

From CSR to Sustainable Business— Transformational Leadership in Action

Keynote Address at EABIS Decennial Meeting on February 1, 2012

Richard Straub

Senior Advisor IBM Global Education Industry,
Director of Corporate Services & EU Affairs, EFMD, Brussels

Abstract: This contribution to the Decennial volume brings together the insights of a seasoned business practitioner on the sustainability imperatives that corporations face, and a response from an academic who works in the field of sustainability and business ethics. Dr. Straub draws on Peter Drucker to reassert the importance of fulfilling the economic mission of the enterprise, but argues that it needs repositioning. Business must be responsive to customer and employee needs, and in order to do so, transformational leadership is required. In her response, Prof. Mollie Painter-Morland argues that in order to succeed in building sustainable enterprises, an urgent evaluation of what is meant by “need” is required. She also contends that in mainstreaming the sustainability agenda, systemic leadership is needed in addition to transformational leaders.

Key Words: Drucker, transformational leadership, public expectations, need, systemic leadership

I am not an insider to your community but I have a lot of linkages from my EFMD role or in my capacity as the president of the Drucker Society Europe.

Since I left my permanent IBM job some 6 years ago, I enjoy no more being constrained by those requirements of political correctness that you need to observe as a corporate executive. In my new life I consider myself as a Jester of sorts—for those who want to listen, I am ready to be a sounding board: providing feed-back

that they would not get from those who have a relationship of dependency with them. To some degree I would want to do this here as well—I will try to create some cognitive dissonances in your community, as I am convinced we need permanently to question the way we are looking at issues and avoid thinking that we hold the one and only key to truth. Critical and independent thinking includes the capacity to question the lenses through which we see the world. If critical thinking is one of the key characteristics of the much-vaunted transformational leader, it should apply to us as well. Intolerance is born from beliefs that are no longer critically questioned and everybody else is expected to blindly follow. Critical thinkers who may have a well-founded divergent position are then treated as heretics and renegades. I have seen a lot of this happening in some strands of the ecological movement. However, this obviously is not the case in this community.

Let me add another provocation to this opening statement—in the survey that is being presented to you I have seen the acronym ESGE, standing for Environmental, Social, Governance and Economics. I would recommend to change the sequence such that Economic is in the first place—this can be done without changing the acronym..... If the business does not achieve its economic purpose in the first place, no other criteria comes to bear—it cannot provide jobs, products and services and any other value for society. With putting economics first we remind ourselves to pre-eminent responsibilities that Drucker has defined for Management in a generic and still valid way.

1. Achieve the economic mission of the enterprise
2. Enable people to be effective
3. Manage the social and environmental impact of the business.

In my talk I will focus on item one and two. I believe for Nr. 3 you have better experts present here than myself.

Managing the economic performance is essential but I would argue it needs repositioning these days. Based on the agency theory and the ensuing shareholder value philosophy, corporate executives are increasingly operating in a market of expectations as Roger Martin calls it in his recent book “Fixing the Game.” This has removed executive management from the focus on business reality and hence from the customer. The senior executives live in a world of numbers that are supposed to represent the real world. But do they really? Drucker (1954) has defined the purpose of the business to create a customer. Based on this he saw marketing and innovation as the core functions of a business. However, with focus on the expectations of financial markets we can see innovation suffering as corporate management

has the overriding priority to deliver the EPS each quarter as demanded. This is the holy cow—rather than missing EPS you miss the long term prosperity of the enterprise and cut investment in innovation just as you cut “head-counts” (a terrible term widely used in the corporate executives suites) as another adjustment variable. Hence, what I am talking about is the *sustainability of the business itself* in the long term. I believe this is a subject we should be worried about when it comes to the intersection of business and society. The lack of investment in innovation and the deficiency in long-term-oriented stewardship for the business brings a high cost to society—in the long run. Yet, in five years from now the current investors will have dumped their shares in some “profit taking” exercise or in some panic movement and executive management will have been exchanged. Just look at the average tenure times these days. So why worry about the long term—when, as Keynes put it “in the long term we are all dead”? This is where transformational leadership is needed most urgently in a time of crisis—to make the business sustainable in the first place to be able to deliver all the good things that we are expecting it to provide in the long term—meaningful jobs, products and services that customers value. Are we sacrificing the future on the altar of shareholder value?

