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The influence of Dutch supervisory board directors' experience and expertise on innovation performance of Social Housing Associations, after the introduction of the 'Woningwet 2015'.

**A master thesis presented to the
department of strategic management**

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PREFACE

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EXECUTIVE SUMMARY

Innovation is deemed necessary for Dutch social housing associations (SHA) due to the ‘Woningwet 2015’. This law forces SHAs to focus on their social goal, thereby improving tenants’ quality of living. The supervisory board need to approve all innovation ideas made by the executives. However, less is known about the influence of human capital of supervisory directors on the innovation performance of these semi-public organizations. Therefore, this qualitative study addresses the question how experience and expertise of supervisory directors of Dutch SHAs contribute to the innovation performance. Agency theory, stewardship theory, upper echelon theory and human capital theory stress the urgency to hire supervisory directors with relevant expertise and experience to enhance the innovation performance.

In-depth interviews with supervisory directors of SHAs revealed four manners in which experience and expertise contributes positively to the innovation performance. The first way is the creation of new perspectives. All supervisory directors analyze innovation ideas by applying their experience and expertise. Thereby, every aspect of an issue is addressed and new innovation ideas might emerge.

Second, experience and expertise enables supervisory directors to enhance the innovation performance by relevant and critical contributions. In other words, directors are intrinsic motivated to ask incisive questions.

The third manner in which supervisory directors influence the innovation performance is by their useful network. Due to past experiences all directors have a broad network, which is used to benchmark innovation performance and share outcomes of innovation experiments.

The last way in which expertise and experience support innovation initiatives is that these competences encourage pro-active behavior towards innovation. Risk assessment is improved by comparing new ideas with situations from the past. In addition, supervisory directors often highlight topics related to their expertise and experience as they are passionate about it. As a result, different types of innovation are discussed, thereby the innovation performance improve.

Based on the outcomes it is recommended to supervisory directors to determine experience and expertise related to innovation as this is not stated in the capability matrix. Thereby, decision-making process on innovation is more effective, resulting in improved innovation performance.

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1. Introduction

In the Netherlands, Social Housing Associations (further: SHAs) have the social task to build, maintain, sell and rent out affordable houses for citizens with less income, thereby improving the quality of living of tenants (Woningwet, 2015). Together, all 362 SHAs represent for almost one-third of the total amount of households (Inspectie Leefomgeving en Transport, 2016). In other words, three-quarters of all rented houses in the Netherlands are owned by these nonprofit, semi-public foundations (Rijksoverheid, 2012; Deloitte, 2016).

To improve the quality of living innovation is deemed necessary. Innovation can be defined as the newness and novelty of services, processes or products and has become more important nowadays for SHAs (Prajogo, 2006). All innovation initiatives are presented by the executives and need approval of the supervisory board (in Dutch: Raad van Commissarissen). The corporate structure system of a two-tier system in which the executive board and supervisory board are separated ensures the executives and supervisory directors are independent of each other.

In the last decennia, a seemingly endless amount of scandals at SHAs was highlighted in the media caused by nepotism and unclear control systems (NRC, 2012). The immediate reason was the extreme financial scandal of the biggest SHA called 'Vestia', by which almost all SHAs threatened to go bankrupt due to the fact they needed to pay Vestia in total 700 million euro as was set by 'Waarborgfond Sociale Woningbouw', an independent institute of connected SHAs (NRC, 2012). Another scandal was a financial mismanagement in which 100 million euros was wasted on the purchase of a famous ship called 'SS Rotterdam', which had nothing to do with the living quality of tenants (NRC, 2008). As a result, the interest in the corporate governance SHAs increased, thereby the highest sanction of the Dutch government, 'a parliamentary enquiry', is used. New regulations, based on the outcomes of the enquiry, were incorporated in 'Woningwet 2015' (Woningwet, 2015): many directors, both executive and supervisory directors, had to step down. In addition, the financial status needed to be improved to again focus on the core task to improve the quality of living (Woningwet, 2015).

A poor financial status led to a low innovation performance because innovation is time consuming and expensive. By 2015 the average cashflow of innovation investments tends from a negative sum to nothing, caused by the increased amount of sold houses and decreased amount of innovation projects (Deloitte, 2017). However, their current financial performance allows most SHAs to again focus on innovation performance (Woonbond, 2018).

The supervisory board plays an important role in the innovation performance because their approval is needed. Research demonstrated that the board of directors can influence the innovation performance by practicing innovate thinking and supporting the executive in doing so (Jaskyte, 2010; Wu & Lee, 2007). Therefore, supervisory directors are mainly hired because of their experience and expertise (VTW, 2011). In 2015 the so called ‘capability scorecard’ (in Dutch: ‘geschiktheidsmatrix’) was introduced which forces supervisory boards to cover a certain variety of experience and expertise (Woningwet, 2015).

However, research has never shown how human capital, such as experience and expertise, will influence innovation initiatives in semi-public organizations, especially not in SHAs, while innovation is deemed necessary for SHAs. Due to increased power of tenants, SHAs need to focus on improving the quality of living of residents with less income. Therefore, research on influential factors on innovation performance is needed to make sure SHAs constantly reach their goal to improve the quality of living of tenants.

1.1 Introduction to the problem definition

In the Netherlands, the supervisory board of SHAs fulfills three different roles: the supervisory role, the soundboard role and the employer role (VTW, 2011). The supervisory role consists of supervising the strategic direction and goals of the SHA made by the executives, taking care of the additional risks and approving important decisions made by executives. The soundboard role involves reflecting strategic decisions presented by the executives. The last role, which is the employer role, deals with evaluating the executives: rewarding, structuring and hiring or firing the board (VTW, 2011). Supervisory boards have in total a few meetings per year in which they can supervise, criticize and monitor the decisions made by the executives. During those meetings, the supervisory board can affect the innovation decisions of the executives by advising and criticizing new ideas and insights. The aim of innovation should be aligning the interest of stakeholders, specifically tenants, and the executives (Woningwet, 2015).

To successfully carry their function, supervisory board directors need to have skills, knowledge, expertise and experience (Björklund & Eloranta, 2008; Forbes & Milliken, 1999; Hillman & Dalziel, 2003). In addition, the research of Carpenter & Westphal (2001) shows experience in specific situations facing the organization and expertise on the relevant operations, the monitoring skills of directors will be improved. More relevant experience and expertise increases the ability of directors to see immediately what is relevant in a situation and

how it will contribute the innovation performance (Ben-Amar, Francoeur, Hafsi & Labelle, 2013). Expertise can be defined as the competence of knowing fast what is relevant, due to a broad scope of knowledge (Björklund & Eloranta 2008). Experience related to governance can be explained as the extent to which an individual has knowledge about firm related issues due to related situations of the past (Corbetta & Salvato, 2014). More experience and expertise will affect the effectiveness of board meetings. Conheady, Mcilkenny, Opong and Pignatel (2015) argue that effectiveness will positively influence firm's performance, suggesting that human capital affects the effectiveness of board meetings. In addition, effectiveness is needed because meetings are held only a few times per year. Overall, experience and expertise should be considered when researching the influence of supervisory board members on innovation performance.

Research shows that less than three percent of supervisory board directors of SHAs is younger than 40 years old (Vos, 2018). In addition, the average age of a supervisory board director in general is 58 years old and the first supervisory board role is at 49 years old (Bos, 2009). Human capital differs between old and young people, because old directors are likely to have more experience and expertise due to their age. However, research shows that more experience can also lead to reduced communication, because individuals might create smaller groups of people with similar experiences in which they share key sources of information instead of sharing with everyone (Barroso, Villegas & Perez-Calero, 2011). Relating this to the supervisory board, experience could lead to less effective communication. Overall, the exact influence of specific effects of supervisory board directors on innovation performance remains unclear (Jaskyte, 2012).

In addition, Wu (2008) states that industry-specific and company-specific knowledge and experience of board of directors relate significantly positive to innovation performance of private firms in Taiwan in terms of new product introduction. Several scholars investigated in the positive influence of human capital of board of directors on innovation within one-tier boards and mostly in private organizations (Hillman & Dalziel, 2003; Björklund & Eloranta, 2008). In addition, previous studies indicate that board of directors influence organizational innovation by practicing innovate thinking and supporting the executive in doing so (Jaskyte, 2010; Wu, & Lee, 2007). Furthermore, directors may have useful contacts in business or political circles that adds value to an organization (Nicholson, & Kiel, 2004).

Board support on innovation is vital to the performance of the board itself and to the performance of the executive and the whole organization (Jaskyte, 2012). However, the specific effect of board influences on nonprofit organizational innovation remains unclear (Jaskyte, 2012). Less is known about semi-public, nonprofit organizations with a two-tier board. This research further adds to the literature on nonprofit organizations by investigating the role of supervisory board directors on the innovation performance of SHAs. Specifically, the influence of their experience and expertise will be examined by investigating the perception of supervisory directors.

1.2 Research question

This research attempts to extend the literature on the role of supervisory boards of Dutch SHAs on innovation performance by doing research on the impact of their expertise and experience. Based on the identified research gap, the following research question is formulated:

‘How does expertise and experience of a Dutch supervisory board director affect the innovation performance of a social housing association after the ‘Woningwet 2015’?’

