital tools

For the interview partners, in addition to conditional and contextual changes, the substitution of paper-based communication and oral face-to-face communication with digital forms of communication (focused on texting) is what can be understood as the "digital" in digital leadership (Interview MD, Observation LT). "Compared to the past, I still meet people – be it colleagues or followers – during the whole workday.

Additionally, I write e-mails or messages, and in doing so, I can keep in touch with by far more people in an ad-hoc-manner." (Interview DW). Quite a few interviewees argued for the importance of maintaining face-to-face communication due to the emotional and nonverbal cues involved. The same group perceived too much nonpersonal interaction in leader-member relations as a problem. "Leaders' tasks are mainly information dissemination, communication, and decision-making. Communication should be face-to-face and computer-mediated; both ways have their pros and cons. Personal conversations and meetings are often overloaded, unstructured, and actions are too often taken by impulse. Social software can support that with completeness, structure, archives, summaries, exchange of feedback, and so forth." (Interview MF).

Focusing on the data, a few interviewees clearly defined individual thresholds and limitations regarding the question of what content is appropriate for discussion using digital communication (e.g., personal issues like low performance or salary). Some interviewees indicated that younger followers redefine such thresholds: "They even clarify conflicts via WhatsApp while sitting in the same room." (Interview MD).

Most interesting were the responses of those leaders who described themselves as tech-savvy and who worked in industries that are closer to digitalization, like telecommunication and high technology, highlighted their first user experiences with enterprise social software platforms (ESSPs). For most of them, ESSPs was a more informal communication tool with broad capabilities that have not yet been utilized for their leadership tasks: "Being a little cautious here, it is a soft channel for exchanging interesting job-related ideas" (Interview EG).

What is viewed as most promising in practice is digitizing routine tasks like agenda management or meeting minutes and the two-way exchange of information in dispersed leader–member settings. The latter aspect was connected to one leader's description of their leadership style. "I like the digital stuff because my team is empowered to participate. Not all of them join our discussions, but they could." (Interview MF). Since there was still some ambiguity as to whether digital tools are more than what followers use as their favorite communication channel, the topic was discussed with two start-up founders. They said: "Leadership is not such a big deal since

we collaborate in the team on an even playing field. For sure, we use social collaboration and networking tools for all kinds of work. Why should we use different tools for leadership purposes?" (Dialogue SJ). Similarly, we interpret leaders' experiences and their arguments regarding the pros and cons of ESSPs as a step toward the use of digital communication tools for leadership purposes.

Table 8.3 – Characteristics of digital turbulences

Category	*Reported Digital Turbulences*
General changes	• Increasing frequency of (organizational) changes • Increased competition and pressure
Communication and collaboration	• More computer-mediated communication • Higher degree of virtual collaboration, less face-to-face • Less control-ability of communication and information flows
Interface to followers	• Intensive culture of participation • Two-way exchange and interaction • Characteristics of digital natives (e.g., less work-oriented life-perspective) • Different communication behavior of digital natives (e.g., extended thresholds of written communication in computer-mediated communication) • New expectations toward responsiveness and availability
Data transparency	• Higher accuracy, amount, and up-to-dateness of data enables leader to improve control

Leadership styles

With two exceptions (two individuals who emphasized their authoritarian, hierarchical style, both from the travel and hospitality industry), most of the interviewees saw themselves as conducting a servant, participative or cooperative leadership style influenced by situational factors (see Figure 6.5) "I delegate and align tasks, but how they [the team] do it is their responsibility. My role is to enable them." (Interview MH). Delegation of responsibilities was mentioned as a common element of their leadership styles.

A few interviewees described changes in the characteristics of their leadership style compared with the 1990s, and a few of them blamed this change on digitalization (see Figure 6.5). However, even in a volatile environment with new boundaries, conditions, and changing practices,

leadership styles were self-reported as context-transcendent: "My way of communicating changed, ok, but not my style of leading people. That has nothing to do with digitalization." (Interview MF). Since this finding contradicted, to some degree, the rest of the findings, this was discussed in a subsequent focus group to further understand the differences between leadership practices, leadership styles, or leadership behaviors, which were not explicitly differentiated throughout the interviews by the leaders. For two participants, the reported stability was not unexpected since leadership styles have "a long history of surviving the volatility of contexts. In the 80s and 90s, we were facing computerization, now its digitalization" (Observation SL). They also found them to be sustainable: "Behavior is to be adapted first. My style is resilient and may change, but that takes a long time." (Focus-group SL).

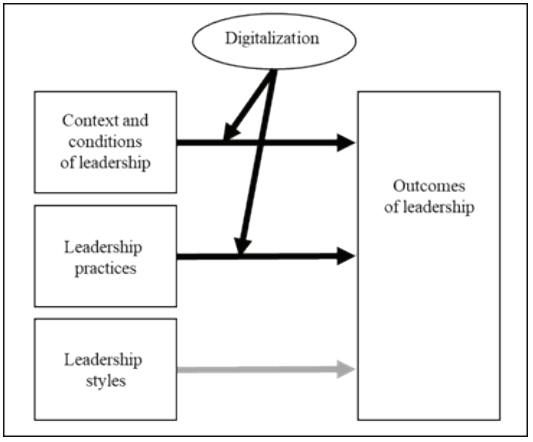

Figure 8.5 – Framework for the interplay of digitalization and leadership

Discussion

Focusing the findings on two core arguments, what will be discussed is the structure of a framework for the interplay of digitalization and leadership, and the validity of assumptions of new-genre leadership theories in the digital era.

