Designing Comprehensive Model of Corporate Governance in Service Section

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Abstract: Today, corporate governance is known as an ability to obtain financial and management health. In this regard, the Open Innovation provides useful and efficient ways to achieve strong corporate governance. Given the lack of research on open innovation to deal with the ultimate goals of corporate governance in the insurance industry, the present research has been conducted. This study has been done due to the lack of theoretical literature in this respect and the goal of this study is to design a model of corporate governance with open innovation approach in the insurance industry. The sample consists of 8 faculty members and insurance industry experts who have been selected based on purposeful sampling procedure. This research, based on aim is an applied one and based on collecting data through interviews, it is considered as field research. The site of the research includes the insurance companies listed on Tehran Stock Exchange and the duration of this inquiry ranged from the beginning of 1395 till early 1396's. The results of the interviews and data analysis by Atlas/ti software confirmed all the research questions. According to research findings, open innovation at inbound, outbound and composition are defined as strategies that enhance corporate governance. Research findings recommended open innovation strategies of various ways to solve the problems of corporate governance should be used in the insurance industry.

Keywords: open innovation, corporate governance.

Research Area: Social Science
Paper Type: Research Paper

1. INTRODUCTION

Today, changes of the environment where organizations operate have become more and more unpredictable. This imposes a challenge which should be necessarily considered. In such circumstances, innovation is referred as a means providing for harmonization with the environment. In this respect, open innovation allows the internal and external ideas to be utilized for solving the problems faced by industries and organizations. In fact, the open innovation establishes formal and informal channels enhancing the capabilities and capacities of an organization and the industry. The open innovation approaches include: Inbound – utilizing the external innovative resources; outbound – utilizing the external resources to develop and commercialize a product; and combined approach, which involves partnership of organizations and their closer cooperation to create new knowledge (ICC, 2014).

A recent study has suggested different methods of open innovation. For instance, the inbound open innovation methods include outsourcing contracts for research and development, customer participation, crowdsourcing, and employee participation, while the outbound methods involve joint research, joint development, joint purchasing, and joint marketing (Rangamitzousi & Ismail, 2015).
Consequently, considering the various concept, approaches, methods, and functions of open innovation suggest that it is endowed with the power to solve the problems of corporate governance. Further, the essence of an organization is beyond solely achieving such goals as providing product and services. In fact, an organization should inevitably meet the expectations and needs of the shareholders and stakeholders including suppliers, customers, government, communities, and creditors as well (Al-Azzam et al., 2015).

The financial corruptions and discriminative behaviors in the organizations have attracted the attention of both scholars and policymakers in recent years. This leads to need maintaining strict monitoring and control of organizations in order to protect the interests of shareholders and stakeholders. Therefore, a strong corporate governance might provide for better access to the capital and facilitate the economic growth. It has also extensive organizational and social aspects. A good corporate governance ensures that the business environment is fair and transparent, and the organizations are accountable. In other words, only a good corporate governance might establish a sustainable and optimal business performance (Al-Azzam et al., 2015).

Open innovation require collective efforts both internal and external. Here, the corporate governance improves and enhances the management of an organization by strict monitoring and control. However, as the environment is ever changing, open innovation presents modern and advanced methods to direct the organizations relative to goals of corporate governance. These include accountability, transparency, justice, compliance with the stakeholders’ interests and risk management. Many studies have been already conducted about either corporate governance or open innovation. However, they have not been investigated in a same study yet. Therefore, this study is to fill the theoretical gap. In this case, such a study is necessarily substantial from many respects. It aims to develop a model for corporate governance with an approach of open innovation in the insurance industry. The present study determines how open innovation might improve the corporate governance in the industry, and as result, the resulting model.

2. AN OVERVIEW OF THE THEORETICAL FOUNDATIONS OF RESEARCH

“Corporate governance” has various meanings among the pundits but based on prevention and supervision concepts, it can be considered as “corporate supervision” and/or “corporate control” and based on the promotion of potential duty, it can be considered as named “corporate management” or “corporate governance”. The major conception of these is the same as those are achieved through legislation to control and monitoring the company and preventing inefficient operations and realizing social responsibilities (Tseng et al., 2013).

