

ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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by Michiel Wolfswinkel

According to recent research, the traditional belief that companies could suffer in performance terms if members of the supervisory board have too many commitments elsewhere needs to be revised.

Introduction



Adopting management innovations

Management innovation describes the changes in the “how and what” of managers’ actions in setting directions, making decisions, coordinating activities and motivating people. These changes reveal themselves through new managerial practices, structures or processes. They are context-specific, ambiguous and hard to replicate, making them an important source of competitive advantage. Classic types of management innovation are Ford’s moving assembly line and the multidivisional structure of DuPont and General Motors. More recent types of management innovation include Total Quality Management programmes and self-managed teams. While it is a requirement for innovation, change does not in itself constitute management innovation. For instance, downsizing may bring about changes to an organisation, but cannot be regarded as management innovation if the managerial work itself continues unchanged. Genuine management innovation must involve substantial changes in how the organisation is managed, which are reflected in the introduction of new practices, processes, structures and techniques.

Management innovation usually has the purpose of increasing the effectiveness and efficiency of internal organisational processes. Nonetheless, developing a management innovation is a complex process and involves internal and external change agents. Internal change agents include a firm’s managers and employees who are involved in the innovation. External change agents can be consultants, academics or other external actors who influence the adoption of it. They initiate and drive the process, and the typically intangible, tacit and complex management innovations emerge without a dedicated infrastructure. *RSM Insight* exists to provide such an infrastructure, and to help you tease out potential management innovations for your firm through articles about the latest in management thinking. For instance, how to boost creativity within diverse teams; how to improve the quality of performance evaluations; and how offshoring core-activities can improve firm innovativeness. Please enjoy reading these articles and do use RSM’s world-class academics as external actors to help you adopt new management innovations.

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Understanding behavioural ethics

by Tim Skelton

Behaving in an ethical manner, whether at work or socially, is something that ought to be second nature to everyone. Yet, this isn't always the reality. When it comes to business in particular, employees at all levels can make morally questionable decisions they wouldn't dream of making in their personal affairs.



The Erasmus Centre of Behavioural Ethics (ECBE), founded in 2009 by Professor David de Cremer, is seeking to understand why people respond to certain situations by acting in a way that, in its own words, falls outside 'generally accepted moral norms of behaviour'.

Business leaders contend with ethical challenges on a daily basis, and some cope better than others do. Moreover, scandals in the corporate environment are as old as the concept

of doing business itself. However, recent decades have seen an upsurge in media reports of fraud, scandals, and other types of unethical behaviour in major companies.

High-profile cases such as Enron brought everyone's attention to the role of ethical and moral behaviour in business. This concern was brought home even more during the recent worldwide financial crisis, which made very clear the extent to which the irresponsible and unethical behaviour

of a few managers and organisations can impact negatively on individuals and on society as a whole.

Those big news events have fuelled a new interest in the science of business morality and ethics, and many articles addressing these issues have appeared in scientific journals. Previous studies of business ethics have mostly taken a "prescriptive" approach to looking at morality and ethics in organisations and society, describing how people should behave, and addressing questions such as whether or not specific business practices are acceptable. 'Mostly it was done in the form of philosophical theorising,' explains Marius van Dijke, the ECBE's current Scientific Director.

A different path

The ECBE however has decided to follow a different path, arguing that looking at matters from a purely philosophical standpoint is too narrow in scope. 'As far as I'm aware, this is the only centre that is completely devoted to the subject,' says Marius, who is Associate Professor at RSM's Department of Business-Society Management and full professor of behavioural ethics at Nottingham Business School in the UK. Marius gained a Masters and a PhD in Psychology before taking on a role at RSM. 'I got into behavioural ethics ▶

Understanding behavioural ethics (continued)

by Tim Skelton

by accident,' he admits, 'but it's a fascinating subject to study.'

'Theory hasn't helped us to avoid ethical transgressions,' he points out. 'Our field seeks to understand why some people behave in the way they do. But this is more a social science than philosophy.' Rather than making the assumption that the source of unethical behaviour is a lack of information or a misapplication of ethical principles, the ECBE starts out from the concept that many ethical failures can be explained by a lack of awareness that one is even facing an ethical problem in the first place

The ECBE is involved in educating students as part of RSM's and Erasmus University's wider programmes. At Bachelor level, they cover the Psychology of Good and Evil, and use social psychology and behavioural economics to explain why, in the business world and elsewhere, people don't always find it easy to do the right thing. They also deal with Leadership, Sustainability, and Governance, exploring the theories and concepts that help students understand leadership of high integrity in national and international contexts.

At Master level, a core course of the MSc Global Business and Stakeholder Management covers Corporate Integrity. As the corporate scandals that came to light during the recent

banking crisis showed, low-integrity business conduct hurts the interests of society on many levels. The course therefore looks at the processes through which high-integrity leadership can be developed between managers and employees, and throughout organisations and industry.

Indeed, most of us assume acting ethically would come naturally to honest managers and employees, and only the ones who start out bad are going to step over the moral line. However, as Marius explains, the reality is somewhat different. 'We don't live in an honest world. Many people

who simply end up being forced into situations they didn't anticipate being in. Situational forces play a huge role in the way they behave.'

This also helps to explain why, despite morally reprehensible actions in their business dealings, many managers concerned still believe they are ethical people. This is the reason the ECBE believes in taking a behavioural approach in parallel to the philosophical prescriptive approach, and examining how individuals make actual decisions and engage in real actions when being faced with ethical dilemmas.