An integrative framework for the interplay of digitalization and leadership

As early as ten years ago, Avolio (2007, p. 25) called for the next level of integration, "taking into account the prior, current, and emerging context – for continued progress to be made in advancing both the science and practice of leadership." In his terminology, he differentiated between the "proximal" context that leaders are embedded in and the "distal" context that comprises the broader socio-cultural environment as elements that constitute an emergent leadership theory (p. 26). This study revealed similar elements of a framework – contextual influences (distal context) and specific conditions (proximal context). Moreover, everyday behavioral elements and practices of leaders' communications were added to the emerging framework for the interplay of digitalization and leadership. Using ESSPs offers new ways of interaction, authenticity, and overcoming the obstructions inherent in a dispersed setting. Theoretically, the empirical work is new concerning the exclusive qualitative leaders' perspective. Accordingly, value was added by demonstrating the complexity of the interplay of digitalization and leadership. Moreover, the scope of this framework complements the scope of the definitions of e-leadership, digital leadership, or leadership 2.0 as the original theoretical motivation (Avolio et al., 2000; Petry, 2016; Richter & Wagner, 2014).

Participation and authenticity as bridges between digitalization and leadership

Following this integrative approach to building a framework, the validity of new-genre leadership theories may also be discussed (Savolainen, 2014). In building on the leaders' interpretations and the observations in this study, two trains of thought are used in the explanation. First, iterating between data collection and the literature, participation was encountered, on the one hand, as a characteristic of digital tools as a means of communication and delegation (empirical perspective) and on the other hand, as an element of the path–goal theory of leadership (theory perspective). In their seminal article, House and Mitchell (1975) explained why participative leadership has a positive impact on performance: "More specifically, when people participate in the decision process they become more ego-involved, the decisions made are in some part their own." Leaders, especially those working in industries that are advanced in digitalization

like telecommunication or high technology, emphasized the fact that social software encourages feedback, enables the delegation of routine tasks, and involves followers.

Similarly, Avolio and Kahai (2013:327) indicate that participative "e-leaders … may set up chat rooms to solicit opinions from members of a global virtual team before making any final decision." Followers are described in the data as no longer being obedient or passive: "While they are filled with knowledge, they are encouraged to take on responsibilities" (Interview MD). This is congruent with several theoretical perspectives on followership describing followers as wanting to influence, change and alter their environment in the way they see it (Baker, 2007). This congruence of participation as an underlying concept is one interpretation of the instance of leaders reflecting on stability in their individualized leadership style while they discuss contextual, conditional and behavioral changes. The stability of leadership style within an organizational environment of change contradicts what Biggart and Hamilton (1987) labeled more than 30 years ago as the institutional theory of leadership while proposing that "as an organization changes over time, the strategies of leadership will also change."

O'Reilly (2005) built his concept of Web 2.0 on its characteristic of user-generated content. The participation of users, customers, followers, or employees underlies this concept, which was later labeled as an "architecture of participation" (McAfee, 2006) and a "participatory system" (Avolio *et al.*, 2014). Social media and ESSPs facilitate such participative use (Kane, Alavi, Labianca & Borgatti, 2013) and thus can promote "participative" leadership, as highlighted in the interviews. Avolio *et al.* (2000) emphasized such a consistency between leadership spirit (e.g., participative) and IT spirit as being important for "faithful appropriations" (Avolio et al., 2000:615).

Just as in the argumentation regarding participation above, a second bridge is outlined between digitalization and leadership with transparency and authenticity. Digitalization enables leaders to act transparently, for instance, in sharing activities and emotions and thus engaging in authentic leadership. Similarly, authenticity can be identified as a common element of new-genre leadership models and the framework of leadership and digitalization (Richter & Wagner, 2014). However, Colbert, Yee and George (2016) discussed concerns for a reduced authenticity driven by digitalization in

terms of less face-to-face communication and interactions characterized by less fully-present participants.

All-in-all, the conclusion is that following the qualitative interpretations of the interviewed leaders, the validity of the underlying assumptions of new-genre leadership theories is confirmed, in particular participation and authenticity. Thus, self-reports about changes in context, conditions, and practices did not yield a new leadership paradigm or model.

Limitations and Further Research

Grounded theory rarely has interviews as its sole form of data collection (Glaser & Strauss, 1967). Interviews are self-reports in one moment in time, in one individual situation embedded in various contexts. That is why this study relied on interviews, on the one hand, to understand leaders' interpretations of daily real life, and on the other hand, why interviewees were sampled, aiming for a wide variety of backgrounds, industries, functions, and gender. To mitigate the risk of relying solely on interviews, this study purposefully gathered further data in observations and documents.

Additionally, the focus fell on the validity of the finding of stable leadership styles. Most respondents claimed their individualized leadership style as resistant and not impacted by digitalization. This might not be the case if they did not want to admit to changes since a sustainable leadership style can be seen as more socially desirable. Knights and Willmott (1989:535) note that managers, in general, try to secure a sense of stability and certainty in a "destabilized working world". However, sustaining leadership styles can be seen as sustainable personality traits of leaders (McCrae & Costa, 1987). Although there are some critiques of trait-centered theories of leadership (Stogdill, 1948), the context-transcendence of self-reported leadership styles in this study confirms the idea of the sustainability of personal traits. Moreover, due to the longitudinal retrospective consideration, it may be that the respondents simply did not perceive gradual changes in their individualized leadership style over time.

The latter discussion leads us to an avenue for future scholarly work: Researchers could complement the approach of this study by adding the qualitative perspective of followers. How do followers interpret daily

realities in a digital world? Whether and how do experienced followers specifically, see changes in the leadership context, conditions, practices, and styles?

