

Erik G. Hansen

Responsible Leadership Systems

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Markt- und Unternehmensentwicklung / Markets and Organisations

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Change of institutions, technology and competition drives the interplay of markets and organisations. The scientific series 'Markets and Organisations' addresses a magnitude of related questions, presents theoretic and empirical findings and discusses related concepts and models.

Erik G. Hansen

Responsible Leadership Systems

An Empirical Analysis
of Integrating Corporate Responsibility
into Leadership Systems

With a foreword by
Prof. Dr. Prof. h.c. Dr. h.c. Ralf Reichwald



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Bibliographic information published by the Deutsche Nationalbibliothek
The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie;
detailed bibliographic data are available in the Internet at <http://dnb.d-nb.de>.

Dissertation, Technische Universität München, March 2010

1st Edition 2010

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Editorial Office: Ute Wrasmann | Sabine Schöller

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Springer Fachmedien is part of Springer Science+Business Media.

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Cover design: KünkellOpka Medienentwicklung, Heidelberg

Printed on acid-free paper

Printed in Germany

ISBN 978-3-8349-2386-8

To my grandma Elfriede

Für meine Oma Elfriede

Foreword

Not all managers in multinational corporations can be exceptional leaders. Hence, corporations provide their managers with a broad set of instruments, methods and tools to support them in achieving outstanding leadership. These instruments stem from various functions like human resources, controlling, corporate communication, strategic management, and knowledge management and present the building blocks of so called leadership systems. A key question is how leadership systems can be aligned with corporate strategy to reach “leadership excellence” — a question that has been subject to empirical research in the recent years. In 2003, a study at my institute at Technische Universität München has shown that most leadership systems are indeed “excellent” in the way they are derived from the overarching corporate strategy; however, the results have also indicated that leadership systems have only weak ties to topics such as values, ethics, and social responsibilities.

The major ethical and environmental crises which many of the multinational corporations have been facing motivated the author to revisit the topic of leadership systems. He roots his understanding in new management concepts such as corporate social responsibility (CSR), corporate sustainability and, more generally, corporate responsibility (CR) and has argued that leadership systems need to go beyond purely economic aspects to also integrate social and environmental aspects. Such a holistic leadership system, the author terms “Responsible Leadership System”. In 2007, the author designed an empirical study labelled “CSR Leadership Study”, whose results are at the core of the present research.

In his work, the author first introduces the concept of CR, then integrates literature from both leadership systems and CR in a systematic (responsible leadership systems) framework, and, ultimately, presents empirical findings about how multinational companies actually implement such systems.

The book appeals by its broad scope of theory, its unique framework development, and the broad empirical findings. It has been accepted as doctoral dissertation in 2010 by the TUM School of Management at the Technische Universität München. The book deserves broad dissemination both in the research community and in management practice. It is especially recommended to those dealing with leadership, organizational culture, and corporate strategy wanting to strengthen the link to CR.

In a time where the traditional, often amoral, concepts of leadership and management have been ever more challenged and questioned, this book comes very timely. I am deeply convinced that only corporations that integrate leadership systems and CR will be successful in the future.

I truly recommend this book as a valuable reading and resource. It promises new insights and explorations in the important field of social and environmental aspects of leadership systems.

Acknowledgements

This book was built on the basis of collaboration. Whilst there were many more individuals involved, I especially acknowledge the support of the following ones:

- This study roots in prior leadership research of the Institute of Information, Organization and Management of *Prof. Ralf Reichwald*. It is due to his foresight and unquestioned support that enabled me to follow a normative, corporate responsibility-oriented approach to leadership. I also thank *Prof. Kathrin Möslein* for supporting this project and for contributing her expert knowledge on leadership systems in times it was necessary.
- The “CSR Leadership” research project¹ underlying this work only exists because it received generous financial support by the *Peter Pribilla Foundation*. I thank the entire board of the foundation for supporting my research.
- I also thank *Prof. Frank-Martin Belz* for allowing me to participate in his research seminars and for accepting his invitation to be member of the doctoral committee.
- Of course, an empirical study lives from corporate data, which I owe to the many *practitioners* from a broad field of companies openly exchanging insights with me. Without naming those individuals most influential to this study, I especially thank them for stripping away a serious amount of time from their busy schedules, for providing me with deep access to the companies’ internal structures and protagonists, and for simply sharing their worldviews with me.
- I also express my gratitude to *Stiftung Wertevolle Zukunft*, especially to *Dr. Jesco Kreft* and *Christiane Staffhorst*, for their immediate support of the project in a very early phase of the research. It is up to them that I got valuable access to some of the companies participating in this study.
- *Dr. Angelika Bullinger* was probably most responsible for making me start my academic career at Technische Universität München at the Institute of Prof. Ralf Reichwald. As my friendly reviewer, Angelika contributed to my doctoral thesis with continuous and intense conceptual and emotional support. I want to express my deep-felt gratitude for her continuous motivation to accomplish this doctoral project, even during times facing the greatest trouble. Angelika, your faith in me was crucial! The same goes to *Bruno* for his support-by-writing-postcards!
- A study of this scale depends on a research team to accomplish all the diverse tasks related to literature review, data collection, data analysis, and publication. I thank my students *Friedrich Große-Dunker*, *Martin Sextl*, *Sabrina Adamczyk*, and *Susanne Kuntze* for conducting partial empirical investigations and analyses and, thus, contributing to the success of the study. In a very early phase of the project, the interest and ambition of

