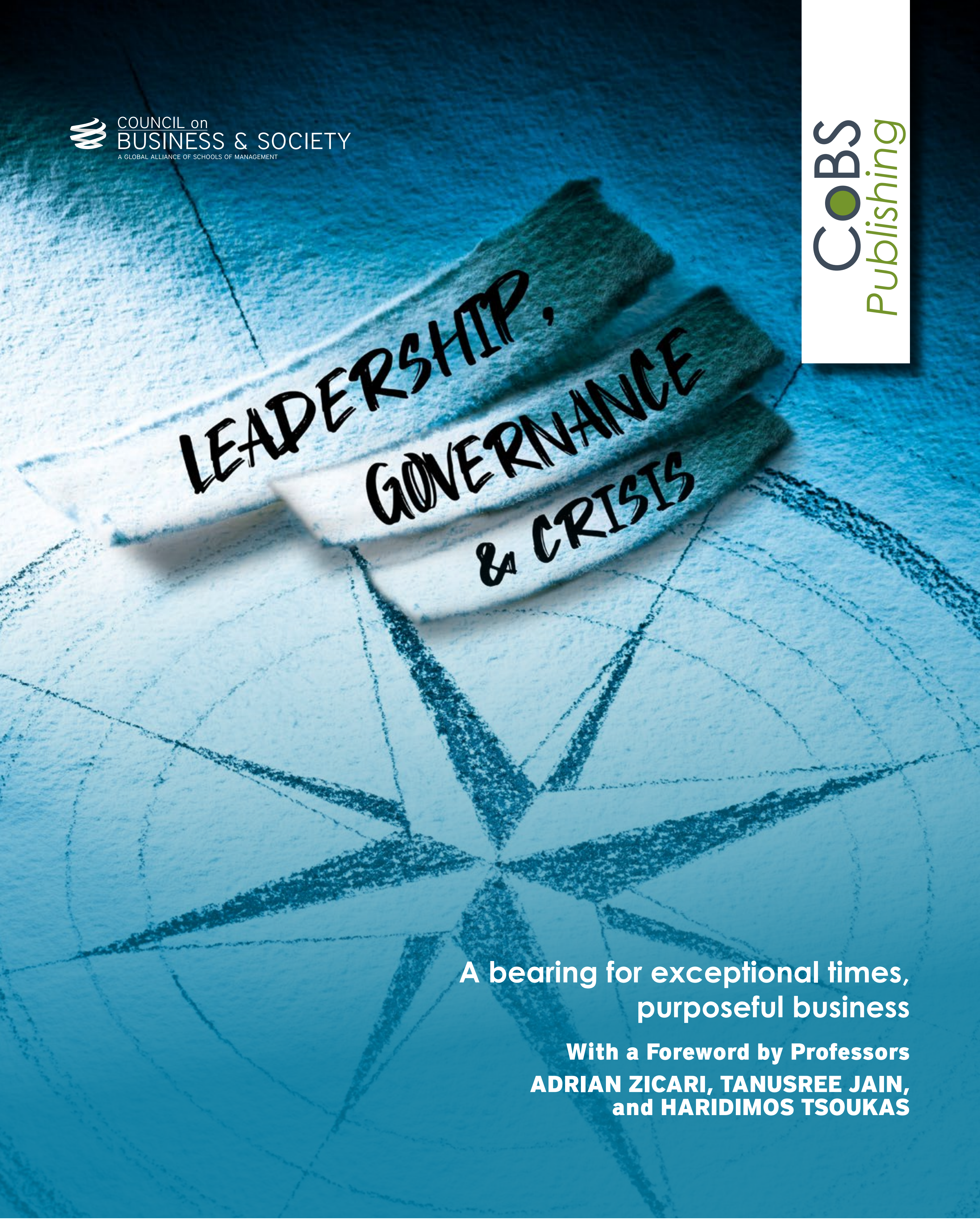

COUNCIL on BUSINESS & SOCIETY
A GLOBAL ALLIANCE OF SCHOOLS OF MANAGEMENT

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LEADERSHIP, GOVERNANCE & CRISIS

A bearing for exceptional times, purposeful business

With a Foreword by Professors
ADRIAN ZICARI, TANUSREE JAIN, and HARIDIMOS TSOUKAS

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LEADERSHIP, GOVERNANCE & CRISIS

Compiled and edited by Tom Gamble,
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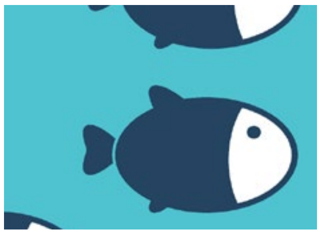

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FOREWORD

By Professors Tanusree Jain, Trinity Business School, Trinity College Dublin, Haridimos Tsoukas, Warwick Business School, University of Warwick, and Professor Adrian Zicari, ESSEC Business School.

Crises are not new to the Human Race. Through the turn of centuries and now well into the 21st, crisis may even be viewed as a normal state in a world characterized by competing economic and governance schools of thought, complex systems, rising standards of living amidst diversity of cultures and behaviours – not to mention our now full-grown awareness of the impact of this expanding human activity on our planet and beyond.

Despite our continuing attempts since the beginnings of society to understand the complexity of the inter-connected world around us – indeed creating some degree of restraint – and to maintain an element of control, it can well be deduced that crises are somewhat unavoidable given the fallibility of humankind. Each successive generation has seen its share of them but the current arguably faces one that could well spell the end of human civilization as we know it.

The large-scale upheavals of recent times have left people without a compass bearing which has created extremity of thought and of leadership, exacerbated fears and concerns over a 'new unknown', and challenged the very way in which business and society has been functioning for the last several decades. Here, we may think of the persistent economic and social misgivings of the Great Depression and the Global Financial Crisis, the surge of virtual currencies, the large-scale burden on energy consumption, and digital disruption that redefines many long-standing industrial relations. Add to this the now, indisputable evidence of humankind's negative impact on the environment and the urgent need to now work with nature and not against it.

THE WAY FORWARD

Despite society's growing distrust in governments and leaders, we believe that both our institutions and corporations are in a unique position to effectively and efficiently address the wicked problems of our times and those of the future. They have the resources necessary to create stability for billions of people and for our environment, and they have the capability to create purposeful living that integrates respect for both human and species diversity, while catalysing innovations for the common good through development of clean energies, virtuous supply chains and the circular economy.

In order to achieve this, we identify three essential areas of impact: Ethical leadership, responsible governance, and authenticity through social and environmental accounting.

Ethical leadership is a first priority. It involves the ability to influence others to take a moral stance on issues affecting or related to the organization. Insofar as an organization is a "moral system", its members are driven by a common purpose, ideals and values, which leaders embody in their behavior. Even the most operational activities are underlain by a certain ethos, which leaders exemplify – keeping promises, caring for others, respecting differences, promoting fairness and equality; fostering trust. Ethical leaders feel an intense sense of responsibility to all stakeholders of the organization and to the broader system (ecological and institutional) that sustains their viability. Responsibility requires courage to discharge it – to speak up against inequality; to take a moral stand on matters of value to the community; to take initiatives that advance the common good (both at the organizational and societal level); to lead the way to establish new norms or refine current ones in the face of new challenges. **Ethical leadership** involves humility – one will never know everything; mistakes will be made; everyone has something to contribute to the conversation; we are all vulnerable beings, parts of a broader cosmic order. Responsible leaders know there is life outside their organizations and have created a life story in which they seem themselves as contributors to a better world for the future generations.

And importantly it emphasizes the decision-maker, and the need for **responsible governance** – a collective of diverse voices and viewpoints working through multi-stakeholder expectations, driven towards a purposeful long term vision. On too many occasions, it is by surrounding oneself with silent voices or similar voices that corporate misconduct occurs. The new model of governance has to be agile, gender diverse, collaborative, deliberative and discursive bound by values and inspired by its potentially positive impact on business, society and the planet.

The third pillar for this positive future is the necessity for **social and environmental accounting**. Because measuring is frequently the first step towards managing. As Kaplan and Norton famously said in their research-based article on the balanced scorecard, "What you measure is what you get". Organisations can claim their commitment to social and environmental impact, but there is scant progress unless those impacts are measured, tracked, and eventually communicated to the public. In that sense, the increasingly frequent practice of publishing CSR / Sustainability reports is a step in the good direction. This kind of report backs up the organisation's financial report – on the one hand providing a message of the necessary business performance of a firm, and on the other demonstrating that the firm contributes to society and the planet either directly or indirectly.

And this does not simply have to be the privilege of large organisations – for research and practice have shown that tools such as the Value Added Statement (VAS) allow even sole traders to identify where they have had positive impact on employees, the good of the state, local communities, and the environment. Haller and van Staden (2014) explain that the VAS can become a "practical and effective reporting instrument", thus complementing other reporting standards. For instance, a mining firm in Mexico – one of the largest silver mines in the world – has been using VAS for more than a decade. By this doing, the company discloses how different stakeholders (particularly employees) maintained their share in value distributed over time. Comparable experiences exist in South Africa, Brazil and the UK, among other countries. The takeaway is that even small companies – whose aggregated impact in terms of employment, production and revenue can be significant – can, indeed should use this kind of reporting, as it is relatively simple to prepare and remains meaningful for stakeholders and managers alike.

Crisis is nothing new, though it can be *addressed* anew. Rather than return to old models of tackling crisis with cutbacks and austerity, tighter control over freedom of speech and attempts to muzzle difference be it voice or diversity, we call for leadership that offers positive vision and a world towards which people want to go and which is not imposed. Where innovation does not simply mean taking from the planet's limited resources, or cynically exploiting human resources. And where leadership centres as much on generosity and respect towards others and the wider system as the generating of profit and wealth for the interested few.

TANUSREE JAIN, HARI TSOUKAS & ADRIAN ZICARI

> The crisis has called for a revision of our understanding of corporate citizenship.

THE PRESENT AND FUTURE OF BUSINESS: THE RISE OF THE "NEW NORMAL"

By Dr. Tanusree Jain, Professor of Ethical Business at Trinity Business School, Trinity College Dublin, Dr. Adrian Zicari, Professor, ESSEC Business School, Paris, and Dr. Harry Van Buren, Barbara and David A. Koch, Endowed Chair in Business Ethics, Opus College of Business, University of St. Thomas, Minneapolis.

The Covid-19 crisis has changed the way our systems work, how our companies and organisations operate, and how we lead our daily lives. It's also given us a chance to view the world of business through a different lens. Indeed, the pandemic has changed, and will continue to change, the world in profound ways. Our social, economic and political world will never be the same.

Of late, the role of business has been under the microscope. The cheap talk of many businesses has been exposed and business as usual has been questioned, and rightfully so. Around the world, legislation seeking to provide various forms of support for industries decimated by the pandemic, such as travel and tourism, has been debated and passed. There is also considerable discussion about public economic support for people who are losing part or all of their livelihoods, while exposing how national infrastructures, even in rich nations, have been desperately unprepared for a pandemic of this scale. For every country, getting through the pandemic with a minimum loss of life and human suffering has been the most important goal.

An opportunity to rethink things

While these are all necessary and important conversations that will continue for many months to come, herein lies an opportunity—and we argue, a necessity—for business to rethink what it does in ways that embrace more conscious forms of capitalism. Conscious capitalism is understood as unleashing the heroic spirit of business whereby companies act in ways that better reflect our collective human journey and the present state of our world today, and in so doing use their resources and competencies in ways that promote the common good and help ensure that one day there will be a sense of normalcy in which people and communities can flourish.

This spirit of heroism is being demonstrated today in several ways. Some companies have transformed their processes to fill up the dwindling supplies of products essential to cope with the coronavirus pandemic. Big and small distilleries such as Jameson and Powers Whiskey in Ireland, Moët & Chandon Champagne

in France, 11 Wells Spirits in St. Paul, Minnesota, and BrewDog Beer in the UK are helping with manufacturing hand sanitizers and supplying alcohol in a bid to help with the shortage of it. There are myriad other business examples of repurposing existing skills in new and medically useful ways: Reliance Industries in India is ramping up production of masks, Zara in Spain is manufacturing hospital gowns, while Alibaba in China are collaborating with multiple suppliers to help governments of Asian and European countries protect billions that have faced and are facing the COVID-19 pandemic.

Other companies are enabling access to essential goods to make life easier, especially for the most vulnerable among us. This includes voluntary reduction of prices of hygiene products by fast-moving consumer goods companies in India such as Hindustan Lever and Godrej, proactive action by grocers and supermarkets like the German chain Lidl to prevent hoarding and stockpiling of essential commodities, and introduction of priority shopping hours for those most vulnerable at American retailers such as Target. Free subscriptions are being offered by software providers like Zoom, Microsoft, and Google to support the growing demand of work for home users, allowing people some modicum in productivity and normalcy at a time when both are needed by workers and companies alike. Hotel chains such as The Fletcher and Van der Valk in Netherlands have begun converting some of their hotels into emergency facilities for corona patients, and an Indian startup, Mylab is determined to provide testing kits at one fourth the market prices.

Crisis gives rise to human ingenuity and creativity

Another interesting trend is the organic emergence of problem-solving communities, which have formed on a just-in-time basis to respond to local needs and circumstances. Notably, an Irish team is leading an international community of engineers, designers and medical professionals to design and develop low-cost ventilators. In a similar vein, Malaysian 3D printing and design communities are coming together to produce face shields. The exercise of human ingenuity and creativity is meeting real human need around the world, and these organic problem-solving communities offer important insights about how companies can do the same.

In a sense, this crisis is calling for a revision of our understanding of corporate citizenship. The contribution of companies is no longer limited to philanthropy, very much welcome as it is. In fact, the role of companies is expanding to embrace a commitment to augment and improve societal infrastructures that we too often take for granted in our single-minded focus on tax reductions and fiscal pressures. There will be lots of time in the future to have debates about business responsibility, regulation, and the place of business in society. When there is some semblance of normalcy—which we hope comes soon but we know may not—there are real lessons that we can learn from the responses of companies, large and small, to the pandemic.

The new normal

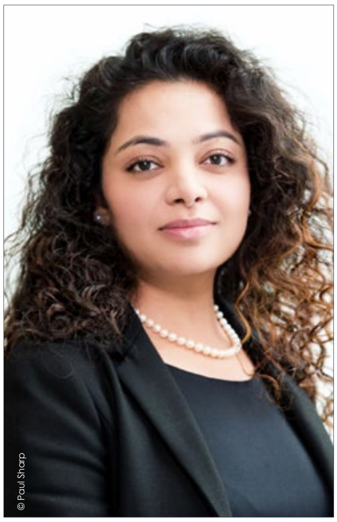
Business is always going to come under critical examination because of its power, responsibility, and numerous examples of irresponsible behavior. We hope that even as we yearn for a day when we can look back at the COVID-19 pandemic as something that happened in the past, the kinds of conscious capitalism that we are seeing today in contemporary responses to the pandemic become part of the "new normal" of business. The challenge for business today and tomorrow is this: how can businesses use their skills, creativity, resources, and capacities to create real value for stakeholders, environment and society? This challenge was fundamental to discussions about business ethics and corporate citizenship before the pandemic. It is essential now and will be absolutely essential from this time forward.

KEY TAKEAWAYS

- The Covid-19 crisis has changed the way our systems work, how our companies and organisations operate, and how we lead our daily lives. The pandemic will continue to change the world in profound ways.
- It has led to the rethinking of the purpose of business and companies.
- Conscious capitalism is understood as unleashing the heroic spirit of business: companies use their resources and competencies in ways that promote the common good.
- During the pandemic, many companies demonstrated this commitment, changing production to medical and hygiene supplies, reducing prices to cater for the most vulnerable, and lending equipment and facilities to victims of the pandemic.
- Another trend is the organic emergence of problem-solving communities, forming on a just-in-time basis to respond to local needs and circumstances.
- The contribution of companies is no longer limited to philanthropy.
- The role of companies is expanding to embrace a commitment to augment and improve societal infrastructures that we too often take for granted in our focus on tax reductions and fiscal pressures.
- But business is always going to come under critical examination.
- The challenge for business is to use their skills, creativity, resources, and capacities to create real value for stakeholders, environment and society.

FOOD FOR THOUGHT

- Some governments have made it mandatory to include the notion of the common good in company statutes. To what extent is this at odds with the very notion of capitalism and profit?
- If you started up your own company, how would you ensure that it benefitted local communities and stakeholders?
- The 19th century saw the rise of 'paternalistic' companies providing healthcare, housing and other welfare benefits to their workers. To what extent are we repeating history?



TANUSREE JAIN

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> As a society, we have assumed that a relentless focus on growth would increase per capita disposable incomes and solve all of our societal problems.

RETHINKING "REDUNDANCY"

Co-authored by Profs. **Tanusree Jain, Trinity Business School, Concepción Galdón, IE Business School, Mario Aquino Alves, FGV-EAESP, Adrian Zicari, ESSEC Business School.**

The COVID-19 driven global healthcare crisis, the eventual impact of which is not yet within sight, calls for collective sense making. Beyond the immediate solutions for now, we also have to assess what the aftermath of this crisis might look like. This means rethinking our perception of "redundancy".

As a modern society, the destination that we have hoped to reach for decades now is one where business develops in a sustainable manner while also contributing to creating a world that is socially, economically and environmentally just and balanced. And yet, we now find ourselves at a destination that none of us chose—a global pandemic with over 275,000 deaths worldwide, more than a quarter of a billion people on the brink of starvation, a handful of corporations owning much of our data and therefore our world, a human-induced climate threat largely attributed to corporate activity, and a sharp and unprecedented decrease in global economic activity with incalculable impact on companies and households.

In a way, the COVID-19 pandemic has unravelled the dangerous impact of our cumulative decisions in conducting business as usual. Amidst this, the question that reverberates is "how did we get here"? And, more importantly, "how do we get back on track?"

Efficiency with Efficacy

As professors in management, we believe that the concepts of efficiency and efficacy provide one such lens to reflect upon the state of our world.

'Efficiency' can be described as doing more with less, or put another way, achieving more outputs with the same (or fewer!) inputs. Efficacy, on the other hand, is more strategic as it relates to achieving specific objectives. In other words, efficacy can be understood as arriving at one's destination—let's say the state of sustainable development—and efficiency is about reaching that state earlier or at a lower cost.

During the last few decades, we have directed our collective efforts towards achieving rising GDP at national level with consistent emphasis on increasing revenues and profitability at firm level, while creating global and national institutions that work to make this possible.

As a society, we assumed that a relentless focus on growth would increase per capita disposable incomes and solve all of our societal problems. All we needed to do was get there as efficiently as possible – meaning a concerted effort to reduce slack, create leaner structures, outsource and expand our global supply chains, standardize, automatize, and replicate.

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Exploring Alternative Scenarios

Embedded within this approach of efficiency, there has been an overoptimistic lack of consideration for alternative scenarios. We took for granted that, notwithstanding financial crises and epidemics, the scenario of a general growth pattern worldwide was the holy grail.

As such, there was no point in thinking about other possibilities, and worse, to invest resources in preparedness. Indeed, the popularity of total quality management systems was based on the idea of streamlining. Accordingly, simply keeping assets aside for an unlikely eventuality would be against the very idea of efficiency. As such, it may be to rethink redundancy.

We argue that glorifying efficiency has greatly contributed to the health crisis we are facing today. Some of the most advanced countries in the world are struggling to produce low-technology products such as masks because it was cheaper to have them imported. In struggling to be efficient, nations disregarded the immense expected value of having essential capacities available when needed or, conversely, the terrible cost of their absence.

Countries with the best medical schools did not prepare enough doctors and even fewer trained in public health and health policies, sometimes with the rationale that limiting the number of physicians would reduce healthcare costs.

And when the surge of outpatient care left available capacity in hospitals, this capacity has rarely been kept in reserve. In a much understandable effort to contain increasing healthcare costs, most countries chose not to have slack resources. As such, we increased efficiency by making redundancies redundant, and we forgot efficacy in the meantime. Now we realise that we arrived faster and cheaper at a wrong destination.

The Importance of Redundancy

With hindsight, we propose that business systems could be made more resilient to external shocks with proper 'redundancy' planning. Interestingly, the original sense of the word "redundancy" was understood as "the quality of containing additional parts that will make a system work if other parts fail".

In a curious linguistic twist, we now think of "redundancy" as an unwelcome excess, an excrescence to get rid of, as in a "redundancy plan". As we have witnessed, that lack of redundancy has exposed several firms to disrupted production lines due to shortages in essential raw materials. The result – an extremely precarious healthcare crisis with hospitals lacking basic life-saving resources both human and physical.

We are not suggesting we forget efficiency altogether. We maintain that efficiency remains important and there is indeed a moral case for using resources as efficiently as possible. We all want trains to arrive on time, the cash collection cycle to shorten, and performance parameters to improve.

But, we suggest that the path to our fabled destination of sustainable development is not linear and hence cannot be attained without maintaining some redundancy.

KEY TAKEAWAYS

- During the last few decades, the model has been to achieve rising GDP at national level, increasing revenues and profitability at firm level, and creating global and national institutions that work to make this possible.
- As a society, we assumed that a relentless focus on growth would increase per capita disposable incomes and solve all of our societal problems.
- This has meant getting there as efficiently as possible – meaning a concerted effort to reduce slack, create leaner structures, outsource and expand our global supply chains, standardize, automatize, and replicate.
- The Covid-19 crisis has revealed the lack of resources and preparedness (stocks of equipment, healthcare workers, facilities, etc.) because of the very nature of streamlining in an attempt to optimise efficiency.
- We realised that we arrived faster and cheaper at a wrong destination.
- Although we link the word redundancy to "job losses", the original sense of the word "redundancy" was understood as "the quality of containing additional parts that will make a system work if other parts fail".
- The path to our fabled destination of sustainable development is not linear and hence cannot be attained without maintaining some redundancy.

FOOD FOR THOUGHT

- In your experience, how has the race for efficiency impacted your working life (company, products and services, processes, teams) and personal life (consumption, purchasing)?
- Why would companies and businesses wish to maximise time and resources? Ask yourself "why" 5 times (cf Sakichi Toyoda). What conclusions do you come to?
- What solutions could you offer to ensure the right balance between profit, freedom to conduct business, and benefit to systems and society?

CONCEPCIÓN GALDÓN

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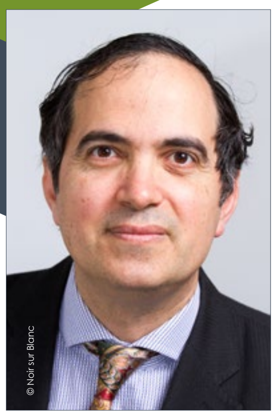

ADRIAN ZICARI

> Globalisation pushes the notion of Fiscal Responsibility to the surface of debatable social issues today.

SHOULD CSR PRACTICES BE REDEFINED TO INCLUDE FISCAL RESPONSIBILITY?

Adrian Zicari, Prof. of Accounting and Management Control and Executive Director of the Council on Business & Society and **Cécile Renouard**, Director of the 'Companies and Development' (CODEV) research programme at the **ESSEC IRENE** and Co-founder and President of the Campus de la Transition, explore the emerging, yet elusive, concept of fiscal responsibility and explain how it could be articulated into the wider realm of CSR.

"Corporate Social Responsibility" or CSR is undoubtedly one of the most trending catchphrases of today. And what idea does this term conjure up for us? Philanthropy. Sustainability. Perhaps a greener planet. But we can bet that only a select few would associate it with corporate tax practices. Yet, the emerging concept of "Fiscal Responsibility" is one that may need to be articulated into the wider realm of CSR today in light of the current practices in the corporate world.

What brings Fiscal Responsibility into the limelight?

Simply put, globalisation pushes the notion of Fiscal Responsibility (FR) to the surface of debatable social issues today. Globalisation has enabled companies to manufacture products in one country using raw materials sourced from one or more different countries in order to serve customers all around the globe. This is all good news for consumers. But as companies start to spread their value chain across multiple countries, the ambiguities surrounding tax calculation become more pronounced.

It is difficult to identify which part of the value chain, and the respective taxes, corresponds to which participating country. Information asymmetry arises as tax authorities are only aware of dealings within national boundaries, and not across. Some firms, unfortunately, take advantage of the ensuing ambiguity and engage in abusive practices. They create different legal entities in different countries and assign the largest possible part of created value to the lower tax rate jurisdictions.

Companies also get the opportunity to manipulate their transfer prices within the corporation in order to reduce their tax burden. Needless to say, this translates into bleak consequences for the economy and society of many of the countries where they operate. The growing shift towards a knowledge economy is exacerbating this situation as the prices of intangible assets can be manipulated all the more easily.

Tax Mitigation vs. Tax Evasion: A treacherous continuum

As surprising as it may appear, there is nothing explicitly fair or unfair in the eyes of fiscal law when it comes to corporate taxation. This gives companies the opportunity to engage in activities which range from being mere tax mitigation moves to outright violation of the law. So, while adopting accelerated depreciation methods can be classified as "tax mitigation," contriving an imaginary transaction to minimise taxes might be a case of "tax evasion." In the continuum between mitigation and evasion, exists the grey area of "avoidance." The spirit of fiscal law is often violated in this space and yet fiscal authorities are powerless to act as the companies have abided by the law in its literal sense.

Who stands to lose from tax avoidance?

For a moment, let's go back to basics and ask ourselves what the prime objective for a firm's existence is? Some would say the objective is to "maximise shareholder value." This view is widely known as the "legal fiction" perspective and it encourages firms to pursue aggressive tax avoidance as long as they adhere to the so-called "rules of the game." But in doing so, some companies might also be defrauding shareholders as well. Tax avoidance practices tarnish a company's reputation in the eyes of its investors, who begin to doubt whether profits really correspond to real value creation. In the end, such short-term focus on share value maximization comes with the risk of lower shareholder value in the long run.

Another group of people subscribe to the "real entity" perspective on companies. They contend that the firm is a legal person whose objectives correspond to the needs of several stakeholders, which includes the State. Thus the firm should consider the needs of stakeholders (including the State), instead of only focusing on shareholders. These shareholders, while necessary, are merely a source of financing, not the "owners" of the firm. Tax avoidance would then deprive the State of the fiscal revenues it legitimately needs and consequently, citizens can end being deprived of social services, such as healthcare. But it is not only the State and citizens who lose. The company stands to lose government contracts and it might have to bear the brunt of stricter regulations enforced by the negatively impacted State.

How does Fiscal Responsibility fit into the domain of CSR?

Most companies behave in socially responsible ways because they want to and not because they have to – it is a voluntary choice they make. Similarly, they also have the freedom to adopt or forego tax avoidance practices, while still adhering to legal boundaries. In this sense, a parallel can be drawn between CSR and FR (Fiscal Responsibility).

There are also a number of other ways to articulate FR into CSR:

1. CSR and FR both work towards maximisation of long-term shareholder value and goodwill, and reduction of business risk.
2. Large corporations have a great deal of responsibility towards their communities. Both CSR and FR help these corporations meet this responsibility, be it directly or indirectly.
3. A company depends on its stakeholders for survival. As a result, it should have a high level of responsiveness towards stakeholder demands. CSR initiatives attain this responsiveness by contributing to the greater good of society while FR does so through transparent tax practices which facilitate informed dialogues between the company and its stakeholders

Some people argue that corporate philanthropy can replace tax contribution. This is a flawed argument since philanthropy allows managers to spend money at their own discretion – and possibly in ways that are not optimal for society. In many countries, governments have a system of checks and balances that allow them to address social issues that are in greater need of immediate attention.

Grey areas in fiscal laws provide companies with loopholes to avoid taxes. International cooperation and disambiguation of fiscal laws may be the need of the hour under such circumstances. But, while we wait for that to happen, it is important to revamp the existing CSR reporting practice to incorporate details on how companies address their tax obligations. It's time we question our collective consciousness whether or not we can call a company 'socially responsible' if it is involved in ambiguous tax avoidance practices.

KEY TAKEAWAYS

- Globalisation has enabled companies to manufacture products in one country using raw materials sourced from one or more different countries. This is good for the consumer but poses a problem of tax ambiguity.
- It is difficult to identify which part of the value chain, and the respective taxes, corresponds to which participating country.
- Some firms take advantage of this to engage in abusive practices, creating different legal entities in different countries and assigning the largest possible part of created value to the lower tax rate jurisdictions.
- The growing shift towards a knowledge economy is exacerbating this situation as the prices of intangible assets can be manipulated all the more easily.
- There is nothing explicitly fair or unfair in the eyes of fiscal law when it comes to corporate taxation. Between tax mitigation and tax evasion, there exists the grey area of "avoidance" where fiscal authorities are powerless to act as the companies have abided by the law in its literal sense.
- But short-term focus on profit and share value maximization raises the risk of lower shareholder value in the long run.
- CSR and FR (Fiscal Responsibility) can work together towards maximisation of long-term shareholder value and goodwill, and reduction of business risk.
- Philanthropy cannot replace tax contribution, since it allows managers to spend money at their own discretion – and possibly in ways that are not optimal for society.
- It is important to revamp existing CSR reporting practice to incorporate details on how companies address their tax obligations.

