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HUMAN GOVERNANCE FOR EXCELLENT ORGANIZATIONS

Abstract: *Every excellent organization derive from leadership. Leaders in organizations accomplish their future through core purpose that is grounded on vission, mission, values and corporate behaviour. Organization values and role models for integrity and ethical behaviour make part of corporate governance that is primarilly aimed to raise profit and enhance organisation's reputation. However, leaders in excellent organisations inspire people and create a culture of involvement, empowerment and accountability. They also promote a culture which incites the generation of new ideas and new way of thinking what may lead to inovation and organisational development. To be effective these leader's actions require people to possess two characteristics that are not recognized within corporate governance: self-consciousness and self-accountability, but they are the pillars of other approach – human governance. Ostensibly, to be successful excellent organization leader has to combine these two distinct approaches what the authors of the paper try to elucidate.*

Keywords: *Business excellence, HR, human governance, corporate governance*

1. Introduction

Excellent organisations meet their mission and progress towards their vision through planning and achieving a balanced set of results that meet both the short and long term needs of their stakeholders and, where relevant, exceed them. They have leaders who shape the future and make it happen, acting as role models for its values and ethics. Excellent organisations value their people and create a culture of empowerment for the balanced achievement of organisational and personal goals. Also, they embed within their culture an ethical mindset, clear values and the highest standards for organisational behaviour, all of which enable them to strive for economic, social and ecological sustainability, (EFQM, 2010, pp.11-18).

As may be observed from the above selection of business excellence principles described by European Foundation for Quality Management, the role of leaders appears crucial to make an organization excell in its business surrounding. When leaders in organizations pursuing business excellence are concerned, their preferred performance noticeably changed upon the onset of the global economic crisis. Latest published EFQM model 2013 identified two key leaders' virtues: their active role in shaping the future in which they will serve as a role model inspiring people both in

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internal and external environment, and also their flexibility which will provide organization capability to foresee and timely react to challenges on the market thus to secure on-going success of the organization, (EFQM, 2012, p.4)..

FQCE model 2019 (the model recently introduced in Serbia to serve in National Award for Business Excellence)[1] identifies following items against which the excellence in leadership is to be demonstrated:

A Leaders create conditions in which an organization fulfils its mission and strive to its vision in a way that people are committed to reach organizational goals;

B Leaders regularly monitor and review organizational management system by keeping track of organizational key performances and processes they „own“,

C Leaders recognize stakeholders of the organization and they maintain regular communication thus to manage stakeholders needs and expectations are met;

D Leaders incite to develop and use their potentials to a highest extent by nurturing organizational culture to encompass: empowerment, process ownership and true partnership, (FQCE model 2019, 2019).

The adjacent concept of business excellence is the concept of sustained success. Unlike the business excelence concept which is not formatted, the sustained success concept is embodied in ISO 9004 standard. To achieve sustained success an organization should head beyond the quality of products and services meeting the expectation not only of its customers but also of remaning interested parties aiming to intend their satisfaction.

The standard states that organization's people are a vital resourse, and there should be fair and ethical processes and approaches in place to support their recruitment and retention. (ISO 9004, 2018, 9.3). The standard points out four issues: competence, engagement, empowerment and motivation that should be taken care of, once an organization wishes to attain sustained success.

2. Corporate governance

When an organization meets the requirements of ISO 9001 (ISO 9001, 2015, 5.2.1), it means that the organizational policy is aligned with the purpose and context of the organization and supports its strategic direction. In this way quality management system holds control under corporate management and a part of strategic management (more precisely – its implementation). Once the organization intends to excel, it is necessary to establish a mechanism at a higher level. A commendable solution that may secure the organization heads to its vision is the introduction of corporate governance. (Figure 1)

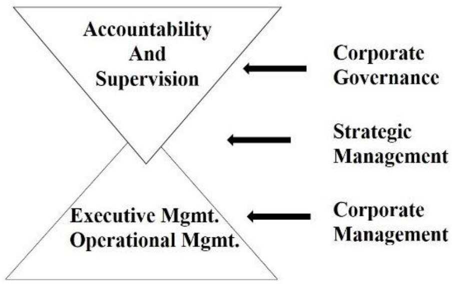

Figure 1. Corporate Governance vs. Management (Tricker R.I. 1984)

Corporate governance is to be understood as the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of many company's stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. There are three pillars of corporate governance: transparency, accountability, and security. When integrated they define a company's integrity.

All three are critical in successfully running a company and forming solid professional relationships among its stakeholders what includes board directors, managers, employees, and most important, shareholders.

In simple terms, transparency means claiming that processes and transactions are observable to outsiders. It includes making necessary disclosures, informs everyone affected about company's decisions and complying with legal requirements. Transparency is a critical component of corporate governance because it ensures that company's actions may be checked at any time. However, transparency is even more important at the top of the company where strategies are created and decisons are made.

