Responsible Leadership in Global Business

Seminar in CSR
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Content

• The challenges of globalization: Why leadership?
• Responsible leadership
  • What is meant by leadership?
  • What is meant by responsible leadership?
• Current thoughts and first results
• Leading towards legitimacy/CEO leadership
Globalization: Challenges for business leaders

Transparency International Corruption Index

Quelle: http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results
The problem of corruption – The case of Siemens

In many places, corruption seems an integral part of business negotiations. Investigators discover a system of secret bank accounts and hired consultants to bribe government officials around the globe; Siemens set aside an annual bribery budget of $40 to $50 million; in total, an estimated amount of 1.3 billion has been paid. Until 1999, bribes were even deductible as business expenses under the German tax code; paying a foreign official was not a criminal offense. Corruption is an example of a negative business externality that illustrates the problem of heterogeneous laws and moral norms and the tension between ethics and efficiency. 

Legitimation strategies: “If we don’t bribe, our competitors will do it”

Siemens manager: “the payment, he says, were vital to maintain the competitiveness of Siemens overseas” (The New York Times, 2008)

In 2004, von Pierer, the former CEO and then head of the advisory board, held a speech at the UN-security council about the role of business in preventing conflicts and securing peace. Siemens had a “compliance”-system in place while corruption was still part of daily business.

The problem of corruption – Implications of globalization

“Companies must help managers distinguish between practices that are merely different and those that are wrong.” (Donaldson, 1996, p. 52).

Table 1: Possible Configurations in the MNC

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>Local Responsiveness</th>
<th>Transnational</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIRM</td>
<td>Adaptive</td>
<td>Integrative</td>
<td>Exploitive</td>
</tr>
<tr>
<td>ETHICS</td>
<td>Relativist</td>
<td>Cosmopolitan</td>
<td>Universal</td>
</tr>
</tbody>
</table>

Bufer and McEvoy, 1999, S. 332
Conditions of globalizing business

Multitude of economic and political actors (MNU, NGOs, nation states, supranational organizations, the media)
New role of nation states (loss of monopoly of force over global business)
Heterogeneous legal systems and cultural norms
Conflict between economic rationality and ethical demands
(at least) three levels of action/governance (Corporation, nation state, global level)

The challenges of globalization for leadership

• The increasing dynamic and complexity of daily business, heterogeneous value orientations and cultural backgrounds, as well as differing legal regulations make the worldwide operating business activities of MNU more difficult, complex and uncertain
• The pressure of societal groups and NGOs increases the demands for legitimizing organizational conduct
• In accordance with this, there is a growing call for transparency of business conduct as well as for social and ecological responsible leadership decisions
• Subsequently, communication and exchange with internal and external stakeholders becomes a central demand for responsible leadership

Taken together, these challenges lead to the following question: Who is responsible for what towards whom in an interconnected business world?
Leadership in organizations

The management process and the role of leaders therein

The management process can be conceived of the following five management functions: (1) planning, (2) organizing, (3) deployment (personnel placement), (4) leadership and (5) control (Steinmann & Schreyoegg, 2005).

While the four management functions planning, organizing, deployment, and control emphasize structural aspects, leadership is concerned with the management of persons and relationships and focuses on the interaction with employees and the influence process.
The management process

Such a plan determined business strategy can only be successful if all future developments can be predicted and can be realized within the established structures.

Yet, the environment of a corporation, especially in global business, is first, complex, i.e. not all alternatives can be determined in the forefront (bounded rationality), and second, dynamic, i.e. subject to a constant change that makes not all future developments predictable (Kirsch et al. 2009; Steinmann & Schreyögg, 2000: 123ff).

Leadership becomes an important balancing function in a dynamic and complex environment.

Definitions of leadership

„Führung in Organisationen ist ein von Beobachternden thematisierter Interaktionsprozess, bei dem eine Person in einem bestimmten Kontext das Handeln individueller oder kollektiver Akteure legitimerweise konditioniert...“

„Leadership is an influence relationship between leaders and followers who intend real changes that reflect their mutual purposes“ (Rost, 1991: 102).

„Leadership is the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives“ (Yukl, 2006: 8).

These definitions point to three constitutional elements of leadership: Person, interaction, task.
What is changed by globalization?