Conclusion

Digitalization is transforming businesses and the context and conditions for leadership in a digital world. This study deepened our understanding of digitalization and leadership by adding qualitative perspectives of various leaders across industries and functions. Building on that data set, various influences, intersections, and relations were structured into a framework of digitalization and leadership.

The findings are relevant first for leaders, offering them a more integrative understanding of leadership in a digital world. Categorizing the use of digital tools as new leadership practices enabling leaders to promote participation is of practical relevance as well since the use of such tools is increasingly becoming the norm in a large number of industries (Bughin, Chui & Pollak, 2013). However, does all this yield a new leadership theory, model, or paradigm? No, or, more precisely, not yet. Nevertheless, interpreting the comments and thoughts of those who lead on an everyday basis demonstrates the multifaceted nature of the interplay of digitalization and leadership. It is of particular relevance since information systems research and the field of organizational behavior, especially leadership research, are both interested in a better understanding of how technology precisely influences humans and organizations.

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Appendix

Interview guide

General changes

- Opening question: What does digitalization mean for your industry?
- What does digitalization mean for your company?
- How do you feel in the digital era?

Leadership

- What is important for you as a leader?
- What does digitalization mean for you in your role as a leader?
- Has digitalization brought about changes of followers' expectations?
- Do you have a concrete example in mind in which digitalization inflluenced your leadership style?

Digitalization

- What does digitalization mean for your personal communication behavior in private/in your job?
- How much do you personally use the social software platforms (if applicable)?
- What does digitalization mean for your way of working specifically with regards to communication?
- What is your experience using the enterprise social software?

End

- Do you recognize any further changes in further areas with regard to digitalization?
- How do you think digitalization will influence leadership in the future?

Statistics

- Age, gender, industry, function educational background, working experience, experience with social media and social software, number of subordinates, management level.

9

NEW THINKING ON BOARD LEADERSHIP IN A DIGITAL AGE

Julie Streicher
Daniel Malan

By now, it has become abundantly clear that the solutions that worked in the past cannot successfully be applied to solve our modern, ever-changing world. Board leaders are called to the frontlines of the battle to remain relevant for a generation demanding so much more. This requires revolutionary thinking and adaptable practices – a call that was sounded during the 14th Workshop on Corporate Governance presented in November 2017 by the European Institute for Advanced Studies in Management. The plenary session themed *Responsible Board Leadership*, took the shape of a panel discussion chaired by Professor Daniel Malan, director of the Centre for Corporate Governance in Africa at Stellenbosch University. Here Dr. W. Lee Howell, Professor Bob Garratt, and Professor Tom Donaldson took turns in sharing their latest research and recommendations on how to bring about global behavioral change, revise failed approaches to board leadership, and recognize a second-order intrinsic company value. This brought many new ideas to the surface as the three thought leaders drilled down into the ever-deeper layers beneath the present-day conventionalities of corporate governance practice.

This chapter is the story of this new thinking and is presented from a slightly different viewpoint – through the eyes of a workshop attendee. We invite you, therefore, to join us in the journey of discovering how to navigate the uncharted waters, which is our modern world.

THIS IS HOW WE CAN BRING ABOUT GLOBAL CHANGE

Lee Howell

"One needs to have a theory of change. That's where one begins."

This pronouncement by Dr. Lee Howell, a member of the managing board and head of global programming at the World Economic Forum, may have been self-evident to some, but certainly would have been a moment of sudden insight for others – something of an aha moment for those demoralized by the systemic problems of the world. Howell explained that bringing about behavioral change on a global scale was achievable according to the theory of change being developed at the forum. Far-reaching change takes place when communities of interest are formed, which eventually lead to communities of purpose, and finally to communities of action, said Howell.

To frame his talk, he opened with a quote by science fiction writer Rob Heinlein, author of *Starship Troopers*, who said: "Being right too soon is socially unacceptable" – a rather opaque comment on the state of board leadership, but certainly leaving the impression that there was plenty of steady work to be done. "When we reflect about where we are in the state of the world today and the state of corporate governance, I think many of you, in your research, saw weak and strong signals very early on." However, it is not good enough anymore to base decisions on vague impressions and reading possible signals, "it's about the evidence, and having evidence-based thinking. People should see the evidence and have a certain response to it, but the fact is that people are not that rational." This came from a position of still being in the process of scouring the evidence and developing a theory of change himself. He was focusing hard on what the evidence was telling him about how to get people to do things differently.

Shifting from a local to a global perspective

Howell took a historical detour, explaining that the World Economic Forum was a forty-seven-year-old, founder-based organization, where Professor Klaus Schwab's academic work was anchored in stakeholder theory. It started with a meeting in a remote part of Switzerland in 1971 and was called the European Management Forum. Schwab, influenced by management theory, was trying to understand what was happening in the United States. This, in a way, shaped the business community in Europe, waking it up to some of the challenges emanating from the US, like competitiveness. "Schwab had taught strategy for many years at the University of Geneva, and stakeholder theory became part of our DNA. This meant that corporations serviced, not just the shareholders, but many stakeholders – the employees, the suppliers, and the community at large. However, we extended it to the global community. The best approach was a holistic stakeholder approach." Over the years, the focus of the European Management Forum shifted from some European advancement issues to the broader world and global economic issues. So finally, the local, continental forum evolved into the World Economic Forum.

"Now we have a thousand member-companies and over a hundred governments in our projects," explained Howell. "And at a certain point, we realized that what we wanted to become is a unique international institution, and that happened in 2015 when we went to the Swiss Federal Council, and they approved our petition to become an international institution for public–private cooperation." There happened to be only two other institutions in Switzerland that had the same status and also were founder-based. These were the International Community for the Red Cross and the International Olympic Committee. The existence of these two similar entities down the road led to changes in the governance of the World Economic Forum. Howell clarified: "Immediately, we started to benchmark all the key international organizations, but we also gained clarity as to our approach and mission. Our mission is to improve the state of the world, but the means by which we approach it is through public–private partnerships. That, in a way, informed our approach to what we think is responsive and responsible leadership."