The signs are on the wall—loud and clear. The recent GE Innovation Barometer was just released.¹ It is indeed a wake-up call. Nine out of ten executives see their ability to innovate deeply impacted in today’s situation. With regard to the sustainability of the business as a key contributor to the functioning of today’s societies—*isn’t innovation a social responsibility of the enterprise?* Without a step change in innovation we cannot get back to growth and prosperity to provide decent lives to all those living in today’s complex societies. Hence I would claim that Drucker was right: managing business for survival and prosperity in the long term is the fundamental responsibility of management.

Let me now come to the 2nd big management duty according to Peter Drucker (1954) i.e., making people effective in organizations based on their strengths. Concepts that traditionally went along with this ideal are knowledge worker autonomy, knowledge productivity, delegation of authority and empowerment. Despite mantra-like lip-services most corporations have been unable to delegate decision making to the levels where the knowledge resides. Worse—Teresa Amabile and Steven Kramer (2012) demonstrate with ample research how leaders even kill meaning at work. Organizations are being built based on abstract concepts, increasingly with cost-saving considerations as a priority but shamefully neglecting the human factor. They have become too complex, over-matrixed and removed from the local reality. A study conducted in France in 2010 based on the request of the Prime

Minister because of the increase in burnouts and even suicides in large organizations pointed to the problems. Issues such as ever changing organization structures, over-reliance on globalized ICT enabled centralized processes, excessive pressure on short term financial results at all levels of the organization and a lack of people management with proximity had dramatically deteriorated the working conditions in most large organizations. And it was large organizations who came to conclusions by themselves—led by the chairman of Schneider Electric, Henri Lachman with participation of France Telecom, IBM, Capgemini, PSA, Renault, Adecco and many others.² It was encouraging to see this degree of openness, self-critical reasoning and honesty in contrast to the usual political statements that everything is just fine. However, what has changed ever since? Has this alarming report led to major improvements in HR practices at a broad scale since the report was released? I hope the next French Prime Minister (after the May elections) will invite the same companies come together later in the year to show what the progress has been.

Many factors point into the direction that we are still far from achieving the management mandate to make workers effective i.e., to unleash their real capabilities—which includes cultural, organizational and operational factors. Yet it does not have to be this way—even during the crisis. Again, transformational leaders make all the difference. Here is an anecdote to substantiate this—EFMD conducted a so-called CLIP review (standing for Corporate Learning improvement Process) in a large European Bank.³ It is an accreditation process for Corporate Universities modeled along the lines of the world leading EQUIS accreditation for Business Schools developed by EFMD. It includes interviews with all key stakeholders of the Corporate University. And here comes the point—despite the acute crisis that this bank has to manage day-by-day the CEO took a full hour to sit down with the review team. Can you have a better illustration that Learning and Development of the employees is a genuine concern to this CEO? And there are many other examples—the so called German Mittelstands-Companies, who are world leaders in many industrial fields, have been managed during the height of the crisis in way that was directed to long term business sustainability and not to profit maximization. Human resources were dealt with as people, as humans. They were not subject to immediate restructuring to meet the short term profit objectives. Their knowledge and their networks have been preserved and protected, ultimately to the benefit of both—the individuals and the business. Many of these companies are also role models in unleashing the creativity and innovation capacity of their knowledge workers. This is a major element of their global success.

Leaders have to withstand unprecedented pressures in times of crisis. However, there are also new opportunities emerging how to transform organizations and make them more effective. Social media provide unprecedented capabilities to communicate share and collaborate beyond the boundaries of traditional hierarchies and company borders. Enterprise web 2.0 and eventually semantic web can literally turn organizations upside down. It can potentially free up the immense human potential that is currently locked up and underexploited in large organizations. However, this will need courage and a major change in the management philosophy of most companies. It means changing the organization from a top down hierarchy with strong bureaucratic features into a network, where horizontal communication and collaboration defy the old silos. Here technology can play a tremendous enabling role—however, it will only achieve its potential if management plays its role as transformational leaders on the people side. Technology is a necessary condition but by no means sufficient.