"We have shown that the more competition there is in a market, the less likely managers are to punish transgressions if employees behave in a questionable or unethical manner."

Marius van Dijke, Scientific Director, Erasmus Centre of Behavioural Ethics.

think ethical transgressions come from a personality trait,' he says. 'And certainly in a few high-profile cases that may be true – the CEO of Enron, for example, was not a decent person. Nevertheless, most people who transgress or cross an unseen ethical line are normal honest human beings,

'As an example, we studied how the amount of competition affects the way people behave,' Marius says. 'And we realised there is an effect of competition on how managers deal with ethical transgressions. We have shown that the more competition there is in a market, the less likely managers are to punish

transgressions if employees behave in a questionable or unethical manner.'

In so doing, the ECBE hopes to be able to improve our understanding of how people evaluate and interpret ethics and morality when making decisions, building business relationships, and creating an effective working climate. By focusing on the global challenges of responsible leadership and decision making, its aim is to also increase our understanding of ethics, trust and social influence, and hence to arrive at a better management of these issues.

Human behaviour

Because the centre's focus is on actual human behaviour, its research draws from work in both psychology and behavioural economics. Since more and more work is being carried out in the "real world" rather than in a laboratory, its findings are increasingly relevant to the corporate world. 'Most research up to now has been carried out in the lab environment, studying people to try and gain a better

understanding of behavioural ethics. Now we are trying to apply this in the field. What we are now trying to do is to connect what we do in the lab with experiences in the field, and to apply it to the world of business,' Marius says.

This is also one of the priorities of the ECBE for the years to come. 'What we've been good at is world-class research and academic impact.

We have published papers in top scientific journals. But, we were having less of an impact in the business world, and that is something we needed to address,' Marius believes.

While there is cut-throat competition in business, there will always be those who feel pressurised into making questionable decisions they would never make outside the business environment, in order to close a deal, for example. And no amount of research will ever rid us of the "bad eggs", who are prepared to stoop as low as necessary to gain an unfair edge. But with the ECBE's research

and insight, managers will be able to make more informed judgements. This will not only help these managers act in a more ethical manner, but also enable them to steer otherwise innocent employees away from making rash decisions they may come to regret. ■

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Informed discretion in performance evaluations

by Marcel van Rinsum

A study into managerial behaviour relative to compensation decisions for individual performances reveals that most managers are driven by powerful, non-selfish motives that include a strong preference for fairness.

Altruism, fairness and self-sacrifice are not words that typically spring to mind when we think of the managerial motives behind incentive compensation decisions. Yet, this is precisely what our recent paper *In Search of Informed Discretion: An Experimental Investigation of Fairness and Trust Reciprocity* reveals.

This result has important implications. The vast majority of companies today rely solely on financial instruments as “objective” metrics for structuring their incentive

Performance evaluations

Standard accounting reports provide the basis for the majority of incentive compensation contracts today. These data-driven measurements provide a supposedly “objective” evaluation of an employee’s performance and thus share of the bonus pool.

Yet, the inherent flaws of financial tools as a measure of performance and reward have been widely demonstrated in both research and practice. At best, these tools offer inaccurate and incomplete measures of employee

“When employees chose to invest effort in their work, it conveyed trust to managers that this effort would be recognised and rewarded.”

compensation contracts – a norm that has been blamed for creating harmful incentives and asymmetrical, inaccurate pay-offs. So, could the subjective input of managers in fact create fairer compensation allocations more reflective of performance?

performance that fail to take into account the influence of external factors such as exchange rates or the performance of other business units. At worst, they encourage a myopic view of profit-making and a strong incentive for employees to “cook the books”.



However, what’s the alternative? One option is to bring more subjective, discretionary input from managers into the information flow. Discretionary bonus pools are good examples of how companies are using subjective input from managers to counter incomplete reports.

The theory? That managers can subsidise financial reports with additional information garnered from variance investigations, discussions, examination of work documents, and other investigative processes, thus reaching a compensation decision more proportionate to the employee’s performance than a standardised report could alone.

Moreover, herein lies the problem. Empirical studies from accounting literature reveal that managers often fail to use their discretion to seek out this extra information.



Related research has also indicated the presence of managerial bias towards understating differences in employee performance.

Yet, is this the whole picture? In our study, we investigated how managers behave when making compensation decisions for individual performances in a team setting. Specifically, we wanted to know how willing managers were to obtain the additional information that would enable them to make a more accurate assessment of an individual's contribution, when this information came at a personal cost.

Potential unfairness

Our experiment involved analysing the behaviour of managers making compensation decisions on behalf of individual employees operating in teams of two. Individuals acting as managers were given the results of

a team's aggregate performance and asked to split the bonus between the two team members.

Each manager was given a sum of money and, before making their decision, the opportunity to use it on learning more about the effort levels of each team member (this money representing the managers' time spent on a costly information search), or to simply make a decision based on the team's aggregate performance and keep the endowment for themselves.

How interested were the supervisors in disentangling these performance levels to make more precise evaluations? At the extreme ends of performance – where the teams performed either extremely badly or extremely well, most managers felt no need to investigate further. This is because one can reasonably assume that when a team performs extremely well, both team members did a good job and thus an equal split of the bonus a fair distribution of the reward. Likewise, if a team performs terribly, the chances are high that both team members performed poorly.

But when a team performs at an average level, it is impossible to ascertain whether both members performed equally well, or one very badly and one very well. In this context, the aggregate performance becomes a very "noisy" measure of individual output.