Emerging challenges in the new global context

The theme of the World Economic Forum's "new global context" had been conceptualized in 2015, the year that the forum had sought its new status. "What I want to share," said Howell, "is that the theme of the 2017 workshop didn't just occur because we were reading the headlines this past year. There are real concerns, and one is that there's a post-crisis growth model lacking dynamism and resilience, and that was already very evident in 2015." He elaborated: "There was a real concern around poorly-managed global commons – before Paris and the sustainable development goals of the UN."

Then Howell opened the sluices, and out gushed the stream of issues that have emerged in recent years. "There are deteriorating international cooperation crises. There is real concern about rising nationalism, populism, sectarianism, and state-ism. There is clear, very quantifiable – through different surveys – erosion of trust in leadership, both in the public and private sectors. There are societal challenges not being addressed, of which – first and foremost – is income inequality." As editor of the World Economic Forum's global risk report, Howell had looked at income equality as the lead risk in 2013 and 2014.

Then a glimmer of hope appeared – but which also presents a concern – and that is the rapid progress in science and technology. There has been some exponential growth in terms of application and adoption in certain areas. This is where Howell feels that there is a new global context to which business and government need to respond and think about how they are governing themselves and how they can react and at least be relevant.

A new model to confront trends going awry

"I think people could sense that things were not going in the right direction in 2015, and – if one fast-forwards to today – obviously there are many developments that confirm that feeling of suspicion. How do we then go about improving the state of the world as an organization? An organization that convenes, at least in our meeting each year, three thousand leaders, about half of whom are from the private sector and the rest from civil

society, governments, heads of state, NGOs, even journalists and academics? What do we need to change here?"

Here Howell had two proposals: The first step was to have a theory of change. "There has to be some sense of how you get people to rethink things, and ours is quite simple. We believe in face-to-face interaction. It's really about confronting the right issues, with the right individuals, but also with the right institutions." Individuals matter, he said, because some individuals think differently about issues, and some are more passionate than their peers and are forces for change. Institutions need to be a part of the conversation in some way as well because they are stakeholders and must have a place where they can interact.

The second step was creating a sense of community, which is something more than just coming together every year. "It is very difficult to create communities, but if you have that mixture of issues, individuals, and institutions, you can develop communities of interest." If the community can find a common interest in which they all agree, that they all have some stake in, and space for them to come together to at least start thinking about it, then this is the second type of community, a community of purpose. "Having a common purpose leads to a desire to make some sort of impact or change," Howell tendered.

"And then in step three, if such communities filter into groups that find that kind of common purpose, then they are motivated into action." Howell stretched out his hands: "That is our theory of change." A fair question to then ask is how to measure the resultant impact. Howell's research is investigating impact across the three types of communities, interest, purpose, and action.

Questions that arose for Howell were threefold.

How does one make people change how they *think* about something? This is an uphill battle, he admitted, and requires much evidence and presenting arguments about why people, as part of a community, should take an interest in a particular topic because they have a stake in it.

How does one make people change how they *feel* about something? Howell explained that there is an emotional element in moving people towards finding that purpose. People need to feel a sense of being part of something bigger than themselves – and in a way to exercise what is called systems leadership.

How, after that, does one spur people into *action*? From the point where people feel a sense of purpose, it is not that difficult to get to action, declared Howell. Not everybody will subscribe, but one can at least move that needle. That is his approach to impact, and that is how he proposes to measure it.

Four approaches to responsible leadership

In terms of responsible leadership, the World Economic Forum, as an international institution for public–private cooperation, has adopted four approaches.

First: A trusted platform

The first approach is providing a safe and trusted platform, where people show up and realize that there is an opportunity for dialogue despite having different views; where common understanding and collaborative interaction can be facilitated; and where people can talk, rather than negotiate.

"But," Howell reminds, "to be a trusted platform alone is insufficient. It is what you do with it that's important."

Second: A multistakeholder approach

The next approach is to involve multiple stakeholders. Howell points out that the World Economic Forum has a theory of change, which makes use of a multistakeholder approach. He maintains that neither governments nor business nor civil society can any longer act in isolation, and that future success requires multistakeholder partnerships.

Howard sees this approach being adopted in other domains. "Take the United Nations with its sustainable development goals which are ratified

by some hundred-plus countries." And here he points to a little-known anomaly. "The seventeenth sustainable development goal is a funny one: it is actually a means to achieve the other sixteen goals. The seventeenth goal is to participate in multistakeholder partnerships to implement the sixteen other sustainable development goals."

He found it to be truly validating that many knotty global issues would require having to engage with many other stakeholders and to work together. "The platform was the basis of the annual meeting in Davos for so many years, the stakeholder approach was in our DNA, to begin with, and our becoming an international institution formalized the platform and the stakeholder approach to some degree," he rationalized.

Third: Recognising interdependence

Industries were confining themselves because they were putting all the financial companies together in the financial industry, when, in a way, their work is impacted very much by other sectors. "A case in point," said Howell, "is that we have companies in mobility systems that have no mobility assets, but in reality are growing IT companies. Think of the ride-sharing mobile app operators like Lyft or Uber. Take artificial intelligence – it cuts across sectors. We are talking about systems here. This needs systems leadership, and this is how we are starting to get people to work."