In order to answer the main research question three different sub questions are composed:

- *Which role plays innovation for social housing associations after the ‘Woningwet 2015’?*
- *How does experience of a supervisory board director influence the innovation performance of a social housing association?*
- *How does expertise of a supervisory board director influence the innovation performance of a social housing association?*

1.3 Research objectives

The scientific objective of this study is to increase understanding of the role of supervisory directors on innovation performance by researching the influence of human capital on the decision-making process on innovation. This study contributes to the literature on corporate governance of semi-public, non-profit organizations by researching the influence of supervisory board directors on innovation performance of SHAs. The specific effect of board influences on nonprofit organizational innovation remain unclear (Jaskyte, 2012). Specifically, this study taps in the under researched field of the influence of supervisory board diversity on the innovation performance of semi-public organizations. Thereby, this thesis aims to

contribute to a better understanding of the effect of supervisory boards on innovation performance.

Second, this study aims to contribute to the literature on human capital, in particular on experience and expertise, by applying this theory to a new context. Previous research demonstrated that the board of directors can influence organizational innovation by practicing innovate thinking and supporting the executive in doing so (Jaskyte, 2010; Wu, & Lee, 2007). This study adds to the body of knowledge by investigating in the effect of human capital of supervisory board directors on the decision-making process on innovation initiatives.

The managerial objective of this study is to give supervisory board directors more insight into how their expertise and experience could influence the innovation performance by affecting their decision-making process (Björklund & Eloranta, 2008). Especially, the impact of human capital on the effectiveness of the board will be examined, which in the end will positively influence the outcomes of an organization (Conheady, McIlkenny, Opong & Pignatel, 2015).

Second, researchers have investigated there are many challenges for the board to meet the expectations of their function. For example, often receive information quite late about innovations initiatives and negative news about firm performance, which make it hard to make any decision about it (Peij, Bezemer, & Maassen, 2012). However, after the new regulation of ‘Woningwet 2015’, the literature is still silent about if they can maximize their added value to the innovation performance without being handicapped.

Third, there is a growing consensus that the role of supervisory boards of directors matters to the innovation performance, but the specific effect of supervisory board on organizational innovation is still unclear (Jaskyte, 2012). Innovation has become more important for SHAs because of new regulations and their focus on the interest of their stakeholders (Woningwet, 2015). Although most organizations are aware of the importance of innovation, there is still a big difference in terms of success in innovation performance (Calantone, Cavusgil & Zhao, 2002). This study attempts to direct the attention of practitioners on the added value of expertise and experience on the innovation performances of semi-public organizations.

Shifting to innovative alternatives is becoming increasingly relevant for all businesses: SHAs need to balance services to tenants, quality of living, building real estate and control the

degree of sustainability (Woningwet, 2015). Supervisory board directors need to have expertise and experience about what promotes or impedes innovation performance at SHAs. Expertise and experience for finding solutions for improving innovation performance help directors in prioritizing investments.

1.4 Research design

To answer the research question of this paper, I will use a comparative case study method. Specifically, I will conduct interviews with members of Dutch SHAs supervisory boards as collecting information on the impressions of these directors is pivotal to my study. Additionally, collective qualitative primary data benefits my research as for the possibility of the respondent to elaborate on his or her perceptions of the issue at hand. Building on past research, I will elaborate on underlying connections and the perception of supervisory directors regarding their influence of their experience and expertise on the innovation performance of the SHA.

The main concepts of this research are expertise, experience, supervisory board directors and innovation performance. Expertise can be defined as the competence of knowing fast what is relevant, due to a broad scope of knowledge (Björklund & Eloranta 2008), whereas experience in this research will be defined as the extent to which a supervisory director has know-how about firm related problems due to related issues from the past (Corbetta & Salvato, 2014). Innovation is defined as the newness and novelty of services, processes or products and has become more important nowadays for SHAs (Prajogo, 2006). The background of SHAs will be outlined in next chapter to give a better view of the role of supervisory board directors.

1.5 Conclusion

This study examines the effect of expertise and experience of supervisory board directors on the innovation performance of Dutch SHAs. Previous studies have shown that board characteristics have an influence on innovation strategies (Eulerich, Velte & Van Uum, 2014). Yet limited research has been done on the role of supervisory board directors of a two-tier system on their influence on the innovation performance of a company. This study will investigate in this research gap by interviewing thirteen supervisory boards about their experience and expertise in relation to innovation performance. The objective of this research is to enhance the understanding of the role of the supervisory board on the innovation performances of semi-public organizations by researching the relationship of expertise and experience of supervisory board directors on the innovation performance of SHAs.

1.6 Structure

This study starts with explaining the background of SHAs in the Netherlands. Next, a literature review is done to provide insight on the current state of knowledge related to the role of supervisory board directors, their experience and expertise and the role of innovation. This is followed by the methodology in which the sample size, data collection and data analysis are outlined. After the methodology, an analysis of the conducted interviews with the supervisory board directors is described. Lastly, there is a discussion and conclusion section in which the results are reflected to existing theories, and the limitations and boundaries of this study will be determined.

2. Background of Social Housing Associations

In this section the focus will be on the background of SHAs. First the history will be explained, next the focus will be on the supervisory structure and the stakeholders, and lastly, the role of innovation within SHAs. This part is needed to put theories and results in perspective of SHAs.

2.1 History of Social Housing Associations

The first SHA was founded by a group of private individuals in Amsterdam in 1852 with the goal to improve the quality of living of the working class (Beekers, 2012). In 1901 the law called ‘Woningwet’ forced SHAs to be non-profit organizations (Beekers, 2012). After World War II SHAs were deemed necessary to increase the number of affordable houses, because many houses were bombed during the war. Until the 1970s SHAs were mainly dependent, financially as well, on the Dutch government.

The market liberalization and saving measures of the government in the 1990s changed SHAs to social enterprises: they had to find their own financing instruments, and got new responsibilities and tasks (Brandsen & Helderma, 2004). In practice, this led to two kinds of developments: (1) Because government subsidiaries are in the past, SHAs needed to arrange their own capital for financing new projects. SHAs started to invest in more expensive houses to get more rent and new build houses, which could be sold with high profit. They start investing in projects that were not related to their main goal of building affordable houses. In addition, SHAs sold many of their houses to private individuals to make money. (2) SHAs became a foundation instead of an association. As a result, the power of tenants decreased, because a foundation has no members. By being a foundation, a supervisory board became part of the corporate governance.

Next, legitimacy of SHAs decreased because independency of the government increased and directors from SHAs got more power and freedom. SHAs took part both in the social rental sector as the commercial rental sector in which they compete with commercial enterprises. It deviated SHAs from providing affordable social housing, leading to mismanagement, too high salaries for management directors and poor, not specific-goal oriented, investment decisions. These results have been subject of debate in the news numerous times (NRC, 2014).

In 2015, ‘Woningwet 2015’, was revised based on the results of a ‘parliamentary enquiry’ conducted by the house of representatives (in Dutch: ‘Tweede Kamer’) with the intent of clarifying the scandals in the housing sector. The revision included five main changes. First,

commercial and social housing activities need to be separated both in administratively and legally within the SHAs (Rijksoverheid, 2015). Second, SHAs should focus again on their core task, which is the rent out of affordable houses for people with less income. In addition, they increased the power of the renters by giving them the right to elect at least three members of the supervisory boards of SHAs (Terlingen, 2016). Third, SHAs are only allowed to carry out commercial projects if no other parties would accept the offer. Fourth, SHAs are forced to make performance agreements with the municipality. Fifth, supervisory directors need to take a reliability and capability test provided by the living authority to show they can fulfill their function (Rijksoverheid, 2015; VTW, 2014). Furthermore, these tests ensure nepotism is in the past. In addition, a capability matrix (in Dutch: ‘geschiktheidsmatrix’) makes sure there is a certain coverage of different experiences and expertise. The checklist includes the following items: governance, public housing, real estate development and planning, finance and control, and legal affairs. Overall, ‘Woningwet 2015’ should help SHAs to focus again on their core task: providing affordable houses for residents with a lower income (Rijksoverheid, 2015).

The quality and quantity of supervising SHAs improved after ‘Woningwet 2015’, which will be explained in the next paragraph.

2.2 Supervisory structure and stakeholders of Social Housing Associations

As SHAs are semi-public organizations, their goal is to fulfill the needs of their stakeholders, namely the government and the whole Dutch population (Woningwet, 2015). The interest of the government is the provision of accommodation for citizens with a lower income and the sustainability policy. The society is stakeholder because its interest in the housing of people with less income at the right place, time and in the right quantity. Therefore, tenant associations are allowed to elect two supervisory directors and have regularly meetings with both the executive and supervisory board (VTW, 2014; Woningwet, 2015).

A challenge, especially in periods of economic downturn, is to acquire capital for innovation. SHAs finance innovation initiatives mostly through direct income from real estate. In addition, they often finance projects through special bank loans, consisting of lower interest rates because Waarborgfonds Sociale Woningbouw guarantees those loans. To make sure the SHAs balance their innovation initiatives on the right domains, internal supervisory is needed.

The supervisory board is an internal supervisory body that is independent of the management board. Supervisory directors are expected to have no interest as shareholder, supplier or adviser. In practice, the role of the management and supervisory board is to spend

the capital of the SHA well and responsibly into the social and public housing goals (VTW, 2014). The executive board is ultimately responsible for the operation of SHAs, whereas the supervisory board is responsible for supervising the policy and strategy pursued by the executive board (Loyens & Loeff, 2016). Furthermore, the supervisory board can withhold approval for decisions made by the executives, thereby executives can even be fired if the supervisory board thinks complete differently about an issue (VTW, 2014).