There is no unique and acceptable definition for “corporate governance”. Furthermore, there is significant difference between presented definitions based on the country that it has been investigated. In the limited viewpoints, corporate governance is limited to relationship between a company and its shareholders. This pattern is mentioned in the template of agency theory, while this conception may overstep relationship between company and its shareholders and defined in a network of relationship. In this situation, corporate governance is not only involved relationship between the company and its shareholders but also between company and a large number of beneficiaries including staff, customers, sellers and so on that is expressed in the format of stakeholders theory (Solomon, 2010).

Numerous definitions have provided for corporate governance that are as follow:
Corporate governance implies corporation management, board members, shareholders, and that company can achieve its operational goals via this mechanism (Tseng et al., 2013).

Corporate governance refers to structures and processes to control and leading the company (IFC, 2010).

Corporate governance expresses approaches, processes and views that an organization is controlled based on it. The Structure of corporative governance specifies distribution of the rights and responsibilities among different participation in the organization (Central bank of Ireland, 2015).

On the other hand, there is an open innovation developed by Henry Chesbrough for the first time. Chesbrough has defined open innovation as meaningful use of external and internal knowledge stream to enhance the velocity of internal innovation and developing market for external use of innovation. Therefore, open innovation can use both of external and internal idea (Monsef and Wan Ismail, 2012).

To put another way, open innovation is perceived common internal efforts with outsourcing capacity and/or combination of several various method in order to apply internal and external knowledge for enhancing value of economical chain, accelerating, developing product and compacting idea market along developing product or services, process of open innovation happen via two important factors (Parheezgar et al., 2015).

Chesbrough’s studies showed that provision of innovative ideas and how to commercialize ideas have undergone substantial changes. With the crossing of twenty century and arrival of twenty-one century, paradigm changes has happened in the manner of commercializing industrial knowledge of organizations. Organizations have been forced to proceed from dominant pattern of twenty century, i.e. closed innovation, to new paradigm, i.e. open innovation. Chesbrough discusses two kind of innovation: closed innovation and open innovation. Most of closed innovation theories induce from organizational units in the context of a bureaucratic company and in contrary, open innovation is focused on the networks of various companies and related institutions (Ramezanpoor nargesi et al., 2014).

One of the differences between open and closed innovation is that in previous theorizing of innovation, external knowledge played useful but complement role. However, in open innovation, external knowledge plays a role corresponding to what is achieved from internal knowledge in previous conceptualizing. Other major difference between closed and open innovation is related to emphasis of latter on the model of business. Open innovation recognizes business model expressly as resource of value production and possession of value that latter is less investigated. This recent role of business model enables organization to retain its position in the value chain of industry over time. Chesbrough recognize business model as crated value, identifying proportionate section of the market, defining structure of value chain, defining Income generating mechanisms and corporation position in value chain and codification of competitive advantage that can be considered basis of open innovation. In open innovation approach, institutions monitor the external environment before beginning of the research work and internal development. Institutions limit their research work and internal development to technologies that are not widely accessible or those that institutions has a pivotal advantage and this time, institutions are looking for the advantage through generating systems and solutions that are better than their systems and solutions. Henry Chesbrough believes that the factors like the growing availability of moving skilled staff, risky capital market, external options for the research ideas of great companies, the growing capability of external suppliers are the main reason for abolishing of the closed innovation paradigm (khaleghi & Elyasi, 2014).
3. BACKGROUND RESEARCH

There are few studies that are addressed the relationship between corporative governance and open innovation. However, the subject-related researches are as follow:

Eric Ernest Mang’unyi (2011) in a study has investigated the ownership structure and administration of corporation and its effect on Kenyan selective banks. Identified variables of the study include ownership as independent variable and confounding variable include criteria of corporate governance and finally, dependent variable is performance. The study suggested that common organizations should act out to send positive signals to potential investors. Central bank of Kenya should enhance and encourage companies to adhere good corporate governance in financial institutions for efficiency and effectiveness. At least, regulatory organizations including government should promote and upgrade corporate governance and its relationship with company performance in the industry (Mang’unyi, 2011).