To illustrate systems leadership, Howell referred to a Kennedy School study about the World Economic Forum's initiative called New Vision for Agriculture, where work was being done with small tenants, landholders, and governments in Africa, as well as major food companies and multinationals. The idea is to rethink the entire value chain in agriculture in Africa and later in parts of Asia. "The point about systems leadership is that it requires leaders that think about the system and not just about their sector or company. It is really a change in mindset."

He explained that there are individuals who think system-wide, about the whole system – be it the ecological system or any other – not just the sector in which they are operating. Some institutions think about systems, and this is where interesting coalitions are formed. For instance, companies that purchase palm oil create a tropical rainforest alliance concerned with

how to preserve rainforests, because they realize that they, as the biggest purchasers of palm oil, need to think of the broader ecosystem and need to weigh in on ecological damage resulting in unsustainability. "The World Economic Forum wants to be an institution that provides a platform for this sort of systems change and systems leadership," said Howell.

How the Fourth Industrial Revolution will affect board leadership

New to the present narrative is that exponential technology change will arrive faster than expected and will require agile governance in what is called the Fourth Industrial Revolution. However, Howell highlighted the startlingly uneven spread of industrial revolutions across the globe, stating: "The fact is, there are still a billion people who do not have access to electricity. So they haven't even experienced the first industrial revolution yet. However, we have gone on to the second industrial revolution, which was mass production. The third was about processing power, that is the computer revolution, and the fourth was enabled by the first three."

At the forefront of the 4IR is artificial intelligence, which has been in the news quite a bit recently. There are a lot of routine things that can be done through machine learning today as machines can teach themselves and improve. Howell mused about how machines will do to certain professions, like accounting and tax accounting, for example. People are concerned about the impact of automation, such as self-driving vehicles, on the trucking industry and other AI development on white-collar jobs. "The question that arises," says Howell, "is whether the technology serves us or are we serving technology?"

When he referred to the need for agile governance, Howell was not talking about how to regulate governance. What concerned him was how to make sure that the Fourth Industrial Revolution was human-centered and served everyone – inclusively, not exclusively. This can be achieved through "a discussion on first principles. We need to ask what the principles are. What value do they create? For what reason? And for whom? From the first principles, we can start talking about protocols. We must talk about values and living our values before things get so far ahead of us that we have to try to deal with them by default. We should deal with issues through design. In a design-centric approach, we decide which values we want to espouse."

The inescapable truth is that the Fourth Industrial Revolution is a part of a larger politico-economic discussion that is happening and will continue to happen – all companies, big or small, will have to deal with it.

Where diversity is undesirable

Howell closed with a pitfall of the notion of diversity. "We at the World Economic Forum believe in diversity, but we certainly do not want to have a diversity in the values we espouse. Diversity of thinking is very powerful and creative, and you can get things done, but if you have diversity in values, you start with a challenging problem." He explained that the first point about communities of interest was that if members did not share the same values, it would be tough to get to that point. "We want to bring communities together that share values. They may be diverse in terms of their corporate form or their geography or their sector, but they should certainly not be diverse in their values."

We Need a Massive Rethink on Corporate Governance

Bob Garratt

"The proposition behind my new book is that proper governance as we know it is dead. Finished. And it is still dying, but it has gone."

One can hardly imagine a more absolute expression of deadness. Professor Bob Garratt's opening words at the plenary were startlingly blunt and damning. However, with this statement, he was assured of the full attention of his audience.

Well known for his book *The Fish Rots from the Head: Developing Effective Directors*, Garratt was now speaking about its sequel, *Stop the Rot: Reframing Governance for Directors and Politicians.* As far back as in 1984, Garratt said, Bob Tricker published a book called *Corporate Governance,* the first book to have those words in its title. Tricker and Garratt both happened to be working in Hong Kong at the time and they would have

huge arguments about it. Tricker was the first to use the term "corporate governance", while Garratt preferred the term "board effectiveness" when working inside boards, developing boards, and evaluating boards. But Garratt did have a current concern. "We have gone so far down the track of "corporate governance equals compliance and risk-avoidance" that we have actually lost the plot." And that is basically what his book addresses.

A RADICAL RETHINK

Garratt's *Stop the Rot* is timely and provides a radical rethink of what we mean by "corporate governance", uncovering conflicts and inconsistencies in our understanding of the term. The book is based on his long practical experience working internationally with chairmen, managing directors, CEOs, ministers, top civil servants, NGOs, and charity leaders. Though he likes to call himself a practitioner and consultant, Garratt holds the title of professor in two institutions, namely the Sir John Cass Business School in the United Kingdom and Stellenbosch University in South Africa, where he is chairman of the Centre for Corporate Governance in Africa.

Published in 2017, *Stop the Rot* comes at a time when a yawning chasm of distrust has developed between the public at large and leaders in the spheres of business and politics. In it, Garratt derides the fact that corporate governance has been relegated to company boards only – whence a purely financial and compliance tick-box mentality often proceeds. He now calls for a return to the fundamental human values of "accountability, probity, and openness". He also endorses the importance of transparency and balance obtained via integrated reporting. He argues that directors need to be trained if they are to display the level of professionalism and adherence to values demanded by an increasingly savvy and skeptical public.

One of Garratt's life-long mentors was Sir Adrian Cadbury, responsible for the 1992 Cadbury Report on corporate governance. Garratt described how he and Cadbury, just before his friend died in 2015, were in correspondence about *Stop the Rot*. "He wrote the most beautiful handwritten letters, and he was saying, 'I am dying. I like the idea of the book. I like what you are trying to do. Please stress to the world after I have gone that corporate governance is not just about finance; it is not just about compliance; it is

about making sure that boards are focused on ensuring the continued success of their business and in taking entrepreneurial risks.'" That is the essence of it, as far as Garratt is concerned. That message has prevailed, and he is perpetuating it in his book.