¹ The formal title is: “Sustainable Leadership in a Globalised World”.

Susanne was especially important, because she challenged me to think more thoroughly about the study.

- All of the above tasks have also been continuously supported by my student worker *Dustin van Delden*. Beyond these, Dustin has also been responsible for the development of the website of the “CSR Leadership” research project underlying this work (<http://www.csr-leadership.org>). It has always been a great pleasure to work with such an enthusiastic, supportive, and loyal individual; he receives my dedicated gratitude.
- I thank *Dr. Moritz Gomm* (again) for mentoring me during my Master’s Thesis at Technische Universität Darmstadt which raised my interest in academic work. He was also the first one seriously motivating me to follow a doctoral degree. Then, along the way, he always offered me his support which contributed to a feeling of security.
- I owe *Stephan Polomski* a debt of gratitude: Stephan’s provocative feedback (something I got used to along the years) in the phase where I was still searching for a topic to study, was decisive for taking all my courage to target the topic I really felt personally attached to as well as to “fight” it through all existing hurdles — in other words, he made me follow my inner mission.
- I am deeply grateful to *Bubu* for implanting a seed of environmental consciousness and social justice into myself – it came to life in the preparation and development of this work.
- *Dr. Heiko Hosomi Spitzreck*, though I got to know him in a late phase of the project, helped me to reenergise my mission. I also thank him for giving me access to new parts of the corporate responsibility community. In him, I found a friend and colleague with comparable mindset and goals. He also gave me valuable feedback on an early draft of my thesis which helped to achieve the final steps.
- I also owe thanks to *Dr. Christian Thiel* who pro-actively offered me access to practitioners and other resources. As of serious time constraints, I could not follow all of his generous offers — which I apologise for.
- I also thank *Dr. Hagen Habicht* for a late-night mentoring session with whiteboard and wine in early 2007 where he “forced” me to externalise my theoretical concept.
- My mum *Ulrike Dorothee Hansen* receives sincere thanks for supporting my mission, believing in my ability to accomplish the project, as well as for “feeding me” in times my cognitive capacity could not cope with real-life issues like “making purchases” or “preparing food”.

In sum, I can confirm the experience of many of my predecessors (following a comparable project) that the process of “doing” a doctoral thesis is a life-learning experience which needs a strong personal belief and discipline as well as strong support of family, friends, and colleagues. I encourage everybody who feels inspired by this idea to follow this path — besides all the discomfort it is an extremely rewarding experience.

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Abbreviations

BOP	Bottom/base of the pyramid
BSC	Balanced scorecard
CC	Corporate citizenship
CCI	Corporate community involvement
CO ₂	Carbon dioxide
COM	European Commission
CS	Corporate sustainability
CSP	Corporate social performance
CSR	Corporate social responsibility
CR	Corporate responsibility
DAX	Deutscher Aktien Index (German stock index)
DJSI	Dow Jones Sustainability Index
DTI	Department of Trade and Industry
EBIT	Earnings before interests and tax
EFMD	European Foundation of Management Development
ECI	Employee community involvement
EFQM	European Foundation for Quality Management
EHS	Environment, health, and safety
GLS	Generic leadership system
GRI	Global Reporting Initiative
HR	Human resources
HRD	Human resource development
ILO	International Labour Organization
IPM	Integrated product management
ISO	International Organization for Standardization
KPI	Key performance indicator
LBG	London Benchmarking Group
LCA	Life-cycle analysis
LD	Leadership development
LOHA	Lifestyle of health and sustainability
MBA	Master of Business Administration
MIT	Massachusetts Institute of Technology