For the leadership person:
- Globalization deprives people of a shared bases for normative orientation
- New interaction partners: the stakeholders

For the leadership interaction:
- Changes in the mode of interaction (which influence do leaders have on external stakeholders?)
- Influence needs legitimacy

For the leadership task:
- Increasing competition and at the same time growing social expectation on business conduct
- CSR as strategic impetus becomes a integral part of the organizational agenda
- Balancing between social and economic goals

This results in an increasing call for ethical or responsible leadership.

The relationship between moral and ethics

**Ethics** is concerned with defining the good or fulfilled life as well as the reflection about what is right or just behavior.

**Moral** is referring the prevailing norms and values in a society that guide behavior.

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Quelle: Huppenbauer & De Bernardi, 2003
Categorizing ethical theories

Teleological concepts of ethics stress the importance of the ends of actions. Hence the moral rightness of an action is determined by its outcomes and their contribution to a greater good (e.g., Aristotelian virtue ethics or Utilitarianism in the tradition of Bentham and Mill).

Deontological concepts of ethics focus on the primary criteria to evaluate the moral quality of actions, not on their outcomes or their contribution to a greater good. The intentions behind actions are derived from the perception of one’s duty (~déon) that relates to an intrinsically good action (e.g., Kant, Rawls, or discourse ethics as forwarded by Apel and Habermas).

Introductory literature for those who are interested:
- Short Introduction to Kant, Habermas, …from Oxford University Press
- Tugendhat, Vorlesungen über Ethik, Suhrkamp

Ethical and authentic leadership in the literature

Authentic leaders are described as persons:

“who are deeply aware of how they think and behave and are perceived by others as being aware of their own and others’ values/moral perspectives, knowledge, and strengths; aware of the context in which they operate; and who are confident, hopeful, optimistic, resilient, and of high moral character”

(Avolio et al., 2004: 4; zitiert in Avolio & Gardner, 2005: 321).

Ethical leadership was defined as:

“demonstrating normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making”

(Brown et al., 2005: 120).

What can these leadership concepts (not) accomplish/answer in relation to the challenges of globalization?
Conceptualization of responsible leadership

Develop a conception of leadership, that

1) Is able to provide normative orientation for leaders in guiding them towards morally legitimate decisions and in establishing accepted values and norms through dialogue with the affected;

2) Grants a license to operate for the firm and contributes the organizational wealth creation; and

3) Can be operationalized and thus offers the possibility for a quantitative-empirical investigation of the phenomenon of responsible leadership.
Assumptions build on discourse ethics and deliberative democracy

Jürgen Habermas’ thoughts on discourse ethics and deliberative democracy as the theoretical grounding of an understanding of responsible leadership (see e.g., Habermas, 1996, 1998, 2001)

Discourse ethics as the normative theory, expanded by the thoughts on deliberative democracy

Deliberative democracy

„Society should be organized so that important issues of public concern are settled through a free, uncoerced and rational deliberation among citizens […]. In an ideal deliberative democracy, citizens will discuss the merits of different approaches to dealing with important public issues, offer each other comprehensible reasons for pursuing one course of action rather than another, and count only on the force of the better argument to convince each other that some particular course is best” (Hussain & Moriarty, 2012, p. 5)

Leaders as proponents of their organization participate in these processes of public will formation in that they engage in dialogue with the relevant stakeholder groups
Responsible leadership

Responsible leadership is understood as (1) the awareness and consideration of the consequences of one’s actions for all stakeholders, (2) as well as the exertion of influence by enabling the involvement of the affected stakeholders and by engaging in an active stakeholder dialogue. (3) Therein responsible leaders strive to weigh and balance the interests of the forwarded claims. (4) Additionally, responsible leaders foster the public exchange of opinions and engage in public will formation.

Leaders assume the role of enabler and moderator

Quelle: Voegtlin et al., 2012, p. 4

Globalization Challenges

Macro-level: Relations to External Stakeholders
- Legitimacy
- Trustful Stakeholder Relations
- Social Capital

Meso-level: Shaping Organizational Culture and Performance
- Ethical Culture
- CSR Character
- Social Responsibility
- Performance