Bringing it together by design

Garratt does not particularly consider himself a business person, although he has chaired several very creative boards in Hong Kong. His background is in design, architecture, and architectural education. As a chartered designer, he has always been interested in how to bring arts and science, economics and psychology together in human organizations to achieve a particular purpose. That is always his starting point.

In constructive and sometimes roaring debates on corporate governance, various issues emerged, such as public distrust with bankers – but not just bankers. "Bankers, both in the UK and generally, still have not shown any contrition and have not apologized for the 2007/2008 crash and its consequences. I have been talking with the Catholic Archbishop of Westminster over the years, who has privately been running contrition classes for bankers. However, they have not gone public. So that was interesting," if not telling.

Three capitals, not one

Garratt is adamant that corporate governance is not just about tick boxes. "I keep coming back to that. One of the things I have noticed, particularly in my practical work, which takes me to much of East Asia and especially to Africa, is that this whole notion of integration and inclusive capitalism is becoming very big. The mindsets of those who now govern these countries – despite the horrible things going on in many of them – is the notion that future capitalism is going to incubate the three capitals: financial, social and physical environmental capital. These three capitals will become the basis, and I am arguing now that the future audit is going to have to be an audit of all three capitals simultaneously, not just a financial audit."

The rising middle class

Somewhat of a surprise to many of his colleagues, and which often lands

Garratt in trouble, is his ideas around the effect of the rising global middle class on corporate governance. The UN figures of 2014 suggest that as many as two billion people in the world, by UN standards, will be seen as middle class. This rising international trend requires a response from boards if value-creation mandates are to be realized. "That means that, depending on how you look at it, between twenty and twenty-five percent of the total global population will be middle class, and they have a very particular notion of stability – that of wealth generation. However, they also place particular emphasis on education and the development of stable systems to ensure their children get educated." Garratt pointed out that there has been much work on inequality in the world, but that there has not been very much on shifting class dynamics. He is very interested in the way this is rolling out.

He illustrates his contention. "We see it certainly in China at the moment. We see much pushback against the Communist Party, with whom I have worked since the Cultural Revolution. One pushback is by middle-class parents, who are refusing to send their children to the state-approved schools. They will send them to international schools instead. This is just one tiny example of shifts occurring."

Values versus greed

Another trend Garratt notes is the growing acceptance of people's learning and value being the key to effective organizations. "This whole notion and development of action learning – the fact that the people often know, but have no way of expressing the whole issue of power around that. This is beginning to come through, particularly in Asia and Africa."

Garratt further maintained that there is an urgent need to re-establish professionalism. "We have seen our main professions occupied with corporate governance and well-provided with professionalism. We lost this in about 1985 in the United States and Europe. We just dropped professionalism in pursuit of greed, and we dropped the notion that the client is the prime focus, rather than ourselves and our way of making money.

Who is ultimately responsible?

Garratt also questioned why there is a focus only on directors. "Now these poor sods get blamed for everything. It is nonsense. Where is the owner in this?" It turns out to be a tricky problem. "It is an open secret, but nobody dares to say out loud that shareholders do not own companies – nobody owns a company, and that is a shock to so many people. There was a judgment in the UK in the 1890s, which made it extremely clear that shareholders own a piece of paper, a share, and they have a right to a dividend stream if there is one, and they have the right to any residual assets of the company if it is broken up after everybody else has been paid. Do you want to be a shareholder?"

The question of ownership is a huge issue, Garratt admitted, and it just is not currently dealt with adequately. Moreover, property ownership and emotional ownership are not to be confused. He reckons that boards of directors and shareholders, and also – he now increasingly argues – regulators and particularly legislators are part of the corporate governance system.

Seven duties of board directors

"I have done lots of work inside the regulatory and political systems, and I have a very simple set of questions that I ask those folk, which is: There are seven basic duties of board directors that are accepted in about seventy-five percent of the countries in the world. Can you name three of them? These are the guys who pass laws – the legislators – and then they are meant to regulate the law. I have never had anybody give me all seven. It is rare to get two. So it is a joke, but it is a system." The seven duties are:

- Ensuring the success of the organization
- Exercising independent judgment
- Exercising reasonable care in decision-making (even bringing in skills temporarily to help with decisions)
- Exercising diligence and following through with due diligence
- Avoiding conflicts of interest
- Not accepting benefits from third parties
- Not carrying interest in transactions

Garratt drew an analogy to illustrate his point. "There seem to be three major roles in life where you're not expected to have any training whatsoever, nor should there be any induction or any developmental process. They are parenthood, being a director, and being a politician. It is left entirely up to you, and it is just assumed that somehow, miraculously, you will be able to do these things. That is complete nonsense, and this is where the need for professionalism comes back into the picture."

Seven basic duties of a board director

And finally, integrated reporting is high on Garratt's agenda. Integrated reporting brings together financial capital, social audit capital, and natural environmental capital and is well covered in UN reports and Mervyn King's book.

"If we go back three thousand years and look at the Greeks, *kubernetes* is the root of the word "governance" or "how we drive forward". A *kubernetes* was the person who steered the ship and gave direction. If we then jump forward three thousand years, *kubernetes* nowadays can also be seen as cybernetics (the science of communications and automatic control systems in both machines and living things). It is the same word. Increasingly in the AI world, this becomes very interesting."