What I was describing as fundamental roles and responsibilities of managers and business leaders has significant impact on society at large. It is not only about tactical improvement of the business performance. In the aftermath of the crisis, management has lost a significant part of its trust capital in society. The latest Edelman trust barometer reflects this development.⁴ Business is far from meeting expectations of the public with the most notable gap in the treatment of employees. While it is considered of utmost importance (64 percent) the actual performance is perceived at 27 percent, leaving a huge “Trust-Gap.” Other key areas such as Customers before profits or ethical business practices don’t fare much better and all point in the direction of a serious loss in credibility as a player in society.

How can trust be restored and legitimacy regained? Business needs to repair the way the core business is being run—by genuine transformational leadership. Responsible leadership will manage the business for long term sustainability as a business providing long term value to all its key stakeholders.

Let me finish with a story that was recently recounted by the great management thinker Manfred Kets de Vries, when he talked about reflective leadership. It makes the essential point of where to start when setting out for the journey to improve the world.

Above the Temple of Apollo in ancient Delphi was written: “Know thyself.” This observation is as true today as it was in those bygone times. If we want to develop more effective leaders we have to start with ourselves. But as I have discovered, to paraphrase Goethe, what is often hardest to see is what is right in front of your eyes.

I once read the following words on a tombstone in Westminster Abbey:

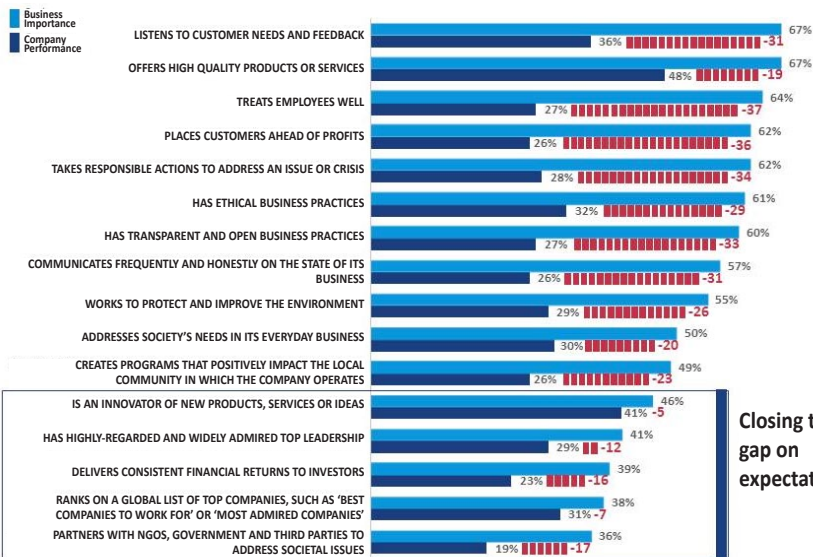
When I was young and free and my imagination had no limits
 I dreamed of changing the world.
 as I grew older...I discovered the world would not change,
 so I shortened my sights and decided to change only my country.
 but it, too, seemed immovable.

As I grew into my twilight years, in one last desperate attempt,
 I settled for changing my family...those close to me,
 but alas, they would have none of it.

And now as I lie on my deathbed, I realize:
 If I had only changed myself first, then by example,
 I might have changed my family.

From their inspiration and encouragement,
 I would have been able to better my country,
 And, who knows, I may have even changed the world.

Business not meeting public's expectations



Closing the gap on expectations

Q52-69. How important is each of the following actions to building your TRUST in a company? Use a nine-point scale where one means that actions is "not at all important to building your trust" and nine means it is "extremely important to building your trust" in a company. (Top 2 Box, Very/Extremely Important) General Population in 25 country global total (excludes 'Don't Know' responses); Q103-118. Please rate [INSERT COMPANY] on how well you think they are performing on each of the following attributes. Use a nine-point scale where one means they are performing "extremely poorly" and nine means they are performing "extremely well". (Top 2 Box, Performing Very/Extremely Well) General Population in 25 country global total



Academic Response

Mollie Painter-Morland

DePaul University, USA

In his introduction, Dr. Straub announces his intention to create cognitive dissonance within our community of thought leaders in Business and Society, and to challenge us to critically interrogate the lenses through which we see the world. I would like to take up this challenge by offering some suggestions on how this cognitive dissonance registers within academic scholarship around sustainability, in essence, in questions around the purpose of the firm. In this brief response, I will offer some reflections on how sustainability has been defined and the key challenges this poses to the frames of reference within which contemporary business operates. I will suggest that in moving sustainable enterprise forward we need to ask serious questions on the purpose of business in society. I will then attempt to draw out some key insights within the contemporary leadership literature, which may allow us to reconsider the ways in which leadership for sustainability is typically described.