Besides the internal supervisory board, external supervising parties control the performance of SHAs. The main external supervising bodies in the Dutch housing sector is the Ministry of internal affairs (Ministerie van Binnenlandse Zaken) and the Ministry of kingdom relations (Ministerie van Koninkrijksrelaties). Their responsibilities are (i) assessing whether all Dutch SHAs succeed in carrying out their core task effectively, and (ii) whether they succeed lawfully and with integrity. The living authorities (Autoriteit Wonen) is founded in 2015 and is responsible for the financial performance of SHAs. This authority assesses the financial and housing policy, the management and the financial situation of the SHAs.

Even though SHAs formally only have two external supervisory bodies - the ministries of internal affairs and kingdom relations, and living authority - practically they need to answer to informal supervising parties for different reasons. Waarborgfonds Sociale Woningbouw (WSW) is responsible for providing guarantees on loans to corporations, whereas municipalities are responsible to make performance agreements with SHAs. The main internal supervisors are Aedes, the association of social housing corporations, Vereniging van Toezichthouders (VTW), represents the supervisory boards from most SHAs and Stichting Visitatie Woningcorporaties Nederland, responsible for developing an independent system of visitation (Aedes, n.d.). These are the main publishing bodies on governance for housing corporations. Overall, this shows that ‘Woningwet 2015’ has increased the focus on supervising SHAs to prevent them from new scandals.

2.3 Role of innovation at Social Housing Associations

Innovation is a key element for organizations to create competitive advantage and sustainable growth (Stalk, 1993). Researchers investigated that firms are using innovation as a critical source to distinguish themselves from competitors to increase market shares and to maximize future revenues (Chen & Huang, 2009). Unless SHAs are known for their quite conservative image because real estate can be used for many years, being aware of innovation

is deemed necessary. Due to the non-profit nature of SHAs, innovation serves two other purposes: reducing costs and improving quality of living for residents with less income.

Lower costs can be reached by digitalizing administrative processes (KWH, 2014). This results in efficiency savings. Research predict that at least 85 per cent of SHAs will focus more heavily on digitalization in the coming decade (KWH, 2014). Improved quality of living is a broad term that refers to all aspects that can help tenants to live more comfortable. An example is to have more sustainable houses, the so-called ‘0-op-de-meter-huizen’. By 2050 no new build houses are allowed to use gas anymore (Ekker, 2017). New build houses are free of gas pipes and thus, high costs of gas will be exchanged to electronic costs, which are in general lower. In addition, gasless houses are considered to be safer because it prevents tenants from carbon monoxide poisoning (Feenstra, 2017). Besides, gasless houses are more comfortable because the right combination of ventilation and isolation leads to a healthy indoor climate. To conclude, innovation performance has become an important aspect nowadays for SHAs in order to ensure their future and to fulfill the needs of the stakeholders.

2.4 Conclusion

The structure of SHAs has been changed over the years. Nowadays they are less dependent on the government and the role of the supervisory board is extensive. Due to recent scandals of many SHAs, the governance of SHAs kept the eye from the government. Therefore, more institutions, such as Autoriteit Wonen, were assigned to supervise SHAs to prevent them from scandals in the future. Furthermore, the role of the internal supervisory board is extended and more specified by including regulations on approval authority and required meetings (Woningwet, 2012).

3. Literature review

The interest in the role of the supervisory board in general has increased over the years, especially within the social housing sector (Woningwet, 2015). Research has shown that supervisory board directors matter in the outcome of organizations (Corbetta & Salvato, 2004; Zéghal & Gouiaa, 2009). In this research, the focus lies on the impact of experience and expertise of supervisory board directors on the innovation performance of SHAs. In this chapter concepts and theories that are pivotal in this will be reviewed, namely: perspectives on supervisory board directors, agency theory, upper echelon theory, stewardship theory and theory of human capital.

3.1 Perspectives on supervisory boards

An extensive body of research is focused on supervisory board directors. According to Nadler (2004) it is common sense what supervisory directors should be: they should challenge, question and make the executive board of directors more effective and efficient, while they add value to the organization without meddling. In addition, they should be competent, coordinated, mutually respectful and focused on an unambiguous goal (Nadler, 2004).

Previous research on supervisory boards demonstrates the main challenge is to make the supervisory board an effective team to improve organizational performance (Conheady, Mcilkenny, Opong and Pignate, 2015). However, the supervisory board is handicapped by some aspects (Loyens & Loeff, 2016). This is elaborated by Peij, Bezemer, & Maassen (2012). Their findings show four aspects that limit supervisory directors in their function. First of all, due to a limited number of meetings per year, it is hard to sufficiently and effectively debate all agenda items. Secondly, apart from formal meetings too little communication occurs among the supervisory board directors. Thirdly, presented information by the executive board is too quantitative, thereby the context remains unclear to supervisory directors. Fourthly, involvement of supervisory board occurs lately in the decision-making process, thereby the supervision role is hard to fulfill.

Overall, the perspective of supervisory boards argues supervisory boards have to fulfill the supervising, soundboard and employer role, while being handicapped by some aspects. Those obstacles are influencing the decision-making process, which indicates that discussions about innovation initiatives could also be restricted by previous mentioned aspects.

3.2 Agency Theory

Supervisory board directors of SHAs have an internal supervisory role as earlier explained in chapter two. Rooted in information economics, the most dominant theory of describing supervisory is agency theory, which outlines the agency relationship (Jensen, & Meckling, 1976). The agency relationship is an agreement in which a principal engage an agent to perform a service on their behalf which includes giving some decision-making authority to the agent” (Jensen, & Meckling, 1976). Two agency problems occur between an agent and a principal. The first agency problem is conflicting goals of the agent and the principal, thereby it is difficult for the principal to verify what the agent is actually doing at work (Eisenhardt, 1989). Executives and stakeholders have different interests. If both want to maximize their own utility, there is no reason to consider the executive board will always act in the best interest of all the stakeholders (Kor & Sundaramurthy, 2009). The second agency problem clarifies that the principal and the agent might have different preferences regarding risk taking actions (Eisenhardt, 1989). Executive directors are known for their risk-averse behavior, whereas stakeholders support innovation.

Linking agency theory to this research, previous studies already applied agency theory on foundations by assigning the stakeholders as principals and executive board of directors as agent (Cornforth, 2004; McColgan, 2001). Therefore, supervisory board directors add value by supporting executives to invest in relevant innovation initiatives. In addition, supervisory directors need to ensure the financial and social performance is doing well to increase the focus on innovation performance.

Next, an information asymmetry between the supervisory board and management board exists as the former will meet each other only a few days per year, while the latter congregates many times a week. Therefore, they might not be fully updated about new facts about the business of the SHA such as innovative initiatives. Research shows agency problems can be decreased by the supervising role of supervisory boards (Miller, 2002). In addition, SHAs are recommended to include heterogenous supervisory directors to ensure the independency of the management board (Carter, Simkins, & Simpson, 2003). As a result, supervisory directors feel more comfortable to ask critical questions. Furthermore, heterogenous directors have a broader scale of expertise, skills and opinions which is useful to ask relevant questions (Van Knippenberg, & Schippers, 2007). The capability matrix ensures diversity of experience and expertise exists within supervisory boards (VTW, 2014). This in turn implies that diversity in experience and expertise will lead to more in-depth and high quality discussions.

In conclusion, an independent and external role supervisory board within SHAs is needed because stakeholders and management directors have different interests and attitudes towards risk. This indicates that supervisory directors supervise executive directors to ensure the social goal of SHAs is reached.

3.3 Stewardship theory

Rooted in the public sector, stewardship theory explains that the agency problem of conflicting interests would not exist if the manager is not seen as a selfish person (Muth & Donaldson, 1998). Decisions made by manager are directed by a wide range of motives on behalf of the organization, many of them non-financial such as success, recognition, image and respect for authority (Cornforth, 2004). Managers are being responsible and at the same time keep the organization in control, without centralizing the power (Armstrong, 1997). Therefore, this theory assumes that managers want to do a good job and will act as effective stewards.

In the context of stewardship theory, the main role of the supervisory board is strategic, thereby increasing organizational performance (Cornforth, 2004). In addition, supervisory board directors are seen as experts within this theory, who should be familiar with the organization or the social housing industry to positively contribute to strategic decision-making. In case of SHAs, supervisory boards supervise innovations initiatives made by the board to ensure a good strategic direction is pursued. By focusing on the opinion of stakeholders, innovation is needed to improve the performance of the SHAs.

In conclusion, stewardship theory emphasizes the strategic role of supervisory directors that adds value to the performance of organizations by the usage of expertise (Cornforth, 2004).

3.4 Upper echelon theory

Upper echelon theory by Hambrick and Mason (1984) is based on the general management and strategic choices literature. It suggests that firm performance reflects the norms and values of the upper echelons in the organization. Firm performance is partially dependent on the chosen strategies and effectiveness of upper echelons such as the executives who make strategic decisions (Conheady, Mcilkenny, Opong and Pignatel 2015; Shrader & Siegel, 2007). The decision-making process is influenced by the perception and interpretation of upper echelons, which is affected by the norms and values of an individual (Hambrick & Mason, 1984). According to Shrader and Siegel (2007) norms and values are determined by the different kind of backgrounds and characteristics of an individual.