He gave his definition of corporate governance as "the two horns of a dilemma": how do we drive our organization forward, and then how do we keep it under proven control? The notion that the board can spend enough time and contribute enough care and skill to balance and rebalance, drive forward and keep under proven control is a considerable challenge. Garratt has evaluated hundreds of boards around the world that do not have that capability. The board members panic if the issue is raised with them. Garratt explains that the reason is that they tend to be people who have been successful executives who have been promoted to the board but are not trained or inducted to do something entirely different, which is to handle this constant, dynamic, two-horned dilemma.

Whose values, then?

While working in Saudi with the people developing the governance of the new two-million-person city being built north of Jeddah, Garratt discussed values – a subject that drew considerable interest. He displayed a single slide with the words "pride, gluttony, and lust". He then asked the participants what the words were and where they came from.

"Oh," they said, "they are Western values. They are very, very clearly Western values."

Garratt said, "Can I push you a little further?"

They replied, "Well, they are American values."

"Why are you thinking that? May I push you a little further still?"

They answered, "Well, it is patently obvious; these are Donald Trump's values."

"Interesting," said Garratt. "I did not know that. So you do not have any of this in Saudi?"

"Oh, no, no, no." And then they talked among themselves and then said, "But of course we do.

Winding down to his point, Garratt said, "Well, what is the antithesis of those?"

Together they brought up humility, kindness, abstinence, chastity, patience, liberality, and diligence. Garratt pointed out to them that the seven deadly sins were counterpoised with the seven holy virtues. He remarked that the Bible, the Quran, Buddhism, Sikhism, Hinduism, Taoism, and Confucianism had very similar values, and yet he never found anyone in corporate governance who talked about these values. "Why is that? We are totally intimidated by these. Very strange."

A complete overhaul

To conclude, Garratt described his working model, based on the Bob Tricker model, and the notions he was promoting in his book. He foresees significant changes in roles and emphasis as companies transition to integrated management and reporting.

"We are facing a massive rethink about the role of accountants, and particularly the role of auditors in the inclusive capitalist world. Our company secretaries can become much more important in terms of the board, because they, as officers of the board, ensure due process. Our corporate lawyers need a massive rethink on professionalism, so do HR directors."

Going down the list, he declared, "Fund managers are effectively dead, but they have not spotted it yet. However, if you look at the *Financial Times*, they have been relating this for five years, and the numbers are dropping off. In 2016, six percent of Harvard MBAs went into fund management, whereas it had been way over fifty percent until very recently."

Reflecting on further developments, Garratt stated that he had just been working with one of the big companies, Mezzans, which has a human rights division as part of its organization. "There are others now who are moving in that direction."

Garratt mentioned the rise of the behavioral economists, referring to Richard Thaler's Nobel prize. He also pointed to the rise of the anthropologists, here singling out Gillian Tett, the American editor of the *Financial Times,* and her "extraordinary writing".

There is an entirely different way of looking at boards and social order, said Garratt, and that is what the book is about.

In a world of robotic substitution, where will all the values go?

Donaldson

"Directors are especially well-positioned to apply second-order thinking, and if they fail to do so, the consequences are significant," is the warning of Prof Tom Donaldson, the Mark O. Winkelman Professor in ethics and law at the Wharton School of the University of Pennsylvania.

"I want to suggest that the concept of value that we have been using for at least three or four decades in management theory is compelling in certain contexts, but it also has out-lived its usefulness in others, and we need to be especially aware of this." Values and their implication for corporate boards have occupied the minds of Donaldson and his colleagues for several years. His talk referenced his work with Jim Walsh and another colleague, where they analyzed how the concept of value has been used in management theory. Donaldson and Walsh have critically examined a set of concepts earning Ronald Coase and Oliver Williamson Nobel prizes. The work of Donaldson and Walsh conceives of governance through a particular view of the firm. One version is that the firm is really about reducing transaction costs, which, in effect, becomes the *raison d'être* of corporate governance. Donaldson calls this work a beleaguered straw man as it has received much criticism. Despite this, however, Coase and Williamson's work has had a life of its own and still underlies much of the way people think and talk about corporate governance.

"Jim Walsh and I suggest that we fall prey to a fallacy of composition, which is a fallacy where one assumes that the characteristics of a class or set will apply to a group – in other words, the set conceived as a group. To illustrate this, let us say that Gene is a good football player, but so are Mike and Isabella. If we put them together on a football team, will they be a good football team? The answer is, 'not necessarily', and that is the fallacy of composition." Donaldson and Walsh applied the fallacy of composition to the Nobel prize-winners' theory of the firm. They took the theory of the firm – the beleaguered straw man conception of the firm – and aggregated it, thus, in effect, committing a fallacy of composition when thinking about business in general.

"The function of business, in general, is not to reduce transaction costs, but we are often tempted to draw that conclusion," said Donaldson. "So, in a recent paper, we came to what we hope is a natural definition of business as a form of cooperation involved in the production and distribution of goods and services to achieve collective value." The term "collective value" needed to be unpacked, and the researchers spent a great deal of time working through a set of interrelated concepts and defining them. "The takeaway here," explained Donaldson, "is that this notion of 'collective value', which is about the *raison d'être* of businesses, comes down to understanding what values are and which values a company holds dear. In particular, we want business success to have one lynchpin value behind it that is not aggregatable in traditional mathematical ways. We want a threshold criterion of fairness."

He, therefore, maintained that business success has to be subject to clearing the dignity threshold. He used the antebellum South in the United States as an example. Many thought the South fell apart because plantation farming was not very efficient, whereas Nobel prize winners of the 1980s showed that the plantation system was not so bad. Donaldson and Walsh, however, argue that production in the plantations of the South does not count as business success, because it failed to meet a threshold criterion of respect for the people who were involved in that production. Slavery removes that as a possibility. Are there other situations today that would fall into that plantation category? It is an open question, says Donaldson.