Micro-level: Personal Interactions
- E.g., OCB, Motivation, Job Satisfaction

Outcomes

Quelle: Voegtlin et al., 2012
Differences between leadership concepts

<table>
<thead>
<tr>
<th>Characteristics (of leadership concept)</th>
<th>Transformational, authentic, ethical and servant leadership</th>
<th>Responsible leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Differences</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philosophical foundation</td>
<td>no explicit philosophical foundation</td>
<td>based on discourse ethics and deliberative democracy</td>
</tr>
<tr>
<td></td>
<td>monological conceptions</td>
<td>discursive concept</td>
</tr>
<tr>
<td></td>
<td>focus on ethical characteristics of the leader</td>
<td>process model focused on leadership conduct that establishes consensual solutions in discursive decision situations</td>
</tr>
<tr>
<td>Level of interaction</td>
<td>main focus on followers (except servant leadership)</td>
<td>inclusion of all affected stakeholders</td>
</tr>
<tr>
<td>Leader success</td>
<td>effectiveness in the sense of being a positive role model; emphasis on performance</td>
<td>effectiveness in establishing consensual solutions and addressing globalization challenges</td>
</tr>
<tr>
<td><strong>Similarities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>concern for others; consideration of (ethical) consequences; leaders are perceived as role models</td>
<td></td>
</tr>
</tbody>
</table>

Operationalization

<table>
<thead>
<tr>
<th>Study</th>
<th>Step of scale development addressed</th>
<th>Sample</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study 1</td>
<td>Item generation and content validity</td>
<td>n = 14 students from one public university</td>
<td>Form a pool consisting of 46 items</td>
</tr>
<tr>
<td>Study 2</td>
<td>Item generation and content validity as an iterative process with experts</td>
<td>n = 13 experts and doctoral students in the field of stakeholder management/CSR or leadership</td>
<td>Writing, deleting and adding new items</td>
</tr>
<tr>
<td>Study 3</td>
<td>Confirmatory factor analysis (CFA), dimensionality and reliability</td>
<td>n = 139 students from one public university; average years working = 4.3; average age = 24.4; 57% women</td>
<td>One-factor solution emerged. Redundant items were deleted.</td>
</tr>
<tr>
<td>Study 4</td>
<td>Confirmatory factor analysis (CFA), dimensionality and reliability</td>
<td>n = 75 students from one public university; average years working with supervisor = 1.4; average age = 21.7; 57% men</td>
<td>Final DRL discriminant and predictive validity; reliability could be established</td>
</tr>
</tbody>
</table>

27.03.2012
### Operationalization

<table>
<thead>
<tr>
<th>Responsible leadership items</th>
<th>Study 3: EFA</th>
<th>Study 4: CFA</th>
<th>Study 5: CFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>My direct supervisor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...demonstrates awareness of the relevant stakeholder claims</td>
<td>0.75</td>
<td>0.62</td>
<td>0.85</td>
</tr>
<tr>
<td>...considers the consequences of decisions for the affected stakeholders</td>
<td>0.74</td>
<td>0.80</td>
<td>0.87</td>
</tr>
<tr>
<td>...involves the affected stakeholders in the decision making process</td>
<td>0.85</td>
<td>0.72</td>
<td>0.82</td>
</tr>
<tr>
<td>...weights different stakeholder claims before making a decision</td>
<td>0.76</td>
<td>0.83</td>
<td>0.84</td>
</tr>
<tr>
<td>...tries to achieve a consensus among the affected stakeholders</td>
<td>n/a</td>
<td>0.88</td>
<td>0.88</td>
</tr>
</tbody>
</table>

Cronbach's Alpha 0.81 0.84 0.94

χ²/df 1.300 1.197

NNFI (TLI) 0.977 0.996

CFI 0.989 0.998

SRMR 0.036 0.015

RMSEA 0.086 0.039

Note: Standardized item loadings reported for CFA, p<.001 for all loadings; factor loadings for EFA extracted from loading on primary factor of the 19 item solution of study 3

### Hypotheses

**Responsible leadership and other leadership approaches:**

Hypothesis 1: Transformational leadership is related to responsible leadership, yet empirically distinct from it.

Hypothesis 2: Ethical leadership is related to responsible leadership, yet empirically distinct from it.

**Responsible leadership and hierarchical position:**

Hypothesis 3: The hierarchical position affects responsible leadership conduct.

**Responsible leadership and the effect on followers:**

Hypothesis 4: Responsible leadership will have a negative effect on followers' unethical behavior.

Hypothesis 5: Responsible leadership will have a positive effect on followers' job satisfaction.

Hypothesis 6: Unethical behavior partially mediates the relationship between responsible leadership and job satisfaction.
Institut für Betriebswirtschaftslehre

1. Unconstraint Model: frei korreliert
2. Constraint Model: Varianz auf eins gesetzt

\[ \Delta \chi^2 = 23.362; \Delta \text{df} = 1; p < 0.001 \]

Universtität Zürich

27.03.2012
Verantwortungsvolle Führung

Item 6...