MNC	Multinational corporation
NGO	Nongovernmental organisation
NOx	Nitrogen oxide
OECD	Organisation for Economic Co-operation and Development
PRI	Principles of Responsible Investment
PRME	Principles of Responsible Management Education
RLS	Responsible leadership system
R&D	Research and development
SAM	Sustainable Asset Management Group
SBSC	Sustainability balanced scorecard
SIC	Sustainability innovation cube
SOI	Sustainability-oriented innovation
SO _x	Sulphur oxide
SRI	Socially responsible investment
SV	Sustainable value
TBL	Triple bottom line
TQM	Total quality management
TRM	Total responsibility management
UN	United Nations
UNGC	United Nations Global Compact
VOC	Volatile organic compound
WBCSD	World Business Council on Sustainable Development

INTRODUCTION

1 Point of Departure

“Creating a sustainable future, economically, socially and environmentally requires governments, society, organisations and individuals to rethink how we use our resources, how we interact, and what we want to achieve. There is increasing recognition that we are all part of a complex and interdependent system.” (SIGMA, [2003]:1)

We are in the midst of change of societal values with respect to the natural environment, technology, and global distribution of resources (Picot, Reichwald & Wigand, 2003: 4, 2008: 5). More and more people think about the “quality of life for all people” (Wood, 1991b: 385) rather than narrow economic benefits. These changes, *systemic* in nature, begin to emerge in various groups of society (e.g., IBLF & SustainAbility, 2001: 11). Just to give some examples: Ethical consumers increasingly consider social and environmental criteria in their buying decisions; a growing share of private and institutional investors make investment decisions based on social screening services; talents and employees, more than ever, demand “purpose” in their jobs, which is often related to just, fair, and meaningful organisational practices; and governments around the world are implementing stricter environmental and social policies.

These subtle changes have been accelerating through increased *excesses* in the economic system (Lockwood, 2004: 2). On a *macro level* (aggregation of all economic activity), this is represented by increasing destruction of the natural environment resulting in climate change (2007), increased use and pollution of land and water, and decreasing biodiversity. Further, it is represented by raising inequality, both between developed and developing nations and between various groups within nations. On a *micro level*, various *corporate crises* demonstrated the excesses of individual top-managers or even larger parts of the management (e.g., Malik, 2006: 55; Matten & Moon, 2008: 414; Thomas, Schermerhorn & Dienhart, 2004: 56; Wieland, 2004). Examples often cited are Enron’s accounting fraud (Maak & Pless, 2006: 33), Shell’s decision to sink “Brent Spar” (Wade, 2006: 228,229); the chemical disaster at Bhopal in India (Elkington, 1994: 91), and recent corruption scandals in Germany’s multinationals. Managerial greed and ignorance often led individual businesses into bankruptcy and, as current financial crises demonstrates, can even jeopardise entire industries. The overemphasis of economic aspects in management were spurred especially by the *shareholder value ideology*, which poses return on investments above all else. Interestingly, in a newspaper interview in the midst of the financial crisis 2009, the so called “father of shareholder value movement”, Jack Welsh, called the shareholder value concept “a dumb idea” (Guerrera, 2009). This may be another sign for that we are in a process of changing paradigms.

Globally, a vast majority of CEOs recognise increasing external expectation regarding the responsibilities of business (Bielak, Bonini & Oppenheim, 2007: 1). Maak and Pless refer to

this expectation as the challenge for business “how to rebuild trust” (Maak & Pless, 2006b: 101; cf: Brown & Treviño, 2006: 608). One increasingly recognised concept to address the above challenges is *corporate responsibility (CR)*. CR aims at transcending the sole focus on economic responsibilities of management to also cover social and environmental responsibilities. Often, to date, CR is still neglected or considered as something too “soft”. However, this is no different then what, in its earlier days, people thought about the quality movement (Waddock & Bodwell, 2004: 29), a concept of unquestioned importance in to dates most successful companies.