CÉCILE RENOUARD

FOOD FOR THOUGHT

- Faced with using loopholes in the law to maximize your profits and avoid tax, or simply paying your dues, what would you choose? What motivates you to take this decision? What justifies your decision?
- What companies have been in the news regarding tax avoidance? To what extent does this change your loyalty to the brand? Why or why not?
- If some companies openly try to avoid tax contributions, then why do their home countries not change and tighten up their fiscal law?

ADRIAN ZICARI

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> Closely tracking inconsistent narratives over good times and bad is telling in revealing cheap talk.

SOCIAL RESPONSIBILITY: DISTINGUISHING THE TALKERS FROM THE WALKERS

Tanusree Jain, Professor in Ethical Business at **Trinity College Dublin Business School**, looks at how some firms use CSR for talk, while others actually walk the talk: an important test for any corporate stakeholder before getting involved with a firm.

Shareholders today look towards firms not only to maximise financial returns but to do so while focusing on creating value for other societal stakeholders. But for Prof. Jain, while there are some companies doing an outstanding job at living these values, others often employ smart self-promotional material with a view to greenwash themselves. ‘Corporate social responsibility (CSR) and sustainability reporting has become mainstream and a sophisticated machinery of corporate communication and public relations professionals are involved to paint a credible picture of businesses worldwide,’ states Jain. Little wonder then that the 2017 Edelman Trust Barometer reported that only 37 per cent of the 33,000 people questioned across 28 counties believed in the credibility of CEOs. Public trust in CEOs is at its lowest point in two decades or so.

Call my bluff

While there could be many reasons for falling public trust in CEOs, much of the scepticism is about integrity and the need for managers and leaders to walk the walk, asserts Prof. Jain. ‘If some CEOs engage in cheap talk, the question is how can one confidently call their bluff? How do you differentiate between corporate communications that are genuine from those that represent mere public posturing?’ Tanusree Jain observes from her research that firms and their executives have a strong incentive to project an image that conforms to societal values and expectations. Pick up a CEO letter from a large global company and one can find in it a narrative that often goes beyond the bottom line to integrating CSR and sustainability in corporate functioning.

Separating those who talk from those who walk

Clearly, says Jain, providing such information adds to the reputation of firms and establishes them as a green player. It gives them a social licence to operate.’ However, she finds that when times are tough and firms face threats to their legitimacy, corporate narratives are likely to change. ‘The emphasis moves to those issues that are critical to survival and independence, leaving out those that were meant only for the purpose of image creation in good times,’ she states.

'Closely tracking inconsistent narratives over good times and bad, such as in case of financial crisis or takeover bids, is telling in revealing cheap talk.' Such behaviour is not surprising. When firms face threats that can endanger their survival, corporate leadership will obviously do all it can to alleviate that threat. Yet firms are likely not to compromise on their core values, be it customer service, sustainability, social mission, or even the maximising of profit for shareholders – irrespective of the ferocity of the threats they face. 'Take for example the case of Unilever,' adds Jain, 'the Anglo-Dutch consumer goods conglomerate, and its takeover of Ben and Jerry's, a gourmet ice-cream company with a strong social mission, in a $326 million (€265 million) deal. When news of the potential takeover broke out, there were fears that Ben & Jerry's would become a soulless subsidiary of a large multinational. Weathering the storm, Ben & Jerry's kept up the pressure to save its underlying social mission and purpose, and intensified its efforts with a view to signalling what mattered most to the business in times of a crisis. The takeover did happen but, notably, a unique agreement was created between the two companies in which it was agreed that the acquired Ben & Jerry's would function as an independent entity with an independent board that would focus on the company's social causes, separate from Unilever's existing ice-cream business at the time.'

People understand the benefit

If we fast-forward 17 years, continues Jain, 'Unilever itself was threatened with a $143 billion (€116 billion) merger approach by Kraft Heinz, a rival US food company. Unilever's CEO Paul Polman, who joined the company in 2009, made strong statements on the issue of sustainability. He emphasised that Unilever was running not on a quarterly basis and that some of the challenges it faced were more long term in nature. Polman believed that a merger with Kraft Heinz would result in a massive cost-cutting exercise to make Unilever financially viable for its new investors post-merger. While Polman agreed that Unilever needed a cost-restructuring plan, he was quoted as saying: "I have to find a balance between not giving up on our long-term sustainable compounding model. Seventy per cent of our shareholders have been with us for seven years, and 85 per cent of them say that sustainability is very important. They know that you need to have a responsible contract with society to take costs out of your system, to lower risk, to attract the right people. People understand the benefit."' Unilever successfully avoided the merger. For Prof. Jain, the underlying logic is that if a company perceives a specific stakeholder or stakeholder concern as critical, their executives will exhibit consistency in their communications towards them and intensify their efforts to find an agreeable solution, particularly in case of crises and threats. Looking at how a corporate leadership narrative revolves and evolves on stakeholder issues before and during tough times can help in separating the wheat from the chaff or, in this case, identify the genuine from cheap talk embedded in the avalanche of glossy communications that firms often produce. 'It's here,' asserts Prof. Jain, 'that an important lesson lies for corporate stakeholders looking to judge companies before they get involved in them.'

KEY TAKEAWAYS

- Shareholders today look towards firms to maximise financial returns and also focus on creating value for other societal stakeholders.
- Shareholder decision to invest needs to be founded on clear and tangible evidence that a firm is active and committed to CSR.
- However, in 2020 public trust in CEOs and companies reached its lowest point since the early 1990s and greenwashing widely used by companies to enhance their visibility and reputation contributes to distrust.
- Closely tracking corporate narratives over good times and bad, such as in the case of financial crisis or takeover bids, is telling in revealing the real level of commitment of a company to CSR.
- When times are tough and firms face threats to their legitimacy, corporate emphasis moves to issues that are critical to survival and independence, leaving out those that were meant only for the purpose of image creation in good times.
- If a company perceives a specific stakeholder or stakeholder concern as critical, their executives will exhibit consistency in their communications towards them and intensify their efforts to find an agreeable solution, particularly in the case of crises and threats.
- And firms whose core values include CSR are not likely to drop them even in times of crisis. Examples include Ben & Jerry's and Unilever.

FOOD FOR THOUGHT

- To what extent are you sceptical of companies and their communication on their initiatives in the fields of ethics, fair trade or sustainability?
- As a consumer, which companies do you trust – and why? To what extent is there a responsible business practice dimension in your choice?
- Which companies have actually changed for the better following a scandal they were involved in? How did they do it?
- Some governments are calling for the notion of "business for the common good" to be included in company statutes and legally binding. What's your opinion on this and could such an initiative see the day in your country?

TANUSREE JAIN

> The blended value proposition enables an organisation to simultaneously create economic, social, and environmental value.

ARE ETHICALITY AND PROFITABILITY MUTUALLY EXCLUSIVE?

Dr Jieun Ryu, of **Warwick Business School** and lecturer at the University of Northampton, studies the question of whether it is it really possible for a firm to achieve both ethicality and profitability at the same time.

The conventional view states that business ethics is an oxymoron – ethical and business behaviours must be conflicting as economic profitability is more important than ethicality in business. Although some will argue that creating profit can make the world a better place, recent incidents do not seem to support this idea. In March 2018, Amazon became the second most valuable U.S. company after Apple, as the value of their stock rose. Moreover, Forbes listed Jeff Bezos, the CEO of Amazon, as the wealthiest in the world, in May 2018.

As a matter of fact, Amazon contributed to society by creating more than 200,000 jobs in the US and over 27,000 jobs in the UK. However, unsafe working conditions and poor treatment of the workers in their UK warehouses have been constantly reported throughout the years. In November 2016, it was revealed that Amazon delivery drivers work illegal hours to deliver all the assigned parcels and receive less than the minimum wage of £7.20.

Moreover, Amazon's constant surveillance on warehouse workers' location and their movements by means of a wristband have been criticized for the pressure created, as workers reportedly do not take a break even to go to the toilet to meet performance targets. Amazon, like many other financially successful corporations such as KPMG, United Airlines, and Barclays, has shown us that profitability has not always resulted in ethicality, and that incorporating ethics into management is challenging.

Therefore, one important question which arises is the following. Why is it hard for big corporations to achieve a balance between ethicality and profitability?

The most well-known reason why owners and/or managers make unethical decisions, especially when they face fierce competition, is because they believe that their unethical decisions and practices pay off, particularly in a competitive market. In their 2004 paper Managing to be ethical, Trevino and Brown identify a further **five common myths** about implementing business ethics:

1. It's easy to be ethical but ethical decision making is a complex, multi stage process.

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2. Unethical behaviour in business is simply the result of "bad apples" but most people are followers when it comes to ethics.
3. Ethics can be managed through formal ethics codes and programmes but formal systems do not guarantee effective management.
4. Ethical leadership is mostly about leader integrity but developing a reputation for ethical leadership requires more than strong personal character.
5. People are less ethical than they used to be but ethical behaviour it nothing new, although there may be more opportunities to be so.

An underlying assumption here is that corporations are established mainly for economic purposes that include maximizing profit rather than providing social goods. Nevertheless, there are many successful cases achieving both ethicality and profitability in business, by drawing on the concept of "Blended Value Proposition".

Blended value proposition: economic and social values are non-separable

In 2000, Jed Emerson introduced the term "Blended Value Proposition" using the concept of a "double bottom line" and a "triple bottom line". A double bottom line emphasizes that a corporation must pursue and deliver not only economic value, but also social value. In the case of "triple bottom line", environmental value is added to the "double bottom line".

Unlike a traditional view which considered economic and social values as separable, the blended value proposition provides a framework that enables an organisation simultaneously to create economic, social, and environmental values. Indeed, there are many different forms of business which look for a double/triple bottom line across profit and non-profit sectors, such as corporate philanthropy, social investment, social enterprise, and non-governmental organisations.

Among others, social enterprises are one example of entities which aim to achieve double/triple objectives through their business activities. Given that social enterprises are a recent organisational form, there is no international consensus on the definition of social enterprise. However, many scholars and practitioners agree that a social enterprise is a hybrid organisation which pursues dual objectives at the same time – financial and social objectives.

These blended objectives can be achieved through various activities depending on an organisation's characteristics and business model. As Michael J. Alter observed: "Social objectives aimed at mission accomplishment (social value creation) vary widely depending on the organisation's mission and sector and financial objectives focused on financial sustainability (economic value creation) vary according to funding needs and business model."

Social Enterprise: The Big Issue

The Big Issue, founded in London in 1991, is one of the most successful social enterprises in the UK. Having started as a magazine, now the Big Issue Group runs four organisations which differ according to their main objectives and activities, namely The Big Issue magazine, Big Issue Invest, The Big Issue Foundation, and Big Issue Shop. The Big Issue aims to "dismantle poverty through creating opportunity". It creates job opportunities for homeless and long-term unemployed people to "earn a legitimate income" by selling the magazine. The vendors buy copies for £1.25 from the Big Issue and sell them for £2.50.

The Big Issue makes profits by selling the magazine to the vendors, and the vendors as micro-entrepreneurs develop sales and financial skills which can help them in their search for employment. Moreover, The Big Issue provides various forms of support for the vendors, including temporary or permanent housing, healthcare, education and training, financial counselling, and the possibility of connecting with family.

This social enterprise model has been very successful at national and international levels. According to The Big Issue magazine, over 92,000 vendors earned £115 million during last 27 years. Currently, there are around 15,000 vendors across the country, and they earned £5.5 million last year. As a result, The Big Issue's figures show over 900 positive outcomes for vendors were achieved in 2017, including rehousing, accessing health and addiction treatment services, education, employment, and financial support, and personal sales goals.

As this business model is easily replicable to other countries, the magazine is also produced in eight more countries – Australia, Ireland, South Korea, South Africa, Japan, Namibia, Kenya, Malawi and Taiwan. While the Big Issue is an example of a successful social enterprise which pursues a double bottom line, a US private certification – "B-corporation" provides social enterprise standards, focusing more on how an organisation can integrate ethical standards of transparency, accountability, and performance into management.

B-corporation: Ben and Jerry's

A B-corporation is a private certification awarded to for-profit or non-profit organisations which meet the minimum standards of four impact areas – 1) Governance; 2) Workers; 3) Community; and 4) Environment. A B-corporation encourages companies "not just to be the best in the world, but to be the best for the world", as the certification assessment tool provides a clear guideline on how social and environment objectives can be embedded in the management and business activities.

This movement has been very successful across the world – in 2018, there are 2,544 certified B-corporations in more than 50 countries and one of the most successful examples of B-corporations is a global ice cream company, Ben and Jerry's. According to the mission statement of Ben and Jerry's, they have product, economic, and social missions. Their product and economic missions aim at achieving sustainable financial growth by producing and selling high-quality ice cream, implying that Ben and Jerry's pursues economic profitability. At the same time, they pursue positive ethical and social values by using locally sourced dairy, cage free eggs, and fair-trade products as well as by providing various supplemental benefits for the welfare of workers and monitoring the pollution levels of their factories.

Yes, we can

To conclude, from the examples of social enterprise and B-corporation, it is clear that ethicality and profitability in business can be achieved at the same time and that they are not mutually exclusive. Unlike conventional corporations, social enterprises and B-corps incorporate ethical and social standards into their governance and economic activities in order to achieve their social objectives. This form of governance motivates their employees as they can receive better health, social and educational supports, as well as opportunities to be a shareholder of their company. Moreover, an ethical company can acquire a positive public image which can also motivate their employees. Some would argue that providing greater financial benefits can motivate employees more. However, research also shows that people tend to perceive a firm's image negatively, even when a profit-seeking firm creates positive social values aside from economic values.

KEY TAKEAWAYS

- For companies, profitability has not always resulted in ethicality, and that incorporating ethics into management is challenging.
- One of the major reasons why owner/managers make unethical decisions is that, within the context of fierce competition and markets, they believe that their unethical decisions and practices pay off,
- There are 5 common myths regarding the implementation of business ethics: it's easy to be ethical; unethical behaviour in business is simply the result of "bad apples"; Ethics can be managed through formal ethics codes and programmes; Ethical leadership is mostly about leader integrity; People are less ethical than they used to be.
- The concept of Blended Value Proposition focuses on the Triple Bottom Line (TBL) – a corporation must pursue and deliver not only economic value, but also social value and environmental value.
- Social enterprises are one example of entities which aim to achieve double/triple objectives through their business activities.
- A US private certification – "B-corporation" provides social enterprise standards, focuses on how an organisation can integrate ethical standards of transparency, accountability, and performance into management.
- Ethicality and profitability in business can be achieved at the same time and that they are not mutually exclusive. This can be a motivational factor for employees.

FOOD FOR THOUGHT

- Think about your own organisation – company, institution or education establishment. To what extent does it strive to be not only "the best in the world, but to be the best for the world"?
- What could be done to make that happen?
- Think about your local community or region. If you were to start up a social enterprise, what would you be trying to improve and for whom? Why?
- Name 3 companies you admire for their TBL achievements. To what extent have these achievements had an impact on their value and market share?

JIEUN RYU

> A strong sense of ethics, integrated into a corporate social responsibility approach, is demanded of business people in order to respond to the expectations of today's society.

IS BUSINESS ETHICS JUST TALK?

Ligia Maura Costa, Professor at **FGV-EAESP**, Brazil, explores the paradoxical benefits of corruption scandals with a focus on the legitimacy of business ethics.

Overview

In the early 1990's, Codes of Conduct of Social Responsibility (CSR Codes) emerged, as they are well known nowadays. CSR Codes represent a change in companies' traditional paradigm. Following Zaheer's leading work (1995), the issue of liability relating to foreign operations, and the extent to which this affects the performance of multinational companies in foreign countries, has attracted much attention. Some recent empirical works have proved that CSR Codes may be a valuable instrument for improving the local quality of life for communities where they are operating.

Supported by international organizations and associations, many studies, research projects, surveys, books, seminars, and conferences deal with the issue of corruption. "Bribes, kickbacks, 'grease', and 'speed' money are perhaps the most conspicuous types of corrupt activity" (Doh, Rodriguez, Uhlenbruck, Collins, Eden, 2003: 114). Corruption is a social and global phenomenon that is not specific to emerging markets. Nevertheless, there is no disagreement among mainstream scholars that corruption has a more negative impact in emerging markets. In fact, its negative effect seems to be stronger in these countries. However, multinational companies, through the implementation of their CSR Codes, may be important actors battling corruption in emerging markets.

If the assumption is true that CSR Codes are an effective mechanism of voluntary institutionalization against corruption, it is mandatory to analyze some of its limits. CSR Codes can promote the integration of responsible economic practices against corruption, but they can also be used as a response to deflect criticism. CSR Codes may only be an effective mechanism against corruption as long as multinational companies fully comply with their CSR Code' statements. In order to confirm these limits, issues against corruption present in the CSR Code of Petrobras – the major Brazilian oil and gas company – have been analyzed. Corruption issues present at Petrobras' CSR Code have been divided into three common subcategories, as follows: bribery and corruption, political contributions and financial transparency.

Bribery and corruption

Petrobras' CSR Code has statements rejecting the payment or acceptance of bribes, collusion, pressure or illegitimate favors, either directly or through third parties, whether public officers or private individuals. For instance, the Petrobras Code of Ethics "specifically forbids the use of unlawful practices (corruption, bribery and 'off-the-books' accounting) in order to obtain commercial advantages".

Political contributions

Petrobras' CSR Code is against political contributions. Petrobras does not admit contributions to a political

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party or organization or to any individual who either holds public office or is a candidate for a public office to the extent allowed by the applicable domestic law.

Financial transparency

Petrobras' CSR Code has policies emphasizing measures to promote financial transparency. For instance, one of Petrobras' "guiding principles" is "a commitment to the transparency and accuracy of the information provided to all the stakeholders".

How credible can the CSR initiatives of Petrobras be after the corruption scandal that has exposed the company at a global level? It became clear that there is a gap between the claimed concern for social responsibility and the actual behavior of the company. Recent scandals evolving FIFA and Volkswagen demonstrate that the overall execution of the ideals behind corporate social responsibility are currently at stake and it seems that they have been deeply damaged. One can blame CSR Codes' trend that has been to focus more on goals and aspirations and much less on concrete and tangible results.

Due to a scandal, shall the nature of CSR Code reporting change in order to recover legitimacy? An effective response from companies to confront the situation requires new compliance procedures and rules, revised incentives, and the overhaul of deviant norms and immediate removal of guilty parties. Besides, instead of highlighting what they will do in 2025 on their CSR Codes, companies, like in the movie *Back to the Future,* should focus on what is happening today or what has happened in the near past with the company and what the immediate response is to the current issue. Companies' compliance with CSR Codes is a fundamental condition for social, environmental and economic growth at the global level. A company that establishes a CSR Code without ensuring full compliance of its statements compromises the ideals behind this approach and also compromises its image. And, it is better for companies to change the approach, before they have to.

Why may "good companies" go off the fences? What drives upstanding corporate managers over the edge? These questions are more opportune than ever and are quite fascinating and worrisome. The role of companies, managers and business people in general have become more complex over recent years with a shareholders' maximizing-profit approach no longer acceptable by society and societal cynicism regarding the political environment, economic issues and more specifically business, creating a challenge for companies to currently face. Moreover, a strong sense of ethics, integrated into a corporate social responsibility approach, is demanded of business people in order to respond to the expectations of today's society. General working conditions, profitability and status no longer define a good company, with the generally agreed observation that a company's ethical approach is more than likely to be taken into consideration in the new paradigm of a "good company".

Are Business Ethics at a Crossroads?

Ethics is commonly understood as standards of "good" or "correct" behaviors. Broadly speaking, the concept of business ethics is defined as a system of laws, rules and guidelines on which companies and business people base their operations and working approach in an unbiased, legal and moral manner. It could be argued that these rough parametres can have different meanings for different people. However, there is no disagreement among mainstream scholars that ethics in business is knowing what is "right" or "wrong" and more important, "doing what is right". In a nutshell, business ethics represents the integrity and the well-being of the whole organization. That said, two simple questions may easily be answered:

- Should companies change product requirements for suppliers without adjusting production deadlines and prices, pushing suppliers to breach labor standards in order to deliver?
- And should companies lie to consumers about products' quality?

The answer to both questions, in principle, is very easy: of course not. Forced labor is unethical, besides being illegal. And misleading consumers is unethical, above and beyond being illegal. Unfortunately, in the real world the answer is not that easy to predict. If it were an easy answer, why do many companies and business people go for the "wrong" behavior? For example, anyone who knew about Volkswagen software was able to predict that chances of losing were increasingly high in the long run. Volkswagen's cheating was odd in nature, in fact. Moreover, another recent example of an organization not honoring its ethics commitment is the case of FIFA. The suspended president Blatter said that it was "humiliating" that FIFA's ethics committee – created during his presidency – could bar him from the office (Dunbar, 2015). Ethics in business cannot be just talk.

Codes of Ethics: How to Create, Implement and Improve?

Ethical dilemmas faced by companies and business people are complex, generate innumerous issues, and may not always have a clear guideline. A code of ethics is a helpful tool to guide ethical rules of operations for companies. However, many disagree that codes have some value at all, arguing that ethics in business cannot be perceived by organizations as a fragmented matter that can be set apart depending on the circumstances. Neither, can it be considered as the doctrine of altruism. In fact, codes of ethics are not influential in determining people's behavior in the workplace, except if their values are fully implemented and regularly improved. As Brenner points out, "all organizations have ethics programs, but most do not know that they do" (1992: 392). Codes are not enough if intended only to ensure that policies comply with legal aspects. Employees have to perceive that code of ethics statements are driven downwards from the top to bottom of the enterprise. Indeed, there is no doubt that ethical considerations have to come from top management. Employees cannot see codes as "words on the wall", or company propaganda with no relation at all with day-by-day business. It is crucial to set the example in order to further engage employees to act in accordance with codes' policies and procedures. Ethics shall pervade the whole structure of the organization that means not only from top to bottom but also in all departments, from legal to human resources, from accounting to marketing, from operations to logistics, etc. As many managerial decisions reach the boundaries of the company, an important part of creating a business ethics environment evolves stakeholders. The perspective of external groups affected by corporate decisions helps to have a better understanding of their priorities and feature an ethical managerial decision process.

The World's Most Ethical Companies

The World's Most Ethical Companies ranking from the Ethisphere Institute is in its fifteenth edition. The ranking emphasizes how companies internally implement ethics issues or their codes of ethics. Are ethics actually integrated into the company's values, structure and management? Is business ethics just talk, "words on the wall", or is it really incorporated into the business are just some of the questions that are taken into account in this ranking. As not every company in the world has applied for the Ethisphere award, the list of "most ethical companies" cannot be considered as a conclusive one. Many highly ethical companies are most probably not present on the list. However, it provides us with an interesting survey that may help us to understand some of the critical aspects related to business ethics.

Conclusion

A company has to be responsible towards society and their responsibility to society must go far beyond the production of goods and supply of services generating profits to shareholders. This assumption is based on the idea that companies have more constituencies to serve than shareholders, with the main concept of corporate social responsibility being embedded in an ethical notion. In today's world, it is vital to ensure positive impact on the society for both a company's reputation and indeed business success. The integration of ethics and corporate responsibility may be a challenge. However, what is essential is not necessary easy to achieve.

KEY TAKEAWAYS

- Multinational companies, through the implementation of their CSR Codes, may be important actors battling corruption in emerging markets.
- CSR Codes may only be an effective mechanism against corruption as long as multinational companies fully comply with their CSR Code' statements.
- However, continuing corporate misconduct has led to criticism: CSR Codes have been said to focus more on goals and aspirations and much less on concrete and tangible results.
- General working conditions, profitability and status no longer define a good company, with the generally agreed observation that a company's ethical approach is more than likely to be taken into consideration in the new paradigm of a "good company".
- Codes of ethics are not influential in determining people's behaviour in the workplace, except if their values are fully implemented and regularly improved.
- The perspective of external groups affected by corporate decisions helps to have a better understanding of their priorities and feature an ethical managerial decision process.

FOOD FOR THOUGHT

- To what extent does culture, not to mention national laws and political systems, determine what is ethical or not? Write down what your national culture and laws consider as unethical behaviour. How do they compare with a neighbouring country? How do they compare to those of leading economies?
- What, according to you, are the main areas of risk that apply to your organisation and sector of activity in terms of ethics and conduct?
- How high in the "The World's Most Ethical Companies ranking" would you consider your organisation to be? What are the success/ failure factors related to that ranking you give? How to improve things?

LIGIA MAURA COSTA

> It is empathy, understanding and awareness that make the human experience unique.

WILL TOTAL QUALITY MEAN THE END OF IMPERFECT PEOPLE?

Hirokazu Kono, Professor of Operations Management, and former Dean of **Keio Business School, Japan**, explores the human-or-machine question and contends that, paradoxically, imperfection has a reassuring future.

Does artificial intelligence take people's jobs?

Automated production systems have been a long-appreciated feature of prosperous industries. The list of examples starts from Venetian ship production in the 12th century, followed by French gunsmith Honoré LeBlanc in the 18th century, British naval engineer Samuel Bentham, and the American Eli Whitney, all of who were forefathers of the idea of interchangeable parts and automated production processes. It was Japan in the 1950s and 60s, however, that was to become the world leader in automation and the quality process, especially in the automobile industry. Nissan, Toyota, and Honda were the pioneers in mass-producing high quality, reliable and modern cars that featured standard parts which most competitors at that time considered options. Nowadays, in Japan as elsewhere around the world, the assembly lines are becoming increasingly automated with fewer and fewer people involved in the process. Nevertheless, robotics and artificial intelligence (AI) do not necessarily mean elimination of people from workplaces. In Japan, companies are likely to shift people otherwise employed on the production line to sales or after-sales sections, thus reducing the direct loss of jobs caused by accelerating technological innovation.
It seems, then, that the benefits of AI outweigh the urge to sound the alarm that people are being supplanted by machines. Indeed, in Japan, AI is beginning to fill the gaps between employment supply and demand, especially in the service and convenience store sectors that require interaction with customers at night or on weekends. For example, the economy hotels industry, providing low-cost accommodation for people on business trips, is rapidly introducing establishments operated by a single person, and where guests are communicated by automated machines after initial check in. This instance at least implies that people are ready to exchange human contact for convenience and low-price.

However, there remains a sensitive subject. AI has entered many other business domains in Japan, including healthcare and transport. While railway stations are equipped with automated voice communication systems providing information to travellers, hospitals have begun to use robot seals – called PARO – to accompany Alzheimer sufferers (PARO is also being tested by the British NHS). All in all, it seems that repetitive tasks are being overtaken by willing robots. But such automation also creates problems. Take the introduction of telephone applications in healthcare services for example. A visible benefit for doctors is that they can now oversee multiple patients via the smartphone and computer interface, thereby optimising time and productivity. The drawback, on the other hand, is the toll the doctor pays in terms of stress and workload. In the past there was one patient to deal with at a time – now there are many and they come almost instantaneously. In a sense, the same problem applies to production management and the automated assembly line. A quality manager is able to address a multitude of issues by using digital solutions – at any time – resulting in the barrier between working time and private life becoming more and more blurred.

Perfection or imperfection? That is the question

There is a general tendency to view machines as purveyors of total quality. However, many reports show that AI can be just as imperfect as the average human. Many companies still suffer from over-production, product defects and quality lower than clients' requirements, despite the introduction of robots and AI-controlled processes. Customer complaints and the burden of stock costs are still rampant, and these cannot be solved by AI alone. Indeed, it looks likely that such problem-solving will require a human form, that is, senior-level and experienced employees using the information and data generated by AI to supply the machines with the troubleshooting answers. Interestingly, the people-versus-machine debate often arises among young people with surprising results. Keio Business School, one of the internationally recognised leaders in higher education among the business community, sees many young professionals, domestic and international, joining its selective MBA and EMBA programs. They are generally well-versed in IT and the use of AI, but the vast majority still prefer to visit the production lines for on-site experience and, more specifically, for contact with the people actually working on them.

Moreover, while machines actually produce the product, in many cases humans carry out the final touches. Cars rolling off the production line, for example, are better finished by humans who do a much better polishing job than machines. Another example of finishing touches – we dare to say the final step for perfection – is that of a small company in Tokyo that produces parts for rockets. While the rocket bodies are machine-produced, it was found that humans did better in finalising the nose-cone, the specific round-shape of which cannot (yet) be perfectly crafted by robots.