Dr. Straub's communication provides us with the opportunity to reflect on some of the challenges that we face in moving the sustainability agenda in business ahead at the scale and speed that are required. It reminds us of the conceptions of business that continue to remain firmly in place. As such, it requires of us careful consideration of the way in which this may create certain blindspots, or at least conceptual challenges, in our attempts to mainstream the sustainability agenda into everyday business operations. Let us start with the priority that Dr. Straub's places on the achievement of the economic mission of the enterprise, and his reiteration of Drucker's contention business's main purpose is to create and keep a customer. We will then look at the way in which this may influence our understanding of "sustainability."

Sustainability is typically defined as "meeting current needs without compromising the ability of others, or future generations to meet their needs" (Brundtland 1987). If we take seriously Drucker's contention that the main purpose of business is to create and keep a customer, we quickly recognize the challenge. Since

the economic imperative indeed remains the top priority within many business models, “need” is considered synonymous with consumer desires, which do not necessarily exist, but have to be created to satisfy economic imperatives. A further problem with many business models is that they simply equate the “needs” of those in the developing world with the “needs” of those in the developed North. As such, MNCs often artificially create consumer needs in order to fuel growth and profit maximization in developed countries. In terms of what we choose to consume, how it is produced, and how its life-cycles are managed, we maintain too many industrial processes that “takes, makes and wastes” (McDonough and Braungart 2002). Paradoxically, this way of defining and meeting customer “need” actually undermines sustainability. Given increased population rates and resource depletion, it is just not viable for the whole world to live and consume at the rate that many have become accustomed to within developed countries.

A more appropriate definition of sustainability may read: “sustainability means re-evaluating our current needs in order not to compromising the ability of others, nor future generations to define and constantly reevaluate their needs.” “Need” should therefore be recognized as a social construction that develops over time (Painter-Morland 2010a, 2010b). If so, the good news is that we can continually redefine “need” from the perspective of sustainability and radically rethink our business models—maybe with some difficulty, but it is possible. If creating and keeping a customer remains the priority, we have to think carefully about which kind of customer “need” would be sustainable over the long term, and also pursue a much more inclusive stakeholder engagement model in terms of identifying such needs.

There is therefore a growing acknowledgement that what makes ethical business real is the ability to respond to real people with names, faces and families. McVea and Freeman (2005, 57) show how companies, like Hertz, have improved their business model significantly by redesigning their operations to focus on real people with names and dealing with them on a face-to-face, personalized basis. The further challenge however lies in allowing these real people with names and faces to problematize the notion of “business as usual,” even when it seems inconvenient or not so expedient to do so (Bevan and Corvellec 2007, 210). Interactions with real people do not mean much if they do not bring us to question our own ethics and the possible insufficiency of our response to them.

Dr. Straub’s analysis of how business fails to meet public expectations shows that much still needs to be done to restore trust in business, and the biggest gap lies not in how business delivers financial value, but in how it listens to customer

needs and feedback, and how it values employees. If innovation is indeed the new social responsibility of business, we need innovations that place customers ahead of profits, treat employees well, and conform to ethical standards. A question that emerges here is whether customers will indeed demand, and be willing to pay for sustainable innovations. Here, behavioral research needs to be combined with ethical awareness-raising in influencing consumer demand in the direction of sustainable products and services.

The urgent conversation that unfortunately seems to remain marginal in many of our discussion is that of how we should (re)define the purpose of the firm. Influencing and responding to “need” in a sustainable way will entail a process of *ethical* evaluation, i.e., a process of investigating and reconsidering what we value. Ethics refers both to those principles that have emerged as worthy of protection over time, and to the habits that shape our existence on an everyday basis. Contemplating the “ethos” that we want to protect through thought and action is supposed to help us evaluate how we want to live, and what we ought to do to protect what we value. The disciplines of business ethics and CSR have largely been focused at telling us how to “manage” business as usual in more ethical ways, but for some reason, it has stopped asking the first, more important question—namely, how should we live? What should we value? And how should capitalism conform to, and support what we value?