However, in the short and mid-term, corporations have discretion about whether to be a driver, a follower, or an opponent of the concept of CR. Being at the forefront of this movement is a *leadership task* (Brown & Treviño, 2006: 608). Where the described challenges as well as the related opportunities are complex and uncertain in its extent, leadership needs to provide a clear vision and goals, in other words, provide stability. Often, individual leaders are key. Consider, for example, Jack Welsh who brought sustainability to the core of GE’s business by furthering environmental technologies through the “ecomagination” initiative. Also, Lord Browne’s famous speech on the responsibilities of oil business to engage in renewable energies, even though to date criticised for being “green wash” (Elkington, 2006b: 26), had major influence across the sector.

Whilst this CEO leadership is key to any change effort in organisations, *cultural change* requires a much broader approach of leadership *and* culture (Schein 1985/2004) because individual morality can quickly reach its limits so far not supported by the organisation (Wieland, 2004: 14). More specific, corporate leaders are constrained in their behaviour by instruments, systems, and tools, so called *leadership systems* (Huff & Möslin, 2004; Möslin, 2005).

2 Research Gap and Research Objective

This present work focuses on leadership systems, including instruments, systems, tools, strategies, and structures instrumental to make CR an integral part of organisational culture. Little is known today about effective business integration of CR from such a leadership system's perspective. Most research is dedicated to small elements of organisational implementation. This breaking down into ever smaller peaces is also a consequence of increased orientation towards quantitative studies with statistical analysis (e.g., regression analysis). Exemplary studies focus on values statements, code of conducts, or sanctioning systems (e.g., Urbany, 2005; Weaver, Treviño & Cochran, 1999).

Few studies take a holistic perspective on CR integration, in the sense that they cover broader types of instruments and tools. The small amount of existing studies, are often limited to a theoretical-normative approach (Doppelt, 2003; Epstein, 2008a). Also, a large variety of practitioner-oriented literature, mostly from professional service firms, is available (e.g., BMU, econsense & CSM, 2007; GTZ, 2006; IBLF & SustainAbility, 2001; WEF & IBLF, 2003; Economist Intelligence Unit, 2007; Quinn & Baltes, 2007). Academic empirical studies are even fewer, and still limited in the one or other way. Most considerable is the research effort around a group of researchers at IMD business school (e.g., Eckelmann, 2006; Salzman, 2006; Steger, 2004; Steger, Ionescu-Somers & Salzman, 2007). However, their research follows the *business case* for CR (i.e., CR as a means to raise profits), which I regard as too narrow. This research also lies significantly in the past (data conducted around 2003) and it seems that, since then, organisational approaches towards CR have developed somewhat further. Other empirical studies remain on the surface because they are method-wise solely based on corporate disclosure like reports (Morgan, Ryu & Mirvis, 2009), include only very few cases (Bieker, 2005; Treviño, 1990); or are industry specific (Schmitt, 2005). Some multi-case studies in European MNCs also exist (Hind, Wilson & Lenssen, 2009, Wilson, Lenssen & Hind, 2006; Wirtenberg et al., 2007).

The above review demonstrates that empirical evidence on CR integration in business is very limited. Further, no holistic study exists focusing on *German* companies. This thesis aims at advancing empirical knowledge on CR integration. The overall research question is the following: What is the role of *leadership systems* in making CR integral to the way large-scale corporations do business? This rather abstract question is operationalised by three research questions on a more detailed level:

- 1a. Which formal systems and instruments exist to make CR part of the corporate leadership agenda ("existence")?
- 1b. How are these systems and instruments implemented in practice ("implementation")?
- 1c. How are these systems and instruments interrelated in the sense of an overall formal leadership system ("systems perspective")?

The present work aims to answer these questions. The underlying research was conducted within a study called "CSR Leadership" belonging to the project "Sustainable leadership in a globalised world" funded by the Peter Pribilla Foundation and executed by the author at the

Institute for Information, Organization and Management at Technische Universität München.
The time period of the project was from 2007 to 2009.

3 Outline of Thesis

This work is composed of four parts (Figure 1). *Part I* introduces *corporate responsibility (CR)* as an *umbrella term* for the research fields of corporate social responsibility, stakeholder management, sustainable development, and corporate sustainability. After a brief historical overview, each of these concepts is presented in dedicated form. Based on the insights from each of these concepts, the *terminology* used in the reminder of the work is defined. The understanding of CR is completed by presenting more *specific issues* related to CR. Based on this overall understanding of CR, two different *motivations to engage in CR* are presented: The *moral case* regards CR as “the right thing to do”, whereas the *business case* considers CR as an investment with positive economic effects. Additionally, a perspective of *organisational learning* is given in order to demonstrate the development of CR in organisations over time.