A need for fairness

In our research, we found that it was precisely in these instances that most managers elected to find out how much each individual contributed and thus allocate the bonuses proportionately. In other words: the greater the uncertainty as to the potential for unfairness, the greater the managers' willingness to incur personal cost to avoid it.

Most managers revealed an inherent interest in fairness and trust reciprocity. What was their motive? These managers received no material pay-off or other benefit for trying to unravel the noisy metric of aggregate performance. Quite the opposite: acquiring additional information came at a personal price. How can we explain this?

Numerous empirical studies have revealed a strong preference for fairness in humans and a willingness to incur personal cost to achieve it. Our study confirms that this preference also plays an important role in the decision-making process of managers. In fact, even when there is only a potential for unfairness (and not certain unfairness), these managers were willing to sacrifice personal wealth in order to bring about a fairer result.

Like fairness, trust reciprocity has been identified in studies as a driving human concern. In our study, we found that managers were more willing to obtain information on individual effort ▶

Informed discretion in performance evaluations (continued)

by Marcel van Rinsum

levels when the teams performed relatively well (but still within the “noisy” average range). Why? When employees chose to invest effort in their work, it conveyed trust to managers that this effort would be recognised and rewarded. This perceived trust was reciprocated by managers in the form of greater time and money spent ensuring these expectations were met, thus revealing trust reciprocity as a motivating factor in their behaviour.

Clearly, managers have strong preferences other than that of wealth maximisation, self-interest and cognitive bias influencing the decisions they make. In this instance, we could view their decisions as a trade-off between the potential risk of unfairness, the degree of trust reciprocity present, and the personal cost of acquiring the extra information.

Companies could do with integrating subjective input into the evaluation process. But how can this information be of use to companies?

One important implication concerns how companies can achieve a more optimal process for determining the appropriate incentive compensation plan for a particular employee. More research needs to be done into the interplay of managerial preferences. But the evidence of strong, non-selfish motives provides

a powerful basis for companies to consider including more subjective input from managers into the decision-making process as an effective means of remedying the very real shortcomings of purely data-driven performance measures.

Another implication relates to efficiency. Many managers with strong social preferences for fairness are likely to invest considerable time and energy in acquiring additional information to subsidise the perceived inadequacy of standardised performance reports – regardless of the policy of the company.

Companies could thus do well to facilitate this investigation by making data more readily available, such as via more flexible accounting systems that cater for user-driven ad hoc exploration of data beyond that routinely produced by accounting reports. This would improve the efficiency in which managers’ can acquire their information and thus reduce the cost of time spent on these activities.

These changes could be immensely beneficial if they serve to structure incentives and rewards more appropriately. Indeed, what could be more important in a market economy than the performance incentives we provide for employees, managers and investors? ■

This article is based on the paper *In Search of Informed Discretion: An Experimental Investigation of Fairness and Trust Reciprocity*, which was written by Victor S. Maas, Marcel van Rinsum and Kristy L. Towry and published in *The Accounting Review* Vol. 87, No. 2, 2012, pp. 617-644.

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Business cycle fluctuations and consumption behaviour

by Bram Van den Bergh

New studies of business cycles and consumption tendencies reveal interesting and sometimes unexpected insights into consumption patterns. It appears that, while purchasing behaviour is obviously influenced by the overall economic environment, it is not merely a matter of more consumption in times of expansion, and less when the economy is contracting.

Research shows that consumption patterns are not the same for all product categories. A new multi-method approach assessed individuals' economic sentiment in varying macro economic environments, and the impact of this on their decision-making processes. The results could influence marketing and communications decisions. With insight into the

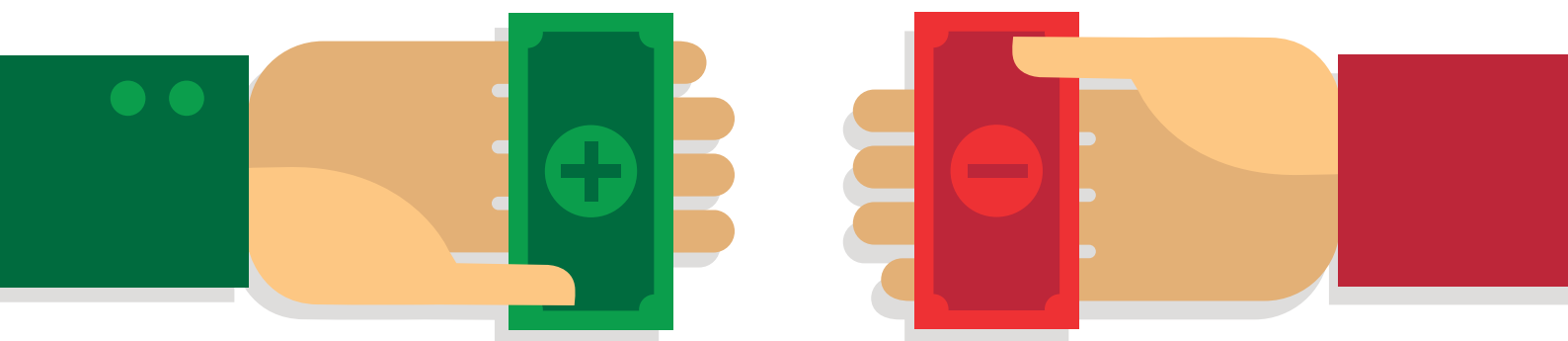
principles underlying individuals' decision-making where risk is involved, there could be wiser alternatives when it comes to product management and messaging strategies.