Some authors, like James Gustave Speth (2006) present us with the chilling implications of the continuous growth imperatives of modern capitalism. The question is whether these facts can bring us to challenge the idea that “growth” is how corporate success has to be defined. Unfortunately no-growth arguments tend to pit environmentalists and business leaders against one another in ways that are not always helpful. The challenge lies in identifying the kind of growth that optimizes what we as human beings value. Some companies have already started doing this. Some decide against growth because they feel that sustaining their current product line, employee base and interactions with communities makes more sense as a sustainable relational reality. This does not mean that there is no growth, it just implies growth in different areas, and growth of a different nature. Strengthening relational ties with customers and suppliers, fostering good relationships with their employees, building strong teams, and staying in touch with their local community are some of the most pressing concerns for these companies (Burlingham 2006).

It is clear that considering these questions requires leadership and some broad-based changes in mindsets, which brings us to Dr. Straub’s discussion of

transformational leadership. Transformational leadership, as an alternative to transactional leadership, does allow us to look beyond short-term transactional objectives towards longer-term relationships with a variety of stakeholders. Scholars have also underscored the importance of a leader's commitment to core values and his/ her ability to inspire others to pursue values-driven goals and aspirations (Collins and Porras 2002, 2006). Though transformational leadership has gone a long way towards displaying the importance of values-driven leadership, the focus of this leadership paradigm remain on a few exceptional individuals who display certain specific leadership traits and are assigned to specific positions within a corporate hierarchy. The problem is that when it comes to the sustainability challenge, important as individual leaders may be, they may not be able to drive the changes that are needed at the speed and scale required, and may not have the insight into everyday operational challenges to mainstream the sustainability agenda into every part of the corporation. Within the leadership literature there have been significant research into models that allows us to redefine leadership in more relational terms (Maak and Pless 2006; Painter-Morland 2008), in order to build the kind of networks and relationships that will allow comprehensive moral responsiveness and accountability to emerge and to be sustained.

From the perspective of systemic leadership, leadership is not necessarily restricted to individuals appointed to positions of authority. Multiple authors, drawing on various disciplinary perspectives, reiterate the importance of understanding leadership as something that goes beyond individual "leaders" in order to explore and acknowledge a distributed understanding of leading. For instance, it has been informed by Peter Senge's work on organizational learning and change, and Karl Weick's sense-making theories. The basic contention is that an organization cannot properly learn, change or create meaning without the sharing of information and cooperative agreements. In this process, a variety of people and teams "lead" at different moments. Senge and Kaufer (2000) speak about "communities of leaders," while others make reference to "distributed leadership" (Friedman 2004), or relational leadership (Maak and Pless 2006).

An influential definition of systemic leadership is provided by Collier and Esteban (2000, 208) who describe leadership as "the systemic capability, distributed and nurtured throughout the organization, of finding organizational direction and generating renewal by harnessing creativity and innovation." This however does not mean that there is no place for assigned leadership roles and hierarchy. Systemic leadership involves a number of different leadership dynamics. Uhl-Bien, Marion and McKelvey (2007, 311) describe these as "administrative," "adaptive"

and “enabling” leadership. Whereas administrative leadership applies to those assigned to positions of authority, adaptive and enabling leadership are emergent phenomena that allows various individuals to step in and out of the leadership role, and enable others to do so as well, as the situation requires. In facing up to sustainability challenges, we need to work towards broad-based change, on various operational levels, and across organizational silos. Systemic leadership offers the possibility of doing so, and sustaining the responsive leadership patterns that will be required to respond to the challenges as they continue to emerge.