Different kinds of values

The definition of value has flowed through the best minds in moral philosophy. Among them was the American philosopher Ralph Barton Perry, who in 1926 published the General Theory of Value, which has been called the *magnum opus* of the new approach. A value, Perry theorized, is "any object of any interest". Values turn out to be reasons for acting, things that we think are worthwhile. However, what makes this complicated is that there are different kinds of values. Of interest here are intrinsic values rather than extrinsic values. Donaldson pointed out that extrinsic values are derivative – they gain their worth by attaching themselves to other kinds of values. So, he expanded, the worth of an extrinsic value is derived ultimately from one or more intrinsic values.

Bitcoin has no value in itself, except for what we can do with it. Drawing further examples of extrinsic values from the business context, Donaldson listed transaction cost reduction, market share, cycle-time reduction, lower employee turnover. "These are all good things; they are values, but they are not intrinsic values."

He explained: "An intrinsic value is non-derivative; that means it stands on its own two feet. It is also synoptic, which means it is, by definition, connected to other intrinsic values for its worth. It has to be networked. Examples are integrity, fairness, health, happiness, the right to physical security, environmental integrity, and diversity. They are synoptic in the sense that if, for example, my right to physical security involves being unfair and to exclude certain people in my world, I have to adjust my right to security in light of that other intrinsic value." This makes intrinsic values extremely complicated; it makes it difficult to calculate, especially mathematically. Donaldson gave some examples: "John values writing thank you cards (an extrinsic value). Why? Because he values friendship, an intrinsic value. Another example is that John values a higher salary, an extrinsic value. Why? Because he values contributing to his family, an intrinsic value."

Another layer of complexity

Next, Donaldson defined another layer of complexity, namely first-order and second-order value thinking. "First-order value thinking is thinking around extrinsic values, while second-order value thinking is thinking that makes use of intrinsic values in decision making. I want to assert that management theorists are prone to first-order value thinking. I want to assert more than this: we are currently conducting a survey of all the iterations of the word 'values' in management literature over the past twenty or thirty years. We are trying to create a typology. Whether we will ever be entirely successful at that, I do not know."

Donaldson referred to Maslow's hierarchy of needs as an intrinsic conception of values. "But," he said, "it gives way to indifference costs, to indifference curves, to marginal theory, to notions of preferences that get aggregated, including things like the rate of optimality. All these are important, they are powerful tools, and yet they reference extrinsic values.

As an example, my preference may be to dominate you, but there is something wrong with this from the standpoint of the intrinsic value of fairness. My dominating you violates the intrinsic value of fairness.""

Values in the Fourth Industrial Revolution

With the advent of the Fourth Industrial Revolution (4IR), Donaldson foresaw special challenges to his conception of values. To illustrate his point, he explained that artificial intelligence and robotics substitute artificial decision-making for human decision-making, and this substitution effects and diminishes intrinsic value-motivated decision-making. One of the reasons was that artificial intelligence and robotics tend to be purchased based on criteria that are measurable and evaluated competitively. And those metrics, by definition, are connected to extrinsic values. To substantiate his point, Donaldson mentioned Foxconn, a company that has already had significant issues with intrinsic values in relating to its employees. It was, therefore, telling that this company said it had a benchmark of thirty percent automation in its shiniest factories by 2020. They then issued an even more dramatic media release: *Foxconn plans to replace almost every human worker with a robot.*

"Physical distance increases as we turn to AI and robotic substitution," said Donaldson. "Psychological studies show an increased distance aggravates inattention to intrinsic values such as fairness. The recent United Airlines example is an interesting case illustrating this. United Airlines had an automated system that put people into seats and took them out. It was amazing how long it took the CEO to back away from that. During the first few days, he wanted to defend that operating system. Finally, an intrinsic value kicked in – fairness to the poor passenger who was dragged down the aisle."

Human versus robotic hypocrisy

The notion of 'beneficent hypocrisy' intrigues Donaldson, and he drew the audience's attention to it, explaining that managerial decision-making – in contrast to AI robotic decision-making – displays beneficent hypocrisy. "Hypocrisy is bad, right? It is an inconsistent standard. There is a lot of literature on hypocrisy that relates to businesses. Beneficent hypocrisy occurs when a corporation's actions are aimed at one stakeholder

group; but, believe it or not, there are many instances where this type of hypocrisy plays an important role." Donaldson gave two examples. "When multinational companies pulled out of South Africa and said they did so, not because of racism, but because they would lose money by staying there, this was probably false. Another example is that corporate contributions to charity are always made with the justification that they deliver a return to the shareholders. I am not sure that is true in every instance, but that is the justification."

Referring to the widely-quoted dictum, "ethics pays", Donaldson held that it is tough to determine whether ethics pays in the long run, and not only that, it is pretty clear that it pays in some areas better than in others. "But," he said, "in every company, if you ask the executives if ethics pays, all their hands go up." This is similar to what happens in foreign aid, said Donaldson. When the United States gives a foreign aid package, they do not justify it by talking about the contribution that it will make to people in the world who do not have enough to eat. They would say instead: "Yes, this is good for the US, and our position in the world". It is fairly evident that this kind of hypocrisy is not a robot-thing," said Donaldson. "Robots are not very good at hypocrisy."

Who should apply intrinsic values?

In the end, Donaldson said even beneficent hypocrisy was not a good thing. "We need to remove the hypocrisy and think and talk about intrinsic values in ways that count," he insisted. "Which institution in the modern scheme of corporate governance is best situated to do second-order thinking? It is the board of directors." Donaldson laid it out: "The board of directors is in a uniquely situated place, especially if it has diverse members to make decisions, and make them using intrinsic values."

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