The industrial and functional background of powerful actors are associated with their expertise and experience. Those two competences are known for their influence on someone's interpretation of a situation and also the choice an individual make in that situation (Shrader & Siegel, 2007). Furthermore, upper echelon theory argues that executives with highly formal education positively influence the willingness to support innovation initiatives. In other words, expertise positively influences innovation performance of organizations. Upper echelon theory is also tested by Hitt and Tyler (1991), who provided support for the fact that executive's age, years of work experience, functional experience, and expertise affect the strategic decisions of executive board of directors and make them more likely to stimulate innovation initiatives.

Upper echelon suggests that higher educational level is associated with open mindedness, capacity for information processing, and tolerance to changes (Darmadi, 2013). This in turn implies that knowledge is a key aspect to positively influence to performance of supervisory directors. Past research of Wiersema and Bantel (1992) provide evidence that upper echelons with relevant knowledge are more likely to undertake significant changes in corporate strategy. Providing some support for upper echelon theory, Bantel and Jackson (1989) suggest that more educated top managers are inclined to be more proactive in developing technical innovations. This implies that expertise of supervisory board directors of SHAs impacts the support for innovations.

Overall, upper echelon theory implies that that relevant expertise of supervisory board directors positively influences the strategic decision-making process regarding innovation initiatives.

3.5 Human capital theory

Another important theory in the field of corporate government is the theory of human capital (Becker, 1964). Human capital is an element of dynamic capabilities, which affects the firm performance through the absorptive capacity formed by routine and processes (Helfat & Martin, 2015; Zahra & George, 2002). From origin the theory is focused on entrepreneurship. According to human capital theory individuals are a collection of skills, experience and expertise (Becker, 1964).

Human capital is mainly focused on the collective experience and expertise of board members (Bear, Rahman, & Post, 2010). Besides, research on this theory provides support for the link between competences such as experience and expertise, and firm performance. It

suggests that those competences are valuable assets and that more experience and expertise leads to higher productivity and better strategic choices (Zahra & George, 2002). Alpkın, Bulut, Gunday, Ulusoy and Kilic (2010) showed that human capital is an important driver of innovation performance if the organizational support is limited. The human capital theory is also tested by Bartel & Lichtenberg (1987) and Shrader & Siegel (2007). Results of these studies showed that executive directors with more human capital (more expertise and experience) are more able to create competitive advantage. The study of Amason (2006) has proven that innovation and board heterogeneity directly affects the performance of organization. In addition, Shrader & Siegel (2007) determined a significant relationship between team experience and competitive strategies pursued by organizations. These results confirm the link between managerial competences and firm performance (Amason, 2006; Shrader & Siegel 2007).

Overall, human capital theory argues that supervisory board directors of SHAs need a certain amount of expertise and experience to support innovation initiatives by suggesting that those two competences influence the decision-making process. It will influence their interpretation and increase productivity, thereby improving the strategic decision-making process on innovation initiatives. Higher productivity is needed to optimize the few meetings supervisory directors of SHAs have per year.

3.6 Conclusion

Based on the reviewed theories, expertise and experience of supervisory board directors influence the innovation performance by affecting the decision-making process. Experience and expertise of directors is especially crucial on innovation topics due to created perspectives, interpretations, thereby influencing their decision-making. The decision-making process behind innovation is really important due to the approval right of the supervisory board that can reject innovation initiatives. However, the decision-making process is limited due to factors such as the ineffectiveness of the information stream between executive directors and supervisory directors. This suggests that it is unclear whether earlier mentioned theories are applicable to supervisory boards of semi-public organizations, specifically SHAs. Due to the increased importance of innovation, it is deemed necessary to create more knowledge about the decision-making process behind innovation.

4. Concepts and theoretical framework

This chapter builds upon theories reviewed in previous chapter. The relation between experience and expertise of supervisory board directors of SHAs on innovation firm performance will be outlined. First, the concept ‘innovation’ will be examined, next the relation of expertise and experience of supervisory board members on innovation will be outlined.

4.1 The influence of supervisory board directors on innovation performance

Innovation is related to all three main roles – supervisory, soundboard and employer role - of supervisory board directors. Within the supervising role, the agency theory and stewardship need to be considered. The supervisory function aligns the different risk behaviors of stakeholders and executives, suggesting that enhanced risk-taking orientations positively influences firm innovativeness (Jensen & Meckling, 1976; Zahra, 1996). Thereby, advice is given to executives to invest more in innovation initiatives, suggesting it improves the quality of living. Therefore, a relatively small group of independent, external persons need to supervise the executives of a SHA to make sure the social goal of a SHA is reached.

In addition, stewardship theory argues that stakeholders and the board of SHAs pursue the same goals. Therefore, the main role of supervisory directors, who are considered as experts, is to supervise the innovation plans of the executives on the alignment with the law and strategic directions. The main goal of SHAs is to serve people with less income. Therefore, the supervisory directors need to ensure innovations are made in the interest of stakeholders, while keeping laws and regulations in mind.

In addition, awareness of the financial position of the SHA is needed, because innovation requires high investments. The reason behind innovation at SHAs is cost reduction and improving quality. Therefore, relevant expertise and experience, for example related to the housing sector, is needed to stress the urgency of all aspects that need to be considered regarding innovative initiatives. In other words, by bringing in different types of expertise and experience new perspectives are highlighted during meetings, thereby contributing to the decision-making process on innovation projects.

Lastly, past research demonstrates that supervisory board directors are handicapped in their role as supervisor (Loyens & Loeff, 2016). If information asymmetry exists between executives and supervisory directors, supervision of innovation performance is difficult. However, ‘Woningwet 2015’ changed the role of both supervisory board directors and executives by putting more control on their capabilities by introducing a yearly visitation of the

living authority that controls the corporate governance of all SHAs. In particular, the working conditions of supervisory board directors will be evaluated, such as getting important information about innovation initiatives in time. The results of the visitation will be reflected by the living authority, which has the power to impose a penalty. Therefore, agency problems decreased and the supervisory role can be fulfilled without handicapped by a lack of information. Overall, supervisory directors positively contribute to innovation initiatives due to information sharing and their status as experts.

4.2 The influence of experience and expertise of supervisory board directors on innovation performance

A supervisory director is recruited primarily because of their expertise, experience, social network and skills (Björklund & Eloranta 2008; Pearce & Zahra, 1992). Hillman and Dalziel (2003) confirm that expertise and experience is required for a director to fulfill a supervisory role. Experience related to corporate governance can be explained as the extent to which an individual has knowledge about firm related issues due to related problems that happened in the past (Corbetta & Salvato, 2014). Expertise can be defined as the competence of knowing what is relevant within a short time, due to a broad scope of knowledge (Björklund & Eloranta 2008).

According to Wu (2008) final decision makers within an organization usually act according to their knowledge and experience. This process is reflected in their standardized response to routine stimuli or original responses to stimuli they had not to deal with before. Their knowledge of or experience in making decisions about risky alternative actions can reduce the probability of loss and the magnitude of potential losses when related to product innovation. The result of having relevant experience and expertise should be an enhanced ability to identify risky aspects within a set of alternatives that have the greatest probability of success (Smith, Collins, & Clark, 2005). Therefore, experience and expertise need to be considered when focusing on innovation performance.

4.2.1 Influence of experience of supervisory board directors on innovation performance

The path to become part of the supervisory board of directors takes normally a lot of years. In the Netherlands, the average age of a supervisory director is 59 years (Lückerath-Rovers, 2009). During the years, directors gain a lot of experience in all kind of sorts, such as industrial and functional experience. All jobs and promotions during a supervisory board director's career are contributing to the experience of that specific director. However, the value

of each experience varies in the degree whether this experience is useful for the function of a director of a supervisory board.

Tactical knowledge build up by experience is needed to supervise executives. Experience contributes to faster understanding of complex situations and development of skills, thereby influencing the decision-making process. More relevant experience results in better and more effective assessments of innovation investments (Wu, 2008). This prediction can reasonably be expected to be valid in the context of supervisory boards of SHAs based on several reasons. Pattern recognition caused by previous experiences changes the behavior of supervisory board directors, suggesting that when they face a new situation, they make assumptions based on prior experiences and judgments (Campbell, Whitehead, & Finkelstein, 2009). Based on upper echelon theory (Hambrick, & Mason, 1984) and human capital theory (Becker, 1964), individuals are a collection of skills, experience and expertise, suggesting that strategic decisions will be affected by those competences. Furthermore, upper echelon theory argues that the years of work experience and functional experience affect the strategic decisions of executives and make them more likely to support innovation initiatives. More human capital will stimulate executive directors to create competitive advantage (Shrader & Siegel, 2007).

In addition, Kor (2006) explains dissimilar constructed realities exist between individuals with different types of relevant experiences, which leads to diverse preferences of strategic choices. Extending this rationale to the context of supervisory boards, it suggests that their experience will help them to contribute to initiatives of creating competitive advantages by using information from previous experiences. This aspect can have both positive as negative influences on the innovation performance of SHAs. The positive aspect is that a background on a specific topic, such as finance or law, increases the quality of advice about the most pivotal points.