In Another study, Olayinka Adenikinju (2012) has probed management properties, corporate governance and company performance in Nigerian proposed companies. The study has investigated governance structure in Nigerian corporations and their management features and that how much governance structure (combination, size, number of meetings and so on) and management features (competence, education, nationality of CEO and so on) influence the performance. Undoubtedly, governance structure of a company (for example combination of owners) and management features have important role in company’s ability to respond external factors and its performance. The study focuses on the first level companies of stock exchange in Nigeria. The findings show that management features and corporate governance have some effects on company’s performance. In addition, the importance of quantitative and qualitative indicators of corporate governance and management features are different for low-growth and high-growth companies (Adenikinju, 2012).

Ahsan Akbar (2015) in a study investigated the role of corporate governance mechanism in optimizing corporation’s performance. Many studies have been implemented about relationship between corporate governance and company’s performance mainly using conventional actions of corporate governance in developing countries such as Pakistan. The results show that corporate governance positively and meaningfully contribute to company’s performance. The aim of current study is that some of the important actions related to major actors of corporate governance that has significant important in creating an effective corporate governance structure is integrated into conventional criteria of corporate governance. Involving these variables help the company creating an efficient corporate governance structure that enhances company’s performance. The integrated corporate governance approach in this study that will result in effective company’s performance, finally lead to excellent corporation’s performance that itself includes criteria such as concentrated ownership, combination and proper size of board, not being duality of CEO role, audit performance and other committees, board regulations including education of board members, mandatory retirement age, being non-member of ex-CEO in board, compensation of the board due to their services, monitoring of deals with dependents, mandatory presence of board members in the meetings, member of annually selected board and finally, other rules implicating evaluation of executive performance, compensation of senior management’s services, compensation of CEO’s reasonable services, meeting of the interests of shareholders, auditor rotation policy, special requested meetings of shareholders, considering corporate social responsibility, defined ethical code and instruction, fair disclosure of financial information, revealing executive and senior managers services (Akbar, 2015).
On the other hand, Jafar Bagherinegad and Gazaleh Javeed (2014) in a study entitled “open innovation model in Iranian banks: Parsian Bank” have identified the open innovation factors. The results confirm that internally there is no positively direct relationship between technologic resources and the formation of open innovation while there is positive relationship between the ability to attract ideas and the formation of open innovative. Externally, there is a positive relationship between the external knowledge resource and technologic changes and the formation open innovative. In dimension of relational factors, there is positive relationship between “Trust” and the formation of open innovation. This study model with related variables and structures can be effective in banking industry and considered by economic planners. In summary, dimensions of open innovation approach in this study has identified internal factors including technology resources (internal resources of knowledge and skilled labor, training, skills and motivations of innovation, instruments and internal technology, leadership, intellectual property management), the ability to absorb ideas (research and development, organizational culture, internal integration, strategy of technology, process of selecting proper technology) and external factors including source of external knowledge and networking, changes and technologic opportunities and finally relational factor (interactive), trust (Bagherinegad & javeed , 2014).

Also Jana Krapez et al (2012) in a study titled “textual variables of open innovation paradigm in business environment of Slovenian companies” has investigated elements of open innovative. The study show that if Slovenia want to be success in long term, supportive environment cannot be only based on financial support the government, but also it should influence other elements of technology development. These elements include:1. Organizational culture, values and reward system 2.law 3.taxes and social contributions 4.bureaucratic obstacles 5.human resources 6.favorable bank loans, bank guarantees, investment and so on. The framework of this study includes values and its changes, flattish and decentralized structure, strategy and systematic supports, human resources and skills and adding technological and financial supports. The elements of closer external environment include contribution to supplier, participation with customer, partnership with educational and research institutions and the elements of further external environment include economic, political, social and technological environment (Krapez et al., 2012).