Accountability is major for building integrity of the company. Shareholders are very keen to learn who will take blame when something goes wrong in any of company's processes. On the other hand when things go smoothly (as expected), knowing that someone will be held accountable for future mistakes increases stakeholders' confidence. However, accountability covers not only failings, since it may yield merits, as well. When idea of accountability is approached with the positive outlook, people will be more ready to carry out their tasks properly. When people understand the weight of their responsibilities, they are inclined to make certain that they carry out their tasks properly.

While company is expected to maintain their process transparent and people accountable in performing tasks, the organizational data are to be secured from unauthorized access. The requirement is clear but simply complying with security standards does not suffice. Organization needs to nurture a culture of security to ensure that corporate data and client information are kept safe from unauthorised access both from inside and outside. (Roman, 2014)

Proponents of corporate governance say there's a direct correlation between good corporate governance practices and long-term shareholder value. Some of the key benefits are:

- high performance Boards of Directors;
- accountable management and strong internal controls;
- increased shareholder engagement;
- better managed risk; and
- effectively monitored and measured performance.

There are no strict rules on establishing corporate governance in an organization since the organizations have to design and implement such corporate governance that will comply with legal requirements and meet particular needs. However, there are some practices that are regarded the best to yield benefit to every organization, particularlz for excellent organization, (Jelić, 2018, p.28).

a) **Build a strong, qualified board of directors and evaluate performance.**

Boards should be comprised of directors who are knowledgeable and have expertise relevant to the business and are qualified and competent, and have strong ethics and integrity, diverse backgrounds and skill sets, and sufficient time to commit to their duties.

- Identify gaps in the current director complement and the ideal qualities and characteristics, and keep an "ever-green" list of suitable candidates to fill Board vacancies.
- The majority of directors should be independent: not a member of management and without any direct or indirect material relationship that could interfere with their judgment.
- Develop an engaged Board where directors ask questions and challenge management and don't just "rubber-stamp" management's recommendations.

- Give new directors an orientation to familiarize them with the business, their duties and the Board's expectations; reserve time in Board meetings for on-going education about the business and governance matters.
- Regularly review Board mandates to assess whether Directors are fulfilling their duties, and undertake meaningful evaluations of their performance.

b) Define roles and responsibilities.

- Establish clear lines of accountability among the Board, Chair, CEO, Executive Officers and management.
- Create written mandates for the Board and each committee setting out their duties and accountabilities.
- Delegate certain responsibilities to a sub-group of directors. Typical committees include: audit, nominating, compensation and corporate governance committees and "special committees" formed to evaluate proposed transactions or opportunities.
- Develop written position descriptions for the Board Chair, Board committees, the CEO and executive officers.
- Separate the roles of the Board Chair and the CEO: the Chair leads the Board and ensures it's acting in the company's long-term best interests; the CEO leads management, develops and implements business strategy and reports to the Board.

c) Emphasize integrity and ethical dealing.

Not only must directors declare conflicts of interest and refrain from voting on matters in which they have an interest, but a general culture of integrity in business dealing and of respect and compliance with laws and policies without fear of recrimination is critical. To create and cultivate this culture:

- Adopt a conflict of interest policy, a code of business conduct setting out the company's requirements and process to report and deal with non-compliance, and a Whistleblower policy.
- Make someone responsible for oversight and management of these policies and procedures.

d) Evaluate performance and make principled compensation decisions.

The Board should:

- Set directors' fees that will attract suitable candidates, but won't create an appearance of conflict in a director's independence or discharge of her duties.
- Establish measurable performance targets for executive officers (including the CEO), regularly assess and evaluate their performance against them and tie compensation to performance.
- Establish a Compensation Committee comprised of independent directors to develop and oversee executive compensation plans (including equity-based ones like stock option plans).

e) Engage in effective risk management.

Companies should regularly identify and assess the risks they face, including financial, operational, reputational, environmental, industry-related, and legal risks:

- The Board is responsible for strategic leadership in establishing the company's risk tolerance and developing a framework and clear accountabilities for managing risk. It should regularly review the adequacy of the systems and controls management puts in place to identify, assess, mitigate and monitor risk and the sufficiency of its reporting.

- Directors are responsible to understand the current and emerging short and long-term risks the company faces and the performance implications. They should challenge management's assumptions and the adequacy of the company's risk management processes and procedures.

3. Human governance

No doubt corporate governance significantly contributes to long-term shareholder value and yields stability to business operations. However, for organizations where people are directed and held accounatable, striving to business excellence requires addressing to another mode of governance – human governance. What are the core reasons?