On the other hand, directors become less accurate due to a confident behavior caused by previous experiences. Relevant failed innovative projects lead to pessimism about comparable future innovations. Functional and industrial experience cause a different interpretation of innovation initiatives due to related issues of the past. Therefore, relevant experience is considered as an important competence to improve the innovation performance of SHAs. According to agency theory it is expected that diversity, such as different experience and expertise, within a board will lead to better quality discussion. This is line with the expectation of human capital, which argues that experience and expertise will lead to improved

decision making. Thereby, productivity and strategic decision making is optimized (Zahra, & George, 2002).

Overall, relevant experience, both functional and industrial, enhance productivity, improve strategic decisions, improve quality of discussions and enhance understanding and overview of risky actions, thereby improving the innovation performance.

4.2.2 The influence of expertise of supervisory board directors on innovation performance

Besides the need of experience on discussion-making on innovation initiatives, it is also useful for supervisory directors to have relevant expertise in order to improve the decision-making regarding innovations. Expertise has been studied in a very wide range of activities, such as executives. Expertise is usually based on a specific domain. In other words, expertise in one industry does not automatically lead to expertise in another industry. Nevertheless, expertise also exists on some general skills and aspects.

As highlighted in previous section, upper echelon theory (Hambrick & Mason, 1984) and human capital theory (Becker, 1964) emphasize the impact of competences of directors, including expertise and experience, on organizational performance. More human capital improves the competences of executives to create competitive advantage, thereby improving the innovation performance (Hatch & Dryer, 2004; Shrader & Siegel, 2007). Based on human capital, expertise results in high quality discussions within the supervisory board, thereby enhancing the productivity and improving strategic choices. In other words, expertise is needed to make good strategic choices. In addition, stewardship theory argues that relevant expertise of supervisory board directors improves the fulfillment of the soundboard role, as expertise is pivotal for a director to critically examine innovation initiatives. Besides, supervisory directors with business related expertise are better organized, and use their knowledge more efficiently (Barfield, 1986; Björklund & Eloranta, 2008). To be concluded, experts such as supervisory directors are characterized by the fact that they have a better overview of a situation and utilize information more efficiently.

Moreover, experts are more goal-oriented and have knowledge about how to learn, think and function in a group (Björklund, & Eloranta, 2008). In other words, supervisory directors with expertise aim to fulfill the social goal of SHAs and know how to work together with other supervisory directors, thereby decision-making improves. Whether expertise will influence the board meetings depends also on the degree to which a board member uses expertise in the

decision-making process. Researchers investigated that years of experience is needed to be an expert (Ericsson & Lehmann, 1996). However, quantity of experience is not the only dependent factor since not all kinds of experiences result in expertise. Quality of experience needs to be considered as well to determine whether experience has an impact on expertise or not.

Overall, expertise is considered as useful competence to enhance innovation performance of SHAs because it enhances understanding of the industry, improves quality of discussions by more asked critical questions, it increases efficiency and it enhances the ability to have an overview.

4.2 Conclusion

In conclusion, information sharing ensures supervisory boards of SHAs can fulfill their supervising and soundboard role, thereby critical and accurate questions on innovation initiatives are asked. Their experience is likely to positively influence the innovation performance of SHAs by enhancing productivity, improving strategic decisions, improving quality of discussions and enhancing the understanding and overview of risky actions. In addition, expertise is considered as useful competence to enhance innovation performance of SHAs because of it enhances understanding of the industry, improves quality of discussions by more asked critical questions, it increases efficiency and enhances the ability to have an overview.

5. Methodology

This chapter describes the methods that is used to gather data about the relationship between experience and expertise of supervisory board directors, and the innovation performance of firms. The collected data is used to criticize the conceptual model formulated in previous chapter.

5.1 Empirical design

The research question of this study is answered by a comparative case study method. Specifically, interviews with thirteen directors of Dutch SHAs supervisory board are conducted as collecting information on the impressions of these directors is pivotal to this research. Additionally, collective qualitative primary data benefits my research as for the possibility of the respondent to elaborate on his or her perceptions of the issue at hand. This study is an empirical, qualitative study examining how expertise and experience of supervisory directors of SHAs can influence the innovation performance of the SHAs.

Qualitative data is preferred over quantitative data, because this research is focused on the ‘how’ question like the research question in this thesis. Moreover, it explains a possible causal link between human capital of directors and the innovation performance of SHAs (Yin, 2009). The process through which experience and expertise of directors contribute to the innovation performance of SHAs can be best explained by an inductive qualitative study (Edmondson & McManus, 2007). A holistic design will be used to map the influences of supervisory board directors on the innovation performance of firms. A holistic design is suitable for this study since supervisory board directors are the unit of analysis and no subunits on different board function will be identified (Yin, 2009). To be specific, no distinction is made between the functions of the supervisory board as all functions contribute in the same way to innovation performance (VTW, 2011). Multiple sources of evidence are used to increase the construct validity of this master thesis. The reliability will be increased by giving a clear description of every step of how the research is done, so an external observer is able to follow the derivation of evidence from the initial research question until the conclusions (Yin, 2009).

5.2 Sample and data collection

This study uses data from two sources: (1) semi-structured interviews with thirteen supervisory board members of SHAs in the Netherlands, and (2) secondary sources, such as newspaper articles and LinkedIn.

Primary data is collected through thirteen interviews with Dutch supervisory board directors of SHAs across the whole Netherlands. The interview guide for interviewees was organized into three topics: the role of the supervisory board within the SHA, the role of innovation within the organization and the role of expertise and experience related to innovation (see appendix A). In addition, at the end of each interview, interviewees were asked to share any additional information they felt was relevant. The semi-structured interviews were held in Dutch to let the respondents feel more comfortable.

The respondents are reached by a message on LinkedIn to my personal network. As a result, I was introduced to someone who owns a company that gives advice to supervisory boards of SHAs. The next interviews were gathered due to his network and the use of the snowball effect. Respondents included supervisory board directors of different backgrounds and roles within the board, which was found out by LinkedIn profiles of all the respondents. This online search saved some time, which is quite necessary, since supervisory board directors have a busy schedule. Therefore, it was already challenging to ask at least half an hour of their time.

All interviews were held by telephone, except for one interview which was done on location. The interviews lasted on average half an hour. Each one was taped after permission was granted and then transcribed in Dutch. All the interviews were held by one person and immediately after the interview, facts were checked and the interview was transcribed.

The Dutch market is chosen because the average age of Dutch supervisory directors is 59 years old, which implicates that they should have relevant experience and expertise (Lückerath–Rovers, 2009). Furthermore, only three per cent of supervisory board directors of SHAs is below 40 years old. An advantage of focusing only at the Netherlands is that the organizations are exposed to the same business environment and same laws, such as ‘Woningwet 2015’ in this case (Balsmeier, Buchwald & Stiebale, 2014).

Additional information about the supervisory board directors is be collected by using databases. Specifically, information about each supervisory board director’s career background and previous board experience is looked for. This information will be collected prior to the interviews, thereby questions about their perception of their experience and expertise are asked, such as their perception on innovation topics focused on their expertise. In this study financial and industry-specific expertise will be defined as expertise, because both domains are

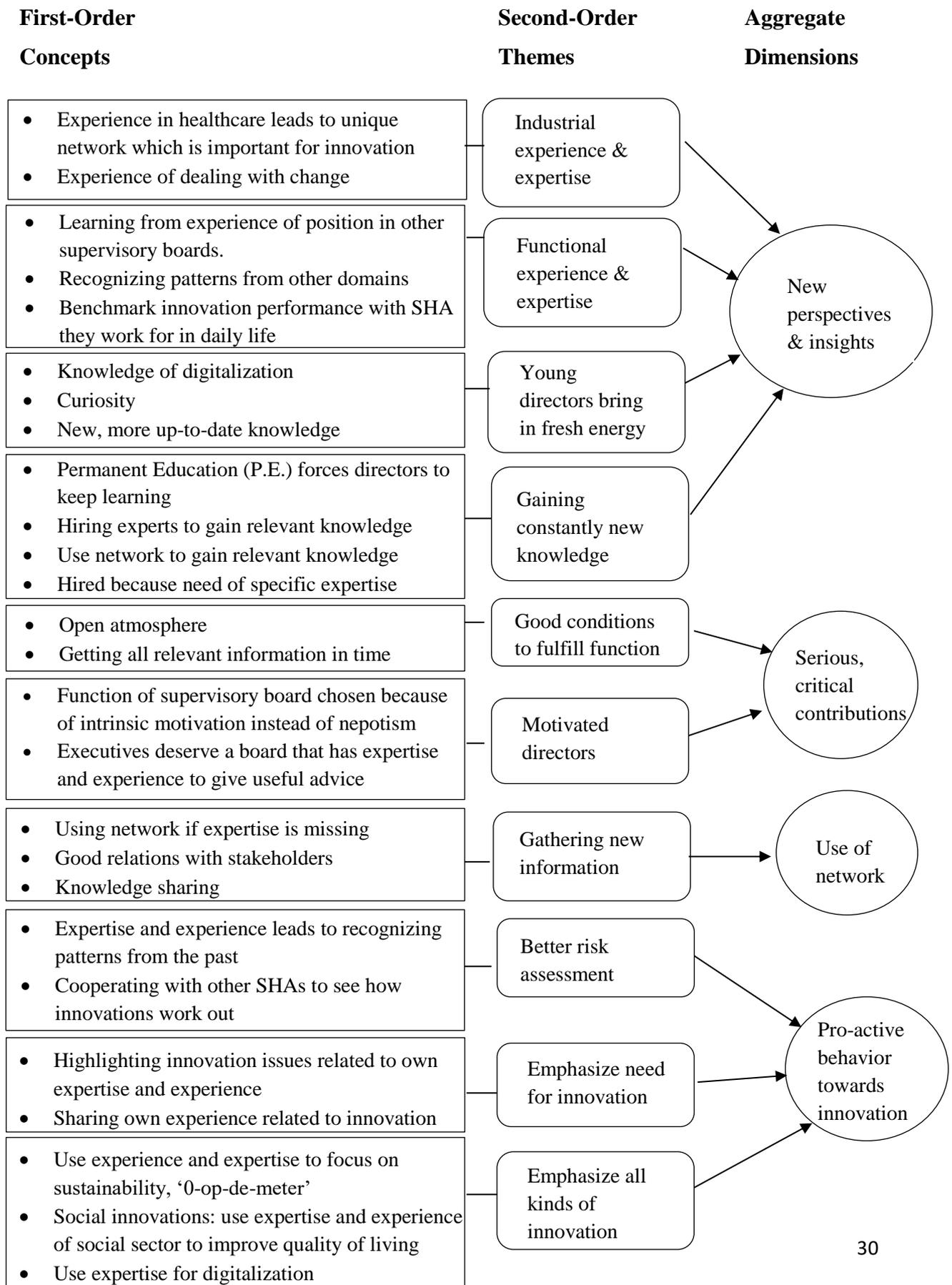
considered as important for supervisory boards and are likely to influence innovation performance (Kor & Sundaramurthy, 2009; Pozen, 2010). How experience and expertise will affect the innovation performance of firms will be researched by asking questions about how these competences contribute to discussions during board meetings and how it has improved their capability to be a supervisory board director. The interview protocol can be found in appendix A, whereas an overview of the candidates can be found in appendix B.