Farnaz Alamifar (2013) has presented in a research titled “the impact of open innovative approach on the effectiveness of innovation process in ICT organizations” has provided. The results show that applying open innovation approach (cooperation, research and development, probe of knowledge, intellectual property management) has had positive impact on effectiveness of innovation process (innovation strategies and Entrepreneurial leadership, development of ideas and screening, design and development of the product, commercialization) in ICT industry (Alamifar, 2013).

4. RESEARCH METHODOLOGY

The research method is qualitative and based on grounded theory. The data are collected through library and field researches. The research questions are answered based on data from interviews with the university professors and experts of insurance industry. Then, the ATLAS/ti software packages is applied for analysis.

It should be noted that the grounded theory research is usually applied in cases where the subject suffers a lack or little attention in previous studies (Noori & Mehrmohammadi, 2011).

The scope of research explores the factors of corporate governance with an open innovation approach, and develops a model for insurance industry. This study is performed in a 14-month period in the field of insurance, which involves insurance companies and Iranian
central insurance organization. It answers the question, “What is a comprehensive model of corporate governance with an open innovation approach for the insurance industry?”

It is recommended that a review of the study be conducted by members and peers in order to ensure the research validity and accuracy of findings (Creswell & Miller, 2000).

In the present study, it is sought the same way for review and validity. Intercoder reliability (repeatability) is the extent to which independent codes evaluate results and reach the same conclusion (khastar, 2009).

To calculate the interview reliability, it is utilized the intra-subject agreement method of two coders. In this case, the author and a coder cooperate in this research. Then, they choose and code several random interviews. For the study, the intercoder reliability is about 85%.

5. RESEARCH FINDINGS

Descriptive statistics of the research sample show that the experts participated in the research include eight industry managers and professors whose average age and years of service are 44 and 24 years respectively. In terms of education level, the respondents had M.S, and PhD degree. For inferential section, qualitative data of the interviews was analyzed using grounded-theory method.

The extracted tables of coding are represented as Table 1.

The research findings indicate identifying six major levels based on grounded-theory method. According to the conducted interviews and analyses in the research, the following table shows results of grounded-theory method as categories and concepts of every hexaploid elements.

The first category includes casual conditions. They refer to conditions that are the main factors causing major phenomenon, which in the present research, they have been considered as condition of legal, trans-legal and illegal behaviors.

Intervening category was the next obtained category by analyzing interview data; they have been named as public conditions of society and organization. Context (environmental) category was another identified one in this study. As structures, this group has been divided into three factors including managerial, ownership and financial structures.

Corporate governance is the main studied phenomenon in this research that there have been six extracted separate conceptual codes: accountability, responsibility, transparency, fairness (impartiality), respecting rights of stakeholders and risk management.

Strategic group is another category that has been referred as organizational and industrial strategies in the present research.

In the grounded theory, the strategies refer to the conducted works about the main category (Bazargan, 2015).

Consequences refer to results of strategies (Bazargan, 2015). In the research, consequential category is divided into two sub-categories: organizational and trans-organizational. In fact, improving financial and managerial performance, as well as controlling, monitoring, and promoting insurance industry through confidence of governmental agencies and stakeholders can be considered as the end results for designing corporate governance model with open innovation approach.

The next issue is to recognize driving factors for corporate governance of insurance industry that include cases such as enactment of rules and regulations, policies and programs, involvement and support, corruption state, structure, strategy, and so on.
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Based on the results, the following graph represents theoretical framework of corporate governance with an open innovation approach as corporate governance model with open innovation approach in the insurance industry.

Figure 1: The theoretical framework of research

The obtained software output of the research by Atlas/ti Software is shown as the following; by taking into account all primary and secondary categories and concepts.

Figure 2: Network Relationship Model.
6. DISCUSSION AND CONCLUSION

As mentioned previously, the present research has been conducted to fill a theoretical gap, namely examining corporate governance in terms of open innovation approach using the grounded-theory method. For this purpose, we examined the main issue and phenomena. Then we began field conditions by identifying causal and intervener conditions. Next, we identified the useful and effective strategies for the main event, by considering the conditions. Finally, we identified some consequences. According to the research main question on how to relate comprehensive model of corporate governance with open innovation approach in the insurance industry as well as studying theoretical principles and open and semi-structured interviews with experts in academia and industry, we have examined this issue. The research results suggest identifying six main categories based on the grounded-theory.