Changing patterns

In times of economic downturn, it is true that consumption in general decreases; because they have less

money available, people spend less overall. Moreover, it is well known that unemployment and hardship have negative effects on health and lifestyle. People make different decisions, turning to cheaper, private label brands rather than "A" brands, for example. They postpone the purchase of durables like cars, white goods, expensive home electronics, and holidays abroad. When the economy is in a state of expansion, the opposite could be said to be true. However, the increase or decrease in consumption is actually not the same for all product categories.

People are motivated to approach pleasure and avoid pain. True: consumers – and indeed businesses – tend to be oriented towards ▶



“...while contractions generally affects purchasing negatively, products that avoid negative outcomes actually flourish in harsh times.”

Business cycle fluctuations and consumption behaviour (continued)

by Bram Van den Bergh

acquisition and the achievement of gain. Nevertheless, it appears that they are more likely to approach gain in a time of expansion, and not really focus on avoiding losses. The positive environment influences their decision-making, encouraging their orientation towards a positive outcome.

For instance, during times of expansion, people describe themselves

and people's self-assessment is that they are "poor", rather than "not wealthy".

Good times, bad times

Illustrating the issue of "approach" and "avoidance" behaviours is the discussion of spending on gambling – in casinos, lotteries, and horseracing – compared to the purchase of insurance policies. In research tests, for example, we offered participants in three separate groups a series of choices. The first group was asked to imagine an expanding environment; the second, a contracting environment, and the third was given a neutral, control scenario.

All groups were offered the same two options in two different sets of circumstances. Option A: receive €20 for sure. Option B: flip a coin and receive €100 if heads, or nothing if tails. In the second situation, participants were offered the same two options, but faced losses rather than gains. Option A: pay €20 for sure. Option B: flip a coin and pay €100 if heads, or nothing if tails.

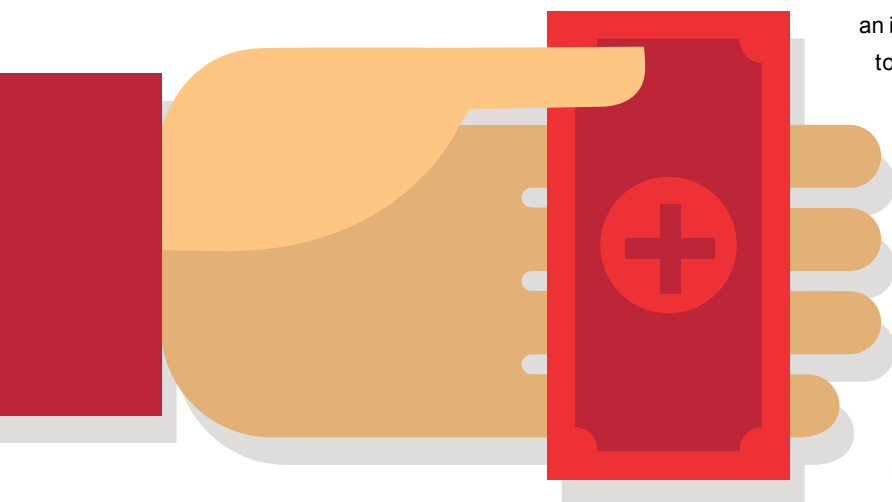
The results showed that people were more inclined to take risks after reading about an expanding economy when they stood to gain, but not when they stood to lose. In contrast, those who read about a contracting economy were less likely to take risks, but only

“Spending on gambling is motivated by the attraction of potential gain, whereas purchasing insurance is motivated by the wish to avoid a negative outcome.”

as “wealthy”, rather than “not poor”.

Conversely, in times of economic contraction, people show

an increased tendency to take decisions towards avoiding loss, even when offered an option that could have a positive outcome. Their orientation is geared more towards avoiding negative outcomes,



when they could limit their loss, not when they stood to gain.

Looking at consumption patterns, these results are corroborated by the statistics. Spending on gambling is motivated by the attraction of potential gain, whereas purchasing insurance is motivated by the wish to avoid a negative outcome. Nobody would ever gamble if they assumed they were going to lose; the general stance is one of optimism.

On the other hand, when people purchase insurance, it is from a negative standpoint; they want to protect against loss, or against the possibility that things will get worse than they already are. People would not buy insurance if they thought that nothing bad was going to happen to them.

When it comes to the macro influence of the overall economic environment, our studies show that spending on gambling – such as visits to a casino, purchasing lottery tickets, betting at horse-races – actually increases during times of expansion, whereas insurance purchases remain stable. In times of economic contraction, however, spending on insurance increases, but there is no significant change in gambling patterns.

In sum, while it is generally true that expansions positively affect purchasing, products that yield positive outcomes benefit from a positive

economic climate, while products that minimise losses benefit less. And, while contractions generally affects purchasing negatively, products that avoid negative outcomes actually flourish in harsh times.

Balanced action

Most studies of economic fluctuations tend to focus on specific crisis periods, looking at business cycles and economies within a relatively short-term timeframe. Our research takes a different perspective, combining experimental studies with individuals' actual purchasing behaviour over a period of 80 years. It is this long-term analysis, together with experimental studies, that have led to the above conclusions. The most important insight is that the macro economic environment directly and causally motivates individuals to achieve positive or avoid negative outcomes.

Of particular interest, considering the events of recent years surrounding subprime mortgage rates and credit card debt, is the suggestion emerging from this research of a need to disentangle attitudes towards gains and losses. Generally speaking, people tend to consider these two movements to be one process, i.e., that the motivation to move towards achieving gain is the same as acting to avoid loss.