If Dr. Straub succeeded in stimulating some critical reflection within our community, it is because of his ability to focus our attention on certain paradigms that remain firmly in place within contemporary capitalism, namely: fulfill the economic mission first, recognize the creation of the customer need as a crucial component of fulfilling this mission, prioritize employees as important partners, and find the individual transformational leaders to drive this process. As an academic who shares Dr. Straub’s commitment to see sustainable enterprise become a reality, I wonder if we could place the emphases in slightly different places. Could we redefine the economic purpose of the firm as one committed only to values-driven growth? Could we listen to communities’, customers’ and employees’ conceptions of value, before we invent non-sustainable “value” for them? If consumers are inevitably being influenced, could this be done in a way that reflects the priority of creating sustainable enterprises? And could we empower a broader group of people to lead on sustainability, along with the many transformational leaders who may already be committed to the cause, but lack the capacity to mainstream this agenda? Responding to the urgent challenges that face us requires honest and open conversation about these possibilities. Exploring these questions together, as academics and practitioners, is surely our best chance at coming up with some solutions.

Endnotes

1. See <http://www.ge.com/innovationbarometer/downloads.html>.
2. See report in French <http://bit.ly/Ac7aRq>.
3. See <http://bit.ly/xxuHv1>.
4. See <http://bit.ly/AfvtRl>.

References

- Amabile, Teresa, and Steven Kramer. 2012. “How Leaders Even Kill Meaning at Work.” *McKinsey Quarterly* <http://bit.ly/ygh879>.

- Bevan, D., and H. Corvellec. 2007. "The Impossibility of Corporate Ethics: For a Levinasian Approach to Management Ethics." *Business Ethics: A European Review* 16(3): 208–219.
- Brundtland, G. H. 1987. *Development and International Economic Co-operation: Environment*. Report of the World Commission on Environment and Development. United Nations.
- Burlingham, Bo. 2005. *Small Giants: Companies That Choose to be Great Instead of Big*. New York: Portfolio Press.
- Collier, Jane, and Rafael Esteban. 2000. "Systemic Leadership: Ethical and Effective." *The Leadership and Organizational Development Journal* 21(4): 207–215.
- Collins, Jim, and Jerry I. Porras. 2002. *Built to Last: Successful Habits of Visionary Companies*. New York: Harper Business Essentials.
- Drucker, Peter. 1954. *The Practice of Management*. New York: HarperBusiness.
- Friedman, Audrey A. 2004. "Beyond Mediocrity: Transformational Leadership within a Transactional Framework." *International Journal of Leadership Education* 7(3): 206.
- Maak, Thomas, and Nicola M. Pless. 2006. "Responsible Leadership. A Relational Approach." In *Responsible Leadership*, edited by Thomas Maak and Nicola Pless. London: Routledge.
- McDonough, William, and Michael Braungart. 2002. *Cradle to Cradle*. New York: North Point Press.
- McVea, John F., and R. Edward Freeman. 2005. "A Names-and-Faces Approach to Stakeholder Management: How Focusing on Stakeholders as Individuals Can Bring Ethics and Entrepreneurial Strategy Together." *Journal of Management Inquiry* 14(1): 57–69.
- Painter-Morland, Mollie. 2008. "Systemic Leadership and the Emergence of Ethical Responsiveness," *Journal of Business Ethics* 82: 509–524.
- . 2010a. "Derrida and Business Ethics: Ethical Questioning (and)(or) Questioning Ethics," *Business Ethics: A European Review*, Special edition on "Derrida and Business Ethics" 9(3): 265–279.
- . 2010b. "Global Principles (as)(or) Ethical Responsiveness: The Case of Sustainability Rhetoric." In *Power and Principle in the Market Place: On Ethics and Economics*, edited by Jacob Dahl Rendtorff. Burlington, VT: Ashgate Publishing.
- Psychogois, A. G. 2007. "Towards the Transformational Leader: Addressing Women's Leadership Style in Modern Business Management." *Journal of Business and Society* 20: 160–180.
- Senge, Peter, and Katrin H. Kaufer. 2000. "Communities of Leaders or No Leadership At All." In *Cutting Edge: Leadership*, edited by Barbara Kellerman and Lorraine R. Matusak. College Park, MD: James Macgregor Burns Academy.

- Speth, James Gustave. 2006. *The Bridge at the Edge of the World*. New Haven, CT: Yale University Press. Kindle edition.
- Ul-Bien, Mary, Russ Marion, and Bill McKelvey. 2007. "Complexity Leadership Theory: Shifting Leadership from the Industrial Age to the Knowledge Era." *The Leadership Quarterly* 18(4): 298–318.