Finally, the role of open innovation in corporate governance has been discussed. As mentioned previously, there are wide ranges of internal and external factors affecting formation and implementation of open innovation. The effective inter-organizational factors on shaping open innovation include organizational culture, structure, process, strategy, human resources, competencies, skills, support (financial and IT), managerial factors and so on. The effective intra-organizational factors on shaping open innovation include cooperation with competitors, communicate with customers, agents, macro environment (political, legal, economic, social and technological), communication with universities, suppliers, customers and educational and research institutions.

Therefore, possibility of proper applying, deploying and implementing open innovation and its various methods will require the necessary fields and infrastructures in the considered organization or industry. On the other hand, according the research results, at inbound, outbound and composition levels, open innovation is defined as a practice or strategy that enhance corporate governance.

According to the literature, open innovation has several methods, which have been introduced in some methods as effective and bound approaches for corporate governance, according to the some conducted interviews. In this study, the identified strategies of open innovation for inbound level in this study include outsourcing research and development contracts, customer participation, crowd sourcing, employees’ participation, reverse engineering and consultation. In the other hand, the known synthesis strategies include joint studies, joint development, foreign partnership and staff exchange. Finally, the only recognized strategy in outbound level has been introduced as external rotation.

7. RESEARCH SUGGESTIONS

The research recommendations, which are based on data analysis from interviews, are presented in three categories: Executive aspects, Policy Making and Future Study.

From the Executive aspect and in the insurance industry level following Recommendations is presented:

Since the internal and external actors play unique roles in the corporate governance, any improvement and enhancement of such should consider human capital based on meritocracy on the industry level, formulate and establish a system without any idealistic and discriminative behaviors associated with assigning the board of directors and managers. Further, open innovation might be one of most important factors affecting the efficacy of corporate governance. Therefore, it is suggested that the governing entity provide the infrastructure required to enhance the communication with internal and external agents of insurance companies. Finally, as the environment of this industry becomes more and more complex and the lack of accountability to the existing procedures is felt, the transition from
the conventional reporting system of shareholder communities to separate financial and management reporting systems is inevitable.

From the Policy Making aspect and in the Macro Level the following Recommendations is presented:

Due to the dominance of the state on the economy of Iran and government thinking among the directors, particularly the privatized organizations, any fundamental change and improvement of corporate governance requires much more effort from the external actors of governance entities. Therefore, if the government, parliament and other governance institutions(most of which have their affiliated organizations and companies take the open innovation-based thinking into their structure, it will be facilitated to implement such in many other industries, sectors, and as result, companies and organizations. However, there are various basic problems and challenges faced by many industries and organizations, particularly the state organizations. Further, it is felt the lack of capability, ability, experience and expertise necessary in governance institutions is felt. These might be eliminated by utilizing the open innovation methods, including crowdsourcing through various routes (such as cyber space), and as a result, facilitating the application of experiences and ideas from society to enhance the processes, procedures, and so on. At the end, there are an increasing number of stakeholders and their demands in the insurance industry, on one hand, and various problems and challenges faced by the industries (particularly insurance), on other hand. This leads us to find the gaps within regulations and laws, directives and polices. Unfortunately, this demonstrates the unilateral and biased approach, and weakness and lack of expertise in governance institutions for formulating the guidelines, directives, and so on. Therefore, it is suggested that by establishing the infrastructure necessary to attract the participation of stakeholders and obtaining their feedbacks in such institutions, the needed steps are taken to protect and meet their interests and rights.

The last group of suggestion related to researchers for Future Studies is as below:

As the concept of open innovation is novel in the service sector, the researchers should examine the subject in other service industries with more detailed interviews. Additionally, considering the previous studies and known variables associated with the corporate governance, it is suggested that the corporate governance is evaluated using several of open innovation (including customer participation, employee participation, shareholder participation, etc.) from the stakeholders’ point of view in the insurance industry.

REFERENCES