Part II starts by acknowledging the important *role of leadership* in making CR integral to organisations. Based on this, a brief overview of different research perspectives on how to integrate CR in the organisation is given and the focus on *formal (leadership) systems* is set. Subsequently, the *generic leadership systems framework* is presented as overarching structure for the literature review. The framework contains seven fields. The *core fields* address leadership instruments in the area of leadership as a day-to-day interactive process, leadership metrics, leadership deployment, and selection of leaders and leadership development. These interact with three *contextual fields* of strategy, structure, and culture. The subsequent literature review uses the structure of these seven fields in order to presents *leadership instruments for CR-oriented change*. Each instrument is reviewed according to its characteristics, current practice in corporations, and weaknesses. This review results in a conceptual *responsible leadership systems framework*.

In *part III* the responsible leadership systems framework is applied in an empirical study in multinational corporations based in Germany. First, the multi-case study research strategy is described including research design, selection of sample, data collection, and data analysis. Second, I describe the results. Findings are presented in each of the fields of the framework and result in the *responsible leadership systems toolbox*. Subsequently, an overall analysis contributes to the systemic understanding of the framework. Third, I discuss the findings.

Finally, *part IV* draws conclusions on the research project. Based on a brief summary, implications for theory and practice are given. Then, limitations are presented and further research is indicated. This part finishes with a brief outlook.

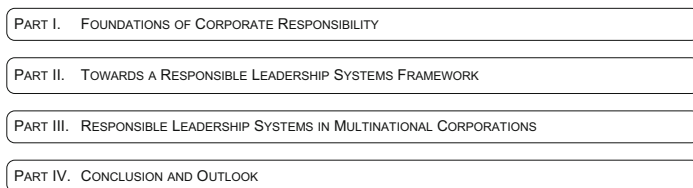


Figure 1 Graphical Representation of Structure

Part I. FOUNDATIONS OF CORPORATE RESPONSIBILITY

Research in CR spans a broad field of diverse paradigms and research streams. All these streams were developed to focus on particular topics or to take particular perspectives into account. To develop a thorough foundation for the later parts of this thesis, I elaborate CR in more detail.

In the *chapter four*, I introduce the essentials of various theoretical streams, including corporate social responsibility, stakeholder theory, and corporate sustainability. I finish this chapter with a working definition of CR. The *chapter five*, explains two major motivational drivers for CR, the moral and the business case. Then, in the *six chapter*, an organisational learning perspective for CR is introduced which explains how companies advance from defensive to more pro-active stages of CR. This part ends with a summary (Figure 2).

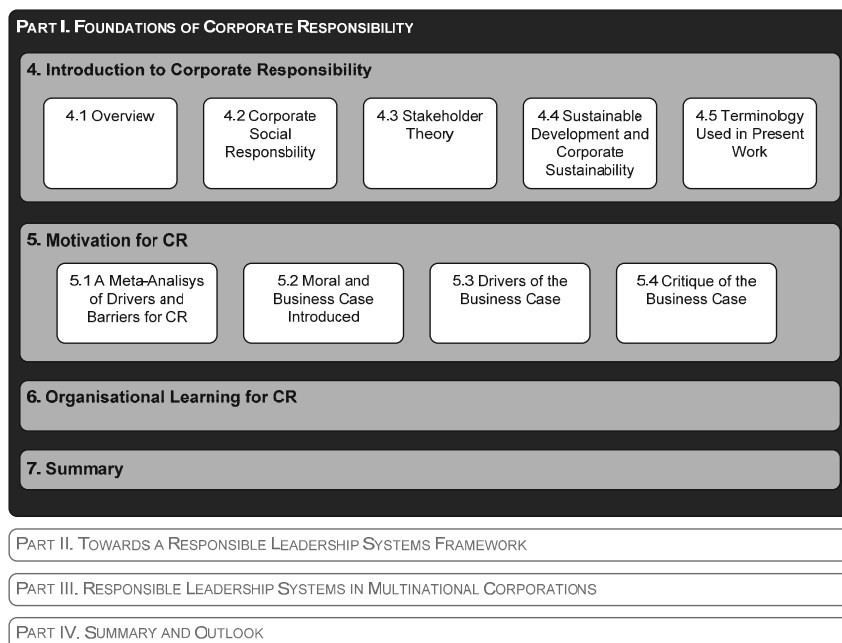


Figure 2 Structure of Chapter