Towards a people-less company and a player-less game?

These examples indeed point towards a negative reply to the question. Then the issue of profit kicks in. Part of the automation argument in the past has laid in the search for profit optimization by tackling the high labour costs in Japan. The most popular solution was outsourcing production to neighbouring China and other south-east Asia countries in the 1990s and early 2000s. The trend, however, is now directing the other way. Rising living standards in Asian countries have pushed up the labour costs and charges. This, in addition to a favourable dollar exchange rate, means that many Japanese companies are now bringing production back to Japan, an obvious boon to employment expectations despite the surge of AI and automated production. Hirokazu Kono points out the leaning towards short-term profit in industrialised countries, questioning the justification of it and pointing out the basic need for humans to live and enjoy working. In this he sees a price to pay – even though it could mean high labour charges and taxes – and ensures that this "win-win" argument is instilled in Keio's values and work ethics.

This being said, the temptation to employ more numbers of robots is irresistible, not least due to the dramatically decreasing cost of them. ROI is no longer a worry. Indeed, warehouse stock management is a sector that is experiencing subsequent growth in the use of automated solutions. Here, incoming parts are stocked, picked and then shipped out in massive numbers. In this case, a zero-employee warehouse would pose no problem. However, states Hirokazu Kono, if there is a single worker in such a vast space like a warehouse then this does cause an issue. Imagine. Alone in several thousands of square feet for seven to eight hours a day with no one to talk to. Over time, there would indeed be a very negative impact on the worker's state of health. For Kono, such issues have to be addressed by management leaders in a near future – in light of both benefits and drawbacks.

An analogy that comes to mind when tackling the question of Artificial Intelligence and human interaction is that of sports. Recently, new prototype software was designed for the smartphone that can trace the movements, not of the player, but of the ball itself, in a football game. Information gathered simultaneously from eleven cameras placed inside the stadium gives the spectator a history of the ball's trajectory – making judgement and criticism of a player's performance reliant on the machine. The same goes for baseball, a sport that has millions of devoted fans in Japan. Prototypes are being finalized that send instantaneous game data to a spectator's smartphone. This provides the strange scenario of tens of thousands of people being present at the stadium but watching the game glued to the screens of their mobiles in order to decide whether to boo or applaud. Professor Kono stresses the importance of people's direct observation in such interactive games: it is the face, the emotions that provide the passionately interesting aspects of baseball, and the raw, natural data that trigger spectators' emotions and reactions. The same applies to the workplace.

Trust and learn

Can we trust imperfect people to be in charge of perfect machines? It might be worth looking at the example of the 2020 Olympic Games to be held in Tokyo. The Japanese government has launched a project to introduce automated driving for the event that will transport passengers arriving at the airport terminals to

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downtown fast and without the stress of having to take the wheel on the city's busy highways. This may mean a great opportunity for growth for software and automobile manufacturers, but the stress, of a different kind, may still be present for the users. This is because one of the basics of product manufacturing seems to have been overlooked: Machines aren't perfect. Every part or product ages. It deteriorates and may go wrong, sometimes even producing disaster. And there may also be design defects that cause teething problems, and even worse, accidents – witness the recent crashes that hit the headlines involving Google and Tesla self-driving cars in the US. While improving technology may reduce the risk of failure to a minimum, it is beyond reasonable logic to claim that zero risk will be obtained. Trust in imperfection, however, and perhaps your stress-level will naturally decrease.

Despite the speed at which technology is changing our working lives, Prof. Kono asserts the need for a balanced approach in educating students for their future careers. Management science in general inevitably requires increased IT skills and logic to cater for the technical environments and tools used in the company. But production and operations management, even if caught up in the drive for automation and AI, still has to tackle problems – and this is what counts: getting down to the nitty-gritty on the shopfloor. When searching for bigger production capacity and greater quality, it is often a question not of which technological solution to use, but of the strategy, methods and impact. If the sales team fails to pay attention to the increase in capacity, then the technological solution becomes meaningless. The same goes for the procurement department when it finds itself having to purchase more parts to cater for higher production, and the finance department when it has to find and obtain the funds to bear the extra costs for parts. A small idea in production can therefore change the whole company structure.

When asked what he would expect of future generations, Dean Hirokazu Kono doesn't hesitate to state: The human touch is indispensable, even in the era of sophisticated automation. Students need to experience the whole structure of a company – from production to sales and marketing – in order to become effective leaders. They also, while being at ease with technology, have to look outside and across borders, and not forget those in less developed areas of the world. It is empathy, understanding and awareness that make the human experience unique. Also expected is an awareness of the fact that imperfect humans create sophisticated machines which are imperfect themselves, and that things which are beyond a machine's imperfect capacity have to be taken care of – by us, the imperfect workers.

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FOOD FOR THOUGHT

- There is a lot in the news and on social media about Artificial Intelligence and technology changing our world. On a scale of 10, where would you place your optimism for AI/tech proving positive to society (10 being most positive)?
- To what extent do you feel AI/technology to be a threat more than a benefit to jobs in general and your job specifically?
- In 2020, most organisations worldwide went into telecommuting mode, at least for a limited period of time. How did you cope with that? How did you cope with not physically being in contact with your co-workers and managers?
- To what extent do you think telecommuting to be the future of work?
- How can AI/technology and humans be reconciled?

KEY TAKEAWAYS

- Venetian ship production in the 12th century, followed by French gunsmith Honoré LeBlanc in the 18th century, British naval engineer Samuel Bentham, and the American Eli Whitney, were forefathers of the idea of interchangeable parts and automated production processes. In the '50s and '60s, Japan became the world leader in automation and the quality process.
- In Japan, AI is beginning to fill the gaps between employment supply and demand, especially in the service and convenience store sectors that require interaction with customers at night or on weekends.
- When searching for bigger production capacity and greater quality, it is often a question not of which technological solution to use, but of the people, strategy, methods and impact.
- Imperfect humans create sophisticated machines which are imperfect themselves. Things which are beyond a machine's imperfect capacity have to be taken care of – by 'imperfect' workers.
- The temptation to employ more numbers of robots is irresistible, not least due to the dramatically decreasing cost of them. ROI is no longer a worry.
- Having plants managed by a single person or a small, scattered team, will induce issues regarding the impact of low social interaction on people's health.

HIROKAZU KONO

> If long-term change is to be placed, workers need to be placed at the centre of this critical CSR project.

BUILDING A SUSTAINABLE CAPITALISM FROM THE BOTTOM-UP

Why has Corporate Social Responsibility so-far failed to usher in a new, more sustainable paradigm? Prof. **Bernard Leca** of **ESSEC Business School**, with co-reseachers **Bahar Ali Kazmi** of **Aston Business School** and **Philippe Naccache**, **University of Toulouse**, argue for a bottom-up approach, focusing on the participation of employees and not just managers.

Related research: *Is Corporate Social Responsibility a New Form of Capitalism? SAGE*

A nature that can't be changed

Market capitalism, once seen as a source of limitless prosperity, has been singled out in the 21st century as the primary driver of intolerable inequality and unsustainable exploitation in the reckless pursuit of profits. In the absence of any viable alternative system, Corporate Social Responsibility (CSR) has been positioned as the go-to solution for capitalism's ills: a strategy for putting pressure on companies to create economic and societal value.

The jury is still out on CSR's effectiveness. Researchers have poured over how to best conceive, plan and implement CSR strategies. Some remain optimistic, seeing a potential to encourage the development of management that challenges the social injustice and environmental destructiveness of current corporate capitalism. Other scholars have been ambivalent about CSR, arguing that it's merely a smokescreen, concealing the exploitative nature of corporate capitalism – a nature that can't be changed.
Or can it?

Our research contributes to this debate by drawing from the work of sociologists Eve Chiapello and Luc Boltanski who argued in their book The New Spirit of Capitalism (2006) that this system has reinvented itself no fewer than three times since the end of the 19th century. Capitalism's most recent incarnation, which materialized since the 1990s, was a 'project-based' spirit which justified capitalism as the best way for anyone to express individual creativity and talent. In this study, we ask whether CSR might become a new spirit of capitalism, and usher-in a new, sustainable capitalism 2.0.

According to Boltanski and Chiapello, to be successful a justification of capitalism should be able to offer **excitement** by convincing people and organizations that working within this system will enliven them, it should offer **security** by protecting people and their families, and it should offer **fairness** in determining whose

actions should be valued. Let's look at the nascent CSR-based justification of capitalism and see if and where it falls short. We analyzed 22 influential books on CSR management written by prominent authors in the domain and management gurus, searching for how CSR was justified to readers of those books.

Does a CSR spirit of capitalism offer excitement?

Boltanski and Chiapello argue that capitalism is not exciting in itself, as it involves a restless drive to accumulate capital as well as a 'willing' subordination by wage-earners, who have to relinquish both the fruit of their labour and the wealth it generates. In such an order, the 'spirit' needs to provide protagonists of capitalism with a source of excitement. The texts we analysed present two distinct but interrelated sources of excitement.

- For individuals, CSR offers them a richer, more diverse work experience, where several forms of value—besides financial profits—are considered important. The value-based management made possible with CSR is a way to reinforce the sense of community at work and to consolidate organizational identity and culture.
- For organizations, CSR offers an opportunity to accomplish both social and reputational goals by improving the relations between corporations and the wider community in which they operate. This is possible, according to authors, because there is allegedly an alignment between the social and the economic performance of the firm. CSR is a way to restore public trust in the corporate world, it follows that CSR enhances the corporation's reputation and confirms its licence to operate.

What is remarkable here is that CSR-related sources of excitement appear to be in sharp contrast with the sources of excitement in the previous spirit of capitalism identified by Boltanski and Chiapello. According to them, a central common characteristic of the sources of excitement provided by successive spirits of capitalism relates to 'freeing' wage-earners.

Texts promoting CSR offer a sharp contrast, stressing one's duties to the collective. Part of the excitement offered by CSR as a potential new spirit is to reduce what is presented as a current anomie by reconnecting business to wider society, as well as by offering the possibility of aligning the moral values of the protagonists of capitalism with their economic interests.

Does a CSR spirit of capitalism guarantee security?

Boltanski and Chiapello argue that to gain support for a new spirit of capitalism, its promoters must convince people that engaging with the proposed version of capitalism will bring them some security. Security is a central part of the argument developed by CSR promoters. However, the approach to security developed here is different from that in previous spirits of capitalism:

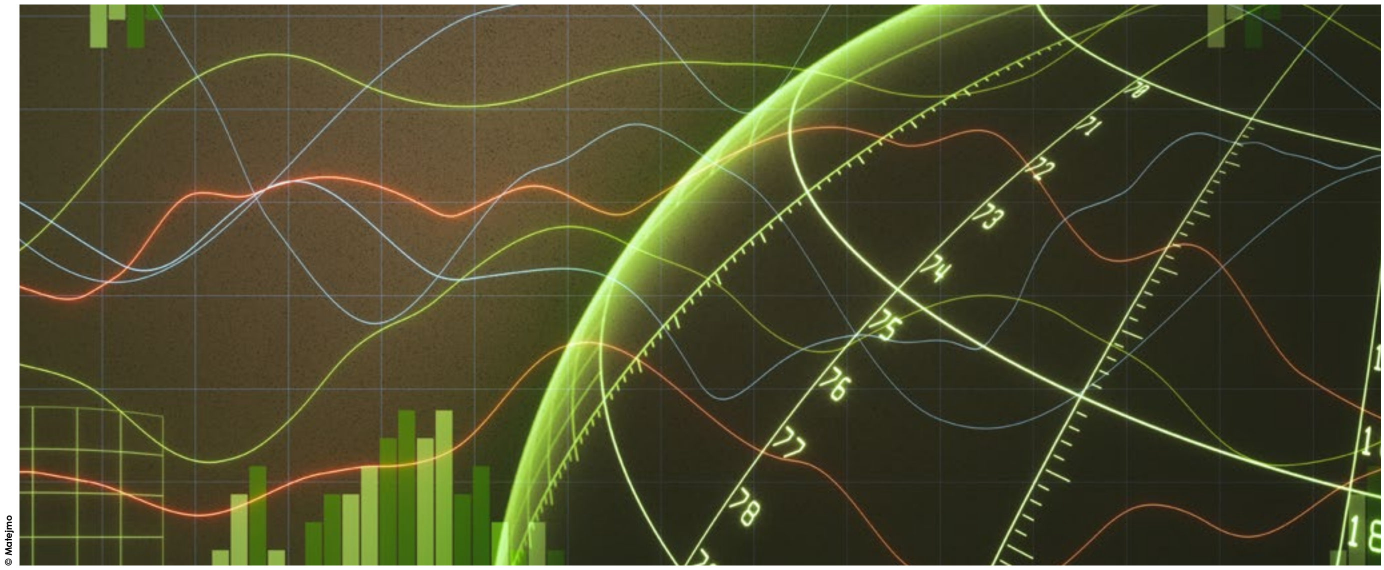
- as a solution to the threat from the current version of capitalism to the long-term security of society as a whole;
- as a guarantor of security for future generations;
- and as a way to ensure the long-term security of corporations, as it should strengthen ties between corporations and the wider society.

The books also enumerate several other benefits from CSR that are likely to increase companies' economic success and chances of survival, including the development of new markets, innovation and repositioning, reduction in risk and increased capacity to attract bright people willing to work for CSR-driven corporations. What's noticeable, however, is that while the long-term security of society and corporations is discussed and argued about at length, limited attention is paid to improving the security of wage-earners, for example, by promising lifelong careers.

Does it guarantee fairness?

One last but very important dimension of the spirit of capitalism, according to Boltanski and Chiapello, is to give people a sense that, by supporting and working within capitalism, they will be rewarded in a fair way. For example, in the current spirit of capitalism—evident in project-based organizations—fairness is embedded in the evaluation of wage-earners, based on their adaptability, mobility and capacity to fulfil projects. Our analysis of managerial texts suggests a distinction emerging among wage-earners, that is, between managers and workers.

While the authors address the issue of fairness for managers, for whom they recommend rewards, they give little attention to the workers. The texts we analysed are targeted at managers rather than workers. They insist on the importance of top leadership and regard managers, in particular, senior



managers and CEOs, as the main driving force in CSR policies. Some authors recommend direct financial rewards for managers' engagement in CSR.

In sharp contrast, when considering rewards for workers, the texts tend to perceive the rewards as more symbolic and less financial. CSR is presented as a way of giving staff an opportunity to express their idealism, to be seen as smart and concerned citizens, to create for themselves a 'positive working environment, and even improve their *employability*. Yet, it's argued that for workers, "motivation is based on values rather than purely on financial reward'. Ironically, while remuneration is viewed as too narrow a motivation for workers, it is considered a valuable motivation for managers. In other words, many see the implementation of CSR as a major change requiring a top-down process, where leadership from managers is essential. Within this perspective, the lack of tangible rewards for workers may be just an omission, as the texts concentrate on those issues that the authors view as more important.

It might become problematic when trying to convince the protagonists of capitalism and to ensure implementation, especially since it creates a divide between managers and workers in the incentives to implement CSR.

Capitalism 2.0 needs a bottom-up approach

Our analysis suggests that CSR does exhibit the core characteristics of a spirit of capitalism: it introduces changes in practice, makes recommendations regarding how those changes should be introduced, and spells out the benefits that corporations, managers and employees may obtain. CSR theorists and gurus don't promote the maintenance of "business as usual", but call for reforms and aim to influence the current management of corporations, arguing that a new form of capitalism might be part of the solution, much as the current one is part of the problem.

However, two characteristics of this new spirit of capitalism remain underdeveloped: there appears to not be enough attention paid to the security of the individuals within the company, and in regards to compensation, some individuals are treated more fairly than others. In other words, until now this new spirit of capitalism has been ushered in through a primarily top-down approach. Most critically, this has led to a rather unusual view of fairness, where managers who lead, develop and enact CSR can expect financial rewards, while workers receive only the symbolic satisfaction of working in a company engaged in CSR. This could potentially lead workers to consider CSR as a way to increase managers' financial gains but not their own. In short, the current incarnation of a CSR-based spirit of capitalism may succeed in producing collective value for corporations and society, but it does not include employees in creating or benefiting from it.

A new spirit of capitalism is still developing. However, if long-term change is to be produced, workers need to be placed at the centre of this critical CSR project. By taking a bottom-up approach, this new system could more easily be brought to fruition.

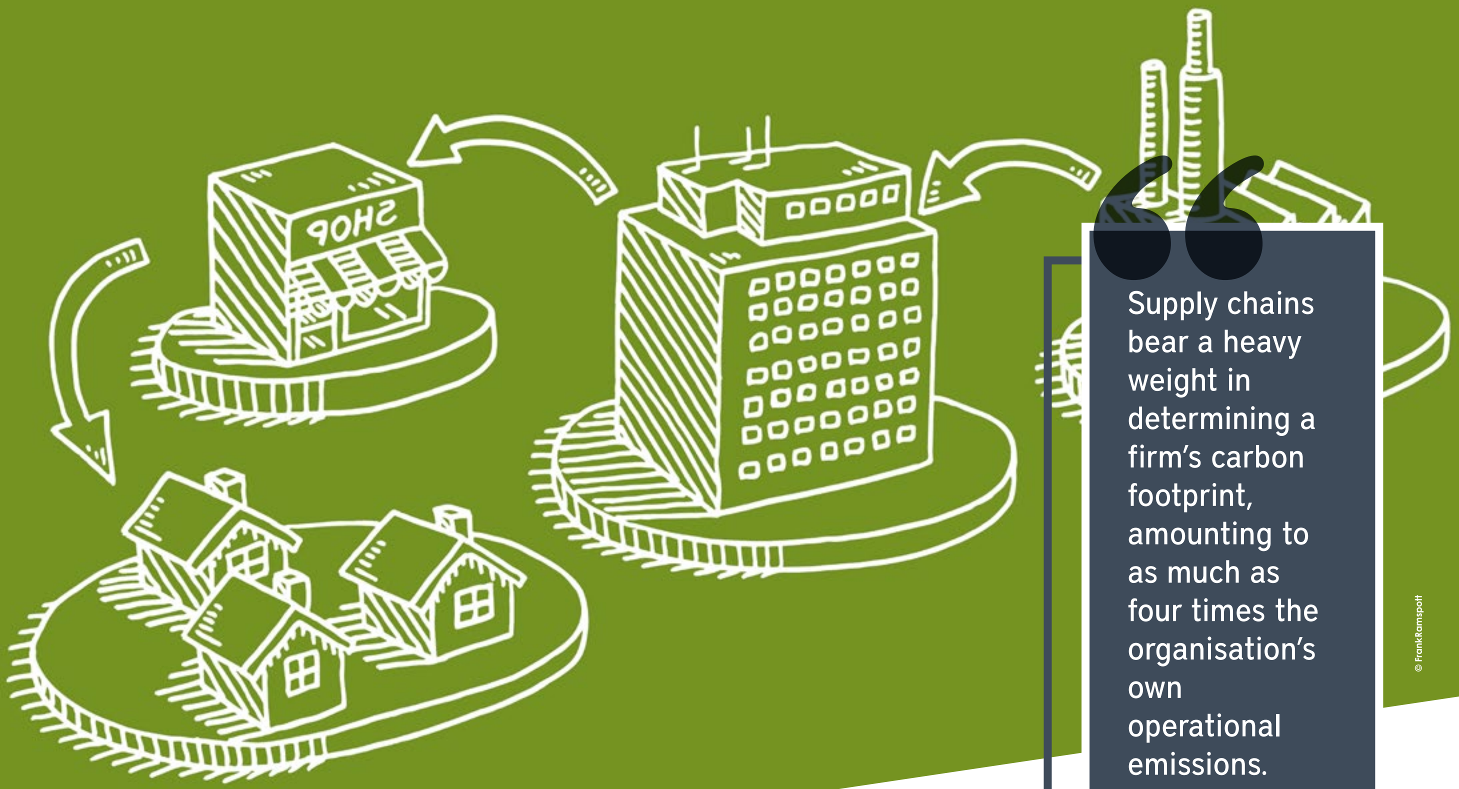
KEY TAKEAWAYS

- Corporate Social Responsibility (CSR) has been positioned as the go-to solution for capitalism's ills: a strategy for putting pressure on companies to create economic and societal value.
- To be successful, a justification of capitalism should be able to offer a) excitement by convincing people and organizations that working within this system will enliven them, b) security by protecting people and their families, c) fairness in determining whose actions should be valued.
- A central characteristic of the sources of excitement provided by capitalism relates to 'freeing' wage-earners. Texts promoting CSR offer a sharp contrast, stressing one's duties to the collective and wider society.
- But limited attention is paid to improving the security of wage-earners, for example, by promising lifelong careers.
- Capitalism traditionally promotes the idea that by supporting and working within such a system, employees will be rewarded in a fair way. While CSR implements this for managers and senior management, but rewards for workers are more symbolic and less financial.
- CSR is presented as a way of giving staff an opportunity to express their idealism, to be seen as smart and concerned citizens, to create for themselves a 'positive working environment, and even improve their employability.
- This could potentially lead workers to consider CSR as a way to increase managers' financial gains but not their own.
- The current incarnation of a CSR-based spirit of capitalism may succeed in producing collective value for corporations and society, but it does not include employees in creating or benefiting from it.
- Therefore, if long-term positive change is to be produced, workers need to be placed at the centre of this critical CSR project in a bottom-up approach.

FOOD FOR THOUGHT

- To what extent do you think CSR does or does not add value to your organisation? Why?
- Is CSR endorsed from the top and is it strategic to your organisation's operations and growth? Why – or why not?
- How do you see the excitement, security and fairness dimensions in your organisation? Are all three provided for?
- Should "fairness" be left to unions and associations to deal with? To what extent can companies be trusted to "play fair" with all their employees or should it be imposed by law?
- In the light of events in 2020, how do you see the current system of capitalism changing? Indeed, does it need to change at all?

BERNARD LECA



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Supply chains bear a heavy weight in determining a firm's carbon footprint, amounting to as much as four times the organisation's own operational emissions.

THE ACHILLES HEEL OF ENVIRONMENTAL ACCOUNTING: SUPPLY CHAINS

As firms scramble to get their emissions under control facing pressure from customers and regulators, Prof. **Frederik Dahlmann** from **Warwick Business School** explains what they may be forgetting.

Forget Something?

Climate change may have little impact on Donald Trump – a staunch believer of climate change being a hoax – but it seems like several firms and organisations have begun cleaning up the carbon trails they leave behind. Although this may seem like a ray of hope in an otherwise seemingly bleak future, Professor Dahlmann claims that it may not necessarily be the case. While firms get busy reducing their carbon emissions, what many are ignoring is the inclusion of their supply chains – something that Prof. Dahlmann considers a key factor. Take for example, the popularity of electric scooters. Users and propagators of the electric scooter claimed for a long time that the electric scooter was an eco-friendly way to cover short distances. However, most manufacturers of these scooters are Chinese firms, the majority of which do not maintain records of their carbon emissions. Moreover, most electric scooters have never lived an efficient life-cycle because of their non-durable build. The electric scooter has ridden a wave of popularity thanks to only a single segment of its lifecycle that is easy on emissions – riding it. Research has revealed that after taking into account the emissions from manufacturing, transportation, maintenance, and upkeep, electric dockless scooters do not rank as high on the green-o-meter as companies would have liked us to believe.

Heavy is the head that wears green

Overlooking supply chains is bad news for the environment. Supply chains bear a heavy weight in determining a firm's carbon footprint, amounting to as much as four times the organisation's own operational emissions. And it seems few organisations are aware of their own. The Carbon Disclosure Project (CDP) – a charity running the global disclosure system on carbon emissions for investors and other interested parties – revealed that a mere 36 per cent of companies that responded to its annual survey are actually engaging with their suppliers. Professor Dahlmann explains why this is disturbing on two fronts. Firstly, regulation. Increasingly, regulators around the world are demanding publicly listed companies to cough up their greenhouse gas (GHG) emission numbers and disclose them in their annual reports. One among these countries is the UK, which has gone as far as to

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introduce the Streamlined Energy & Carbon Reporting (SECR) scheme in 2019, which brings under purview, the entire supply chain. Secondly, with the subject of climate change an increasingly politicised arena thanks to Greta Thunberg's worldwide movement, pressure is building on firms to not just use their carbon-reduction actions as good PR, but more importantly to lead society in the move towards a sustainable future. It is increasingly important firms engage with their supply chain to work collectively to reduce carbon emissions.

The 3 levels of handling supply chains

By analysing the CDP annual survey from 2014 to 2017, Professors Dahlmann from WBS and Roehrich from the University of Bath examined 1,686 listed companies from all over the world that are actively collecting environmental data and engaging with their supply chain i.e. customers on one end and suppliers on the other. Indeed, of those 28 per cent only engage with their customers while 21 per cent only with their suppliers, while the rest talk to both ends of the chain. Although two thirds of firms are doing neither, the number of firms engaging with some or all of their supply chain has seen an increase of 57 per cent between 2014 and 2017. From this data, Professor Dahlmann was able to place firms into three different categories, based on their level of involvement with the supply chain – basic, transactional and collaborative. "It is at the collaborative stage where we see the most comprehensive approach to managing supply chain partners and customers", Professor Dahlmann points out.

The basic level involves an elementary level of interaction, where companies typically send their suppliers a survey to fill in on their emissions data. US software firm Symantec produces an annual report on its suppliers' GHG emissions, while Bank of America has been conducting a CDP supply chain survey since 2009. Firms at the basic level will usually only measure and collate data, engaging only in the first step necessary for the conception of a more comprehensive carbon reduction plan. "Perhaps tellingly", Professor Dahlmann observes, "survey responses from firms engaging in only basic engagement were relatively shorter in length and qualitatively less detailed". On the other hand, more advanced firms – at the transactional and collaborative levels – use this data for more productive means. At the transactional level firms calculate their carbon footprint and identify opportunities for improvements. The more experienced firms of this lot, then, use the data to provide their supply chain with targets and incentives. Virgin Atlantic Airways, for example, aims for reductions in emissions from its supply chain each year, while nuclear power firm Exelon sets goals for its suppliers to reduce energy usage and GHG emissions. What is more is that this data is also being used for the development of key performance indicators (KPIs) which can facilitate supplier selection and the assessment of their performance. Warnings are sent to firms not hitting requisite performance levels and improvements demanded. As a result, the emissions data becomes an integral part of the selection criteria for suppliers making them more accountable. For instance, pharma giant Pfizer reported that the aim of its data collection is "to provide benchmarking to suppliers regarding their GHG emission reduction and water conservation programmes, in order to identify sustainability improvement opportunities".

Going all the way

At the collaborative level, on one end firms and suppliers work together to develop shared goals and values around sustainability: collaboration is more tightly knit. Professor Dahlmann maintains that in order to build mutually beneficial and greener relationships, a deeper involvement and commitment is necessary from firms and suppliers. This means more meetings, seminars on best practice, more personal interactions in the form of phone calls and emails including the establishment of online discussion groups for a mutually beneficial relationship aimed at reducing their overall carbon footprint. Eventually, some firms offer supportive supplier training and development courses, briefings, summits and award ceremonies to identify joint development and innovation projects. On the other end of the chain, firms at the collaborative level also seek to engage customers and consumers, persuading them through marketing and PR of the benefits of new, greener products and how to use them in a way that is less harmful on the environment. Companies bring the

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collaborative relationship to life in a variety of different ways. Food multinational Kellogg's has created a 'Sustainability Consortium' with its supply chain to "drive scientific research and the development of standards and information technology tools to enhance the ability to understand and address the environmental, social and economic implications of products", while The InterContinental Hotels Group is working with the International Tourism Partnership to reduce the environmental impact of the cotton used in its bed linen. In the B2B sphere, companies employ two-way engagement with customers with a more proactive and strategic approach on show. Partnerships with industry associations and university research teams is the way the French hospitality firm Sodexo has gone. Sodexo is funding the position of the Professor of Sustainable Sourcing at the Euromed School of Management in Marseilles. In other instances, Professor Dahlmann's team also discovered firms which are able to employ transactional and collaborative modes of engagement simultaneously with different suppliers and customers.

All said and done, to calculate the carbon emissions across the lifecycle of a product – which could mean from sourcing raw materials to the final product ending up in a landfill – is no easy task, which is why a collaborative approach is increasingly important. The requirement for companies to report their emissions makes them more accountable in a system where what one does affects the rest. Companies must understand that they are part of a single system that must work together, rather than employ emissions monitoring as another supply chain management tool.