5.3 Data analysis

To analyze the data the software Atlantis Ti is used to create a good overview of all the coding schemes. After transcribing the interviews, an analysis of the data occurred by coding and pattern matching in three steps, thereby detecting related themes. The data is codified into higher level of abstraction by using three stages of coding: open, axial and selective. The first step consists of open coding in which concepts are identified, while looking for key words, trends, themes or ideas (Namey, Guest, Thairu & Johnson, 2007). In the second step data is axial codified, thereby combining first-order concepts into second-order themes. This step was done several times to find the right relationships. In the last step, concepts were brought together into integrated concepts (Strauss & Corbin, 1990). The coding structure is presented in figure 1.

FIGURE 1

DATA STRUCTURE



6. Empirical outcomes

This section discusses the empirical outcomes of the interviews. This study posed the research question: *‘How does expertise and experience of supervisory board directors influence the innovation performance of SHAs after the ‘Woningwet 2015’?’* The following findings show four manners in which supervisory directors believe their experience and expertise contributes to the innovation performance of a SHA.

6.1 New perspectives and insights

The first manner in which experience of supervisory directors seems to contribute to the innovation performance is by enhancing the amount of perspectives on a certain issue. The interviews show that new perspectives and insights are caused by experience and expertise. This aggregate theme combines the following second-order themes: ‘functional experience and expertise’, ‘industrial experience and expertise’, ‘younger directors bring in fresh energy’, and ‘gaining constantly new knowledge’.

To begin with, functional experience and expertise of supervisory directors adds value to decision-making on innovation performance. All cases show that experience contributes to innovation performance according the perception of supervisory directors. Three interviewees who are member of another supervisory boards as well, report that their experience from the other positions help them to create new perspectives keeping previous issues in mind. In addition, experience in functional positions such as managers, are considered to be useful as well because related issues from the past lead to pattern recognition.

“Yes, sure, I have experience in de educational industry, where I was a director. I am a very innovative person, which means that I have experience with dealing with changes in an organization. This is very useful during meetings about innovations.” Interviewee #8

“Due to my management background I have seen before similar problems regarding innovation. Therefore, I have a better overview of the playing field.” Interviewee #1

“Everyone views an issue from his own expertise. So, when you have a conversation, everyone brings their input on the basis of his expertise and as a result you get a healthy tension on the discussion.” Interviewee #13

These quotes show how functional experience and expertise help directors to be with pattern recognition, thereby creating new perspectives. One interviewee also mentioned that they had an online quiz with statements. In turned out that sometimes they were trying to say the same

thing, but from another perspective. In other words, supervisory directors choose different answers, but in the end, they would make the same point and agree with each other. This is an example of how diversity of expertise and experience will lead to improved discussions by being aware of all perspectives.

In addition, industrial experience and expertise contributes to the decision-making on innovation. All interviewees believe their experience and expertise of their current or previous jobs lead to new perspectives. Every director looks to an innovation topic on his own way, keeping his industrial background in mind. Furthermore, it helps directors to recognize patterns to assess new developments.

“I am the only one with experience in the healthcare industry, thereby the society domain. My network contains of healthcare institutions in the whole Netherlands. So yes, I totally use my experience during meetings in which innovation is the topic.” Interviewee #1

“The SHA I work for in my daily life is fully focused on innovation. This is in contrast with the SHA I’m supervising, because they adopt a wait-and-see policy. ... Because of my experience with another SHA I can compare the perception towards innovation and stimulate the executives to be more pro-active towards innovation.” Interviewee #1

“When an executive shows his ideas to us, we all look from our own perspective to it. In addition, we will give him advice about where to put extra effort in.” Interviewee #2

“Because I have experience in the housing sector, I can go in-depth about innovations. However, it can be a negative point as well, because sometimes they just want to hear the overall opinion instead of details.” Interviewee #10

Based on above quotations, industrial experience and expertise is needed to benchmark the SHA with other organizations, thereby putting the innovation performance of the SHA in perspective. Furthermore, awareness of innovations done by other organizations is created and in-depth discussions start.

Another aspect that leads to new perspectives and insights is hiring younger directors. Less than three percent of supervisory board directors of SHAs is below 40 years. Five interviewees are below 40 years, and they all believe they add value to the board by bringing in fresh energy and expertise. In their opinion the quality of experience and expertise is more important than quantity. Most interviewees agree that young directors are deemed necessary to

stay up to date on innovation such as digitalization, create new insights, and increase curiosity. However, two older interviewees argue that young directors are not capable to be a director because they do not have enough experience and expertise, therefore, it is likely they will sit on the chair of an executive instead of being a supervisory director.

“Sometimes too much expertise and experience is not good, so if you are not burdened with it, you will try out new things. You are young, curious and full of energy. A disadvantage is that you might miss some relevant experience. Therefore, you also need older directors with more experience.” Interviewee #3

“You need a combination of young and old directors: you need a certain amount of life experiences and fresh energy. By this combination you have enough expertise and create new insights.” Interviewee #1

“I noticed that when we had invited young people that they often lacked an understanding of the role of the supervisory board.” Interviewee #5

“I know some examples of old supervisory directors who took the seat of executives, therefore I believe age does not matter in being a good director.” Interviewee #12

These quotations clearly illustrate the different opinions towards the contribution of young directors to the board. Striking is the accusation of both young and old directors on each other of sitting on the chair of an executive instead of being a supervisory director. Overall, it can be concluded that young directors improve the quality of discussions by their fresh and new insights. However, new directors should be well informed about the role of a supervisory director, regardless their age.

Last explanation why expertise and experience lead to new insights is because of continuous learning. By ‘permanent education’, part of Woningwet 2015, ongoing training is required for supervisory directors. Every year a certain amount of credits need to be earned. In addition, relevant expertise adds value by the usage of a network. If there is a lack of understanding on a certain topic, they hire an expert or they will get a training.

“Nowadays you can buy knowledge: hire an expert, Google it or follow some trainings.” Interview #12

“By having people with different expertise, you will have a good overview on innovation performance.” Interviewee #3.

“Our functions, which means our daily tasks, are diverse: one is director of a construction company, one is professor, one is partner of a law firm and I am director of a quality center. So, if I base it on our expertise, I would say we do not miss any expertise. It leads to good discussions and it makes sure we highlight all important aspects of a certain topic. So, age does not matter, it is about being able to switch, think critically and giving people a chance.”

Interviewee #11

These quotations show that diverse expertise result in new perspectives. New, up to date, knowledge will improve the quality of conversations and thus, the innovation performance. Furthermore, new perspectives created by expertise of supervisory directors help executives to ensure an innovative initiative is a considered decision. One interviewee mentioned that sometimes an executive board exists of only one director. Therefore, he believed that supervisory directors need expertise to complement the expertise of an executive to fulfill the social goal of a SHA.

6.2 Serious, critical thinking

The second way experience and expertise of supervisory directors seem to contribute to the innovation performance by affecting the decision-making process on innovation is their mindset. Interviewees believe experience and expertise have a positive impact of their way of thinking. This aggregate theme combines the following second-order themes: ‘good conditions to fulfill function’ and ‘highly motivated directors’.

Based on the interviews, all supervisory directors are convinced the working conditions help them to perform in a good way. All agree on the fact that they get important information in time and they have say. Discussions are in an open atmosphere in which everyone can give their opinion without being interrupted.