Item 1

Item 2

Häufigkeit der Interaktion

Moderation: $R^2 = 0.07$; $\Delta R^2 = 0.04$; $\beta = -0.38$; $p < 0.05$

Direkt: $\beta = -0.17$; $p < 0.1$

Item 1

Item 2

Item 3

Häufigkeit der Interaktion

Moderation: $R^2 = 0.12$; $\Delta R^2 = 0.04$; $\beta = 0.39$; $p < 0.05$

Direkt: $\beta = 0.28$; $p < 0.01$

Hierarchische Position

Moderation: $R^2 = 0.17$; $\Delta R^2 = 0.05$; $\beta = -0.20$; $p < 0.05$

Direkt: $\beta = 0.28$; $p < 0.05$
Leadership and complexity
Leadership and legitimacy

Leading towards legitimacy across levels of analysis

Leaders as gate-keepers
Leadership as the management of meaning

Macro-level
Meso-level
Micro-level

Societal pressures
Sensmaking
Leadership actions

Organizational legitimacy strategies

Challenges to cognitive, pragmatic and moral legitimacy
Rhetorical influence tactics
Sources of influence leaders can draw upon:
Leadership resources and forms of communication

Sensegiving
### Legitimacy strategies

<table>
<thead>
<tr>
<th>Type of legitimacy</th>
<th>Cognitive legitimacy</th>
<th>Pragmatic legitimacy</th>
<th>Moral legitimacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Societal pressure</td>
<td>Conformism</td>
<td>Inconformism</td>
<td>Inconsistent</td>
</tr>
<tr>
<td>Costs of organizational change</td>
<td>Low</td>
<td>High</td>
<td>Low-high</td>
</tr>
<tr>
<td>Legitimization strategies</td>
<td>Isomorphic adoption</td>
<td>Strategic manipulation</td>
<td>Moral reasoning</td>
</tr>
<tr>
<td>Rhetorical influence tactics</td>
<td>Authoritarian</td>
<td>Administration</td>
<td>Moral evaluation</td>
</tr>
</tbody>
</table>

#### Resources:
- Capital stock: Bureaucratic and organizational, Financial and technological, Social and informational
- Advantageous habitus: Grown up in society of interest, Social network with key stakeholders, Communication and rhetorical skills, open and ethical mindset

#### Leadership:
- Dominant forms of communication: Monologic, cooperative, symbolic, Metalogic, assertive, written, Dialogic, cooperative, verbal

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### BP and the oil spill in the Gulf of Mexico
What happened?

On April 20, 2010 there was an explosion due to gas leaks at the deepwater drill of the platform. In the following, 11 people were killed and the oil platform sank (Economist, 2010, p. 57). For over three months, about 780 million Liters of oil had spilled out of the leak and into the sea (Spiegel Online, 2010). The leaking oil and the hereupon expanding oil film in front of the coastline of the USA in the Gulf of Mexico became one of the biggest environmental disasters of this kind.

The oil film had severe consequences of and surrounding the sea, as well American coastline. Many of those industries have lost their means of existence and subsequently, many people became unemployed (The New York Times).

Who was affected?

People working on the platform

Environment: pollution of water and nearby coastline; severe consequences for flora and fauna within the polluted areas

Local people living on the coastline; especially those working in the fishing and tourism industry

The company BP
Who was involved?

BP America with headquarter in Houston; BP well site leader
Transocean, owner of platform, contractor
Halliburton, drilling company
Minerals Management Service, government agency responsible for monitoring and controlling offshore drilling

Reactions

BP's reactions:
At first, the CEO Tony Hayward did not admit any mistakes of BP, he rather tried to blame others
After the public pressure enhanced, BP took over responsibility (dialogues with and payments for the affected; cleaning the pollution; stopping payments of dividends)

The company has a special section of their homepage dedicated to the disaster:
http://www.bp.com/extendedsectiongenericarticle.do?categoryId=40&contentId=7061813

BP sealing the well: http://bp.concerts.com/gom/johnwright092110.htm

– Interesting to see the engineering challenge; technology involved; meetings
Reactions

Reactions of the federal government: The National Oil Spill Commission:
http://www.oilspillcommission.gov/

What lead to the catastrophe?

“The approach taken by the company was described as the ‘best economic
case’ in the BP document. However, it also carried risks beyond the
potential gas leaks, including the possibility that more work would be
needed or that there would be delays, the document said” (The New York
Times, 2010a).