Those who tech, can

Let's not forget data. Tracking emissions can be incredibly complex especially for the likes of firms like Walmart. The amount of data that would involve is probably why tech companies are leading the way in the reduction of their carbon footprints. Their data analytics skills mean it is natural for them to not only collate data but also to put it to effective use, both up and down the supply chain. Aside from being ahead in the game, tech companies are likely to be in an optimal position and poised to develop emission management platforms and tech that is much in demand given the increasing requirement for emissions accounting. If tech companies can resolve this complex puzzle and produce a comprehensive software package that does it all – track, record and manage carbon emission across the entire chain effectively – they could see a new market opening to them. Verizon, for example, now sees its Internet of Things products, designed to reduce carbon emissions, as "providing significant revenue opportunities".
It's clear, with the youth of today engaged as never before in the climate change political battle, that sustainability will be the issue of this generation.
If businesses are to prosper in this climate they need to include their whole supply chain to claim they are truly on the planet's side and not be accused of creative carbon accounting.

KEY TAKEAWAYS

- Firms and organisations often forget to take into account their supply chains in the reduction of their carbon emissions.
- Regulators and customers are increasing the pressure on businesses to cough up emission numbers and lead the way to a sustainable future.
- Based on the level of involvement with suppliers to reduce emissions there are three different level of relationships: Basic, where there is only collating and measuring of data; transactional, where firms use to data to suggest improvements and generate insights; finally, there is the collaborative level where firms have a deeper level of involvement with suppliers and work with them to collective reduce their overall carbon footprint.
- A collaborative approach is the way to go since data is complex to gather and because it makes firms more accountable; one's actions affects the others in the chain.
- Tech companies, because of their analytical abilities are ahead of the game in using data to reduce their carbon footprint. This also makes them poised to take on the market for carbon accounting software and technologies.

FOOD FOR THOUGHT

- To what extent do you think we can live and function without importing goods from afar?
- To what extent does your organisation have an international supply chain? What products/services are included in the chain? And what degree of "carbon footprint" is generated from this?
- How can your organisation continue to work with overseas suppliers and also reduce to a maximum its carbon footprint?
- Should sustainability be left to the younger generations to deal with? And, looking back in time, what did the older generations do that was more in line with sustainability than the present generations?

FRED DAHLMANN


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> The segregation of employees into talent and non-talent can actually be a counterproductive approach to human resource development.

TALENT MANAGEMENT BEFORE AND DURING A PANDEMIC: FOREVER BARKING UP THE WRONG TREE

Talent management has garnered considerable acclaim since the early 2000s as the font of competitive advantage. But is it merited? Profs **Paul Ryan** from **Trinity Business School** and **Tony Dundon** from **University of Limerick** dissect its meaning for organisational employees and explore its implications for business in this new confusing covid-19 world.

Talent management's existential crisis

'Talent is king'. 'Talent is scarce'. 'Our edge is our talent'. These are some common refrains of corporations today in their ongoing quest for the elixir of business success. Talent Management took hold in the early 2000s and, today, has become a buy-word in HR and from c-suite managers as something new or even special. It's not. The idea has certainly been bolstered by a growing publication base among academics and consultants. But who or what is this talent? Why do corporations see it as uber-essential? What is so unique in such a generic term like talent that all use? Talent management has never made any of these explicit. It is loosely defined as the "efforts to attract, select, develop and retain key talented employees with the greatest potential to impact on value generation in an organisation". Talent are supposed to be high valued leaders and employees who leverage change.

How ironic that many of those talented leaders and executives are now so visibly exposed during a global pandemic as clueless. The ruse of talent management has for so long not only ignored but actively derided those who are now stocking supermarket shelves, steer the buses, clean the wards, care for the sick and elderly, drive the trucks, pick the fruit or fix broken machines. These are the very people talent management experts would have sacked, classifying them as B or C performers because their value is not directly attributed to adding value in the name of accumulated profit or management-only defined attributed of performance. The stability of global supply chains and ready availability of everyday essentials, it turns out, rest on the endeavours of those adjudicated as the 'talentless' workers.

Talent is in the eye of the beholder

In the view of the professors Ryan and Dundon, talent management can be an invidious organisation process that extends exploitation and inequality in the workplace but also spills-over into wider society. They argue that the criteria used to designate certain organisational workers as high or low talent is not only subjectively determined but excluded the voices of those it affects and is rarely if ever negotiated with legitimate workforce representatives. Talent management schemes seldom, if ever, factor in elements such as employee voice, consultation and representation. The process of identification of talent within an organisation invites questions as to fairness of the selection criteria, the makeup and motives of the decision makers and also discrimination between the definitions of 'talent' and 'non-talent'. It is feasible under the regime of talent management that powerful groupings will unilaterally anoint the talent who are then better rewarded: extending favouritism and enlarging a self-serving elite. Scholars in the area no longer unpick and scrutinise phenomena, practice and concepts but act to reinforce a brand and movement, rather than adjust conclusions and practices as new insights are gleaned and inequities are uncovered.

Average employees can be coerced to re-adjust, re-train or to improve to set measures imposed from above, while the remainder may be ranked as non-talent who are actively managed out of a firm. This cements ongoing workplace pay disparities and provokes widespread dissatisfaction and even resentment amongst the ranks of the 'average' employee, or those who have been branded as 'non-talented' or 'less desirable' organisation members. Essentially, talent management is premised on a discourse of warfare, initially posited by senior management (typically men) as that between rival firms, but which soon becomes subsumed as warfare among employees all jostling for the higher rewards for the exclusive gain of the talent brigade. On this highly masculine battlefield, the system commonly ignores issues of dignity, stress or mental health and wellbeing.
There are of course all sorts of differentiated talented people in society: an artist, a chef, a footballer or nurse. Where does talent end and non-talent begin? And who commodifies certain types of talent and not other forms of skill, knowledge or expertise? To illustrate how much this is such a grey area subject to exploitation, the professors present a hypothetical example, from the world of sport, of a lower league football player's differential talent levels. Although any such player would most likely have been the most talented player in his school or early age category, as the talent pool widens and opportunities narrow, this same young player may later be judged to lack the necessary talent to reach the absolute heights of his profession, such as the English Premiership or Spanish La Liga. But whilst

no Messi, that individual is not, on any fair assessment, without footballing talent. It is evident then, that there are degrees of talent. The same fuzziness holds for evaluating the talent of a ballerina, actor, musician, university professor or machine operator. But what and where is the cut off point for anointment as talent? What constitutes enough talent? Again, how is that decided in the corporate world? Care workers in nursing homes who have occupied their premises of work, essentially decided to live-in, in order to protect those they care for have been some of the most undervalued and least paid occupations on the planet because such talent management experts fail to see their value beyond the profit and loss and balance sheets.

True generator of value?

Profs Ryan and Dundon claim that the segregation of employees into talent and non-talent can actually be a counterproductive approach to human resource development. Corrupted organisational selection practices can make for unclear, even unfair progression opportunities and paths. Employees in the average or non-talented groups, that are excluded, can end up feeling alienated and may be disinclined to perform at their peak effort. Moreover, talent management can be viewed as a system that leads to the development of an inner sanctum of like-minded 'chosen ones' in so-called pivotal or profit-enhancing positions. The concentration of such like-for-like talent leaves little room for organisational diversity. The odds are commonly stacked in favour of those that adhere to the rules, play the political game adroitly and tow the party line. This actually diminishes ideation and creativity. Replicating sameness, a form of internal organisational cloning of so-called good talent, is not ideal for engendering innovation, a proven source of business advantage. But all may not be lost, the professors conclude. Perhaps the biggest failing of talent management is that its essential logic works against its stated objective: value generation in its widest organisational sense. It's in the hands of organisational leaders, teachers and researchers to direct attention to reducing favouritism and unfairness. An appreciation that talent permeates all areas of the organisation would be best achieved with maximum transparency and social dialogue with employees and their representatives. Simply said, look after all organisational members and true talent will out, across and between all organisation levels. And the time for such distributive justice in the organisation is now, since all organisation members, not a chosen few, are required more than ever to support others for a greater societal good in tackling a new pandemic affecting all. Indeed, it is the lower-paid and lower-performers classified as non-talented who are now putting their lives at risk for the so-called higher talented privileged elite, the majority of whom are allowed to manage from the security of home. When this is all over, will it be remembered which talent saved the day?

FOOD FOR THOUGHT

- Is there a talent recognition system in your place of work? How does it work and to what extent do you think it fair?
- What criteria do you think are necessary in order to be considered as "talent" in your organisation? What are these criteria linked to? Why?
- How do you know you are talented? And what makes you yourself talented in your work and potential within the organisation? Draft a three-minute pitch to convince others!
- How can "talent" be encouraged and constructed? What would you put in place in your organisation to make that happen?

KEY TAKEAWAYS

- Talent management is defined as the efforts to attract, select, develop and retain key talented employees with the greatest potential to impact on value generation in an organisation.
- Talent management has existed since the early 2000s, however it presents many faults. the definition of talent is subjective, and there are varying degrees of talents as per the party who decides what it means.
- With the practice of talent management, engagement and retention, organisations can end up demotivating workers which may actually reduce overall efficiency.
- Talent management's practices are favourable to a select few which includes shareholders and upper management while detrimental to employees and societies. talent management creates rankings, justifies differential treatment and wage discrimination.
- Talent management leads to masculine dominated cultures forcing employees to compete for higher rewards rather than collaborate. the resulting emotional stress and inequitable distribution are skewed in favour of the 'elite'.
- The criteria used to segment people as talent is subjectively determined and never negotiated with legitimate workforce representatives. it is typically the subjective views of senior managers who decides what constitutes talent.

PAUL RYAN

TONY DUNDON

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> Companies wishing to face the 21st century head-on will need to develop strategies that flexibly manage stakeholders.

(DON'T) FIGHT FIRE WITH FIRE: HANDLING CRISES ONLINE

Prof **Edgard Barki, FGV-EAESP,** and business consultant **Clémence Vignal Lambret** of SciencesPo, demonstrate that emotional intelligence can help firms save face when confronted with netizen reactions on social media.

Related research: *Social media crisis management: Aligning corporate response strategies with stakeholders' emotions online, Wiley.*

The rise of social media has given a platform to individuals to express their views—good, bad, or just plain ugly—in ways unimaginable before the rise of the world wide web. The interconnected mesh of users on social media allows not only the voicing of personal opinion but also the amassing of this opinion to set trends – that is, 'influence' the debate. So much so, that these 'influencers' are able to charge anywhere from between four to six-figure dollar amounts per social media post as part of what is known as influencer marketing. Given how social media has proven itself to be capable of affecting the outcome of a US presidential election, it is well worth considering this soft power's effects on companies who are willing to pay an arm and a leg to project and preserve a favourable online presence.

Consider Volkswagen which, following the revelation of its vehicular emissions cheat-sheet, within a week witnessed almost twenty times the number of negative tweets while losing its CEO and 35% of its market value. As such, social media can be a breeding ground for corporate crises to manifest and once that has happened, it is only a matter of time before its proponents will come out with the verdict—not born out of logical reasoning that should be expected from today's internet-savvy users, but one that more often than not is essentially an emotional outburst.

In light of this, it is important for firms—facing reputational threat—to be fully aware that their communications to the outside world may well be garbled, lost, or distorted among the noise of those very outsiders they wish to reach. With this in mind, Prof Barki and consultant Clémence Vignal Lambret studied instances of how firms responded when confronted with varying user reactions and with what degree of success—if any.

A walk down history lane

The underpinnings for this study stem from how crises have traditionally been categorised along the lines of their nature—technical, political, etc.—origin, whether inside the organisation or out, and intensity—determined by the length and impact. Given the rise of social media, it is important to factor in its effects to the firm and its stakeholders.

Moreover, in the past the standard approach was to view crises management as a process under the control of the firm. However, starting from the end

of the first decade of the 21st century, a view was proposed that stakeholders online were too disjoint and spread across space and time, and that online and offline communications could interact and impact each other. As such, social media could showcase and amplify not only a firm's dirty laundry but also how its practices were perceived.

The way social media has proliferated—with more than 15% of the world's population on average having at least one online account—has radically altered how companies and stakeholders communicate with each other. To this end, these challenges have been deemed important enough to be properly addressed via the firm's corporate communication strategy, the efficiency of which is impacted by social media. While various strategies exist, they have effectively been clubbed into two that are relevant to the study —accommodative and defensive—and linked with the dynamics of stakeholder emotion.

Game theory

This takes into account the best response strategy, based on the width of the reputational threat—the interplay between the origin of the crisis, the extent of responsibility and of course, stakeholders' emotions.

This is used to form a framework, which helps to determine whether to use an accommodative response—generating, improving, developing reputational assets by compensation, symbolic or material, to the stakeholders. By contrast, the defensive strategy aspires to either detach the organisation from the crisis or reduce the role of the organisation in the given crisis.

Stakeholders' emotions are arranged in relation to the extent of reputational threat. As such, this spectrum includes less negative emotions such as sympathy and sadness to fright and anger which lie on the more negative end of the spectrum.

Solving for X

Knowing the crisis helps in determining the kind of emotions being experienced, and consequently, the reputational threat. This can then be used to respond in the most suitable manner.

Crises arising purely from within the organisation are preventable, pose high levels of reputational threat, usually elicit highly disapproving emotions, and are therefore best dealt with using an accommodative stance. They reflect the fact that the organisation acted in a certain manner knowing fully well the consequences of such actions.

On the other hand, there are crises that the organisation itself falls prey to. These fall into what the researchers call the victim cluster. They are external and are posited to evoke feelings of sympathy and sadness, and thus, ostensibly require the organisation to present a strong defence.

But as with most things in life, there are shades of grey in between. Here, these represent actions that were not intentional, and may require a mixed strategy.

Live—to fight another day

Barki and Vignal Lambret used this framework to analyse 6 real-world crises faced by companies operating in Brazil and France. As such, the analysis offers insights to crises management in disparate cultural contexts and compares company responses with the proposed strategies.

For instance, in 2015, the Parisian public transport company, RATP, decided to remove part of an advertisement banner used by *Les Prêtres*, a French music band. The banner was supposedly controversial because it showcased a leaning towards a particular religious group, which at that time was facing suppression by ISIS. The public was, however, outraged, and considered RATP's decision—aimed at maintaining neutrality—condoning massacre in the Middle *Les Prêtres* East. And even though this reaction, coupled with the internal origin of the crisis, should have precipitated an accommodative response, RATP defended itself, mostly using legal jargon, which served only to antagonise further – including the French Prime Minister. A week later, RATP had to reverse its decision, and allowed the banner to be displayed.

By contrast, Skol, a popular beer in Brazil, characterised by a fun and frolic message, had a different approach. Skol's posters released ahead of the Carnival in Brazil did not go down well on social media due to the innuendo nature of their slogans, perceived as sexist. These strong negative public reactions duly precipitated an accommodative response – successful because Skol, while making their marketing director a scapegoat, apologised, and claimed innocence of intention, and changed the slogans for the festival.

At the other end of the spectrum, accidental crises—one on the French railway system and one mining dam collapse in Brazil—were studied. SNCF, the French transport company took quick measures and effectively took ownership of an accident that claimed 7 lives and injured more than 30. As such, it was rendered preventable. Moreover, in response to the sad tones conveyed on social media, SNCF quickly labelled the crisis a railway accident, thus ensuring externality of origin. While the enquiry found insufficient maintenance as the root cause of the accident, SNCF was able to tide over a difficult time period and lived to fight another day.

However, the response to the dam collapse overwhelmingly conveyed anger, which means it should have been treated as preventable. The company, Samarco, however, categorised it as an accident, and responded with a defensive strategy—praising their actions to support affected communities and denying knowledge of what went wrong. As such, it prevented Samarco from effectively engaging with its stakeholders. Companies that are (purportedly) victims of crises have another story to tell. Air France, which had been plagued with debt, was planning organisational reform that fell through when a union strike turned violent. Since theory posits that workplace violence be considered as victimisation, it was. Unfortunately, social media thought otherwise and conveyed anger. To this end, the researchers argue, it should have been named preventable and an accommodative response tailor-made to the situation, instead of making matters worse by downplaying the incident with a light-hearted video that seemed to make it all look like a joke.

Yet, Coca-Cola was successful. After a customer claimed online to have developed handicaps after consuming a 'bad-quality' version of the beverage 13 years ago, they posted a video—showcasing a seemingly unopened bottle with a rat's heat inside—that went viral. In this case, social media thought Coca-Cola was in the right and doled out sympathies. This gave the company time to analyse the situation and react accordingly. To this end, Coke invited influencers to film their safety measures thereby became the wax-seal of authority over Coke's quality, and successfully exonerating them in the process.

Play your cards right

The variety of crises showcased is proof that social media can make a mountain out of a molehill. As such, it can be explained by the irrationality of responses that social media provides a refuge for. As such, economic theory that espouses the cause of the rational person need to be reconsidered by organisations looking to keep their reputations intact.

To make matters worse, social media – said to have a hand in polarising debate – has unfortunately engulfed crises management as well. Vilification of large corporates seems to be the new normal, without waiting for formal enquiry results, and sometimes with serious disregard for due process. So much so, that a corporation is seemingly required to treat genuine accidents as preventable crises that the organisation failed to foresee.

A further insight is that the origin of the crises is insufficient to determine the proper response. As such, companies wishing to face the 21st century head-on will need to develop strategies that flexibly manage stakeholders. To this end, they need to predict and adeptly handle emotional responses online, regardless of how irrational they may appear to be. Or risk the same fate as that of Volkswagen after Dieselgate.

KEY TAKEAWAYS

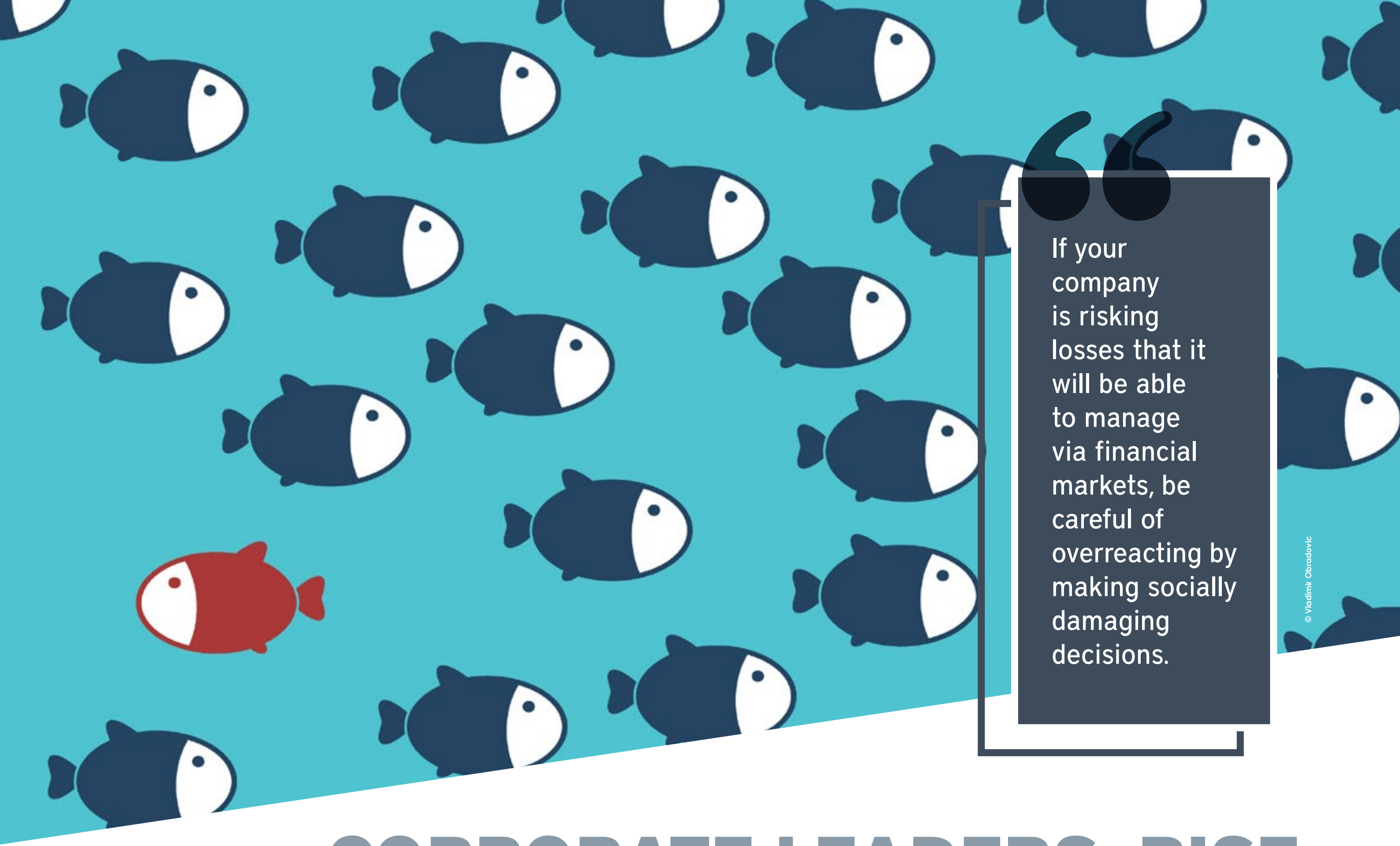
- The interconnected mesh of users on social media allows not only voicing of personal opinion but also amassing this opinion to set the trend, i.e., 'influence' the debate.
- Social media is thus, a breeding ground for corporate crises to manifest.
- The standard approach had been to view crises management as a process that was under the control of the firm.
- It is important that firms—facing reputational threat—be fully aware that their communications to the outside world may well be garbled, lost, or distorted with and among the noise of those very outsiders they wish to reach.
- The response should take into account the best response strategy, based on the width of reputational threat.
- The framework helps to solve the unknown variable. Knowing the crisis helps in determining the kind of emotions being experienced, and consequently, the reputational threat.
- Companies wanting to successfully navigate the 21st century will need to develop strategies that flexibly manage stakeholders.
- They need to predict and adeptly handle emotional responses online, regardless of how irrational they may appear to be.

FOOD FOR THOUGHT

- What if your company or organisation were faced with a crisis? What people, systems and processes do you have to cope with such an event?
- To what extent do you think that social media causes more problems than benefits to people, organisations and society?
- With the mass of communication and news available to us, how do you deal with sorting out what to believe and what not to believe? Which events can you think of in the last 5 years that caused confusion in people's minds?

CLÉMENCE VIGNAL LAMBRET

EDGARD BARKI



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> If your company is risking losses that it will be able to manage via financial markets, be careful of overreacting by making socially damaging decisions.

CORPORATE LEADERS, RISE TO THE CHALLENGE

By Prof. **Concepción Galdón**, IE Sustainable Impact Teaching and Research Lead, Director of **IE's Center for Social Innovation.**

There are times in life when your attitudes and decisions reflect who you are with more clarity than the cleanest mirror could. At those times, people around you can see you—the real you. And whatever they see, they won't forget. This is one such time. The coronavirus crisis is putting society to the test.

A testing time

Our individual behavior is being tested, as is that of the organizations and companies where we come together. And we must all rise to the challenge. We are all struggling. Individuals are. Companies are, too. And we must all rise to the challenge. As corporations make decisions to cope with the difficult economic environment, they need to ask themselves what impact these decisions might have going forward. Behaving as a responsible member of society is now, more than ever, not only the right thing to do but also a true competitive advantage that will set some brands apart from the rest for customers and workers alike. Of course, this is easier said than done.

A challenge to survival

The present public health crisis is generating a socio-economic context that challenges the survival of companies in most sectors. Many are being hit hard by the change in social behavior brought about by the measures aimed at increasing social distance. Some are directly impacted by the illness itself or by the fear of it. Most, if not all, have revised their revenue generation projections for 2020 to numbers that simply do not add up when compared to costs. Responsible managers are, as I write, looking at their numbers, looking at themselves in the mirror, and trying to make ends meet. It would be superficial and simplistic to say that all companies should avoid firing anyone or discontinuing services to clients who can't pay. Even more people will lose their jobs if companies go bankrupt. So, how to assess their decisions? The truth is that not all companies are made equal.

It's not the same thing to run a young startup or small business as it is to run a big corporation with decades of history. And the main difference between the two is the ability to refinance themselves in the financial markets. Some companies risk going down. Others risk closing the year with losses that they can overcome with some leverage from banks. The risk-benefit analysis comes out very differently for each of them. The same corporations who have access to financial markets tend to be those who have made strong statements in the last few years about their purpose and commitment to society. The time for "greenwashing" and boasting of promoting SDGs by simply putting up colored boxes on a website is over. We're all about to see who's who, and it will matter to us and to corporations.


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Numerous studies have confirmed the influence of perceptions about CSR dimensions on companies' stakeholders' loyalty, such as customers and employees. In the case of customers, this impact is partly mediated by corporate image and reputation. For employees, it's mediated by perceptions of justice, and organizational identification.

To summarise, if your company is risking losses that it will be able to manage via financial markets, be careful of overreacting by making socially damaging decisions. You might very well be undermining your ability to generate revenue and attract talent in the very near future.

The decisions you make

However, decisions you make that prove your purpose and commitment to a fair and sustainable society will grant you extra muscle to overcome a longer-term crisis with the loyalty of your clients and employees. Not every company has the opportunity to decide between one path and another. If you are a manager-leader in one of the companies who can, your responsibility is even greater. Stand up to the challenge!

FOOD FOR THOUGHT

- Put yourself in the shoes of a company owner during the Coronavirus crisis. How would you react to shareholder pressure to reduce the workforce?
- What other options do you think would be available to you?
- Are there some sectors where it is just not possible to stick to purpose and values in the face of crisis?
- In some countries, the state has offered either large-scale fiscal and/ or financial assistance to companies to maintain their headcount. Should government keep out of free market affairs or should it play a greater role in regulating and helping businesses? Why? Why not?

KEY TAKEAWAYS

- The coronavirus crisis is putting society to the test and it gives rise to people and organisations showing the "real self" – for better or worse.
- On the one hand, corporations make decisions to cope with the difficult economic environment, and on the other, behaving as a responsible member of society is now, more than ever, not only the right thing to do but also a true competitive advantage that will set some brands apart from the rest for customers and workers alike.
- However, small businesses and startups have different stakes at hand than large, established companies – the main difference between the two being the ability to refinance themselves in the financial markets.
- By making socially damaging decisions, companies may undermine their ability to generate revenue and attract talent in the near future.
- Decisions companies make that prove their purpose and commitment to a fair and sustainable society will give them extra muscle to overcome a longer-term crisis with the loyalty of their clients and employees.

CONCEPCIÓN GALDÓN

When properly structured, boards can substantially reduce stakeholder mismanagement.

© Francescoch

HOW BOARDS CAN FIX CORPORATE SOCIAL (I)RESPONSIBILITY

Corporate boards are crucial in reducing and eventually preventing corporate social irresponsibility, says Prof. **Tanusree Jain** of **Trinity Business School**, but it's the way you bundle them that can make all the difference.

Related research: *When Boards Matter: The Case of Corporate Social Irresponsibility, British Journal of Management, Vol. 00, 1–22 (2019), DOI: 10.1111/1467-8551.12376 by Tanusree Jain, Trinity Business School, Trinity College Dublin and Rashid Zaman, Lincoln University.*

Over 18 yet irresponsible

Enron, World Com, Siemens, Volkswagen, BP and Wells Fargo – every now and then a corporate scandal tops the charts of the news headlines across the world. Investigations dig further revealing even darker layers of mischief, CEOs and business magnets topple, shareholders wait with baited breath and the average person on the street express mild-shock and fierce disapproval, ever-cynical of the system and the glossy promises of corporate responsibility by the business world. While firms have long-been criticised for their irresponsible behaviours, and justice doled out in the form of hefty fines that sometimes reach the billion-dollar mark, firms still survive and firms still continue to stray from the good path. Why? Perhaps, in all truth, firms are just like human beings – full of light and goodness, full of shadow and imperfection too (moreover, it is well within a firm's span of life to both at once do good while doing bad – look at Walt Disney, criticised for labour and human rights violations in its supply chain while being recognised as the world's best employer in 2018). And also perhaps because the mechanisms that help them avoid such unethical shenanigans and keep them on the straight and narrow have not yet been perfected. This is what Prof. Tanusree Jain of Trinity Business School, and fellow researcher Rashid Zaman of Lincoln University, decided to investigate. And their findings provide a path which firms should surely contemplate taking.

All above board

While Corporate Social Responsibility – CSR – has been well-researched, they argue, the seedier side of business – CSiR – or Corporate Social Irresponsibility – has received scant understanding despite the damage it wreaks to company image, share price and customer trust. Taking up the challenge, they used a sample of publicly listed firms in the USA between 2002 and 2015 and a sophisticated, multi-

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stakeholder research framework to ask two questions: what type of board-level structures could monitor managements to reduce CSiR and what conditions could render such board monitoring more effective.