However, our research indicates that they are actually two different processes, more independent from each other than normally believed. Behaviour is seen to be significantly influenced by the prevailing environment, and in an unexpected way. This is seen to be true in many situations, not only with regard to financial products.

For instance, we speculate that a toothpaste advertisement promising “protection against cavities” (i.e., avoiding negative outcomes) would be more effective during contractions than an advert promising “shining white teeth” (i.e., approaching positive outcomes). With this understanding, businesses should and could choose strategies to cope with business cycles in an efficient way. ■

This article is based on the paper *Avoiding negative vs. achieving positive outcomes in hard and prosperous economic times*, which was written by Kobe Millet, Lien Lamey and Bram Van den Bergh. It was published in the journal *Organizational behaviour and Human Decision processes* 117 (2012) 275–284.

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Offshoring and firm innovation

by Justin Jansen

Offshoring has been one of the most enduring themes in the corporate world in recent times. It still splits the opinion of fans and opponents in a manner that is usually the preserve of obscure religious disputes.

Believers in offshoring will argue intensely that the only true corporates are those that embrace offshoring from here till eternity. Doubters will question the wisdom of transplanting activities to far-flung areas of the world. The cultural and physical distances involved will inevitably, they say, create at least as many new problems as they solve old ones.

introduction of new products and services, but the subject needs to be placed firmly in a longer-term context.

When the trend towards the outsourcing of low-value non-core activities to a specialist supplier first began to seize the imagination of the corporate world there was one key aim: to cut costs. A secondary benefit, almost an accidental by-product, was

- followed a similar trajectory, driven by similar ambitions. However, offshoring today has a look all of its own.

The international financial crisis that began unfolding in the summer of 2007 created a new environment, forcing companies of all sizes across the globe to find new ways to grow. The imperative is to find new ideas, establish a presence in new markets and create new products, while achieving operational excellence to increase efficiencies and cut costs still further.

Offshoring challenges

This in itself presents a new challenge: the balancing of exploration of the future through research and development with delivering enhanced performance in the present. The paradoxical choices involved make it difficult to do both at the same time. Innovation needs liberation and decentralisation. Efficiency needs tighter controls and greater centralisation. Combining the two requires a high level of corporate ambidexterity.

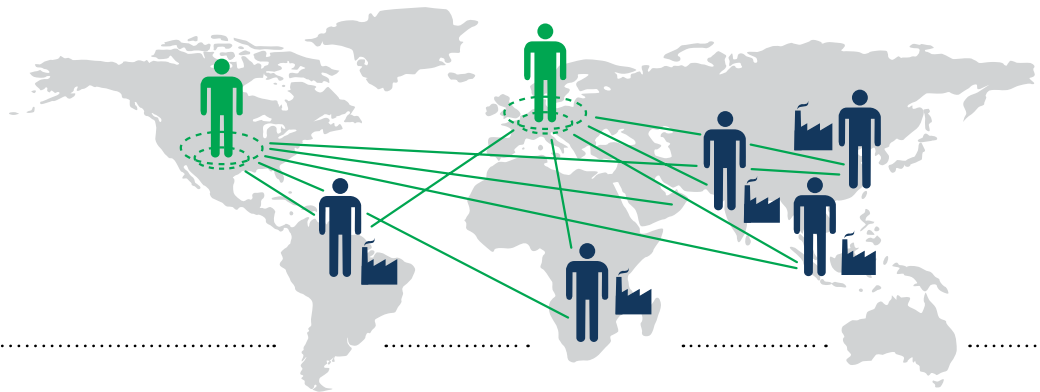
Some research suggests that offshoring to geographies such as India and China can be an important element in helping management to solve the apparently impossible equation, by helping to bring in new ideas and knowledge. Other research suggests the opposite, simply because it can be difficult to integrate such ideas and

“Innovation needs liberation and decentralisation. Efficiency needs tighter controls and greater centralisation. Combining the two requires a high level of corporate ambidexterity.”

As one of the authors of the paper entitled *Offshoring and Firm Innovation: the moderating role of top management team attributes*, I take a close interest in the subject. The prime goal of that study was to increase the understanding of how offshoring influences the

found to be the possibilities it offered to achieve increased operational efficiencies. As outsourcing became more established it began to be applied to higher-value activities.

Offshoring - the relocation of activities to another country or countries



knowledge into the parent company in its domestic market, partly because of the cultural and physical distances involved. Offshoring can be beneficial, yes, but it can be difficult to implement successfully.

Our paper takes a positive view: it shows that the offshoring of R&D and other knowledge-intensive functions can help a company renew and refresh itself to face the future. There is a clear caveat, however. Companies that offshore R&D must continue to conduct R&D in the home location in order to be able to integrate the results of the offshored R&D into the parent company.

We suggest that the extent to which organisations offshore primary functions enables them to unleash unrealised potential for firm innovativeness as they may leverage specialised knowledge sources from foreign locations and utilise wage-differentials. Yet, we argue that the relocation of primary functions to foreign countries will exhibit a pattern of diminishing returns, eventually reversing itself at high levels when organisations may become detached from most of their primary operations and, consequently, experience difficulty in recognising and responding to environmental changes.

Our study also contributes to establishing the link between upper echelon and innovation literatures by highlighting and clarifying the role of

top management teams in how firms may enhance innovativeness through international sourcing.

To advance a deeper understanding of the relationship between offshoring and innovation, we provide an upper echelon contingency perspective that analyses the strategic importance of attributes such as informational diversity and shared vision.