The company [BP] went ahead with the casing, but only after getting special
permission from BP colleagues because it violated the company’s
safety policies and design standards. The internal reports do not explain
why the company allowed for an exception. BP documents released last
week to The Times revealed that company officials knew the casing was the

A manager of BP responded in an email to the decision of using the cheaper
solution: ‘Who cares, it’s done, end of story, will probably be fine’
(Economist, 2010b: 57).
What lead to the catastrophe?

„But most of the mistakes and oversights at Macondo [the oil field] can be traced back to a single overaching failure—a failure of management“ (Oil Spill Commission, 2011a: 90).

„Our investigation shows that a series of specific and preventable human and engineering failures were the immediate causes of the disaster," said Commission Co-Chair William K. Reilly. But, in fact, this disaster was almost the inevitable result of years of industry and government complacency and lack of attention to safety. This was indisputably the case with BP, Transocean, and Halliburton, as well as the government agency charged with regulating offshore drilling—the former Minerals Management Service.“ (Pressemitteilung Oil Spill Commission, 2011b: 1).

Deepwater Horizon

FIGURE 4.10: Examples of Decisions That Increased Risk At Macondo While Potentially Saving Time

<table>
<thead>
<tr>
<th>Decision</th>
<th>Was There a Less Risky Alternative?</th>
<th>Less Time Than Alternative</th>
<th>Decision Maker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Waiting for Selector Conformance of Preferred Design</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>BP on Shore</td>
</tr>
<tr>
<td>Not Waiting for Foam Stability Test Results and/or Redesigning Rotor</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>Halliburton (and Perhaps BP) on Shore</td>
</tr>
<tr>
<td>Not Running Cement Evaluation Log</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>BP on Shore</td>
</tr>
<tr>
<td>Using Spurces Made from Combined Lost Circulation Materials in Avoid Disposal Issues</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>BP on Shore</td>
</tr>
<tr>
<td>Engaging Mud from Base Before Setting Barrels</td>
<td>Yes</td>
<td>Unclear</td>
<td>BP on Shore</td>
</tr>
<tr>
<td>Setting Barrels Without Mud Before Mud Is Located in Concrete</td>
<td>Yes</td>
<td>Unclear</td>
<td>BP on Shore (Approved by ERHC)</td>
</tr>
<tr>
<td>Not Handling Additional Mineral Barrels During Temporary Abandonment Procedure</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>BP on Shore</td>
</tr>
<tr>
<td>Not Performing Fatigue Wall Strength in Light of Troubling and Unexplained Negative Test Results</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>BP (and Perhaps Transocean) on Rig</td>
</tr>
<tr>
<td>Reporting Pits and Conducting Other Surveys Prior to Moving</td>
<td>Yes</td>
<td>Avoid Time</td>
<td>Transocean (and Perhaps BP) on Rig</td>
</tr>
</tbody>
</table>

Quelle: Oil Spill Commission, 2011, S. 125
Interpretations

Macro-Level (Organization and society): What parties were involved? What were their responsibilities?
Meso-Level (Organizational structures): Where there sufficient control mechanisms in place?
Micro-Level (Individual behavior): Who were the actors? What decisions led to the accident?

Macro-level: Context and contingencies contributing to the incident
- Safety standards within the industry; common way of doing business
- Coordination and communication with the Minerals Management Service Agency

Meso-Level (Organizational structures): Where there sufficient control mechanisms in place?
- Cost pressure from BP management/ the company
- Safety standards (www.bp.com)
- Code of Conduct
- Internal culture

Micro-level:
- Individual decisions in the forefront
- Communication and discourse among the involved parties
- Estimation of consequences
Interpretations

Estimating the consequences of the deepwater drilling for possibly affected stakeholders and the environment
Mediating financial/economic and social goals
Communication with involved and affected stakeholders
  – „BP, Transocean, and Halliburton failed to communicate adequately” (Oil Spill Commission, 2011a, p. 123); e.g. did Transocean keep quiet about missed safety checks
Considering the context and contingencies contributing to the incident

Interpretations

Responsible individual behavior and leadership needed
Organizational security standards were in place but were not adhered to; it needs also an organizational culture of „safety first”
Communication between the involved parties important
Industry wide, global regulations need to be stricter; governance issues that need to be addressed; see recommendations of the Oil Spill Commission
Discussion

What does „responsible leadership“ mean from your point of view?

How realistic are the presented assumptions?

Is leading towards legitimacy possible?


Literature


Literature


Thank you for your attention!