Why boards? Because recent studies on corporate governance have highlighted the pivotal role of boards of directors – or BODs – both in setting firms' agendas and strategies and in effectively keeping track of what management and ops are up to. Just look at what happens in the media when a high-profile corporate scandal occurs – 'Where was the board?' blares the public outcry. Indeed, interestingly enough, many of the irresponsible activities are known to occur because of executive mismanagement, lack of board oversight and poor governance practices. Yet, held liable for CSiR, BODs can also use their power to lead corrective actions – for instance, in the case of sexual harassment by CEO Leslie Moonves, CBS' board publicly committed to a thorough and independent investigation and subsequently discharging Moonves without any golden parachute even before it took place.

Of big boards, free boards and committees

Boards, then, are important – not only on what they do but how they do it. It's a board's size that has a role in impacting how the members interact and relate to each other, on their ability to process information, how effectively they participate in board meetings, and the quality of their monitoring of managerial decision-making and actions.

In theory, because there are more people sitting on them, larger boards are more likely to represent the interests of multiple stakeholders, including shareholders, than smaller boards and, as such, should be more effective in reducing CSiR. Likewise, the more people you have, the more skills sets you have to tackle complex issues and ops. But then again, having many to make decisions might lead to slowness, free-riding, politicking and conflicts between clans. It stands to reason then that smaller boards should be agile, more committed and accountable. But here again, research has shown that smaller boards have a greater likelihood to be dominated by short-term, profit-oriented and powerful manager-directors inclined to take risky decisions that might lead to an increase in CSiR behaviour. Independence is also a key factor. The bulk of existing research agrees that independent directors are better monitors and better in improving firm performance.

What's more, they're positively associated with good CSR behaviour in terms of employees, product aspects, the environment and corporate giving. Prof Jain argues that even if independent directors may not have regular information on a firm's challenges and opportunities, they are hired to represent their stakeholders with their knowledge and expertise and are thus likely to steer away from, and discourage others in being tempted by, CSiR to keep up their reputational capital.

Firms also create committees to deal with a wide variety of issues from quality, project management and innovation, meeting and carrying out work separately and making recommendations for approval of the full board. And as stakeholders increasingly become aware of the risks linked to irresponsibility and unethical behaviours – and indeed may believe in responsible leadership and business practices – so firms increasingly see the creation of CSR committees that address socio-environmental issues. They tend to have a good record. They encourage extra vigilance on green issues and improve the firm's social performance.

Of sex and director activity

Gender, of course, brings its fair share of impact on everything from buying a home to corporate performance. The good news for women is that in much research they come out top. They have been found to be more sensitive towards ethical judgements and set higher ethical standards than their male counterparts – even when under pressure to give way. Women have also been found to give more emphasis to CSR practices and greater diversity on boards gives a bigger variety of perspectives, thus generating better solutions during problem-solving and ultimately improving board effectiveness.

What's more, women are less lazy. In terms of keeping a track on performance and operations, female directors are more likely to actually turn up and attend board meetings than men. This is important. For when directors fail to attend such meetings, it signals their unwillingness or inability to fulfil their monitoring tasks. Lower attendance at board meetings can also encourage managerial opportunism at the expense of stakeholder claims and interests. Put simply, the more you attend, the more aware you are of the risks and the more you speak directly about it with the other directors present. In short, it's not the frequency at which board meetings are held that is important, but the frequency at which directors attend those meetings that really counts. With the proof of the pudding clearly on the plate, Prof Jain argues that more women on boards, with increased director activity, will have a positive impact on reducing CSiR.

Having a good bundle

From their research, Profs Jain and Zaman highlight that the number of incidents and the cost related to CSiR rose drastically from 2002 to 2015. Initially more pronounced in the manufacturing and finance industries, it has increased across all industries in recent times, notably following the global financial crisis. Trawling through the practices of the 1,591 firms in their study, Prof Jain concludes that those which reward management for their CSR efforts are better positioned to proactively safeguard stakeholders against irresponsible corporate practices and therefore most likely to stay off the CSiR list. Yet the firms' practices revealed a pattern, when governance is bundled together. This governance bundle includes large and more independent boards, a board CSR committee, more women within boards, and with higher director activity. This research also found that the effectiveness of the bundle is likelier to sustain under two conditions, the first being institutional ownership, where a firm's investors are made up of insurance companies, banks and endowment funds and so on. These have the resources, long-term vision and their reputation to safeguard to ensure that firms they invest in stick to the straight and narrow. The second is higher board director pay. This may be at odds with those who tend to link a fat pay cheque to shady dealings, but the fact is that pay acts as an incentive for boards to look after the long-term interests of shareholders and the firm and keep a sharper look out on what type of decisions their managers are making. Board independence also proved to have a significant positive effect, irrespective of the level of institutional ownership. As Prof Tanusree Jain points out: 'When properly structured, boards can substantially reduce stakeholder mismanagement.' And it might just keep your company from toppling Volkswagen at the top of the CSiR charts.

KEY TAKEAWAYS

- Firms can do good through CSR (Corporate Social Responsibility), and at the same time do bad through CSiR (Corporate Social Irresponsibility).
- The number of incidents and the cost related to CSiR rose drastically from 2002 to 2015, notably following the global financial crisis and across all industries.
- Boards of Directors – or BODs – are a crucial factor in helping to reduce CSiR: they set firms' agendas and strategies and effectively monitor management and operations.
- Larger boards are more likely to represent the interests of multiple stakeholders, including shareholders, than smaller boards and, as such, should be more effective in reducing CSiR.
- Independent directors are better monitors and better in improving firm performance. They are positively associated with good CSR behaviour in terms of employees, product aspects, the environment and corporate giving.
- Women give more emphasis to CSR practices, are more sensitive to ethical issues, and attend board meetings more frequently.
- Greater diversity on boards gives a bigger variety of perspectives, thus generating better solutions during problem-solving and ultimately improving board effectiveness.
- Prof. Jain and Zaman propose a governance bundle that includes large and more independent boards, a board CSR committee, more women within boards, and with higher director activity. The effectiveness of the bundle is likelier to sustain under two conditions: institutional ownership and higher board director pay.

FOOD FOR THOUGHT

- Keeping Prof. Jain's research insights in mind, take a look at the board of directors in your own organisation. How is it composed? Is CSR something that the members support? How?
- Which other stakeholders would you include in your organisation's governance to ensure that it takes into account all the dimensions it has impact on (employees, local community, region, country, planet, etc.)?
- What are your views on including more women on boards of directors? Should there be a set quota to ensure equity?
- What 3 initiatives do you think your company/organisation carries out that can be considered as "models of excellence" in CSR practice? Which 3 areas of your company/organisation need improvement?

TANUSREE JAIN

YOI-SHIGOTO: LESSONS IN CSR

Prof **Yingyan Wang** of **Keio University**, Japan, offers fresh insights from the Japanese concept of *Yoi-Shigoto* on how firms can leverage their organisational structures to foster a CSR-oriented attitude among their employees.

Related research: *Commitment to sustainable development: Exploring the factors affecting employee attitudes towards corporate social responsibility-oriented management, Wiley.*

How can firms leverage their organisational structures to foster a CSR-oriented attitude among their employees? And just as well, for there is nary a business today that can afford to skirt the issue and still hope to make it big – and stay there. From leading luxury houses producing goods of basic hygiene, to social entrepreneurship firms focused on the idea of the triple bottom line—people, planet, and profit—social media is rife with eulogies of the sustainable kind. Yet, at the other end of the spectrum, this platform of the 21st century also provides for fiery discussions and ugly debates at the slightest hint of corporate malfeasance. And perhaps rightly so, for there is increasing acceptance of the fact that corporations have a duty not only to their shareholders, but also to other actors whom they engage with—employees, suppliers, governments, and civil society to name a few. Developing such a progressive-looking view is important for it provides a source of competitive advantage, with such increasingly common practices as customers looking for ways to buy ethically, investors considering not only the personal profitability of their financing but also the environmental, societal, and governance (ESG) impact of their fiduciaries' decisions.

Under the scanner

Until about the last decade however, researchers typically focused on a bird's-eye view of CSR, rather than go into the nitty gritty by putting organisations under a microscope to examine them on an individual level. As such, these studies showed that the perception of CSR by the employees—considered by far the most valuable asset of an organisation—played a key factor in determining organisational commitment, employee satisfaction and loyalty, perceived organisational support, and organisational pride. Yet, organisations have failed to leverage CSR properly in order to engage with their employees, without whom such practices will meet with little success, for it is ultimately the employees who pitch in their time and effort to meet these organisational goals. Moreover, this could largely stem from the fact that organisations don't know how to inculcate a pro-CSR attitude among their employees.

We the people

Existing research suggests that these employees can be grouped into three types—committed, indifferent, and dissident—on the basis of their attitude to CSR. This does not seem surprising. Not even identical twins are equally alike. As such, it stands to reason that employees—who potentially come from varied

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backgrounds and consequently have diverse experiences—may be as different as chalk and cheese. In what can be considered a tribute to Maslow—the American psychologist who created the eponymous hierarchy of needs that tries to explain human goals—is the fact that involvement in CSR research is driven out of a yen to satiate these needs.

As such, by examining the ways in which employees identify with and engage in their companies' CSR missions—those that showcase corporate commitments to CSR as an extension of their core business—and understanding the dynamics of organisational hierarchies in a 73-year-old Japanese Fortune Global 500 company, Prof. Wang shines the light on how firms can set the ball rolling on motivating employees towards CSR and cement their—and consequently the firm's—commitment to sustainable development.

In doing so, the study draws attention to a quintessential trait that one might associate with the Land of the Rising Sun: Quality. This hallmark of Japanese management was appropriately summed up in the formal mission of the company—'strive to contribute to the creation of a future where the aspirations of the people can be fulfilled.' This is where *Yoi-Shigoto*—meaning high quality work—is most relevant. It refers to work that is not only beneficial to society but also useful and valuable for customers and partners—all this while also proving to be a worthwhile challenge. In short, *Yoi-Shigoto* is a manifestation of Corporate Social Responsibility.

With great power comes great responsibility

Prof. Wang's work analysed data from a diverse pool of more than 800 employees to study various factors that form the environment in which the employees work. As such, the study focuses on hierarchical position, the distance that arises out of this corporate ladder, and what sort of support the employees perceived to be getting to achieve CSR goals.

The seniority of an executive symbolises the authority and resources placed at their disposal. In this light, it can affect the value of ownership they have towards the work that they do. Theory also posits that people try to associate themselves with groups that enhance their feeling of prestige. Given how responsible organisational behaviour provides a competitive advantage to firms—and consequently such benefits as increased employee motivation, cost savings, and customer loyalty—senior management, who are in a better position to understand and appreciate these advantages are more naturally inclined towards identifying and engaging with their firm's CSR-oriented mission than their fellow junior colleagues.

This is not to say that junior employees are not responsible towards their firms' responsible commitments. They just express it differently. It is hard to challenge the status quo. As such, they have a reasonably strong incentive to associate themselves with their superiors who act as role-models and, as seen above, are more oriented towards CSR. Additionally, a sense of such an association to the seniors' group can magnify feelings of self-concept—the idea that allows a person to answer the crucial question of 'Who am I?' On the contrary, it does not make a dent in the seniors' armour, for they are accustomed to working with people at different rungs of the organisational ladder and are, regardless, expected to be highly committed to the company's CSR paradigm.

Completing this trio is whether the rank-and-file perceives the management as walking the talk in valuing employee contribution towards organisational goals. It is also about whether the powers that be throw their weight behind the employees to kindle a desire in them to boost their efforts. This stems from the understanding that successful leadership is about being a guiding light for the entire organisation. To this end, frequent and high-quality exchanges between the senior and junior employees will precipitate positive reciprocity from the juniors as regards engaging in socially motivated behaviour. As such, employees take on positive opinions about the firm.

Salvation lies within

So, how can firms build their version of *Yoi-Shigoto*? For starters, they could take a leaf out of Japan's book. Given that Japanese society is highly collective, firms operating in societies that prize individualism could try to adapt such a model to suit their own needs. And promote shared socially motivated attitudes and behaviour.

Higher management also needs to lead from the front and act as role models in the workplace. A good example of such stewardship comes from India and Ratan Tata, who pledged about USD 65 million from the Tata Trusts in the fight against COVID-19. Following this, Tata Sons, of which Mr Tata is Chairman Emeritus, pledged double the amount. Continuing along these lines, it is also imperative that a culture of support exist in a company when junior employees wish to undertake CSR goals. This could include supporting employees wishing to take time off of working hours and engaging themselves in the company's CSR mission or simply recognising employee goodwill initiatives internally and/or externally, such as on social media handles.

Moreover, there is a need for effective interaction between junior and senior members of the organigram. To reach this aim, firms need to bridge the gap between the identification of CSR opportunities and engaging with them. While the former may exist in regions where the firm has area offices—where working for a large responsible firm could give a person a higher social status, and thus the motivation to engage in such activity—lack of support from HQ might not allow this drive to be carried out.

As such, modern corporations—already taking into consideration factors such as environment, gender, race, ethnicity, and access to opportunity in both their internal dealings and community outreach programmes—have to introspect to see what sort of changes they must make in order for their commitments to reach their full potential and provide them with long-term success – the *Yoi-Shigoto* way.

KEY TAKEAWAYS

- Studies showed that the perception of CSR by the employees—considered by far the most valuable asset of an organisation—played a key factor in determining organisational commitment, employee satisfaction and loyalty, perceived organisational support, and organisational pride.
- Existing research suggests that these employees can be grouped into three types—committed, indifferent, and dissident—on the basis of their attitude to CSR.
- Yoi-Shigoto refers to work that is not only beneficial to society but also useful and valuable for customers and partners—all this while also proving to be a worthwhile challenge. In short, Yoi-Shigoto is a manifestation of CSR.
- Higher management also needs to lead from the front and act as role models in the workplace.
- Junior employees express commitment towards their firm's responsible commitments differently.
- Frequent and high-quality exchanges between the senior and junior employees will precipitate positive reciprocity from the juniors as regards engaging in socially motivated behaviour.
- Firms operating in societies that prize individualism could try to adapt a collectivistic model to suit their own needs and thus promote shared socially motivated attitudes and behaviour.
- There is a need to bridge the gap between the identification of CSR opportunities and engaging with them.

FOOD FOR THOUGHT

- What steps does your organisation take to inculcate a pro-CSR attitude among its employees?
- How would you classify your attitude to CSR? Are you committed, indifferent or opposed to CSR?
- What role do you think your cultural background plays in shaping your point of view? Do your colleagues have the same/different viewpoint?
- Who do you see as more inclined towards engaging with your firm's CSR mission? Senior management or fellow junior colleagues? What do you think is the reason for the observation?
- Do you have one or more superiors who act as role-models in their approach towards CSR? If so, what makes them tick? What do they do right/differently?

YINGYAN WANG

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> Two distinctly different CSR initiatives – philanthropy and sustainability – can be used to satisfy specific types of stakeholder pressure.

SOLVING THE CHINESE CSR PUZZLE: HOW CHINESE FIRMS SATISFY STAKEHOLDER PRESSURE

Prof. **Qinqin Zheng**, School of Management, **Fudan University**, and her fellow researchers **Yadong Luo** and **Vladislav Maksimov** from the **University of Miami**, share their research on a sample of Chinese firms to highlight the contexts in which firms deploy their CSR initiatives.

Related research: *Achieving legitimacy through corporate social responsibility: The case of emerging economy firms, Sciencedirect*

Stakeholders are at stake

Every month over the past year, Li Wei – to quote a popular male Chinese name – has worked hard, putting a little money aside for his family's dream purchase. For Li Wei, his wife and two children are avid cinema fans and they plan to buy a beautiful home cinema. They have spotted two that meet their criteria. One is a little more expensive than the other though, on further investigation, Li Wei discovers that this model is made by a firm that donates a part of its profits to the community to provide education to local women in order to help them return to work after raising their family. In the street opposite the Wei family lives Wang. Wang is twenty-four and she has just brilliantly finished a master's degree at Fudan, one of China's top schools. Now, after so long spent studying, she wants to work and has already received two offers: a highly paid post in a tractor manufacturer's and a lesser paid job as a junior manager in a software company. Consulting both friends and the media, Wang learns that the tractor manufacturer has a bad reputation for dealing with its carbon footprint. On the other hand, she reads that the software company is very active in sensitizing its workforce on eco-gestures and pursues a policy of self-sufficiency in solar-generated electricity on its premises.

There is something in common between both Li Wei and his family and the young graduate Wang: they are all stakeholders. One is a customer, one is a rare resource: but they are both stakeholders, directly and indirectly, in the firms they wish to invest in and engage with. Faced with their respective choices, which of them would you recommend they choose?

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CSR and corporate legitimacy

What the producer of the slightly more expensive home cinema and the software company have in common is that they have engaged in CSR – Corporate Social Responsibility – initiatives. Such initiatives can be internal to the firm – incorporating better environmental or safety standards for its employees – or external – for example, charitable contributions to local communities. But while much research has focused on firms' organisational or performance-related motives for adopting CSR initiatives, Prof. Qinqin Zheng from the School of Management, Fudan University and her fellow researchers Yadong Luo and Vladislav Maksimov from the University of Miami, push the CSR debate further by focusing on a major motivation for firms to adopt CSR initiatives – legitimation. Why do firms need legitimacy? Very simply to achieve the approval of their stakeholders (customers, employees, communities, shareholders and the media to name but a few), to strengthen their durability, maintain employee satisfaction, lower risk and even ensure their business survival. And it is by studying legitimation that she and her colleagues have managed to identify which type of CSR initiative firms may make strategic use of to satisfy stakeholder pressure.

CSR in action

Despite an often-heard comment that CSR is simply a way to 'green wash' (indeed, there have been mediatized cases of CSR initiatives being used superficially to add shine to a company's tarnished image), CSR does count, in a substantive way, for many. Examples include the textile manufacturer Coyuchi which not only uses natural dyes and organic textiles but pursues a zero waste water recycling initiative throughout the company as well as partnering with the ILO (International Labour Organisation) to ensure good working conditions for its own workers and an audit of those in place at its suppliers. Other, more familiar companies with recognized reputations in the field of CSR include Microsoft, BMW, Sony and Lego.

Generating much attention over the past few years, many studies have indeed centred on the strategic utility of CSR. However, they have tended to focus on explicitly expressed stakeholder pressures within specific domains, overlooking the angle of perceived importance and strategic use of different CSR initiatives to gain positive responses from different stakeholder groups. Consequently, the two strategies – compliance and strategic adaptation to CSR pressures – have been seen as alternative approaches. In research published in The Journal of World Business, Prof. Zheng et al conclude that both legitimation strategies can be used simultaneously and that two distinctly different CSR initiatives – philanthropy and sustainability – are used to satisfy specific types of stakeholder pressure.

Sustainability versus Philanthropy: or inside versus outside

One, the other, or both? The answer to the question involves looking at several stakes at play for the firm. On the one hand, existing research has shown that stakeholders respond more positively to CSR initiatives implemented by firms when the firm has higher visibility – BMW or Microsoft, for example. A firm's directors will therefore opt for an initiative that brings greater return on investment to this external aspect that both satisfies external stakeholders and brings improved visibility and image. It is here that philanthropy has the upper hand, being more instrumental in nature than sustainability and serving to prevent the particular sensitivity the public has of highlighting corporate irresponsibility. Philanthropy also wins through when firms find themselves in need of satisfying outside pressure to adopt CSR but do not have the means or time to implement initiatives that may call for a reorganisation of structure and resources within the firm. As such, philanthropy is a wholly external-oriented initiative that is relatively simple and rapid to implement.

On the other hand, management perceptions of CSR may be shaped by its concern to ensure smooth industrial relations, improve processes, gain in productivity and performance or even cost-save. In this context, firms are more likely to opt for a strategy of sustainability, in the wider sense meaning the implementation of initiatives such as adopting local supplier networks, environmentally sound business practices, offering adequate working conditions and fair wages or promoting the use of raw materials that do not signify costly recycling processes or eco-taxes. Such initiatives may well touch the concerns of employees and have a greater impact, at least initially, within the company rather than out.

Commitment is key

Prof. Qinqin Zheng's research, carried out among 288 Chinese firms and using data and questionnaires with managers in charge of, or highly involved in, CSR activities, is also relevant given the context of the developing economic giant. Chinese society has become increasingly aware of the importance of CSR following a series of product safety and quality scandals. The tone from the top was given as long ago as 2008 when Premier Wen Jiabo appealed to Chinese entrepreneurs to demonstrate 'moral blood', and since then Chinese listed firms are encouraged to publish annual CSR reports, many of them displaying a voluntary wish to conduct CSR initiatives to win external credibility and internal legitimacy. Telling examples include Jiangsu Huangpu Recycling Resources CEO Chen Guangbiao, recognized for his high-profile approach to charities or, inversely, bowing to public pressure to increase its donation to earthquake victims, VanKe – a high-profit real estate firm – seeing itself having to offer a public apology and raising its contribution with a second donation of 100m RMB.

And although symbolic CSR still occurs, this is rather the result of low levels of commitment within the firm. Prof. Zheng states that when organisational commitment is present it will affect a firm's adoption of philanthropic and sustainability initiatives differently. Higher commitment, she affirms, will be particularly useful in the strengthening of internal legitimacy on sustainability implementation – because sustainability is associated with positive modifications to its value creation process, employee wellbeing and operations. This in turn means a better integration of ethics practices, increased employee satisfaction and solidified trust in the organisation.

Whatever the commitment, firms may use the choice of two strategies simultaneously – compliance or adaptation. Zheng and her colleagues argue that this is because the former – compliance – appeases stakeholder demands and avoids unnecessary risks, while adaptation allows firms to optimize their CSR efforts and have greater freedom in choosing what CSR initiatives to pursue and to what extent. Both philanthropy and sustainability – two extremes in terms of initiatives – can be used, each with a different impact on specific categories of stakeholder: philanthropy works best externally, sustainability internally. If we return to the examples of Li Wei and Wang, the student, cited at the beginning of this paper, it can be seen that both CSR initiatives have a strong and highly desirable effect that is win-win for all: customer, company, community, and planet. The only thing to do to achieve this is very simply to commit – and make it legitimate.

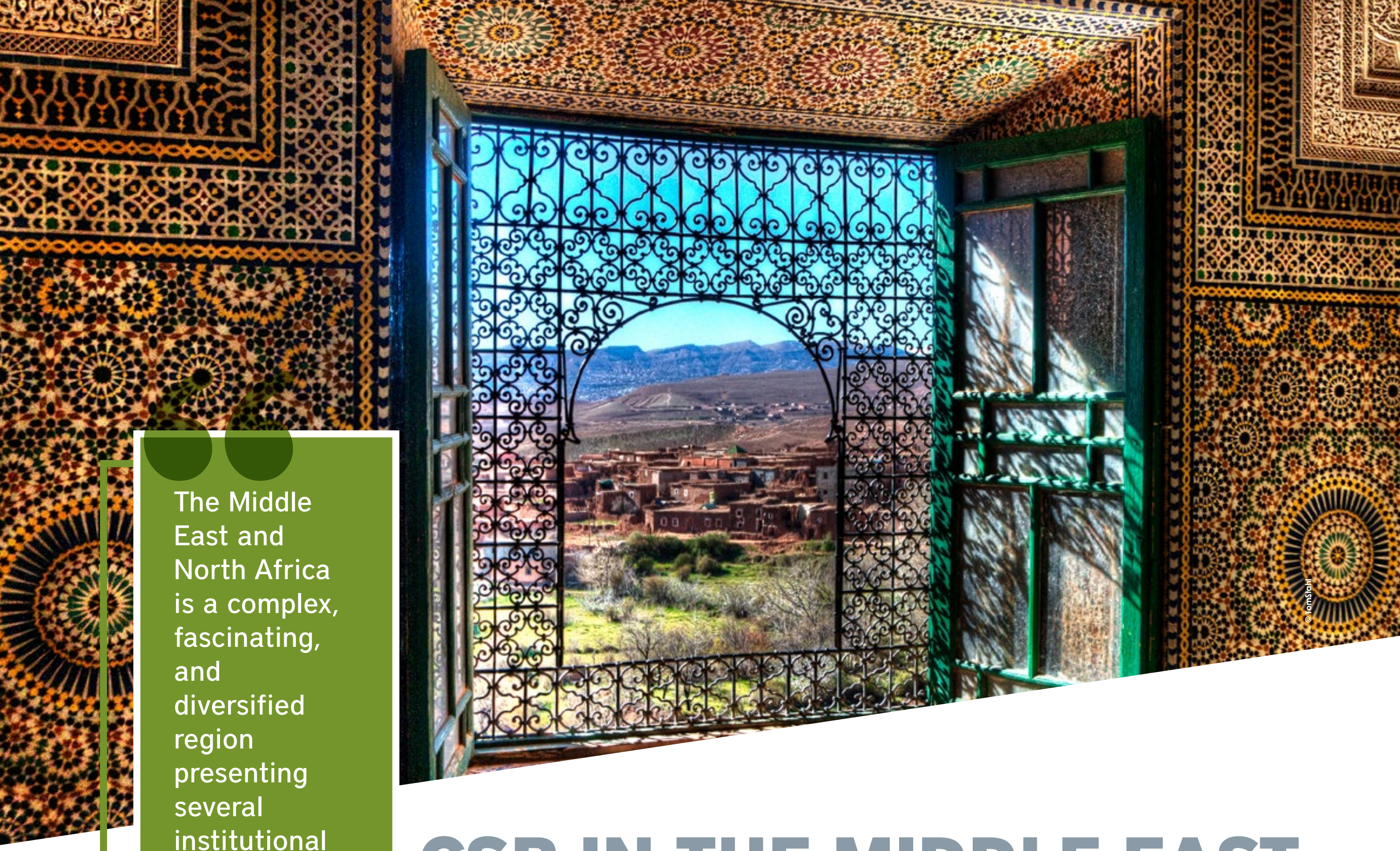
KEY TAKEAWAYS

- CSR can be internal to the firm – incorporating better environmental or safety standards for its employees – or external – for example, charitable contributions to local communities.
- Many studies have tended to focus on explicitly expressed stakeholder pressures within specific domains, with two strategies – compliance and strategic adaptation to CSR pressures – have been seen as alternative approaches.
- But both can be used simultaneously and two distinctly different CSR initiatives – philanthropy and sustainability – be used to satisfy specific types of stakeholder pressure.
- Stakeholders respond more positively to CSR initiatives implemented by firms when the firm has higher visibility – for example, BMW or Microsoft.
- Philanthropy has the upper hand, being more instrumental in nature than sustainability and serving to prevent the particular sensitivity the public has of highlighting corporate irresponsibility.
- Higher commitment within firms will be useful in strengthening internal legitimacy on sustainability implementation – because sustainability is associated with positive modifications to its value creation process, employee wellbeing and operations.
- This engenders a better integration of ethics practices, increased employee satisfaction and solidified trust in the organisation.
- Philanthropy works best externally, sustainability internally. If commitment is genuine, both CSR initiatives have a strong and highly desirable effect that is win-win for all: customer, company, community, and planet.

FOOD FOR THOUGHT

- Name four household international brands that come to mind spontaneously. What do you know about their CSR initiatives – philanthropy or sustainability?
- If no CSR initiatives for the above come to mind, why do you think that is?
- Think about your own company or organisation. What does it do to plough back its profits and expertise into others, the community or the environment?

QINQIN ZHENG



> The Middle East and North Africa is a complex, fascinating, and diversified region presenting several institutional idiosyncrasies.

CSR IN THE MIDDLE EAST AND NORTH AFRICA

Doctor Professor **Tanusree Jain**, **Trinity Business School**, explores the idiosyncrasies of Middle Eastern and North African institutions and their effect on Corporate Social Responsibility practices.

Related research: *How institutions affect CSR practices in the Middle East and North Africa: A critical review, Elsevier*

The Middle East and North Africa region — an amalgamation of over a dozen distinctive nations — is more mosaic than monolith. However, the dominance of petroleum-centric capitalism in the region and its consequent contribution to the climate emergency have raised questions about how institutions in these countries shape their sustainable development agendas. In her recent paper, Doctor Tanusree Jain, assistant professor of ethical business at Trinity Business School, uncovers how corporate social responsibility practices are affected by unique institutional environments in this misunderstood part of the world.