Key lessons

Stripped down to absolute basics, the study offers three key lessons on the offshoring of knowledge-intensive functions for senior managers to take from our research. One, take your time in the initial decision-making process. Think twice before you start. It might be a good idea for the company, in terms of reducing costs and increasing potential profits, but it can be difficult to manage.

Two, offshoring can undoubtedly be profitable, but not everything can, or should, be outsourced. You need to retain and grow an R&D capability in your established markets.

Three, you need the right management team. In particular, you need a balance of diversity in the team in order to understand and negotiate cultural differences. You can lower some costs somewhere, but you need to invest elsewhere to derive the maximum total benefit available to the company. ■

This article draws its inspiration from the paper *Offshoring and Firm Innovation: the moderating role of top management team attributes*, which was written by Oli R. Mihalache, Justin J.J.P. Jansen, Frans Van Den Bosch and Henk W. Volberda. The paper was published in *Strategic Management Journal*, Strat. Mgmt. J. (2012) DOI: 10.1002/smj.

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Why industry standards are pivotal

by Henk de Vries and Jan van den Ende

History is strewn with products – some even technically superior – that markets have eventually rejected because they lacked industry acceptance and approval. What can businesses do to prevent this?

We are all familiar with the ubiquitous USB plug and socket that allow us to easily connect devices, such as external hard drives, memory sticks, printers and cameras, to our PCs. Now, if there was no industry standard, manufacturers may not have had the necessary economy of scale to make it financially viable to have their products USB-ready and we would have all lost out. That is the power of industry standards.

A standard is a set of requirements that specifies how entities should interact to enable them to function together. Standards vary in complexity, scale and span, from dealing with safety, quality or environmental issues, to dictating how the various physical and logical components in a road-pricing system communicate with each other. Crucially, multi-stakeholder-supported (versus proprietary) standards have a better chance of being accepted and deployed.

There are exceptions. As we have seen with IBM and Microsoft in the past, “monopolies” can use their influence and dominance to impose

their company standards as de facto standards. Then there are industries where proprietary standards co-exist, such as in the games market where Nintendo, Sony and Microsoft dominate, and the smart phone market – with Apple’s own standard competing with Android – an open one.

Be flexible

The process of establishing a product standard and getting it formally accepted by industry starts with creating a network of interested stakeholders to design, develop and promote the particular standard. Which network finally wins will depend on the amount of industry support and the willingness of manufacturers to apply the standard to their products, and customer interest in them.

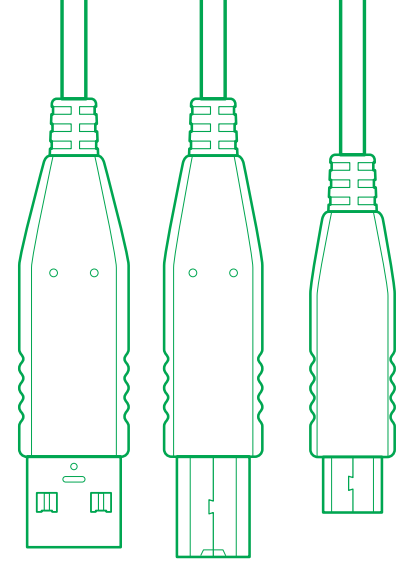
Our recent research shows that it is important to also involve a variety of manufacturers and sometimes professional customers in the development of the standard, and, if necessary, to adapt it to their requirements. This can be done to attract new participants. It is also

recommended to maintain this flexibility, allowing participants to propose modifications, such as upgrades. Importantly, adaptations of standards over time should not be considered an unwanted side-effect, but an integral part of the standardisation process – a part that should be carefully managed.

This concept of flexibility is paradoxical since standards aim at creating sustained compatibility between different technologies, and therefore stability in the markets – while flexibility creates instability. However, this flexibility can also stimulate pro-standard support, thus promoting stability in the longer term. In addition, flexibility can enhance both network size and diversity, which in turn will further affect this flexibility.

A case where flexibility played a decisive role is in the standards battle involving Blu-ray and HD-DVD. In 1998, the market introduction in Japan and the USA of commercial, high-definition television created the need for a commonly accepted, inexpensive way to record and play high-definition content.

Two standards competed for dominance: Blu-ray and HD-DVD. In 2008, Blu-ray became dominant. The size and diversity of the two competing networks were initially similar, but the dynamics of the processes and the market shares of the network



members in their respective industries were different. Some of Blu-ray's new members requested several substantial changes to the standard. These changes also served to attract new members, particularly IT and film companies, with significant market share in their respective industries. Specifically, the substantial changes that Blu-ray made to accommodate the requirements of the film studios created higher commitment and support in that sector, and helped Blu-ray win the contest.

Phased approach

Good timing is also critical. Being early to incorporate changes appears to be important for success, and potentially more important than just early timing of market-entry. Experience has shown that a standards project is ideally conducted in three phases: 1) pre-formation phase, 2) formation phase, and 3) lock-in phase.

Start with just a few industry players with essential know-how and create an initial design. Of course, a larger, more diverse group is essential to prepare for broad market acceptance and to prevent key stakeholders from joining a competing alliance. Thus, the process of expanding the initial network and adapting the standard (phase 2) should be started early. The network can then be gradually extended further (the

required speed also depends on what the competing standards alliances, if any, do).

Creating a layered network structure, in which activities related to modifying the standard are separated from promotional ones, keeps the processes manageable. Now, flexibility in a standard's design may be hindered by inherent technical limitations. Initial choices should therefore be based on the possibility of future modifications. This may be a disadvantage in the beginning (higher costs), but an advantage in later phases. In the final phase revisions may still be required, but they will be few and their implications less significant.