Human governance is an internal, inside-out and values-based conviction to guide the human as the sentient being to behave whereas corporate governance is an external, outside-in rules and regulations to legislate the behavior of corporation, as a legal person. Human governance looks at the axiology, encompassing the traits of values, religion, belief system, culture, and ethics in order to foster a culture based on trust where human within the organization is viewed as the soul of the organization. The belief is that rightness-of-action by an individual is not about being right according to some codified rules or man-made laws but to conform such behaviour to genuine human nature. (Salleh, 2010, p.37)

For each human oriented governance setting the type and the structure of organization is irrelevant since human individals are the issue that matters. In practice, professionals that are assigned certain job to are guided by the same value setting irrespective of business arrangement in which they operate. For example, Court Experts will have the same approach in issuing findings and giving professional opinions irrespective of the person who issued the order for expertise, who are plaintiff and defendant, what is the dispute value etc. Consequently, when taking oath, court experts declare not only to comply with the constitution and the laws but also to perform the task chastely, honestly and impartially. This vitrues may be enbedded into laws in declarative way, but they cannot be deployed into definite requirements.

Hence, once an individual adopts the position to be accountable to himself, society and people, he will strengthen the belief in sustainability of the organization and its long-term success. When such behaviour is guided by genuine justness, challenges to material asets (that may compromise the values of profession) become less attractive.

ISO 30408 claims that by aligning effective human governance with strategic planning, an organization can benefit, as follows, (ISO 30408, 2016):

- Respond to organizational and regulatory needs;
- Anticipate and manage human resource risks;
- Develop an organizational culture which reflects organizational values;
- Foster increased management, effective communication and collaboration across all stakeholders;
- Optimize overall performance.

Once strategic objectives are established and communicated to relevant stakeholders, organizational management is to align human governace principles thus to encompass:

- fairnes and transparency in the design and outcomes of the organizational processes and practices;

- openness in organizational processes, practices and outcomes;
- accountability to the organization's governing bodies, legal authorities and stakeholders.

The concept of human governance sets stress on two characteristics that were not recognized under corporate governance: self-consiousness and self-accountability. When possessing the two virtues, an individual is ready to take action even in situations when he was not supposed to act or he was not responsible to, just driven by the sense of human reasons. The philosophy of human governance advocates the benefits the society may have if the main drive for running business is shifted: from gaining profit to serving to humanity. If leaders in organization started to think in human governance approach they would rather incline to set some new values than simply follow established rules. Table 1 shows charateristics of corporate governance against characteristics of human governance. (Salleh, 2010, p.38)

Table 1. Corporate governance vs.human governance

CORPORATE GOVERNANCE For the legal person	**HUMAN GOVERNANCE** For the sentient person
• Discovery	• Disclosure
• Translucent	• Transparent
• Conformance	• Beyond conformance
• *Caveat emptor*	• *Edico venditor*
• Dead	• Emergent
• Symbol	• Meaning
• Label	• Essence
• Form	• Substance
• Rule-based	• Principle&values-based
• Legal enactments	• Innate
• Rules & compliance	• Good conduct & beyond compliance
• Newtonian classical	• Quantum science
• Fragmented	• Wholeness

5. Conclusion

Human governance is a philosophy that captures and respects the essence of the human spirit, celebrating our unique belief systems and values that shape our internal constitutions. Its application is thus not limited to any specific subject – it transcends such boundaries because it holds true to the fact that humans are the drivers of society regardless of fields or subject areas. Human governance starts with an open acknowledgement that organization is committed to ne ver-ending pursuit of societal value through realizing the full potential value of its entire human capital.

Regarding *human governance* as specific ethical compass, the integrity as an issue comes to be regarded first. Since the integity symbolizes only internal values state, in order to enhance it its internal character need to be elucidated. The approach must be holistic what derives from the term etimology (*Lat. entire, complete*). It means that the development of integrity is the question of re-integration of all components: religion, culture, system of belief, ethical values and legal requirements. As Samuel Johnson claimed in 18. century: "Integrity without knowledge is weak and useless, but knowledge without integrity is dangerous and frightening." (Johnson, 1759). On the other hand, only relying on legal requirements and coercion the integrity cannot become the corner-stone of man's behavior. However, laws and legislation may serve to complete the integrity in its complexity**.**

Although the acceptance of *human governance* looks promising as a means to establish sustainable ethical behavior among professionals, the question on how to incite *human governance* implementation remains open. The problem derives from the fact that values and ethics are unmeasurable characteristics unlike real world constituted by objects that may be observed and measured. Ethical values, for example, can't be measured but they may get certain meaning only in a referent framework. However, any attempt of prescribing (what one must do and what mustn't) would be useless unless internal belief of ethical behavior exists.

Such non-prescriptive character of human governance makes it suitable for organizations pursuing excellence. It paves way for a new dimension in organizational culture in which people can develop their potentials to include self-consiousness and self-accountability. Since such virtues are genuine, they may be easily identified by leaders in organization as a good oportunitity to head to business excellence.

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