Understanding CSR

In recent years, research on corporate social responsibility (CSR) practices in non-western countries has proliferated. This has required a new conception of CSR that considers the distinctive institutional context in which CSR as a practice is embedded. In her paper, Dr. Jain defines CSR as "all those activities that firms identify as responsibility towards improving the social state and well-being of their stakeholders including the environment". This involves building and maintaining relationships with these stakeholders, whether undertaken voluntarily or mandated by local rules, norms, or customs. Indeed, "stakeholder theory" has been the dominant paradigm in the last three decades of global CSR research. According to Dr. Jain, however, in non-western countries, this research has required "coupling stakeholder theory with institutional theory to explain how distinctive institutional pressures influence CSR practices". An institutional theory approach enables a comparative examination of CSR practices across different national and cultural contexts as stakeholder identities, expectations, and interests vary cross-nationally. As Dr. Jain states: "Institutions specify the rules of the game by defining rights and responsibilities and by prescribing accepted and legitimized social roles, therefore shaping the identities of social actors in ways that are enduring over time". Therefore, an analysis of institutional environments is critical to understanding the heterogeneity in CSR practices in the Middle East and North Africa (MENA) region.

From patterns to clusters

To analyse how institutions in the MENA region influence the practice of CSR, Dr. Jain conducted a systematic review of over 180 CSR studies of the region. Through

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this assimilation of existing knowledge, she uncovered different institutional patterns emerging within the region and their impact on CSR. This research focused on 20 countries including Egypt, Sudan, Algeria, Morocco, and Tunisia from North Africa and Yemen, Bahrain, Iran, Kuwait, Saudi Arabia, Qatar, UAE, Oman, Jordan, Lebanon, Turkey, Syria, Libya, Iraq, and Palestine from the Middle East. To capture distinct patterns in the institutional makeup of these countries, Dr. Jain adopted a two-stage process. First, drawing on the Varieties of Institutional Systems (VIS) framework, she identified "country clusters" within MENA based on their institutions. Then, she integrated the VIS framework with a "patchwork institutions lens". This allowed her to compare and contrast the institutional environments in each country comprising the MENA region. Dr. Jain's review untangles the country-specific institutional factors affecting CSR, thereby "shedding light on the nested complexity of the institutional make-up of MENA countries and how they shape firm-level CSR practices". By emphasizing the heterogeneous, dynamic, and continuously changing aspect of institutions, this research provides a better understanding of complex contexts of the MENA region and its influences on CSR.

A thick patchwork

Based on the different institutional environments of MENA countries, the region can be divided into distinct clusters. Dr. Jain identifies five: Fragmented with Fragile State, Family Led, Centralised Kinship, Hierarchically Coordinated, and Conflict-affected. These clusters provide a deeper understanding of the MENA region wherein countries' "different colonization histories, state forms, traditions, and norms are likely to combine together to form a thick patchwork that will uniquely shape institutional effects on CSR practices".

1. Egypt and Sudan in North Africa comprise the *Fragmented with Fragile State* cluster. The role of the state in this cluster is developmental — which impacts CSR practices. The Egyptian government intervenes in and controls some industries by enforcing the Islamic notion of community-centred responsibility through philanthropy. Low levels of general trust in this cluster causes scepticism about CSR practices — especially when these practices are decoupled from religious discourse. However, the elite workforce hired by multinationals values CSR to gain legitimacy locally and competitive advantage internationally.

2. The *Family Led* cluster is comprised of Algeria, Morocco, and Tunisia. There, state intervention takes both direct and indirect forms. In Morocco, the state primarily promotes CSR policies that improve the competitive strength of local businesses. Although recent political upheavals have weakened its capacity to enforce laws, in Tunisia the state intervenes directly by acquiring ownership in private firms to shape CSR activities. Wealthy families in this cluster exert substantial influence across the economy. The prioritization of their financial interests can have a negative impact as CSR is perceived as a financial cost. Multinationals therefore largely drive the CSR agenda in Morocco in line with international benchmarks and reporting frameworks.

3. Comprised of Oman, Bahrain, Iran, Kuwait, Qatar, Saudi Arabia, and the UAE, the *Centralised Kinship* cluster is dominated by Middle Eastern countries. The family is at the centre of all social, economic, and political activity in this cluster. The state — where powerful family elites hold political power — intervenes in business affairs directly through ownership and control of firms and indirectly through the legislation of laws and policies. Firms are able to gain legitimacy and societal acceptance in highly-religious societies like Saudi Arabia, Oman, Bahrain, and Qatar, by complying with Islamic prescriptions on CSR.

4. The *Hierarchically Coordinated* cluster is comprised of Lebanon, Jordan, and Turkey. In Lebanon, the developmental role of the state is diluted due to weaknesses in its law enforcement capacity, thus creating create gaps in firms' compliance towards CSR, especially for reducing negative externalities. Within Jordan, research reveals direct state intervention in business through public ownership in companies as well as by legislating laws that mandate CSR disclosures. In Turkey, the state has a developmental yet predatory

character. While the institutional environment drives firms to adopt western CSR practices to align and compete in European markets, smaller firms embark on philanthropy in a limited way.

5. The *Conflict-affected* cluster includes Syria, Palestine, Iraq, Yemen, and Libya. These countries are clustered together as they have experienced ongoing political and societal unrest causing massive disruptions to their institutional environments. The state's capacity to contribute to the welfare of its citizens is limited in this cluster. In Palestine, firms' contribution to social work is perceived as a national obligation. In Libya, high religiosity among the population makes religion the primary driver for CSR. Moreover, the interconnectedness of wealthy extended families with substantial economic power increase CSR contributions toward the communities in which their businesses are embedded.

Shaping CSR

The Middle East and North Africa is a complex, fascinating, and diversified region presenting several institutional idiosyncrasies. Countries in the MENA region exhibit different historical experiences of political systems and financial markets, ownership and management traditions, and human capital organization. When juxtaposed with an environment of political, economic and social flux on the one hand, and popularized western standards of best practices on the other, Dr. Jain argues the combination of institutional forces can create unique CSR opportunities and challenges facing businesses functioning in MENA.

KEY TAKEAWAYS

- The dominance of petroleum-centric capitalism in the Middle East and North Africa and its consequent contribution to the climate emergency have raised questions about how institutions in these countries shape their sustainable development agendas.
- Different colonization histories, state forms, traditions, and norms of Middle Eastern and North African countries uniquely shape their institutional effects on CSR practices.
- In Egypt and Sudan, low levels of general trust in cause scepticism about CSR practices — especially when these practices are decoupled from religious discourse.
- The perception of CSR as a financial cost in Algeria, Morocco, and Tunisia negatively impacts CSR as families prioritize their business interests.
- Firms are able to gain legitimacy and societal acceptance in highly-religious societies like Saudi Arabia, Oman, Bahrain, and Qatar, by complying with Islamic prescriptions on CSR.
- While Turkey's institutional environment encourages large firms to adopt western CSR practices to align and compete in European markets, smaller firms embark on philanthropy in only a limited way.

FOOD FOR THOUGHT

- CSR is well-developed and almost taken for granted in advanced economies. To what extent does it have its place in developing countries? Is it essential? Why? Why not?
- How can developed economies, their companies and education systems aid developing countries in their CSR efforts?
- Put yourself in the shoes of a small family startup in North Africa. What would your priorities be? If you did blend in a CSR dimension to your purpose and activity, what form would that take? Who or what would be on top of your CSR list of priorities?

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TANUSREE JAIN

> The real benefit of this process was that it created a non-autocratic collective decision-making body.

WHAT DID THE ANCIENT GREEKS EVER DO FOR US?

Flo Swann meets **Dr Hossam Zeitoun**, Associate Professor at **Warwick Business School**, to find out why an Ancient Greek lottery method of ensuring democracy could lead the way in companies becoming more accountable

Related research: *Zeitoun, H., Osterloh, M., & Frey, B. S. (2014). Learning from ancient Athens: Demarchy and corporate governance. Academy of Management Perspectives, 28(1): 1-14.*

In recent years the media seems to have been full of companies featuring disastrously bad governance: Lehman Brothers, News Corp, eBay; even the UK's Co-operative Bank, which was set up to operate on the highest principles, seems to have hit the gutter. From regulation-dodging to lining their own pockets – company boards and their members are damaging reputations.

It is not surprising, therefore, that, the role of the corporation in modern society has come under increasing scrutiny from business school researchers, with an emerging view that there should be a greater effort toward governing corporation well so that they become a means to protect our environment, address social problems, and create new sources of entrepreneurship and innovation.

All above-board

So how do we make them well-governed? Companies are led by people; ultimately, the issues start and end with the mix of people on the board and the decisions they make which then trickle down to the organisation and have ramifications for society at large. Dr Hossam Zeitoun, an Associate Professor at Warwick Business School, comments on Mayer's book, "It's a fascinating read," he says. "He looks at how corporate governance developed historically in the UK and in the US, and argues strongly in favour of the US system because it has more diversity and enables the use of a range of different governance structures.

One important question today is how to create governance structures that make companies more accountable to the various stakeholders who contribute to the firms' long-term success. Zeitoun says, "Such stakeholders include the providers of capital (i.e. shareholders and creditors), employees and, to varying degrees, suppliers, customers and the local community."

There are different ways in which corporate governance can help protect these stakeholders' interests he explains, "One model is to involve them in the board's decision-making. In Germany, for example, the law mandates shareholders and employees to be represented on the boards of large corporations.

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Having many different stakeholders on the board can make decision-making very challenging because these stakeholders have different interests." But, Zeitoun adds, "While this model works reasonably well in Germany and other European countries, it only involves shareholders and employees, and not the complete range of relevant stakeholders." Warming to his theme, he talks of another model, where "the board is instituted as an autonomous fiduciary, which is insulated from the pressures of different stakeholders. The idea is that such a board should act more like a (hopefully) 'benevolent dictator' who balances the interests of the different stakeholders and decides in the long-term interests of the corporation as a whole. A prospering corporation is in the interests of all stakeholders. However, you can never know in advance whether the board will be such a benevolent dictator." Some legal scholars suggest that the model of the autonomous fiduciary is the foundation of US corporate law, whereas corporate governance in the UK tends to be more shareholder-focused. Although many US companies are very shareholder-focused, there is also a range of other corporate governance structures. In the UK, stock-market listed firms in particular tend to have similar shareholder-focused governance. "A disadvantage of shareholder-focused governance is that it can lead to short-termism," says Zeitoun. "In this model, managers may look more to short-term profits rather than long-term capability development," he says. "But on the flip-side, they tend to be more flexible and entrepreneurial allowing the company to, for example, close old factories and build new ones to take advantage of new technologies." Mayer argues that diversity in the board model of companies can cushion the blows of a changeable economy, because in some circumstances one type of firm will perform better and in others an alternate will.

Learning from ancient Athens

Zeitoun's research, *Learning from Ancient Athens,* offers a novel model to help companies ensure good corporate governance. This model, inspired by the Ancient Greeks, ensures diversity of people on the board through the use of random selection procedures. He explains, "Political governance in Ancient Athens was based on selecting their leaders randomly among the population; each year there was an assembly of the male population where each participant placed a metal token identifying them into a box, and a random selection was pulled out."

It wasn't only Ancient Athens, says Zeitoun, later the Republic of Venice and the Republic of Florence did the same thing on a limited scale for parts of the political system. And maybe some would be keen to be governed like it now. "I read that during the recent Egyptian troubles some young people were distributing flyers asking for a transitional government to be randomly selected from among the protesters," says Zeitoun. But we return to the matter of corporate governance. "The real benefit of this process was that it created a non-autocratic collective decision-making body. The only exceptions were posts where you needed to have a lot of task-specific expertise; for example, the Chief of the Military couldn't be randomly selected – he had to be appointed."

Zeitoun also proposes a two-chamber board of directors where one chamber would be elected by shareholders, as they are today, but the second would be selected randomly amongst stakeholders. The two chambers would need to find common decisions. But how can you ensure an adequate composition of the stakeholder chamber if they're randomly selected? "The Ancient Athenians obtained a sufficient degree of representativeness by ensuring there was cultural pressure among the population that one had to volunteer," says Zeitoun. "So even though the governing body was formed through random selection, because there were lots of volunteers you had a representative outcome. The more volunteers there are, the more representative the outcome." Zeitoun cites the jury system as a source of inspiration.

"When you get biased juries, research has shown that this is most often not due to a biased selection process," he says. "It's usually because the source list itself is biased, for example, when people take source lists based on the working population which exclude unemployed people. So the first step would be for the company to communicate to stakeholders the advantages of this new approach and encourage them to participate in order to have a more representative outcome of selection.

"We can learn a lot from jury systems," he continues. "Juries in America avoid extreme biases of people because the randomly selected jurors can be challenged. As a corporation you could appoint a neutral person who approves these challenges."

It all sounds tricky, but Zeitoun is sure it is possible to transition from a standard model to this. "Initially, the stakeholder chamber could only suggest initiatives with the shareholder chamber only obliged to discuss them," says Zeitoun. "After that is working ok, you can move to the next step and offer the stakeholder chamber a veto right or even equal decision rights on a predefined catalogue of corporate issues."

Of ethics and economy

Some of the literature on stakeholders is based on ethical considerations which suggest that all stakeholders have to be considered simply because it's ethical to do so. But Zeitoun believes stakeholder involvement is actually economically important because it also helps ensure the firm's long-term success. "The two-chamber model increases the range of stakeholders involved in decision-making without dramatically increasing the costs of this collective decision-making process," says Zeitoun. "It also contributes to an adequate level of expertise on the board; and it avoids the 'benevolent dictator' model where the board is insulated and can decide on its own who should benefit and who should not."

But in who's interest is it to implement this model? Zeitoun adds: "Shareholders of stock-market listed corporations often only have a small stake in a company; and if you improve the company's structure other shareholders benefit as well, so you as a minority don't have a very strong incentive to do so."

Zeitoun suggests senior managers and directors of the company, who have long-term interests in the firm's performance, could be the first ones to start this transition process. "They could take the first steps, that do not require changing the corporate charter – because as soon as you change the charter you need to consult with shareholders," says Zeitoun. "I think you could gather positive experiences through small steps, and then once it is working you could consult at a general meeting and implement it in your charter." He also has suggestions for law-makers. Although Mayer argues that the US has a more diverse corporate governance system, it's only partly true because even though companies are very flexible in writing their charters most of them remain with the default rules.

Zeitoun says: "If a company doesn't write their own idiosyncratic charter then the company is governed by default rules. They're not mandatory, but they are the standard. You can deviate from them, but a large majority of companies stick to the default rules. If the law-makers helped to offer more menu options—including governance models based on random selection—I think this would lead to a healthy system with more diverse governance structures."

So, who knows? Maybe, as the UK National Lottery used to say, 'It could Be You!'

KEY TAKEAWAYS

- Due to a number of corporate scandals in recent years, the role of the corporation in modern society has come under increasing scrutiny.
- There is an emerging view that there should be a greater effort toward governing corporation well so that they become a means to protect our environment, address social problems, and create new sources of entrepreneurship and innovation.
- One important question today is how to create governance structures that make companies more accountable to the various stakeholders who contribute to the firms' long-term success.
- In Germany, the law mandates shareholders and employees to be represented on the boards of large corporations. In the UK, shareholder-focused governance can lead to short-termism.
- Managers may look more to short-term profits rather than long-term capability development, but they tend to be more flexible and entrepreneurial.
- An alternative model of governance, inspired by the Ancient Greeks, ensures diversity of people on the board through the use of random selection procedures.
- The benefit was that it created a non-autocratic collective decision-making body, exceptions being posts where task-specific expertise was required.
- According to Prof. Zeitoun, a "two-chamber" governance model increases the range of stakeholders involved in decision-making without dramatically increasing the costs of this collective decision-making process.

FOOD FOR THOUGHT

- Should companies be governed by those who lead it, those who operate it, those who finance it or – as Prof. Zeitoun suggests – also by randomly selected members of the local community? Over to you!
- To what extent should corporate strategy involve all the representatives of its workforce at every level?
- Should unions be allowed to have a say? To what extent is it the case in your country?

HOSSAM ZEITOUN

JAPAN WITH A MISSION: MANAGEMENT PHILOSOPHY

The philosophy of management is what connects the people with the organisations they work for, says **Prof. Yingyan Wang**, of the **Keio University**, Japan, as she examines the underlying mechanisms by which people play a role in fulfilling their organisation's goals.

Related research: *Mission-Driven Organizations in Japan: Management Philosophy and Individual Outcomes, Springer.*

Actions speak louder than words. So too in management, for firms do not necessarily walk the talk when it comes to fulfilling their mission statements they so proudly display on their sophisticated webpages that fill up the crucible of knowledge that is known as the internet.

As such, the establishment of a real, concrete management philosophy that is followed in letter and in spirit is what sets Japanese mission-driven organisations apart. But what is this elixir?

Research has shown that it is nothing less but the core tenets and practices that an organisation is guided by in the pursuit of its mission. Ethical values such as sustainability, trust, honesty, among others are crucial in determining right from wrong in the Japanese business context.

However, previous research has been limited to analysing the content of mission statements and how these can be made operational on a large scale. Overlooking the fact that it is the people who will ensure that these statements are not mere platitudinal rhetoric, but statements of depth made by those who put their money where their mouths are, has been legion.

Finding the missing link

To fill this void, Prof Yingyan Wang analysed data from over 1,000 employees of a Japan-based general trading corporation that enjoys good social standing. In doing so, the study focuses on developing a comprehensive framework that can explain how people understand management philosophy and how its adoption is related to end results.

As such, the study draws from research that shows that a well-formed philosophy that is acted upon and representative of the company's goals and values can act as a moral compass for employees as they go about their jobs.

To this end, Prof Wang examines how employees adopt the management philosophy from cognitive and attitudinal perspectives, the factors that influence this adoption as seen from the eyes of organisational practice, and whether this bolsters job involvement and organisational citizenship.

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How deep is your love?

But management philosophy is not a checklist of standard to-do tasks that employees perform in their daily activities. Identifying with it requires a connection at an emotional and cognitive level and an acceptance to incorporate it with one's idea of self-concept. And to make sense of it. This identification manifests itself in highly motivated individuals, who in associating themselves with the management philosophy at hand believe it to be not only a part of their job function, but also a representation of who they are as a person.

In doing so, they exhibit a behaviour based on a theory that closely identifying themselves with a mission-driven organisation will give them the traits that are associated with their organisation. *'I'm innovative because the company I work for is innovative'* is a refrain that can aptly describe this line of thought.

Helping develop this identification process is the sensemaking ability that humans possess. This is important because management philosophy is not a straight-line curve. As such, people will face various challenges in their job roles in the form of conflicting opinions, events, issues, and actions that will force people to pause and think before they can act. In doing so, humans map these circumstances – for people seek meaning in whatever they do. This reduces conflict, untangles webs of chaos, and provides a perspective on how to interpret the management philosophy. And achieve the company's mission.

Practice what you preach

Subsequently, organisations engage in practices that are used to convey their values, norms, and goals to their employees. According to theory, these organisational practices can influence an individual's behaviour. For mission-driven organisations, these practices include methodical processes that promote actions that do not focus on profits alone but on the serving the interests of multiple stakeholders such as support from senior management regarding CSR activities.

As seen previously, since management philosophy is difficult to understand, individuals rely on their sensemaking to join the dots to figure out what to do. For this reason, research has found that they rely on organisational practices that signal, develop, and reinforce the ethos of the organisation to its employees. For instance, senior managers could lead by example by following the management philosophy in serving their customers' interests. Or perhaps, develop training programmes that upskill employees.

As such, philosophy-oriented practices help clarify confusion, develop the individual's faith in the philosophy, and promote collective commitment to it among organisational members—promoting individual identification of and sensemaking with the management philosophy.

Going the extra mile

In order to measure individual outcomes of management philosophy, it is important to take a look at two aspects—job involvement and organisational citizenship behaviour—that represent a person's behaviour.

Given that organisations have a sense of collective identity, management philosophy is the mission-driven organisation's most powerful expression of that identity. For example, employees who associate themselves strongly with a mission's identity of environmental protection will go the extra mile to decrease pollution in their daily work processes.

Building on this, the success of the mission-driven organisation's philosophy lies in the success of its actions it takes as a collective unit. As such, people will engage in organisational citizenship behaviour—actions that benefit the organisation but are not formally required—by helping others in the organisation in order to ensure that the philosophy succeeds.

Sense and sensibility

But why do these individuals engage in such altruistic behaviour? The answer lies in the sensemaking nature of humans examined previously. For starters, it helps people to interpret the management philosophy in their own way. As such, people are prompted to invest significant time and energy on how and what to do in order to say 'mission accomplished'—increasing their job involvement.

It also has to do with the fact that mission-driven organisations are attractive for people who show pro-social motivation, and are therefore encouraged to behave in a pro-social fashion. And theory says, corroborated by Prof Wang's study, that these people are more likely to engage in organisational citizenship behaviour.

Building bridges

The adoption of management philosophy, which consists of both identification and sensemaking, thus forms the central idea of this study on mission-driven organisations. This principal theme is flanked by organisational practices—rooted in this philosophy—in the west, and by individual outcomes in the east. As such, Prof Wang's research has shown that organisational practices affect the adoption of management philosophy, in turn affecting outcomes. Thus, the adoption of management philosophy mediates the relationship between practices and outcomes.

On the job

There is also research that suggests that a higher level of corporate value exists when employees believe that ethical policies and procedures are followed by management and their fellow peers.

Furthermore, the inculcation of business ethical values is a pledge of sorts taken by the company to promote these values in a formal setting.

To this end, the first and most important thing to be done by organisations looking to be mission-driven is to formulate and implement comprehensive philosophy-oriented practices—training and educational programmes, employee appraisal systems, ethical leadership of the organisation, and mentoring by managers and supervisors.

Moreover, in light of the fact that an individual's adoption of management philosophy forms a link between organisational practices and outcomes, organisations would do well to spend their energy on seeing whether individual employees are willing to follow the same management philosophy as that of the firm. The absence of this understanding will cause frustration for the organisation failing to see individuals act in the appropriate manner.

Previous research has also suggested that employees at all levels should practice the management philosophy of the firm, while recognising that this complex issue may not be well understood at all levels.

To overcome this hurdle, Prof Wang suggests that senior management take charge in implementing philosophy-oriented organisational practices and that individual employees focus on adopting the philosophy into their self-concept. Exhibiting a key Japanese trait along the way—job commitment.

KEY TAKEAWAYS

- The establishment of a real, concrete management philosophy that is followed in letter and spirit is what sets Japanese mission-driven organisations apart.
- Management philosophy is not a checklist of standard to-do tasks that employees perform in their daily activities.
- Organisational practices can influence an individual's behaviour. For mission-driven organisations, these practices include methodical processes that promote actions that do not focus on profits alone but on the serving the interests of multiple stakeholders such as support from senior management regarding CSR activities.
- Philosophy-oriented practices help clarify confusion, develop the individual's faith in the philosophy, and promote collective commitment to it among organisational members—promoting individual identification of and sensemaking with the management philosophy.
- The success of the mission-driven organisation's philosophy lies in the success of its actions it takes as a collective unit.
- Organisations looking to be mission-driven should formulate and implement comprehensive philosophy-oriented practices and see whether individual employees are willing to follow the same management philosophy as that of the firm.
- Senior management should take charge in implementing philosophy-oriented organisational practices and individual employees can focus on adopting the philosophy into their self-concept.

FOOD FOR THOUGHT

- To what extent does your company or organisation have a collective spirit? Are you all working for the same goal and do members of the organisation feel "one and the same"?
- Do a quick audit on your co-workers and management. Do they know exactly what their role is, their purpose, mission and how to achieve their objectives? Why? Why not?
- Can management be seen as a philosophy? If you were in charge of your organisation, what form would this philosophy take? What would be its founding values?

YINGYAN WANG

> Sometimes, the manual doesn't work; the blueprint doesn't include every factor.

WHAT DOES IT TAKE TO BECOME A LEADER? NOT A CHECKLIST.

A high IQ or a charismatic personality? As competing theories attempt to unveil the mystery behind the 'effective' leader, we learn that leadership is an attitude that can be learned through reflective practice. **Prof. Hari Tsoukas** from **Warwick Business School** explains why leadership is more than a just a list of boxes to tick.

Despite his twenty years studying leadership and organisational behaviour, Professor Tsoukas admits there is no blueprint on being a leader. He maintains that while some are fortunate enough to be born leaders, the rest enter the challenge unprepared. 'The exercise of leadership is a skill that can be learnt with reflective practice,' he claims. More than techniques, it is skills and attitudes that can inculcate better leadership, both of which Professor Tsoukas believes can be learned with exercise.

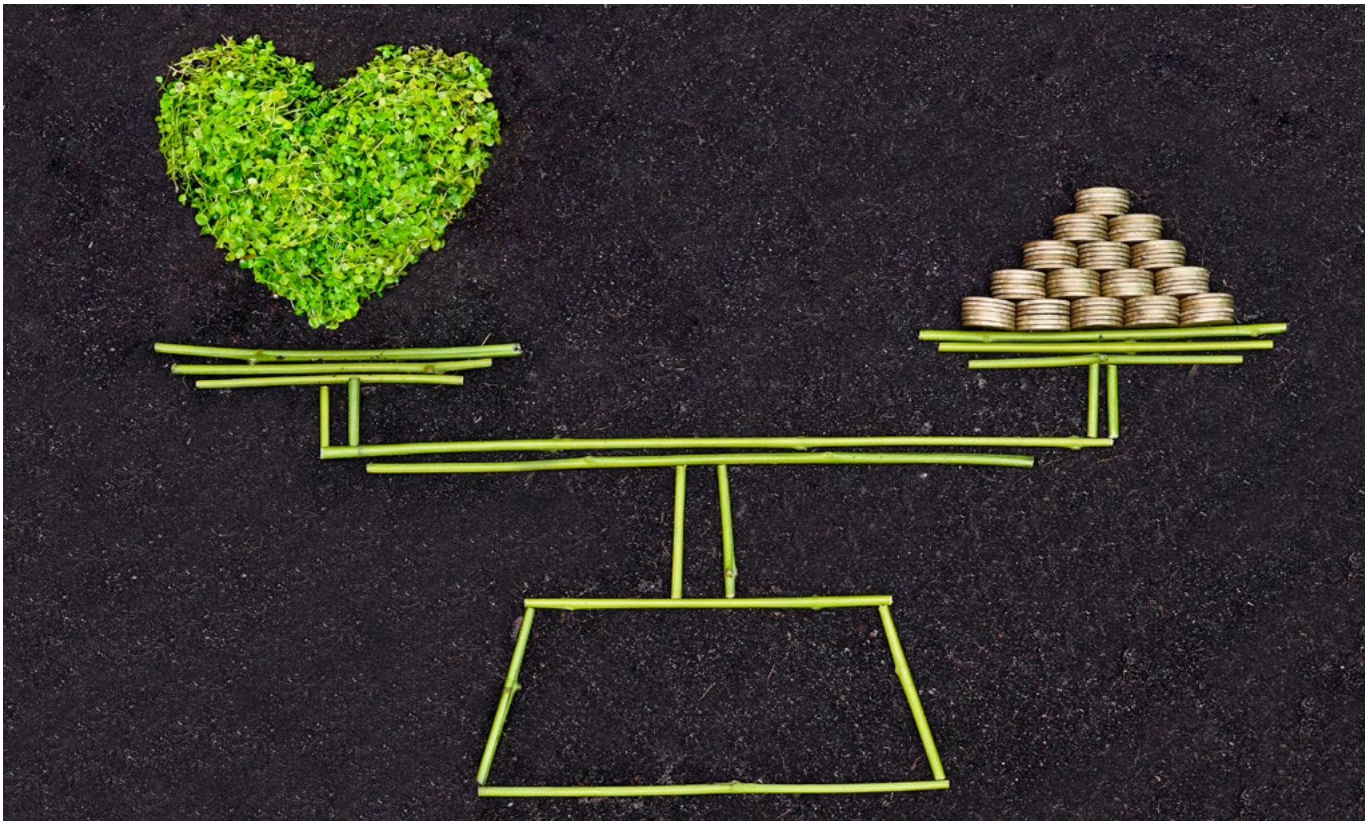
Going beyond the now.

In post-apartheid South Africa, despite 27 gruelling years in prison, Nelson Mandela decided to forsake his and his community's self-interest in order to preserve the future of South Africa by recognising the need for bringing the many different South-African communities together. In this context, Prof. Tsoukas urges leaders to go beyond their narrow self-interest and consider the longer-term implications of the situation. He argues that if they can ensure this, then they can generate trust and goodwill among staff and stakeholders – the type of trust they need to exist and function as a leader.

Prof. Tsoukas stresses the importance leaders must place on going beyond the immediate, on being concerned with the long-term viability of the unit or the organisation they are leading. Returning to the example of Mandela, he left the presidential office on June 14, 1999 after having served only a single term, as he had originally promised. The viability of the new South African institutions was more important to him than his desire to hold power, and hence he chose to surrender it.

Hear the voice you don't want to.