Reviewing the benefits, standards make companies more efficient and cost-effective. Furthermore, participating in standards' development exposes businesses to the expertise and research of their peers, which can in turn lead to improved designs and new ideas. Reasons enough to be well-prepared and involved: you cannot, after all, afford leaving to others to determine what is pivotal to your own business. ■

This article is partly based on the paper *The Paradox of Standard Flexibility: The Effects of Co-evolution between Standard and Interorganizational Network*, which was written by Jan

van den Ende, Geerten van de Kaa, Simon den Uijl and Henk J. de Vries and published in *Organization Studies*, (2012), 5, 705-736.

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RSM is holding a two-day seminar on International Standardisation on 22-23 August, which will provide insights into achieving business goals through involvement in international standardisation. Further information can be obtained from: Michael Smith, Programme Advisor [PHONE +31 10 408 8633](tel:+31104088633) [EMAIL openprogrammes@rsm.nl](mailto:openprogrammes@rsm.nl)

How to boost creativity within diverse teams

by Inga J. Hoever, Daan van Knippenberg, Wendy P. van Ginkel and Harry G. Barkema

Researchers and managers alike have often portrayed diversity as a key driver of team creativity. However, recent findings suggest that getting team members to take their fellow workers' perspective is essential to the process of benefiting from diversity.

Working teams come in all shapes and sizes and members often differ in many ways – different functional assignments, educational backgrounds, native languages and even the attitude of workers to achieving their tasks, to name a few. However, if carefully managed and nurtured, diversity can be exploited positively to raise creativity. Our research has identified perspective taking between team members as a key mechanism that helps diverse teams be more creative.

Our findings begin from the hypothesis that diversity of knowledge and information within a team offers no guarantee of higher creativity. In order for teams to realise this potential, they have to adopt an inclusive approach to discussion and information, so that team members not only share their information but also make sure that all of it is heard and considered.

Our research shows that this inclusive approach to discussion is much more likely when team members

are willing and able to take each other's perspective.

Information elaboration

By encouraging perspective taking among the members of diverse teams, leaders can therefore help members to engage in a style of discussion that facilitates creativity. Some have suggested that information sharing or task-related conflict is important in this regard. In contrast, our detailed observation of the actual team discussions shows that neither one of these mechanisms is sufficient.

Instead, in addition to merely sharing information or having conflicting opinions, a more active and inclusive process of "information elaboration" is crucial. Information elaboration means that team members not only passively receive the information but also actively discuss it and connect it to their own knowledge and viewpoints.

Perspective taking and information elaboration may require extra efforts from team members, but there are very

practical things research suggests that managers can do to increase the odds of success or make it easier for team members go the extra mile.

First steps

The first step is to compose your team carefully. Differences in status or power may make it harder for people to take each other's perspective and discuss information in a way that incorporates everyone's input. Conversely, achieving a mix of members with overlapping experiences and knowledge and who thus speak a common language facilitates perspective taking and information elaboration.

In terms of work mentality, having individuals who are not solely focused on "getting the job done" but are inquisitive and want to understand how and why things work is also important. It is to be expected that workers will not only have very different tasks from one another but also varying qualitative approaches to their tasks. Encouraging a cognitive mind-set where team members seek to understand one another's tasks and not just the end result is essential to benefiting from these differences.

Right conditions

Apart from choosing the right mix of people for a team, leaders can



also create supportive conditions and learning experiences for team members. Task rotation and shadowing of team members are just two of the measures that managers could and should consider in order to promote the process of perspective taking as they make the viewpoints of their teammates more accessible.

Leaders should aim to instil a climate of confidence within the team where members will display a healthy curiosity in one another's respective tasks and how they seek to achieve results. This appreciation of diversity as a valuable resource may ultimately benefit the creativity of the team as a whole. In both respects, leaders can serve as important role models and set the tone for the entire team.

Leadership intervention

The manager who achieves this will find him or herself with a team where members socialise and interact more

constructively. Our findings show that encouraging perspective taking and setting up a collaborative, information elaboration-based approach is helpful for newly formed teams.

Although it may also have benefits for teams that have a history together, the impact of leader interventions might be largest at the outset of a team project when group dynamics are still evolving. The diverse knowledge and viewpoints tied to the many ways in which team members may differ will then become an asset to the team, rather than an obstacle that could potentially hold teams back.

Leading a team is a matter of enabling a series of individuals for a collective benefit. By encouraging each individual to put themselves in the shoes of their fellow co-workers, the team unit will be the ultimate beneficiary of helping team members to see the world through the eyes of their colleagues. ■

This article draws its inspiration from the paper *Fostering Team Creativity: Perspective Taking as Key to Unlocking Diversity's Potential* by Inga J. Hoever, Daan van Knippenberg, Wendy P. van Ginkel, and Harry G. Barkema. The paper was published in *The Journal of Applied Psychology*, 9 July 2012.

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The role of non-executive directors in Dutch firms

by Michiel Wolfswinkel

According to recent research, the traditional belief that companies could suffer in performance terms if members of the supervisory board have too many commitments elsewhere needs to be revised.

The number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of his duties is assured; the maximum number is five, for which purpose the chairmanship of a supervisory board counts double. Dutch Corporate Governance Code (III.3.4).