“If we discuss an innovation topic, we are always well-informed by the executives. We can talk about anything, there is an open atmosphere.” Interviewee #7

“Yes, I can absolutely state that we have say during meetings. The executive always listens carefully to our advice.” Interviewee #1

“The director tells us about his business and about his opinion on specific topics. Then, he gives a presentation about it and in the end, we will discuss about it in an open setting. ... Being a good supervisory director is not only about listening to someone, it is about making new steps, have a dialogue with someone, because directors need this.” Interviewee #3

“Recently we switched to one executive director instead of three directors. As a result, the advisory role is very important to us at the moment, so that the executive can spar with us and take advantage of our experience and expertise.” Interviewee #3

As mentioned in these quotations, the input of supervisory directors is taken seriously. Both executives and supervisory directors believe the role of a supervisory board is important to contribute to a good innovation performance.

Next, directors nowadays are highly motivated. Nepotism is in the past because of new regulations in the Woningwet 2015. This leads to the fact that directors want to bring in their experience and expertise to help the SHA as much as they can. The salary of supervisory directors is relatively low, therefore interviewees argue that they are triggered by intrinsic motivation.

“I have chosen for the role of a supervisory director because of intrinsic motivation. I did it not because I want to improve my curriculum vitae or to have some to do after retirement, which I believe most old directors do.” Interviewee #12

6.3 Use of network

The third way expertise and experience adds value to innovation performance is related to the network of supervisory directors. Previous and current jobs lead to a network of contacts with a broad scope of expertise. Furthermore, interviewees argue that nowadays SHAs look more outside their own industry to co-operate with parties such as healthcare institutions. Supervisory directors feel responsible for not only helping residents with less income to offer affordable houses, but also to give them the right directions regarding social or healthcare help. By having experience in relevant industries, supervisory directors can help executives to contribute to innovative initiatives to improve the quality of living for tenants.

“We are there for tenants to help them and try to find out which role all parties in the Dutch society has to improve the quality of living of our target group.” Interviewee #10

“Innovation has to do with connecting different domains. It is not only about offering affordable houses, but also about the environment and everything that is related to the quality of living.” Interviewee #11

These quotations demonstrate that SHAs are indeed more focused on cooperating with parties from other domains. Experience in relevant industries helps to build up a network with relevant organizations, such as healthcare or social institutions.

6.4 Pro-active behavior towards innovation

The last way experience and expertise adds value to the innovation performance of SHAs is found in their pro-active behavior towards innovation. Both competences lead to better risk assessment, an emphasis on the need to innovate, and an emphasis on all kinds of innovation.

First of all, supervisory directors decrease the level of risk. Experiences from the past lead to pattern recognition, thereby directors can predict how innovations will develop. They compare innovation issues presented by the executive with relevant and comparable situations from the past to create awareness of possible risks. In addition, experience helps supervisory directors to be aware of all stakeholders related to the innovation initiative. Next, supervisory directors who have a background in the social housing sector benchmark the organizations to determine the innovation performance. Experiments of other SHAs can be used to analyze the future of specific innovation initiatives.

“I use my experience and expertise to ask critical questions. For example, I will make sure executives keep all stakeholders in mind when making decisions.” Interviewee #2

“All members of the supervisory board have a broad network in which they learn from each other by checking out each other innovation experiments.” Interviewee #2

“I was hired by my experience in sustainability. Therefore, I always keep my experience in mind when I look at innovation plans. Furthermore, I know a lot about the social housing sector. Last meeting a new idea was presented by the executive. I could easily make an overview of all stakeholders because I have seen comparable situations before.” Interviewee #3

Those quotations demonstrate that supervisory directors support and contribute to innovation initiatives by easily analyzing the risk and opportunities. Effectiveness of board meetings is improved by pattern recognition, suggesting the average of seven official meetings a year are held in an effective manner.

Next, supervisory directors stress the need for innovation by using their experience and expertise. All interviewees report that innovation is deemed necessary to survive in today's economy.

“Innovation is like water, if it stands still, it smells badly. That’s the same for SHA, because they constantly need to innovate to survive.” Interviewee #6

“Innovation is not the goal, it is more like a means to reach the goal.” Interviewee #12

The quotations show that supervisory directors are aware of the need to innovate. Experience and expertise leads to understanding of the role of innovation in the business environment. Specifically, interviewees can benchmark the current state of the SHA with the organization they are working for in daily life. Furthermore, it is hard to stop talking about a topic that one feels so passionately about. It is seen as a subconscious process in which innovation topics related to their own expertise are highlighted during meetings. Furthermore, by applying to a role within the supervisory board candidates think already about improvements.

“If you start with being a supervisory director you already have some ideas and then, as in my case, I was placed on the real estate portfolio, which is my expertise, and in this way, I can ensure there will be enough attention to topics within this portfolio.” Interviewee #7

Last argumentation why experience and expertise leads to pro-active behavior towards innovation is founded in the emphasis on different types of innovation. Interviewees argue that innovation can split into three categories: sustainability, organizational or social, and digitalization. To start with, sustainability is a key item on the agenda of supervisory board directors. Most frequent called innovation themes are ‘0-op-de-meter’, which means the houses are not using gas anymore. Next, organizational innovations are discussed during meetings, such as innovative ways to work together and give the power back to renters. SHAs start focusing more on the perception and opinion of renters by doing evaluation sessions. At last, digitalization is an important innovation topic according to supervisory directors. Those three types of innovation are highlighted because of the expertise and experience of supervisory directors:

“Digitization has become increasingly important. In that area we really need to update. We do this by sharing knowledge with other corporations or by calling in an external agency. The digitalization has fewer questions and ambiguities among young people” Interviewee #6

“I use my network to connect with social institutions, because I am the only one with a background in that industry. Therefore, social innovation is frequently discussed during our meetings.” Interviewee #1

“I always ask myself the question: does this innovation initiative increase the quality of living of our tenants? In addition, it is quite innovative to look outside your own domain. SHAs used to look only at their own industry, but now they start cooperating with partners outside their industry to see how they can improve quality of living.” Interviewee #9

Remarkable in these quotes is that the mentioned innovation topics are in the same field as the expertise of these interviewees. This shows that supervisory directors indeed highlight the topics they are passionate about.

7. Discussion and limitations

The focus of this study was to clarify the role of expertise and experience of supervisory board directors on the innovation performance of SHAs after ‘Woningwet 2015’. In general, the results of this study support the idea that human capital and innovation performance are closely related. The findings of the interviews with supervisory directors of Dutch SHAs lead to the answer on the research question: experience and expertise lead to new perspectives, critical and serious contributions, relevant networks, and pro-active behavior towards innovation, thereby enhancing the innovation performance.

This study revealed a few surprising results. A novelty insight is that the perception of old and young directors towards the role of expertise and experience differs. Specifically, older directors are convinced that young directors are not capable to fulfill their role. Next, some insights were confirmed by data, namely that expertise and experience will lead to new perspectives and relevant contributions, thereby enhancing the innovation performance. However, an implication is that this research is done after a difficult time for SHAs. Next, theoretical and managerial implications are outlined. Last, limitations are discussed and recommendations for future research are made.

7.1 Theoretical implications

7.1.1 New perspectives and insights

Findings of this study show a positive contribution of experience and expertise to the decision-making process on innovation performance by creating new perspectives and insights. These results are in line with the research of Kor (2006) who explained that different amounts of relevant experiences lead to diverse preferences of strategic choices. Furthermore, previous studies determined that prior experiences lead to pattern recognition, resulting in better and more effective assessment of innovation investments (Campbell, Whitehead, & Finkelstein, 2009; Wu, 2008). Therefore, human capital holds ground in the context of supervisory directors of SHAs by showing that experience and expertise cause new insights and perspectives.

7.1.2 Serious, relevant and critical contributions

While a great part of the literature suggests supervisory directors are handicapped in their function, corporate governance in terms of information sharing is surprisingly good at SHAs

according to the interviewees (Loyens & Loeff, 2016; Peij, Bezemer, & Maassen, 2012). A reason for good governance is yearly visitations by the living authority.

Furthermore, interviewees believe executives keep in mind their given advice. Thereby, as argued by stewardship theory the power is not being centralized by the executive board. A steward act responsible while at the same time keeping the organization in control, without centralizing the power (Armstrong, 1997). Furthermore, it argues that stakeholders, pursue the same goals as directors. This theory also holds ground for corporate governance of SHAs as interviewees stated that even more power is given to tenants nowadays. Thereby, tenants elect at least two supervisory directors and monthly meetings are held with the executive board to ask their opinions about innovation initiatives.

Additionally, findings of this study show there is an open atmosphere in which all opinions are shared. In contrast, research shows that more experience lead to reduced communication within a board, because directors might create smaller groups to share information with instead of information sharing with the whole board (Barroso, Villegas & Perez-Calero, 2011). Supervisory boards of SHAs address a situation in which information sharing is optimal regardless the amount of experience. This can be clarified by the fact that supervisory boards are relatively small and the corporate governance is controlled by a yearly visitation.

7.1.3 Take advantage of network

The findings of this study show that experience and expertise lead to a relevant network that can be used to enhance knowledge sharing on innovations and to take advantage on the good relationship with stakeholders. Directors may have useful contacts in business, financial, or political circles (Nicholson, & Kiel, 2004). The importance of network is reflected in earlier conducted research, moreover, network is said to be deemed necessary to increase the innovation performance (Björklund & Eloranta 2008; Pearce & Zahra, 1992). Zeng, Xie, and Tam (2010) show there is a significant positive relationship between inter-firm cooperation and innovation performance of small- and medium-sized enterprises. The results of this thesis are in line with previous research by demonstrating an agreement of all interviewees that their network contributes to the innovation performance of SHAs.