Leaders are placed with a great weight upon their shoulders, that of decision-making. They must be able to evaluate the contribution of many participating voices. Thoughts and ideas can be drowned out amongst competing voices, and often voices can be marginalised as a result of what they are saying – which may be difficult to hear. Professor Tsoukas recounts the cautionary tale of the space shuttle Challenger in a bid to emphasise the importance of leaders hearing it all. On January 28, 1986, 17 percent of the American population watched footage of the Shuttle Challenger break apart seventy-three seconds after its launch, killing all of its crew members. Concerns from engineers who had warned the



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NASA leadership against the reliability of certain equipment – which ultimately caused the accident – had been brushed off, in favour of relieving NASA off the pressure of launching, pressure which had been building over the course of the year.

"It might make things difficult or awkward", Professor Tsoukas states, "but leaders must hear the arguments from all stakeholders rather than risk missing important pieces of information, especially considering that dominant voices have to justify themselves." Relationship-enhancing conversations are the key to success. While a leader will be hard-pressed to know if they have the complete picture, Prof. Tsoukas presses upon the need to include all stakeholders and hold conversations that they may necessarily want to hear.

Sensing the common good

Often leaders find themselves locked into a stalemate – societal good vs. organisational good. Businesses may take decisions which can have wider implications that extend beyond their balance sheets. Professor Tsoukas highlights that faced with such a situation, leaders must place societal good above organisational good for the benefit of stakeholders present outside the organisation.

He cites the Tylenol scare of 1982 to illustrate what it means to prioritise the common good. Healthcare multinational Johnson & Johnson decided to withdraw all of the 31 million bottles of its pain-reducing drug from American shelves, following the death of seven people who had ingested Tylenol, later found to have been deliberately laced with Cyanide by a third-party. Easily prone to blame in the absence of another suspect, Johnson & Johnson avoided a potential public relations nightmare, by recalling its product, a move that cost the company US$ 100 million. While unprecedented, the move – for which the company took a big hit – might have actually saved its future. Within a year, Johnson & Johnson had regained its market share following the introduction of the first tamper-proof bottles.

Tuning in to processes

Faced with the prospect of taking life-altering decisions, leaders arrive at another hurdle: the information gap. Cognizance of events, the knowledge of the process of events and meetings which generate outcomes, as well as their quality, allow leaders to respond swiftly and fittingly to events that unfold within an organisation. Professor Tsoukas narrates the tale of a new CEO in an American company who was tasked with the responsibility of ensuring rapid growth of the company. She was able to successfully overcome this snag by presenting her arguments, presentation, and responses in a way that showed she was familiar with the organisation and its inner workings. By demonstrating the knowledge of the organisation's reactions, feelings, and conversations, she was able to win the resistance over to her side.

Adaptive leadership – familiarity breeds complacency

Despite the benefits that are derived from experience, leaders must learn to acknowledge the unique context of a situation. insists Professor Tsoukas, “Sometimes, the manual doesn’t work; the blueprint doesn’t include every factor – that is when open-mindedness is needed to be aware that this familiar situation is actually different.”

The clean-up of the BP oil spill is perhaps testament to this. Charged with the clean-up of the Deepwater Horizon oil spill, recognised as the worst oil spills in the United States, Admiral Thad Allen answered, “Yes, and no” when asked if he had a template to deal with the situation. With several clean-up operations tucked under his belt, he could draw on his past experience to deal with this challenge. However, this particular oil spill was unprecedented and beyond the grasp of even the workers from BP and government agencies. The government’s go-to fixer soon realised that to make sense of the situation he had to go beyond the traditional roadmap, beyond the law, and appreciate the situation’s uniqueness to be able to resolve it.

Less theory, more practice

Prof. Tsoukas believes that wisdom comes from practicing and adopting a reflective attitude. The attitude of wisdom makes a leader sensitive to context, to competing voices and values, to stakeholders’ perspectives and to the process of bringing about change, all in order to achieve a common superior good.

With climate change affecting bottom lines, with business decisions under greater scrutiny, with a sharper eye on managerial conduct, and with consumers making conscious decisions about the recipients of their hard-earned money, leaders could definitely benefit from practicing wiser leadership in this complex and uncertain world. After all, one needn’t be born with it, one need only practise it.

KEY TAKEAWAYS

- Leading wisely can be developed via certain skills and attitudes, there is no particular blueprint or checklist that can lead to wiser leadership.
- Leaders must go beyond the immediate and be concerned with the long-term viability of the unit or the organisation they are leading.
- Leaders must make sure they are hearing all competing voices in order to come to a decision, so that none of the voices are being marginalised because of what they are saying, which may be difficult.
- A leader must think about the wider impact of any decision or action. They should think of the 'common good' for the benefit of stakeholders outside their organisation.
- Leaders need to be in tune with the temporality of events, the process of events and meetings that generate outcomes, and the quality of these events. Knowledge of organisational procedures can help change outcomes.
- Leaders must acknowledge the uniqueness of every situation. They must acknowledge the unique context of every situation and go beyond prior experience to be able to resolve it.

FOOD FOR THOUGHT

- To what extent does the leadership in your organisation make an attempt to listen to and understand its stakeholders, and create openings for dialogue?
- How do the leaders in your organisation place societal good above organisational good?
- What do you find yourself facing more? Situations where you rely more on past experience or those that require treading unfamiliar ground with a complete mindset overhaul? What would you like to see more/less of? Why?

HARI TSOUKAS


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> In the post-truth world, organisations must be wary of turning leaders into strongmen – saviours.

POST-TRUTH LEADERSHIP: SAVIOURS WHO AREN'T'

From the charismatic leader who has the answers to it all, to the omnipotent leader who can always save the day, she who can spin a story is the hero. In the context of a world, where facts barely matter, **Prof. Marianna Fotaki** from **Warwick Business School** shatters the illusions of the post-truth leader who 'can' do it all.

Heroic leaders have a lot to answer for. For every glossy, magazine-cover worthy Steve Jobs, there exists a Ken Lay – Enron's CEO who was jailed for fraud that led to the biggest bankruptcy in US history at that time. Both leaders boast of strong personalities, charisma in abundance, except that one of them was pulling their company in the wrong direction. Is the post-truth world responsible for the existence of these leaders? In the post-truth world, offering a compelling vision with a simple, resonating message has become the skill needed to 'cut through the noise'. And it has promoted the heroic leader, the strongman who can 'clear up a mess', 'sort things out' or 'defend our rights'. Although a relatively recently coined term, post-truth has existed as a philosophical and political concept since long. Moreover, the Oxford dictionary defines it as «Relating to or denoting circumstances in which objective facts are less influential in shaping public opinion than appeals to emotion and personal belief».

The post-truth leader's resume

In her research, Prof. Fotaki explains how a typical post-truth leader operates – driven experts in understanding their audience, in handing them a message they want to hear and in adapting it to suit their purpose. "They master at creating an 'us and them' narrative", Prof. Fotaki points out, "so their side can stand on the side of apparent righteousness". It is not only politicians who are mired in half-truths, alternative facts and innuendo, but businesses too have demonstrated a long history of being less than transparent with the truth and cynically spinning the facts when they need to suit their purpose. One must not go amiss in dismissing that although post-truthism has emerged through the world of politics, it's chief architect Donald Trump built his reputation in the world of business.

In its success, post-truthism has eroded, in much of the public's eyes, any genuine difference between pundits' claims and expert or 'scientific' assessment by normalising empty verbiage as a legitimate language.

Narcissism rears its nasty head

In 2004, Michael Maccoby, leadership expert and author claimed that narcissists are good news for companies, because they have passion and dare to break new ground. Narcissism – a term applied to individuals who are incapable of empathy, unable to

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relate to and completely unaware of other people's needs, or even of their existence – has lulled modern society, with narcissistic leaders possessing a seemingly magnetic pull. Under growing uncertainty and the ruthless striving for innovation that characterises modern capitalism, narcissism can be increasingly observed in business leadership. Prof. Fotaki describes narcissism as a culture of echoes, where leadership and followership are bound by deep unconscious links and a shared identity that cannot easily be separated. As a result of these interconnections, narcissism and thus, narcissistic leadership, are popular because they can be flexibly used and abused, responding to any projection.

The narcissist's irresistible pull

How does the cape-wearing glorious leader turn into an evil narcissistic villain? In the *post-truth* world, organisations must be wary of turning leaders into strongmen – saviours. Entrusting leaders with such power, Prof. Fotaki maintains, leads inexorably towards disappointed expectations and a cynical workforce. Charismatic individuals, by generating social norms and discourses in an organisation – which pull the firm in a harmful direction – end up creating followers.

Individuals or various groups, in order to claim viable social identities, tend to attach themselves to these negative norms and values. Prof. Fotaki emphasises that this is especially pertinent, given that those who aspire to be leaders are prone to narcissistic disorders; indeed, narcissism is often the driving force behind the desire to obtain leadership positions. In any organisation this desire for power can be intoxicating as followers may project their own capacity for thinking and decision-making onto the leader. In this way they become disabled and enter a phase of dependency with the leader. This point, Prof. Fotaki asserts, is where unethical behaviour can go unchecked and begin to be considered as the 'way things are done'. This is easily illustrated through recent corporate history, which is littered with several examples – from the LIBOR scandal, where bankers colluded to manipulate the price of the major benchmark for interest rates and financial products, to Dieselgate at Volkswagen.

Visionary or dangerous?

Although narcissism may be what an organisation needs at some point, even productive narcissists are often dangerous. Prof. Fotaki maintains that narcissists are divorced from the consequences of their judgements and actions, whenever these do not affect them directly, and hence, can be cavalier with organisational decision-making. Moreover, they strive at any cost to avoid painful realisations of failure that could tarnish their own image and choose only to listen to information they seek to hear, thus failing to learn from others. Moved by the desire to change the world, leaders can conceive a glorious new vision which may very quickly develop into omnipotent disorders. Indeed, those who want to be leaders in an organisation have to tread a fine line that can wander into narcissism. Understanding how narcissism becomes increasingly prevalent in socially destructive ways is thus important for business leaders as they look to build trust within and outside their company.


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Beyond business

The proliferation of the dazzling narcissistic leader has seeped not only into businesses and organisations but also into pop-culture and policymaking. Popular media has contributed to the glorification of portrayals of corporate figures as 'psychopaths' who unscrupulously and skilfully manoeuvre their way to the highest rungs of the social ladder as fundamentally different from the rest of humanity. However, Prof. Fotaki strongly contests this belief. "This is a misconception," she asserts, "which obscures the pervasiveness of narcissism and the mechanisms that enable it to exist in any organisation".

Another victim claimed by pathological perversions is public policy. Take for instance the financial crisis of 2008. While on one hand, the separation of risk from responsibility could be viewed as creating perverse incentives enabling people to engage in greed – through financial bubbles that were bound to burst – on the other hand, this separation also permitted policymakers to disengage from the all-to-predictable consequences of such policies. Closer to home, a dramatic shift in public policy has occurred in Europe. Prof. Fotaki, sheds light on European policy where instead of ensuring liveable wages, access to affordable healthcare, public education and a clean environment, there is an increasing pre-occupation with how to unleash the alleged desire of citizens to enact their preferences of how public services should be provided. This is justified by claiming that citizens wish to choose between different providers to ensure best quality. However, at least within healthcare services, this is not borne out of evidence.

Moving onto a post-(post-truth) world

With trust now replaced by cynicism, organisations – in the modern swirl of half-baked facts and vociferous opinion on social media – have to fight harder than ever to build trust and legitimacy with their stakeholders. This means rejecting the heroic leadership style so beloved in popular media and developing a new way forward that highlights and dismantles the strong pull of narcissism that post-truth leaders reveal. To survive the post-truth world of claim and counterclaim, leaders have to ensure their organisation is producing an authentic narrative and that its senior staff are displaying values that give credence to those messages. This requires leaders to be transparent and vigilant for emergent narcissistic tendencies in their organisations.

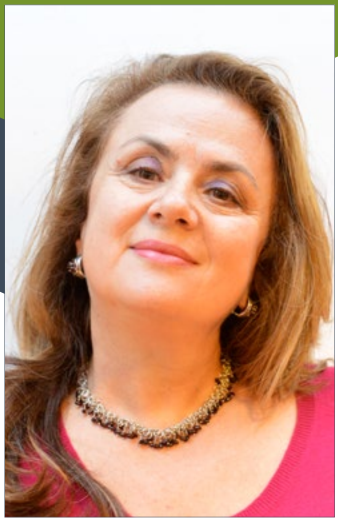
In the post-truth world for business, the temptation to adopt tactics that work is strong. Following narcissistic tendencies to appeal to emotion and developing half-truthful messages will surely bring in the social media followers. But if organisations are to prosper in the long-term, they need to reject this model of leadership and build trust with their stakeholders in a collaborative way that promotes transparency, as well as caring about the consequences actions have for others. It is the only sure method to banish the post-truth world.

KEY TAKEAWAYS

- Post-truth leaders are famously known for 'clearing up messes', have charismatic personalities and can cut through the noise to voice a narrative with two sides – us and them – where they claim to be on the side of apparent righteousness.
- Modern society glorifies narcissistic leaders and believes they are essential to the functioning of modern capitalism – where innovation is paramount.
- People with ambition to be leaders are people who are prone to narcissistic tendencies. If handed too much power, leaders can create negative social norms and behaviours which can generate a following and sense of association from followers within an organisation. This is where unethical behaviour can go unchecked and become a norm.
- Even productive narcissists can be dangerous to an organisation. Narcissists are often divorced from the consequences of their actions and, immune to the needs and emotions of other, avoid realisations of failure that can tarnish their image. Leaders tread a very thin line that can easily turn from having a vision to becoming omnipotent and developing narcissistic disorders.
- Popular media, business and policymaking are all fraught with ideas of corporate 'psychopaths' who are immensely successful as a result of them being 'different' from the rest. This is a misconception which simply allows us to view the pervasiveness of narcissism and the mechanism which allow it to exist in society.
- Organisations must reject this idea of 'heroic' leadership to fight harder than ever to build trust and legitimacy with their stakeholders. Leaders have to ensure their organisation is producing an authentic narrative and that its senior staff are displaying values that give credence to those messages. This requires leaders to be transparent and vigilant for emergent narcissistic tendencies in their organisations.

FOOD FOR THOUGHT

- Why do you think the last five to ten years has seen a rise in the "popular hero" type of leader? To what extent does this hide an underlying message in people's perception of the system and its traditional leaders?
- In your experience, can you think of any managers, directors or leaders in society who display a degree of narcissism? Has this personality trait led to good or bad things? Which?
- What tools have such leaders used to influence opinion? Should the law prevent leading figureheads from using social media/the media? To what extent would this be effective?
- Should we just leave such "heroic leaders" to their game? Why/why not?



MARIANNA FOTAKI

> More than a decade after Sarbanes Oxley, ties between independent directors and CEOs continue to hamper corporate governance and board effectiveness.

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HOW NARCISSISTIC CEOS BUILD THEIR PROFESSIONAL WORLDS

Arijit Chatterjee, Professor of Management at **ESSEC Business School Asia-Pacific**, and **Timothy G. Pollock of Knoxville Haslam College of Business**, share their research on how narcissistic CEOs succeed in satisfying their need for acclaim and its impact on the board, teams and the firm.

Related research: *Master of Puppets: How Narcissistic CEOs Construct their Professional Worlds, by Arijit Chatterjee and Timothy G. Pollock, Academy of Management Review.*

It is odd that in the story of Ovid's Metamorphosis, however much the nymph Echo expresses her praise, Narcissus turns his handsome head even further to reject her. Indeed, such was the frequency of her wooing advances that poor Narcissus turned to gazing at his own reflection, falling in love with himself and ultimately transforming into a dainty flower that bears his name. So why is that odd?

Odd because nowadays the chances are that if you were a director and showered your narcissistic CEO with as much praise and adulation as Echo, you would most probably be guaranteed a place on the board and a healthy reward to go with it. For not only would the CEO greet the echo of your words with wide-open self-love, in doing so he or she would satisfy the crucial need for a mirror of reassurance in his or her Herculean capacities. This is one of the conclusions that Professors Arijit Chatterjee of ESSEC Business School, Asia-Pacific and Timothy G. Pollock of Pennsylvania State University have drawn after extensive research into CEOs and narcissism that has culminated in the paper *Master of Puppets: How Narcissistic CEOs Construct their Professional Worlds* to be published in the *Academy of Management Review*. Building on existing research and explaining how narcissism in CEOs impacts firm performance, their theory goes beyond a simple description of narcissism in two ways: first, they explain how CEO narcissism influences the structure and management of firms' boards, top management teams and the media; and second, they see how narcissistic CEOs manage the dilemma of the two competing behavioural driving forces behind narcissism: that of seeking acclaim and social approval versus the need to dominate and control others.

Of narcissism and the CEO's tragic dilemma

Narcissism was introduced in psychology in the 19th century by Havelock Ellis to describe people absorbed in self-admiration. Soon after, Sigmund Freud argued that narcissistic individuals act out of a desire to strive for an ideal-self. Over the years, researchers have examined narcissism through different lenses, from treating it as a clinical disorder to seeing it as a cultural trend and, in recent times, a personality trait that can touch us all.

Narcissism is generally seen to be characterized by grandiosity, self-focus, and self-importance. As a result, narcissistic CEOs consider themselves superior to others with respect to such qualities as intelligence, extraversion, decision-making and openness to experience. They are also extremely confident of their capabilities, rating themselves highly on leadership qualities and contextual performance irrespective of their actual performance. At the same time, and this is one of the painful aspects of narcissism, they have a vulnerable self-image which makes them both eager to seek recognition from others, but also feel particularly wounded when criticized. As a result, their reaction might at times turn to extremes of behaviour.

I know what I want

The narcissistic CEO seeks acclaim. The public self – attitude and behaviour in the presence of others – is a mix of how a person intends others to perceive them (which might differ from their private perceptions of themselves) and of others' actual perceptions. A non-narcissistic CEO, for example, might have a "heroic" public self at work but a humbler private self that is based on a modest family background or other life experiences. For most of us, our public and private selves are kept distinct. However, narcissists often adopt, on a private level, the image they display publicly: they become indistinguishable in the narcissist's mind. As such, a narcissistic CEO will be drawn towards actions that draw public applause and adulation: a bold speech, a spectacular takeover, an impulsive decision or a risky hard-line approach when entering an important negotiation. Not altogether negative, the need for acclaim may foster great 'leadership moments' that make narcissistic CEOs better performers in times of crisis. Finally, narcissists routinely, sometimes excessively, indulge in social comparison with others and fervently tend to pursue the goal of continually obtaining external confirmation of their superiority to satisfy their inner need of acclaim.

And I know how to get it

So how they obtain this acclaim? One tactic is to try to achieve celebrity status. And in this respect, the narcissistic CEO provides the very thing that the media are looking for: an actor that takes bold and unusual actions, who earns the badge of 'rebel', and who creates a kind of 'dramatized reality' that engages audiences emotionally and increases the appeal of the content that the media produces. Media coverage, however, can be both good and bad for the firm: one the one hand it can provide greater external support, higher compensation and improved stock movements. On the other, CEO celebrity has generally been associated with subsequent poorer firm performance. This is due, it is suggested, to the CEO's reluctance to change the very strategies that got him/her to the top in the first place.

A narcissistic CEO will also tend to choose high-visibility industries that increase their chances of being noticed by journalists and will not hesitate to venture into the unknown: new areas of thought, acquisitions, research, products or technology. Such self-confidence will naturally make them more attractive to boards wishing to recruit them. Hiring a publicist helps in this respect, and while usually giving access and information to journalists that allow the media to make them celebrities, they are also more likely to punish journalists who portray them unfavourably.

Finally, narcissistic CEOs will further seek acclaim through two other tactics – accessing prestigious and recognized affiliations such as high-status universities or clubs, holding executive positions or directorships at top companies – or being on the boards which they then influence to populate with high-status directors. According to Chatterjee and Pollock, this creates both a problem and a conundrum. The problem first: group performance declines when there are too many high-status members, which very likely results from conflict within the group as they compete to position themselves atop the local status hierarchy. The conundrum? Narcissistic CEOs' quests for domination may face resistance if they populate the upper echelons of their organizations with lots of globally high-status actors.

The authors argue that narcissistic CEOs get around this by the manner in which they structure and manage their top management teams and boards differently to gain both the benefits of internal dominance and external acclaim: by placing people in their management teams they can easily dominate and subject to coercive management tactics; and by taking advantage of the relatively more episodic activity of board meetings – and the high-profile members who can enhance their own status – they can stage-manage interactions, treat peers ceremonially and employ large slappings of flattery and ingratiation when necessary. As we can see – the narcissistic CEO is indeed right: any old echo won't just do. Choosing one's echoes wisely gives resonance to any acclaim.

I'm the boss and I decide

Because narcissistic CEOs believe their knowledge and experience are superior to others, it follows that their decisions should lead to the best outcomes. As such, they need to dominate decision-making in the organization. Character traits that might also seem negative to many of us also hold them in good stead when it comes to a decision – a lower need for intimacy, a lack of empathy and lower levels of gratitude for their co-workers make it easier for them to be comfortable exploiting and dominating others. This does not mean that narcissists are always abusive and domineering. Indeed, narcissists can also use charm and self-presentation techniques as a means of influence which others may find initially enjoyable. Studies have shown that narcissistic CEOs tend to put into place several strategies to ensure that they retain control of decisions in the firm. Whereas the benefits of globally high-status directors outweigh the costs, high-status top team members create problems for

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them – they tend to speak up and speak out – hence the first strategy of placing a loyal cadre of lieutenants around them to protect and defend, as well as facilitate the implementation of their directives. This is easier in smaller firms than larger firms where the structural complexity of the organization and the sheer numbers of employees makes it impossible to exercise direct control. A loyal team thus becomes even more critical in this environment, since narcissistic CEOs are more likely to use them to seal themselves off from lower-level employees who they have little interest in interacting with.

They are also more likely to promote younger, more inexperienced people to key positions, not because the latter are less capable, but because – lacking in extensive networks, more receptive to strategic change, and prone to creating enemies among their non-chosen peers – they will provide loyalty born from both gratitude and obligation. After all, their future careers will depend on the narcissistic CEO's continuing dominance within the firm. Former research cites Steve Jobs as an example. Starting with his co-founder Steve Wozniak, Jobs became well-known for identifying talented individuals and pushing them to achieve great things, but also for turning his back on them and replacing them without hesitation when their behaviour displeased him.

And finally, because of a preference for subordinates who admire – or fear – them and who can show tolerance for the CEO's less savoury behaviours, narcissistic CEOs will tend to surround themselves with malleable directors and executives, lower in esteem and ready to allow the CEO to take all the credit for positive outcomes. Importantly, they will also personally identify with the narcissistic CEO rather than the organization.

Mirror, mirror. Echo, echo

To return full-circle, it is also odd that subordinates in a firm may end up gazing into the mirror. Not to see themselves, but the image of their narcissistic CEO so carefully crafted by the maker himself. This identification is born from a mix of reward, punishment, the CEO's heroic media image and the subordinates' psychological discomfort at having to admit to themselves that they kowtow to the boss. It leads employees to develop rationalized myths about their leaders. But while they admire the CEO's actions, vision, capabilities and rebelliousness, they ultimately end up using the myth as an "excuse" to forgive their boss's negative eccentricities such as fits of anger, lack of empathy, humiliation or punishment, as a side effect of genius. In the book Elon Musk: Tesla, SpaceX, and the Quest for a Fantastic Future, the author Ashlee Vance states: "Numerous people… decried the work hours, Musk's blunt style and his sometimes ludicrous expectations. Yet almost every person – even those who had been fired – still worshipped Musk and talked about him in terms usually reserved for superheroes or deities." The authors argue that the self is, in part, a social construct and "personality assessment must be grounded in context instead of looking for general features."

Narcissus: getting to the root of it

So what can be done? And is narcissism necessarily negative? Indeed, some traits might be seen as virtues in many leadership situations. While recognizing this, Chatterjee and Pollock point to the fact that more than a decade after Sarbanes Oxley, ties between independent directors and CEOs continue to hamper corporate governance and board effectiveness, with CEO-director relationships becoming entangled in a quid pro quo that ultimately defeats the purpose of corporate governance reforms. 'Tighter regulations may not be effective in reigning in their excesses,' they assert. 'If boards know their CEOs better, and CEOs are aware of their own tendencies, they might be able to make better recruitment decisions and structure the CEO's professional world more effectively.'

KEY TAKEAWAYS

- CEO narcissism influences the structure and management of firms' boards, top management teams and the media.
- Narcissism is generally seen to be characterized by grandiosity, self-focus, and self-importance.
- Some CEOs consider themselves superior to others with respect to such qualities as intelligence, extraversion, decision-making, capabilities and experience, rating themselves highly on leadership qualities and contextual performance irrespective of their actual performance.
- But they have a vulnerable self-image which makes them both eager to seek recognition from others, but also feel particularly wounded when criticized. As a result, their reaction might at times turn to extremes of behaviour.
- A non-narcissistic CEO might have a "heroic" public self at work but a humbler private self that is based on a modest family background or other life experiences. However, narcissists often adopt, on a private level, the image they display publicly.
- A tactic of narcissistic CEOs is to try to achieve celebrity status, providing what the media are looking for: an actor that takes bold and unusual actions, who earns the badge of 'rebel'.
- But CEO celebrity has generally been associated with subsequent poorer firm performance, due to the CEO's reluctance to change the very strategies that initially got him/her to the top.
- Studies have shown that narcissistic CEOs tend to put into place strategies to ensure that they retain control of decisions in the firm: placing a loyal cadre of lieutenants around them to protect and defend, as well as facilitate the implementation of their directives, promoting younger, more inexperienced people to key positions who will offer loyalty born from both gratitude and obligation, and surround themselves with malleable directors and executives, lower in esteem and ready to allow the CEO to take all the credit for positive outcomes. Importantly, they will also personally identify with the narcissistic CEO rather than the organization.
- While some traits of the narcissistic CEO may seem useful in leadership moments, ties between independent directors and CEOs hamper corporate governance and board effectiveness, with CEO-director relationships becoming entangled in a quid pro quo that ultimately defeats the purpose of corporate governance reforms.

FOOD FOR THOUGHT

- Why do you think the last five tLooking at the world of politics, name 4 high-profile international leaders. Who among them might demonstrate some or all of the traits of a narcissistic CEO described in the research?
- Is the same true of business? Name 4 high-profile CEOs. To what extent do they share common traits with the politicians you identified? Do they still hold their positions – and why?
- Is narcissism a necessary characteristic of self-assurance? Indeed, a necessary trait of leadership?
- How – if at all – does narcissism differ from charisma?

ARIJIT CHATTERJEE

> In the years to come we can expect to see more CEOs feel compelled to take a moral stance.

WHY BUSINESS LEADERS NEED A MORAL COMPASS

Hari Tsoukas, Professor of Organisation Behaviour at **Warwick Business School** and the **University of Cyprus**, speaks up for ethics and responsibility

The times they are a changin'

The economist Milton Friedman famously said: "The business of business is business." In other words, business leaders should focus on making money, not moral stands. How times have changed. Several behemoths of the business world pulled out of the Future Investment Initiative conference in Riyadh, dubbed "Davos in the Desert", amid outrage at the murder of Saudi journalist Jamal Khashoggi. They include the chief executives of American firms JP Morgan, Blackstone, Uber and Blackrock.

Jo Kaeser, the chief executive of Siemens, summed up the feeling of many business leaders when he spoke on CNN, explaining his reasons for boycotting the event. "We are the ones who need to fix the issues," he said. "We are the ones who have the responsibility to show our people the way and find a win-win solution." Yet it must have been a tough decision. Siemens employs more than 2,000 people in Saudi Arabia and has significant business interests in the country. You do not easily break away from important clients. Yet, Mr Kaeser, and many other chief executives did. Governments have, by and large, been more reserved. Billions of dollars and huge geopolitical interests are at stake. Saudi Arabia has been a pillar of western interests in the Middle East.

Donald Trump was so keen to defend his allies he initially claimed the Saudi explanation that Mr Khashoggi died following a fight at the country's embassy in Istanbul was "credible". Days later he faced an embarrassing climb down when the Saudis admitted the journalist had been murdered. Undeterred, the President continued to stand by the Saudis, insisting the CIA had found "nothing definitive" that showed Crown Prince Mohammed bin Salman ordered the journalists murder. He unashamedly said he was "putting America first" because Saudi arms sales and its influence over oil prices were too important to the US to jeopardise.