That it's time to revise the belief that over-busy supervisory board member can have a detrimental effect on companies is one of the conclusions to be drawn from my recent research into the nature and impact of corporate governance. This resulted in the award of my PhD in March this year following the publication of *Corporate Governance, Firm Risk and Shareholder Value of Dutch Firms*.

Although the research is concentrated on Dutch firms and continental European-style Supervisory Boards, the lessons learnt are just as relevant to, and applicable by, Anglo-Saxon corporate boards. What, after all, is a non-executive

director (NED) but a member of a de facto Supervisory Board?

Whether they are called Supervisory Board members or NEDs, the function remains the same: to supervise and provide advice and guidance to the management board, drawing on the skills and experience gained elsewhere. I have experienced this directly during my own career as a Chief Financial Officer.

Gut feelings

In my work life, I became increasingly aware of the effects of human behaviour on corporate finance decision making. I observed that the CEOs with whom I worked were relying on their experience and gut feel more often than on a rational decision making process.

I noticed that in decision making many unwritten rules of thumb were being applied. I experienced the value of informal contacts and the power of being part of a network. I could feel the intrinsic boardroom tension between members of a Supervisory

Board and members of the Executive Board, at times vehemently arguing and challenging each other's views. With human behaviour playing such an important role in a firm's corporate governance and decision making, what would be the implications for that firm and its value?

One instance involved the need for the installation of a new IT system to improve the risk management function at the company where I was working. After I had outlined the problem and possible solution to the President of the Supervisory Board, he pointed out that another company, where he was also a Supervisory Board member, had faced up to the same challenge in a similar manner, but made a number of mistakes during the planned and implementation processes. He recognised the issues immediately, and initiated a dialogue with that company which enabled us to avoid making the same mistakes.

Underlying fear

There is an underlying fear amongst regulators in the Netherlands, and in the Anglo-Saxon economies, that if Supervisory Board members are too busy they will not be able to keep their eye on the various balls they are responsible for following. A stream of literature contends that if they are too busy, the companies with which they



“...mainstream thinking has it that the busier Supervisory Board members are, the riskier their companies are.”

are involved have inappropriately high-risk profiles.

The first step in my work was to compile a data set of Dutch companies. Once this was in place, I was able to begin analysing connections between different boards, people and financial institutions. I also built a number of

risk metrics, separating, for instance, company-specific risk from market risk (beta). I then examined risk aversion, wondering if it would be possible to identify boards shying away from making risky decisions, and began to come to what some might feel to be surprising conclusions.

As I have already noted, mainstream thinking has it that the busier Supervisory Board members are, the riskier their companies are. I have tested this accepted wisdom and have found that it is simply not true. There is no positive relationship. If anything, the relationship is a negative one. Double, triple, or quadruple functions on a Supervisory Board are a node through which risk is reduced. I believe that this fear is unjustified. Up to a certain level (as yet unidentified), the busier the individual Supervisory Board members are, the better it is for their companies. Their “busyness” brings new skills, knowledge, perspectives and relationships.

This has clear and important implications for boards seeking to hire new members to plug any gaps that might have arisen in their own profile. They should be looking to recruit from the ranks of well-connected existing Supervisory Board members. You want them because they are busy with relevant matters.

Coincidence of events and characteristics does not in itself, of course, prove the existence of a cause and effect relationship. The direction of any possible causality is a key concern in any serious analytical work. The introduction of a time lag is one of the features that make my own analysis viable in this respect. Except ▶

The role of non-executive directors in Dutch firms (continued)

by Michiel Wolfswinkel

in truly exceptional circumstances, a corporate Board will not be changed overnight. Examining a company's risk profile from year to year helps identify the relationship between individual appointments and subsequent corporate behaviour.

Regulatory initiatives

Trends in corporate governance and in the expectations that people have of Supervisory Board members or NED have changed and gathered pace in recent years. At the beginning of the

At the 2005 CGA Accounting Research Centre conference, it was stated that internationally, trends in corporate governance can be viewed from the perspective of board stewardship, operations, independence, and disclosure. The rules and guidance relating to these board activities illustrate a number of interesting trends.

First of all, there continues to be a move from guidance to regulation. In the US, this trend is being reflected primarily in the areas of codes of

structure. However, in recent developments, greater attention is given to skills and ethics. This reflects back on the efforts of board members.

The overall effort required from board members continues to increase due to the increasing number of board meetings and the increasing number of subcommittee meetings they are supposed to attend. The enhancement of the roles and responsibilities of corporate boards has tended to heighten the natural tension between the dual roles required of these boards. They must be advisers to senior management, and carry a fiduciary responsibility to shareholders.

What is the next step? To me it is clear. If it is good to be connected, then what is the ideal number of such relationships? We do not know; that needs to be researched and tested. Perhaps a reader might think of taking this work to the next level.

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“...the busier the individual Supervisory Board members are, the better it is for their companies. Their ‘busy-ness’ brings new skills, knowledge, perspectives and relationships.”

millennium, a series of governance failures at US firms such as Enron and WorldCom, and European firms such as Ahold and Parmalat, caused a wave of regulatory initiatives aimed at improving corporate governance. The debate on corporate governance has continued to thrive since. Most recently, the OECD has stated outright that the financial crisis that began unfolding in mid-2007 can be attributed to an important extent to failures and weaknesses in corporate governance.

ethics, audit committee structure, and the separation of CEO and chairman of the board. The Netherlands still operates more from a principle based background and uses the “comply or explain” principle that allows firms to either comply with the Corporate Governance Code or explain why it deviates from the Code.

Developments in a firm's governance are also visible in the board's skills. Initial initiatives were aimed at improving a firm's governance



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