Another important finding of this study is the added value of a combination of both young and old directors, suggesting that diverse quantity and quality of backgrounds leads to

new perspectives. Although two interviewees did not fully agree, most argued that both young and old directors improve discussions on innovation by highlighting issues related to past experiences. In addition, curiosity of young directors leads to accurate analysis of innovation topics. However, research argues that more experience leads to a higher contribution, suggesting that young people add less value to the decision-making process (Zahra & George, 2002). Therefore, this study is in contrast with the prediction that only well-experience directors can fulfill the role of a supervisory director.

7.1.4 Pro-active behavior towards innovation

The last finding of this study suggests that experience and expertise create pro-active behavior towards innovation. Studies on upper echelon theory showed that functional and industrial experience and expertise increases tolerance to change, open mindedness and support for innovation initiatives (Darmadi, 2013; Hitt, & Tyler, 1991). The perception of the interviewed directors on pro-active behavior towards innovation corresponds to upper echelon theory by showing experience and expertise leads to openness and emphasis on different types of innovation. This shows that upper echelon theory also holds ground for supervisory directors of semi-public organizations.

Furthermore, data of the interviews shows that especially young directors are intrinsic motivated to be a supervisory director and act in the interest of the goal of the SHA. Research on stewardship theory argues that decisions made by managers are directed by a wide range of motives on behalf of the organization, many of them non-financial such as success, recognition, image and respect for authority (Cornforth, 2004). Since supervisory directors keep the social goal of SHAs when making decisions on innovation initiatives, it can be clarified that the findings of this study are in line with the prediction of stewardship, thereby suggesting that supervisory directors of two-tier boards are triggered by intrinsic motivation.

7.2 Managerial implications

This study has important implications for upper echelons in semi-public contexts. Therefore, a set of recommendations is presented that could be of high value to the social housing industry to improve the innovation performance. This study shows that expertise and experience improves the innovation performance by creating new perspectives. Findings show that different perspectives are addressed by young and old directors. However, young directors are rare at SHAs as less than three per cent is below 40 years old (Lückerath-Rovers, 2009).

Therefore, it is recommended to hire supervisory directors of different ages, suggesting all aspects of an innovation issue will be addressed. A check of covering different ages can be done at the same time as filling in the capability test to show directors of different ages lead to different types of expertise and experience. Furthermore, tenant associations need to be informed by supervisory directors on the outcomes of a capability test to ensure they hire a new director who adds value due to his or her experience and expertise.

Next, the capability matrix helps supervisory boards to ensure a certain amount of expertise and experience is covered. However, no related questions towards innovations are asked in this form. Therefore, it is suggested for supervisory boards to discuss their experiences and expertise on innovation to clarify pattern recognition of directors. Recommended is to add innovation as an extra topic on the capability matrix as experience and expertise on innovation leads to new perspectives, useful network, serious contributions and pro-active behavior towards innovation. As a result, new perspectives caused by different experiences and expertise will lead to better decision-making, thereby to higher productivity and better strategic choices (Zahra & George, 2002).

Lastly, since expertise and experience of supervisory directors positively contributes to the innovation performance it is recommended for executives to take advantage of the experience and expertise of supervisory directors. Optimal utilization of the soundboard leads to new insights on innovations. In addition, the network of supervisory boards is useful to get in touch with experts to investigate in specific innovation topics.

7.3 Limitations

The results of this study should be viewed in the light of some limitations. These limitations are explicitly stated and will be accompanied with recommendations for interesting future research issues. The first limitation of this study is that as expertise and experience of supervisory board might not be dismissed as predictor of organizational innovation performance, other factors should be incorporated as well. Demographic heterogeneous boards are an indicator for different insights and viewpoints (Miliken, & Martins, 1996). In other words, the quality of discussions and debate within the board increases by diversity in backgrounds (Pearce, & Zahra, 1991). In addition, female directors have another perspective and consider other issues than male directors (Daily & Dalton, 2003). Therefore, future research should investigate in the influence of demographics of supervisory directors on the decision-making process regarding innovation performance at SHAs.

Second, the access to data has been limited as the findings of this study are based on the perceptions of supervisory directors. Even though directors were willing to take part in an interview, access to board meetings has been proved difficult. However, this could add rich data by observing how directors use their human capital in practice, thereby decreasing the dependence of one data source.

Third, given the exploratory nature of the study and limited number of interviews, the findings should be treated with care. Particularly, the convenience sampling approach of using LinkedIn might have affected the outcomes. In addition, five interviewees are below 40 years old, whereas research showed that less than three per cent of supervisory directors of SHAs is below that age. As opinions on the need of experience and expertise differs between young and old people, the results of this study might not be representative for supervisory directors. Future studies, with more representative sample towards age, are recommended to further assess the generalizability of the findings.

The fourth limitation of this study is its focus on Dutch SHAs. Therefore, the generalizability of the findings might be limited. Future research could examine to which extent similar developments are observable in other countries with a two-tier board model, such as Germany.

The fifth limitation is the focus on the perception of supervisory directors. it is impossible to determine whether the diverse members actually do significantly differ in their behavior compared to non-diverse members given the research approach in this thesis. Given the qualitative research approach, it is impossible to determine whether the experience and expertise of supervisory directors actually do differ in their contribution to the innovation performance of SHAs (Erdhardt, Werbel, & Shrader, 2003). The results are based on perceptions of supervisory directors that diversity of experience and expertise is positively related to innovation performance. To understand the exact influence of experience and practice on innovation performance other approaches, such as participant observation during board meetings are needed.

Lastly, this research is done in a period in which SHAs are still recovering from a seemingly endless line of scandals that resulted in ‘Woningwet 2015’. Therefore, results might be different when the social housing sector becomes more stable and all SHAs are recovered financially, thereby suggesting innovation will be high on the agenda. In other words, some SHAs could

not focus yet on innovation, because they first needed to make sure the financial performance is positive. Therefore, future research could be done about the same topic to control if the results are the same when the market is more stable and there is more trust in SHAs.

8. Conclusion

This research tried to go deeper into the role of the supervisory board within SHAs. Due to scandals in the last decades, many new regulations are made and they need to focus again on their core task, which is providing affordable houses for people with less income. Improving quality of living can be done by innovation initiatives. However, less is known about how experience and expertise of supervisory board directors influence the innovation performance of SHAs. Based on interviews, data shows that experience and expertise are used to create new perspectives, to add value by serious and critical contributions, to utilize the network of directors, and to have a pro-active behavior towards innovation. Therefore, it is recommended for supervisory directors to fully use their experience and expertise during board meetings because it will positively influence the innovation performance of SHAs.

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Appendix

APPENDIX A - Interview Protocol

Introduction

This interview is held for my master thesis on the contribution of supervisory directors of social housing corporations. The interview is expected to take around half an hour. Before getting started with the interview questions I would kindly ask your permission to record this interview, which will only be used to make transcriptions and will be deleted after transcribed. Next, I would like to ask you if the answers should be treated anonymous or that your name or the name of the social housing corporation can be mentioned.

If you have any questions beforehand, please let me know. Otherwise I would like to start with the first question. There are no good or wrong answers.

Details:

Name Interviewee: _____

Name SHA: _____

Gender: male / female

Experience, expertise: _____

Date, place: _____

Anonymous: yes / no

Interview questions:

- 1) To start with, could you tell me something about how the topic of innovation is handled/discussed at [name SHA]? Could you provide two pieces of anecdotal evidence about some discussions verging on the topic of innovation unfolded in the board room discussion? And could you also provide some insights about what your role during the discussion on innovation performance of the firm was?
- 2) Please recall the last time you had a meeting about innovation with the supervisory board. Could you tell me something more about how this meeting went?

- 3) How did you use your expertise and experience in order to participate in the discussion, so for example did you base your arguments on previous experiences?
 - 1) You mentioned that during the discussion of [insert discussion topic] at the board meeting you suggested [insert his/her suggestion], what made you do so?

- 4) Research has shown that the average age of a supervisory board director in the Netherlands is 59 years old. Could you reflect on your first experience as a board member and now? Could you provide a couple of anecdotal evidence about the differences and the similarities between now and then?

Rounding up

Thank you for answers, viewpoints and time. Please let me know if you want to receive the findings of this study. If you have some additional information which you might think is useful for this study, I would appreciate your input. Next, I would kindly ask you if you know other supervisory directors of social housing corporations that could be of interest for this research. Thank you again for your input. Hereby, I would round up the interview. Please do not hesitate if you have any questions regarding this interview.

APPENDIX B - Overview interviewees

Nr.	Experience, expertise	Female/Male	Age (years)		
			<40	40-59	>59
1	Healthcare	M			X
2	Education	F		X	
3	Real estate, sustainability	F	X		
4	Housing	F	X		
5	Housing, healthcare	M		X	
6	Housing, digitalization	M		X	
7	Housing	F		X	
8	Education	M		X	
9	Housing, healthcare	M		X	
10	Housing	F	X		
11	Housing, healthcare	M	X		
12	Housing, real estate	F	X		
13	Housing	M		X	