Taking a stand, listening to your values

By taking a stand business leaders have shown moral sensitivity in a way the President has not. Though such incidents are rare, it has happened before and it will happen more regularly in future. Several heads of business resigned from Mr Trump's American Manufacturing Council in protest at the President's lamentably inadequate response to the deadly violence by white supremacists at Charlottesville in August 2017. Merck CEO Kenneth Frazier put it best at the time, tweeting that he felt "a responsibility to take a stand against intolerance and extremism."

In the years to come we can expect to see more CEOs feel compelled to take a moral stance, be it about the murder of a foreign dissident, the insensitive behaviour of a sitting President, or the persecution of religious or ethnic minorities. It will be increasingly difficult to avoid.

Friedman's quote at the beginning of this article suggests that business transactions are separate from the rest of our daily lives. For example, I do not need to approve of my greengrocer's lifestyle in order to buy from him. As long as he serves me what I want, at prices I find reasonable, the rest of his life is not my concern. Much of the time this may be true. But if I learn that he has racist views, he mistreats his staff, or is known to engage in domestic violence, these are behaviours I do not want to condone, even indirectly, by giving him my money. My sense of responsibility does not stop when I spend my money; on the contrary it is magnified by having a choice in how I spend it.

It is not very different for companies. Most of the time you may not care, or even stop to think about the values or morality of those you deal with, but at some critical point you will. A President who fails to unequivocally condemn a racist killing makes you wonder whether you want to sit on his business advisory board. Similarly, a crown prince with a proclivity for violence, who throws his critics to jail and, most likely, orders the mafia-style killing of an eminent dissident, is not one whose hand you may want to shake. Your intuitive morality does not allow you to stomach it. How would you explain your actions to your children, your employees, and your customers? Your own moral reputation is at stake.

Consumers can shape companies

Society's expectations of corporate behaviour have changed. A survey by the large public relations firm Edelman found that nearly a quarter of consumers said they chose to buy from brands whose beliefs they shared. To add value, you need to show you have values. A company that does not appear to distance itself from inappropriate behaviour risks tarnishing its reputation.

The rise of 24/7 communications means events in distant places are now beamed to everyone's living room. Business leaders cannot pretend they don't know about the barbaric murder of a journalist or the racist killing of a protestor and that knowledge creates a sense of responsibility. What am I going to do about it? Does this mean that business leaders will always need to take a stance to all the world's problems? Not at all. Morally principled pragmatism is required, not utopian idealism. A CEO need not be a moral crusader with a mission to save the world in order to act as a moral leader.

Companies can decide which issues to take a stance on. If a company risks losing millions by pulling out of

the Davos in the Desert conference, that does not mean it has to react similarly every time, say, the Russian or Turkish government throws its critics in jail.

Human affairs, Aristotle noted, are inherently variable, so much so that there cannot be general rules for how a leader should act. Details, history, and context matter. The important thing is to have good judgment: to want to do the right thing in a way that is most effective in the circumstances you face. For that you need a moral compass, not a moral manual.

KEY TAKEAWAYS

- Society's expectations of corporate behaviour have changed.
- Consumers' sense of responsibility does not stop when they spend their money; on the contrary it is magnified by having a choice in how they spend it.
- Nearly a quarter of consumers say they chose to buy from brands whose beliefs they shared.
- In the years to come we can expect to see more CEOs feel compelled to take a moral stance.
- Morally principled pragmatism is required, not utopian idealism.
- The important thing for business leaders to have is good judgment: to want to do the right thing in a way that is most effective in the circumstances the firm faces. For that a moral compass is required.

FOOD FOR THOUGHT

- What, for you, are the key characteristics of a good leader?
- Think of those leaders, in every field, whom you have looked to and maybe followed. What made you feel attracted towards them? Have your feelings and opinions changed since? Why and how?
- How have you – as a consumer or simple citizen – made a stand against injustice and unethical conduct? Is it within the reach of everybody to do so – why/why not?
- What makes a firm exemplary?
- What makes you want to become a loyal customer? Price, quality, reputation, trust, ethics?

HARI TSOUKAS

> Shaping the blame of downsizing must be done carefully and responsibly.

A SPOONFUL OF ETHICS, A SPRINKLING OF CULTURE: DOWNSIZING – WHAT MAKES A BITTER RECIPE SWEETER?

Professor of Management and Deputy Dean **Aarti Ramaswami, ESSEC Business School Asia-Pacific**, digs deep into the sensitive issue of downsizing to reveal the factors across countries that make it either indigestible for stakeholders – or easier to swallow.

Related research: *Ethics Trumps Culture? A Cross-National study of Business Leader Responsibility for Downsizing and CSR Perceptions: C. Lakshman, Aarti Ramaswami, Ruth Atlas, Jean F. Kabongo, J. Rajendran Pandian. Journal of Business Ethics, Springer.*

Downsizing – the conscious, planned effort to reduce employee numbers to achieve objectives – has been used since the 1980s to cope with the tough demands of a rapidly globalizing and increasingly technological economy. It can be a bitter pill to swallow – not only for employees but also for communities and, paradoxically, for the very leaders who make the decision to cut the workforce: they may ultimately end up carving themselves out of a job too. What makes the medicine – if indeed downsizing is medicine – easier to swallow? What is the effect on how both victims and survivors view the company's responsibility? And is downsizing more easily accepted in America, western Europe, Asia, or Eastern Europe? These are the questions Prof. Aarti Ramaswami of ESSEC Business School and her fellow researchers sought to explore through their study. The results are revealing.

A recipe for alarm

Downsizing a firm's workforce is sometimes necessary. At other times it can be viewed with skepticism bordering on cynicism. Research in 2007 by Jeffrey Brookman of Idaho State University indeed seemed to demonstrate a positive relationship between the equity portfolio incentives of CEOs and their layoff decisions. Other research points to the commonly held beliefs among top execs that downsizing announcements are associated with positive stock returns. In any case, downsizing is a dirty job all told, that inevitably leads to generating victims, survivors, and perceived persecutors – each shouldered with their resulting psychological side effects. But not only are a firm's employees and management concerned. In many cases, it is the wider community of stakeholders that is impacted – be they the stores next door which rely on the spending power of the firm's workforce, local schools, and even the firm's

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shareholders themselves. If the firm's downsizing is perceived as unjust, then share price can plummet. This is where the notion of CSR comes in – the commitment of businesses to contribute to sustainable economic development while acting as a good corporate citizen by balancing the interests of everyone – employees, the local community, and society at large. As seen on many occasions through media coverage of factory closures and business layoffs, public opinion is important. It can even, in certain cases, bring governments to intervene to broker emotions and attempt to quash wider unrest that may in turn damage their own credibility in the popularity polls. It is crucial then for management to show their internal and external stakeholders that the decision to downsize is justified. Moreover, it is necessary to be seen as ethical for it to be also seen as socially responsible.

Cutting across cultures

Aarti Ramaswami's research builds on previous work to include an interesting new angle: that of how downsizing is experienced not only through the layers of a firm and its outside stakeholders, but also across borders and cultures. She and her colleagues took populations from four countries – 626 working professionals and master's students from the USA, France, India and Estonia – to see if the same effects were felt and whether the fact of having different cultures modified the feelings of either inacceptable injustice or justified acceptance at the downsizing decision. The choice of culture was shrewd, the USA being where downsizing is perhaps most commonly used to turn around organisational performance; France using downsizing despite often largescale public outcry and a complex labour law; India in its traditions versus economic growth showing an increase in downsizing incidence and finally Estonia, sitting between Scandinavian and eastern European cultures, having undergone immense change from guaranteed jobs and passive business performance under the former soviet regime to a full market economy within EU membership – with all its vacuum of meaning this shift has left.

The good, the bad, and the ugly

The effects of a botched downsizing strategy can be disastrous on a human level. Those that are laid off – the victims – may go through the typical range of psychological states when faced with shock or trauma: denial, anger, shame, sadness, depression. In the worst cases, this process may repeat itself in an infernal emotional loop that goes on for years after. We might also believe that those who keep their jobs – the survivors – come out of it happy. In fact, their lot can be almost as traumatic as the victim's: anger, fear for the future, lack of motivation to continue the effort to work and interact harmoniously with their management, relief but also guilt. The degree of reaction – negative or positive – depends on two things. The first is how those chosen to lose their jobs are selected. If individual employees are treated on the merit they each deserve and the criteria is considered fair – not simply sacking someone because they fail to wear a smile or because their skin colour is different, but measured by their level of work performance, commitment or skills sets – then the downsizing decision is likely to be seen as ethical and pragmatic. Organisations that do not use clearly specified criteria are seen by employees as socially irresponsible. Unsurprisingly, communities outside the firm will also take the same view.

The second factor is all about employee perceptions of procedural justice – use of improper procedures and lack of employee involvement leave the decision-makers wide open to claims of being unethical. Prof. Ramaswami suggests that when employees are kept in the dark with little communication and detail – and subject to having downsizing imposed on them – they are likely to find that unethical. This dimension is also an important area of assessment for CSR. Supervisory support, clearly defined lay off criteria, good procedure, the possibility for employees to express themselves and trust in management are therefore key to obtaining the notion that although tough, the decision to downsize is justified and fair.

Responsibility comes with a price

People tend to search for someone responsible for the plight of those who lose their jobs or faced by job insecurity and uncertainty. As such, the CEO's decision to downsize is critical in influencing people's reactions. As already stated, there might be a temptation to streamline in the belief that the firm's stock price increases, though new evidence points to this being short-term in nature and only effective in periods of economic non-recession. In any case, a CEO's prestige, power and influence are ultimately damaged through layoffs.

The arguments for reducing the workforce are many – globalization, and technological change among them – but it can also be the case that incompetent management has been the cause of poor results. And when the workforce and wider community get a whiff of this, any downsizing attempt will be seen as wholly unjustified. Here again, clarity and communication are capital in shaping stakeholder acceptance of downsizing. Naming the responsible cause – be it difficult times or fierce competition – means that both victims and survivors will consider downsizing as socially responsible and inevitable in order to save the firm. In contrast, when downsizing is due to management failures, workers do not see things in the same eye.

Culture club

Do nationality and culture have a part in culling acceptance of a downsizing decision? Take Prof. Ramaswami's club of 4 – the USA, France, India and Estonia. Anyone's initial guestimate would tend to see US employees being more open to accepting downsizing – it happens more frequently there and Americans are more used to the dangers of an economic system that hinges on profit and growth. Some might also – given France's image of strong unions and cultural penchant for refusal in the face of change – be tempted to say that workers in France would tend not to accept.

To put this to the test, Aarti Ramaswami and her fellow researchers used well-researched models of cross-cultural values. One of the dimensions used to measure cultural influence in approaches to work is that of 'power distance' – the nature and acceptance of inequality, hierarchical relationships, and decision-making in different cultures. The USA in a corporate context, for example, is seen as basically flat in terms of hierarchy with easy access to management and quick decision-making, while France is seen as pyramidal in nature with successive layers of subordination from the top down and lower scope for initiative and decision-making among employees. Research showed that all four cultures (USA, France, India and Estonia) were equally sensitive to fairness in the selection criteria for lay-offs, the equity of procedures, and the opportunity for employees to communicate.

If these are seen as just, ethical and justified, then employee acceptance of downsizing is likely to occur. In these three specific areas – criteria, procedures, and communication – it means that a universal set of ethics has greater leverage than one's specific culture. However, it was when tackling a fourth area – that of responsibility for the downsizing decision – that differences in culture were seen to have the edge over universal ethics. Survivors – those keeping their jobs – in low power distance cultures (USA and Estonia) seemed to react more negatively to downsizing than those in high power distance cultures (France and India) when downsizing was due to poor management. Whether this is due to closer relations and trust between employees and management in low power distance organisations – and therefore greater subsequent feelings of betrayal – remains to be studied. But the message here is that top management needs to be wary of culture when planning and rolling out their downsizing strategy. The motivation and performance of their employee survivors is at stake. So is their reputation. Shaping the blame of downsizing must be done carefully and responsibly. It takes a large spoonful of ethics and a sprinkling of cultural awareness to do so.

KEY TAKEAWAYS

- Downsizing – the conscious, planned effort to reduce employee numbers to achieve objectives – has been used since the 1980s to cope with the tough demands of a rapidly globalizing and increasingly technological economy.
- Downsizing a firm's workforce is sometimes necessary. But it can be a bitter pill to swallow – not only for employees but also for communities and, paradoxically, for the very leaders who make the decision to cut the workforce.
- Downsizing also generates negative effects: It creates victims, survivors, and perceived persecutors among a firm's employees and management and also the wider community of stakeholders and the firm's shareholders. If the firm's downsizing is perceived as unjust, then share price can plummet.
- Public opinion is important. It is crucial for management to show their internal and external stakeholders that the decision to downsize is justified. Moreover, it is necessary to be seen as ethical for it to be also seen as socially responsible.
- If employees are measured by level of performance, commitment, and skills, then the downsizing decision is likely to be seen as ethical and pragmatic.
- Use of improper procedures and lack of employee involvement leave the decision-makers wide open to claims of being unethical. Supervisory support, clearly defined lay off criteria, good procedure, and the possibility for employees to express themselves are key.
- Leadership clarity and communication are capital in shaping stakeholder acceptance of downsizing.
- Naming the responsible cause – be it difficult times or fierce competition – means that both victims and survivors will consider downsizing as socially responsible and inevitable in order to save the firm. In contrast, when downsizing is due to management failures, workers do not see things in the same eye.
- Research among employees in the USA, France, India and Estonia showed that they are equally sensitive to fairness in the selection criteria for lay-offs, the equity of procedures, and the opportunity for employees to communicate.
- But when the question of responsibility for the downsizing decision arises, differences in culture have the edge over universal ethics. Survivors – those keeping their jobs – in low power distance cultures (USA and Estonia) reacted more negatively to downsizing than those in high power distance cultures (France and India) when downsizing was due to poor management.

FOOD FOR THOUGHT

- To what extent does the CSR dimension influence your organisation's strategic decisions?
- In the context of downsizing, who would be impacted internally and externally?
- What nationalities and cultures are employed in your organisation? What universal ethics or values make them tick?
- What cultural norms, behaviours and values among your workforce have an impact on their way of working and how they view management and the organisation?
- Are there existing mechanisms or bodies set up for communicating to employees and external stakeholders (the press, the community, shareholders, local authorities, etc.)? Is there a clear procedure for communication with them?
- Have you yourself experienced, or been victim to, a downsizing decision? What emotional and psychological impact did this experience have on you? How could you have been better prepared? What support system could be set up in your company to help employees through a possible downsizing process?

AARTI RAMASWAMI

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> If a leader acts correctly and properly, people will do their duty without the issuing of orders.

ETHICAL LEADERSHIP, WORDS OF WISDOM

Prof. **Qinqin Zheng** of School of Management, **Fudan University** shares her research into how traditional Chinese wisdom may play an important part in shaping ethical leadership in China.

Related research: *Rethinking ethical leadership, social capital and customer relationship, Journal of Management Development,* by Qinqin Zheng, Miao Wang, Zhiqiang Li.

Power to the people

Picture, if you will, the following scenario. A major natural disaster has just struck a country causing many deaths and great damage to infrastructure and the race to search for trapped survivors is imperative. Spontaneously, the country's big firms decide to help by donating money and resources. One of these, a star performer in high-price real estate, surprisingly makes only a token gesture. Public outcry is immense and the firm's image, share price and customer relationship asset immediately plummet. This prompts the CEO of the real-estate firm to hastily appear in the media, offer a public apology and slap on a second donation that raises the initial sum of 2m to 100m.

Did it happen in Europe where sensitivity to ethics and corporate responsibility is high? In the USA where folk hunker together in times of crisis? Neither. In fact, it happened in Wenchuan, China after the earthquake of 2008 with VanKe the firm involved. It is a probing example of how the traditional Chinese ethics and wisdom that have shaped a sense of community and social commitment have a say in how businesses should behave.

Qinqin Zheng, professor at Fudan School of Management and an expert on corporate ethics, researched the wider subject with her colleagues Mia Wang and Zhiqiang Li. How is ethical leadership important in China for a firm's customer relationship and social capital – and also to what extent is the influence of traditional Chinese teachings still pertinent for Chinese business leadership?

Customers love ethical leadership

While China has experienced high-speed economic growth in the past decades, there has been increasing disclosure of immoral corporate conduct. This is paradoxically a good thing. When corruption, labour rights, product quality and safety-related issues continue to implicate Chinese firms, it means three things: that for employees and customers, unethical conduct touches a nerve-end that they rightly feel requires attention; that for the authorities, business ethics is a dimension that has to be taken seriously; and finally that ethical leadership and business ethics in China are increasingly a subject for discussion and debate among

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academic, government and professional circles. It is good for business too. It has long been established that long-term customer relations are good for sustainable competitive advantage. Indeed, customer loyalty is beneficial for corporate profits. While a loyal and intimate relationship with customers is rare and difficult for rivals to replicate, it produces higher company performance and greater shareholder value. The stability of customer relationship is particularly critical in China where Guanxi – a social philosophy based on mutual obligations, reciprocity and trust that finds its origins in Confucianism – is still important. According to Prof. Zheng, there are two factors that positively influence this customer relationship – ethical leadership and social capital.

Confucius said…

Since the early 2000s, great interest has been shown in the notion of ethical leadership – and most of it from the English-speaking world. However, Prof. Zheng argues that practical wisdom from Chinese classical traditions may be of great guidance in contemporary management – in China and beyond. The Art of War by Sun Tzu is a telling example, with managers the world over searching the book for inspiration in competitive business situations. What is often overlooked is that besides tactics and strategy, The Art of War also promotes a set of leadership attributes that put in a modern context boil down to ethical leadership. Among these are humanity, sincerity, wisdom, benevolence, discipline and trust.

The teachings of Confucius also provide much influential thought, not only in China but throughout Asia. It comes as no surprise then that Confucianism is deeply embedded in leadership and business codes. Among one concept is that of 'Zheng' – ethical leadership, or, more precisely, governance. Confucius explains that three aspects are necessary for ethical leadership. The first is the leader's personal code of conduct: if he/she acts correctly and properly, people will do their duty without the issuing of orders – which in the modern world might relate to walking the talk, consistency or setting an example. Public spiritedness and dedication make up the other two – notions that are easily transposed to the current context of shareholders, customers and suppliers.

One who stays near vermillion gets stained red
In recent years, growing research has pointed to broader groups such as communities and stakeholders having an effect on corporate performance. This is where the notion of social capital comes in, the network of cross-cutting relationships in society characterized by trust and reciprocity and even – in the best of worlds – where goods and services are sold for a wider, common good. As trust grows, social networks create more relationships and strengthen existing ones. According to Qinqin Zheng, this is especially important in China – a nation that ranks lower than any other Asian country in terms of individualism in Geert Hofstede's famed national culture dimension scores. Indeed, argues Prof. Zheng, traditional Chinese perspectives long-ago took into account the importance of communities comprised of social capital and many other resources. Quoting Mencius, she adds: "One who stays near vermillion gets

stained red, and one who stays near ink gets stained black" – a nugget on the impact of communities on individuals. For a leader, therefore, gaining the support of the people (and potential customer relationship) around him or her leads to business success.

Words of wisdom

Prof. Zheng's research among 215 companies in China reveal that practical wisdom from Chinese classical traditions can be a positive influence for contemporary management. Developments in this area – to foster ethical leadership and its positive returns on customer relationships – should therefore incorporate community norms and codes that are mainly derived from traditional philosophical perspectives. Unfortunately, research shows that there are still few organisations that do integrate these into their educational or training programmes. Prof. Zheng sees this as an opportunity to therefore strengthen Chinese management, however.

Innovating on education in ethical leadership at business school level, especially among MBA students, combined with in-house discussion of ethical issues connected to daily business dilemmas in the workplace, would sharpen both manager and employee awareness. The after-effect would also greatly satisfy the innate wisdom of the Chinese customer.

FOOD FOR THOUGHT

- Paradoxically, corporate misconduct and scandals give rise to positive after effects. Name 3 that have occurred in the last 10 years. How did they change things for the positive?
- "Guanxi" is cited in the research – a social philosophy based on mutual obligations, reciprocity and trust. To what extent does your culture have anything that relates to this? How and what positive impact can you observe?
- In China, gaining the support of the people leads to business success. If you were head of your company/ organisation, name 3 effective ways in which you would do this.
- Think of the studies you've undertaken or are currently following. To what extent did/do they include knowledge and debate on ethical issues? Through what types of initiative or learning do you think secondary and higher education could take on such a dimension?

KEY TAKEAWAYS

- Disclosure of corporate misconduct in China
  I) raises employee and customer calls for attention
  II) makes the authorities aware that business ethics is important
  III) increases discussion of ethical leadership in China among academics, government and professional circles.
- Stories of misconduct strengthen companies' awareness that long-term customer relations are good for sustainable competitive advantage.
- Guanxi – a social philosophy based on mutual obligations, reciprocity and trust that finds its origins in Confucianism – is still important.
- Confucianism says that that three aspects are necessary for ethical leadership: the leader's personal code of conduct, public spiritedness and dedication.
- For a leader in China, gaining the support of the people (and potential customer relationship) around him or her leads to business success.
- Education and awareness of ethical leadership at business school level, especially among MBA students, and in-house discussion of ethical issues in companies would sharpen both manager and employee awareness.

QINQIN ZHENG

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> Leaders need to develop their cognitive structures through life experiences and to consider aspects of sustainability that go beyond narrow business considerations.

THE CEO'S JOURNEY TO SUSTAINABILITY

Stefan Gröschl, Professor of Management at **ESSEC Business School** and spokesman on CSR, shares his research on ex-Puma CEO Jochen Zeitz and the journey to sustainability.

Related research: *The Co-evolution of Leaders' Cognitive Complexity and Corporate Sustainability: The Case of the CEO of Puma, Springer Professional.*

Our lessons come from the journey, not the destination

Imagine a journey. A journey that in many ways echoes the Hero's Journey – the pattern of narrative identified by the American scholar Joseph Campbell that appears in drama, storytelling, and psychological development. This time the story concerns the CEO, and more specifically Jochen Zeitz, the former CEO of Puma and among other things Founder of the Zeitz Foundation for Intercultural Ecosphere Safety and Co-Founder, together with Sir Richard Branson, of The B Team, a not-for-profit initiative that puts people and planet alongside profit. But Zeitz' story is also a journey that can be modelled and lived by other CEOs the world over – that of sustainability and its development, within the company or organization, from challenge to opportunity to necessity.

Stefan Gröschl, together with fellow researchers Patricia Gabaldón and Tobias Hahn, studied the journey of Jochen Zeitz – research that culminated in the publication of their findings in the Journal of Business Ethics. Moving on from previous research into cognitive development in the field of management, Gröschl and his colleagues explored how the changes in a leader's mindset relate to his/her views and actions on sustainability. Taking Jochen Zeitz as their focus of study, they illustrate that Zeitz' increasingly complex cognitive patterns during his time as CEO of Puma were associated with his development of an understanding of – and response to – sustainability that went beyond narrow business concerns. By juxtaposing key events and experiences in the biography of Zeitz with the evolution of his views and initiatives on sustainability, Gröschl and his colleagues identified how his cognitive complexity and his stance on sustainability co-evolved.

Cognitive complexity describes the number of distinctive attributes underlying a person's thinking and how they are connected: this gives the beholder a picture of the world and provides a framework for judgement and decision-making that leads to action. Where do these attributes come from? An initial answer lies in our culture – that is, the values and identity handed down to us from, for example, our family, nationality, religion, social status and profession. But as we live and grow, our experiences, both personal and professional, add themselves on to the framework, connect, and continue to shape our perceptions, decisions and actions. In the field of management, past research has shown that managers take strategic decisions based

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on selective interpretations of their organizational context through their cognitive frameworks – a process of reducing complexity and structuring ambiguous signals that is called '*sensemaking*'.

In the case of CEO Jochen Zeitz, Stefan Gröschl and his colleagues identified six different cognitive lenses that emerged over time, indicating an increased level of differentiation of Zeitz' cognitive pattern: business, cultural diversity, Africa, norm-breaching, environmental consciousness, and spirituality and philosophy. In short, the experiences and contexts Zeitz lived during his time as CEO at Puma contributed to an increasing awareness of sustainability and how it could be linked to business not only for increasing profits but for the necessary good of society and the environment.

The journey to sustainability

When Zeitz came to Puma, the company was struggling and in his first few years as CEO his approach was primarily driven by conventional business and management techniques in an attempt to reduce costs and turn the company around. At a time when the German economy was experiencing rising unemployment, Zeitz cut the German workforce numbers at Puma by a drastic 50%, moving most of the production facilities to low-cost countries in Asia. Despite criticism that Puma was losing its 'made in Germany' identity, Zeitz forged ahead regardless to continue to focus on restructuring, investing and developing growth.

However, it was in the process of turning around Puma from a €100m loss-making organisation to a €3bn profit-making business that Jochen Zeitz came to realise that financial success came at a cost to the environment. Traveling across Asia in the early and mid-1990s, he was shocked into realization by the poor working conditions of his suppliers' employees and the environmental damages these suppliers caused. As a reaction, Zeitz implemented a code of conduct in Puma aimed at improving the working and environmental conditions in Puma's suppliers, and with growing environmental consciousness in both Germany and outside Europe, Puma stepped up its sustainability-related activities. In the early to mid-2000s the company terminated partnerships with 35 suppliers for non-compliance with Puma's environmental standards. In parallel, Puma also expanded its auditing to cover all Puma licensees and supported or joined several sustainability-related working groups and NGO initiatives.

But it was also the coming together of Zeitz professional and personal life that gave additional impetus to his sense of sustainable issues. He visited Africa in 1989, fell in love with the country, and bought a farm. Over the next fifteen years or so Zeitz committed to developing sustainability initiatives such as the creation of the Foundation of Intercultural Ecosphere Safety in Kenya to develop sustainable projects that would bring together the '4Cs': wildlife conservation, community, culture and commerce in Africa. Another example included the setting up of a sustainable tourism business Long Run. His experience in Africa confronted him with – to paraphrase Zeitz – the negative sides of business from an ecological point of view, making him realize that it was it was time to change the way he conducted business.

Altogether, Zeitz' understanding of sustainability and its meaning for doing business evolved when he connected his experiences from running his farm in Kenya with his meetings and discussions with Anselm Grün, German monk and lecturer on spirituality. Accordingly, Zeitz started to combine business aspects with sustainability arguments in his strategic thinking and as all the threads of his experiences came together, Zeitz saw it as the moment for the environment to be valued in the same way as business and economic growth. One such illustrative example is that of the introduction of Puma's Environmental Profit and Loss Account (EPL), widely acknowledged as the first comprehensive EPL to be applied by a company.

CEOs and sustainability: Reach out and grasp

In terms of practical implications, Gröschl and his colleagues' study underlines the role of cognitive complexity for the transition toward more sustainable business practices. In particular, their findings emphasize the need to encourage leaders to develop their cognitive structures through life experiences and to consider aspects of sustainability that go beyond narrow business considerations. In much the same way as CEOs develop and foster a global mindset for the management of international corporations, the adoption of proactive sustainability initiatives could well make CEOs develop 'sustainable mindsets' – all too important for companies on the front line of sensitive environmental and social issues.

KEY TAKEAWAYS

- Zeitz' story is also a journey that can be modelled and lived by other CEOs – that of sustainability and its development and from challenge to opportunity to necessity.
- Changes in a leader's mindset can relate to his/her views and actions on sustainability.
- Cognitive complexity describes the number of distinctive attributes underlying a person's thinking and how they are connected: this gives the beholder a picture of the world and provides a framework for judgement and decision-making that leads to action.
- These attributes come from our culture – that is, the values and identity handed down from our family, nationality, religion, social status and profession. And as we live and grow, our experiences, both personal and professional, add themselves on to the framework, connect, and continue to shape our perceptions, decisions and actions.
- In the field of management, past research has shown that managers take strategic decisions based on selective interpretations of their organizational context through their cognitive frameworks – a process of reducing complexity and structuring ambiguous signals that is called 'sensemaking'.
- In the case of Pula CEO Jochen Zeitz, six different cognitive lenses were identified that emerged over time: business, cultural diversity, Africa, norm-breaching, environmental consciousness, and spirituality and philosophy.
- The coming together of professional and personal life experiences can give additional impetus to one's sense of sustainable issues.
- In much the same way as CEOs develop and foster a global mindset for the management of international corporations, the adoption of proactive sustainability initiatives could well make CEOs develop 'sustainable mindsets'.

FOOD FOR THOUGHT

- Think of yourself and your life. Which 3 big experiences really changed who you have become and how you think?
- In terms of becoming (more) conscious of the environment and sustainability, which 3 things could you do to make that happen? Put them in order of priority and put them on a timeframe for you to do them.
- As a future manager, CEO or entrepreneur, how would you like your team, organisation or company to become planet-friendly?

STEFAN GRÖSCHL

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