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CSR Leadership Study

Leading Corporate Responsibility in Multinational Corporations

A study in Germany's biggest firms. Final report.

– Executive Summary –



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"The mission of business is to maximize profit. You know, the more I look at it and the more I consider my own experience, the more uncomfortable I feel with this description. It is the only concept of business in economics - there is no other concept. But human beings are not one-dimensional; human beings are not born to become just money-making robots; human beings are much bigger than that. They want to make money; they want to enjoy making money, but there are many other things they enjoy that are not included in economics, and I think that's a flaw in the theory and the way we put it into practice.

The way I see it, being self-centred, being selfish, is part of being human. You cannot ignore it. It's an important part of every human being, but selflessness too is part of a being human. By this I don't mean that there are selfish people and there are selfless people. I mean that every human being is endowed with both attributes.

Now when we look at businesses, there are only businesses based on one of these human attributes, which is the selfish side."

Yunus Muhammad (2009)

Foreword by Prof. Ralf Reichwald

Especially large scale multinational corporations (MNCs) employ a high number of managers on various hierarchical levels. An increasing number of organisations regard their human capital and especially their leadership capital as a strategic resource important for generating competitive advantage. However, not all managers can be charismatic leaders. Hence, corporations provide their managers with a broad set of instruments, methods and tools to support them in achieving outstanding leadership. These instruments stem from various functions like Human Resources, Controlling, Corporate Communication, Strategic Management and Knowledge Management and present the building blocks of so called leadership systems. A key question is, how leadership systems can be aligned with corporate strategy to reach “Leadership Excellence” – a question that has been subject to empirical research in the recent years.

The “Leadership Excellence Study”, conducted in 2003 at my Institute for Information Organization, and Management at the Technische Universität München, analysed 40 MNCs and found that, conceptually, a leadership system consists of four key areas: (1) Leadership as a day-to-day interactive process, (2) leadership metrics, (3) leadership deployment (4) and the selection and development of leadership talent. The results of the study showed that most leadership systems were derived from the overarching corporate strategy. However, the results also indicated that leadership systems had only weak ties to topics such as values, ethics, and social responsibilities.

The major ethical crises which some of the “excellent” corporations faced in the past few years, motivated us to revisit the topic of leadership excellence – in 2007, this led to the design of the present study “CSR Leadership”. The study analyses leadership systems from a normative-ethical viewpoint and wants to answer the question which guidelines exist for leadership and which norms, values, and guidelines support more responsible leadership. Based on the concept of corporate social responsibility (CSR), “CSR leadership” integrates the economic dimension with the social, ethical, and ecological dimension to a holistic leadership system, which we term “Responsible Leadership System”.

Based on the Leadership Excellence study in 2003, the present study shows that most companies address CSR in some elements of their leadership system. This is however more strongly the case in “soft” areas; in “tougher” areas such as compensation systems, the links are weaker. It seems that companies are in a phase of reorientation, where uncertainty remains about the final direction of developments around CR and the related nature of leadership.

Whether responsible leadership systems are positively correlated with firm performance cannot be answered by the present study. However, I hypothesise that, in the long term, companies which align the responsible leadership culture with corporate strategy are in a better position for turbulent environments and the related necessary change processes.



Prof. Ralf Reichwald

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For further information, please visit the project website: <http://www.csr-leadership.org>

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- This study roots in prior research of the Institute of Information, Organization and Management of *Prof. Ralf Reichwald*. It is his foresight and unquestioned support enabling us to transform the institute's prior leadership research into a normative, corporate-responsibility-oriented approach. We also thank *Prof. Kathrin Möslein* for supporting this project and for contributing her expert knowledge on leadership systems in times it was necessary.
- This study would never exist if we would not have received the generous financial support of the *Peter Pribilla Foundation*. Thus, we thank the entire board of the foundation for supporting this research.
- Of course, an empirical study lives from corporate data, which we owe to the many *practitioners* from a very broad field of companies openly exchanging insights with us. Without naming those individuals most influential to this study, we especially thank them for providing us with a serious amount of time stripped away from their busy schedules, for providing us with deep access to the companies internal structures and protagonists, and simply sharing their worldviews with us.
- Thanks also go to *Stiftung Wertevolle Zukunft*, especially to *Dr. Jesco Kreft* and *Christiane Staffhorst*, for their immediate support of the project in a very early phase of the research. It is up to them that we got valuable access to some of the companies participating in this study.
- This study also received continuous conceptual and emotional support by *Dr. Angelika Bullinger*, for what we deeply thank her. Her continuous motivation to accomplish this study, even during times facing the greatest trouble, receives special appreciation. The same goes to *Bruno* for his support-by-writing-postcards!
- Last but not least, a study of this scale depends on a research team to accomplish all the diverse tasks related to literature review, data collection, data analysis, and publication. We thank our students *Friedrich Große-Dunker*, *Martin Sextl*, *Sabrina Adamczyk*, and *Susanne Kuntze* for conducting partial empirical investigations and analyses and, thus, contributing to the success of the study.
- Further, all of these tasks have been continuously supported by our student worker *Dustin van Delden* and he has also been responsible for the development of the CSR Leadership website at <http://www.csr-leadership.org>. It has always been a great pleasure to work with such an enthusiastic, supportive, and loyal individual; he receives our dedicated gratitude.

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Executive Summary

Goals and Method

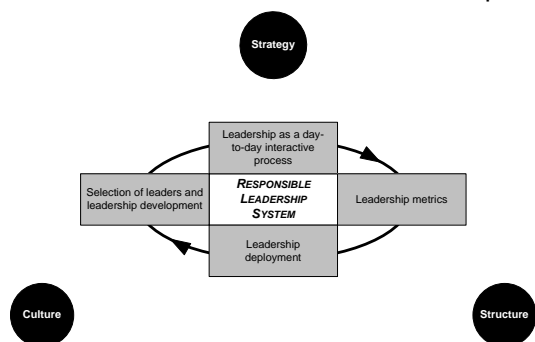
The present work embarks from the diagnosis that we are currently in a time of *shifting societal values* towards a greater balance between economic, social, and environmental concerns and that this shift has accelerated through various *excesses of the economic system* both on macro and micro levels. Corporate social responsibility (CSR), or simply corporate responsibility (CR), is a *key concept* to spur an integration of economic, social and environmental considerations. Integrating CR in a business organisation is a *leadership task*. In large-scale organisations, especially *formal systems* (or *leadership systems*, if focusing on executives) are necessary to invoke broad change throughout the entire leadership hierarchies, across sites, and regional destinations. The present study elaborates the role of CR-oriented leadership systems, which we call *responsible leadership systems (RLS)*, through three detailed research questions:



1. Which formal systems and instruments exist to make CR part of the corporate leadership agenda (“existence”)?
2. How are these systems and instruments implemented in practice (“implementation”)?
3. How are these systems and instruments interrelated in the sense of an overall (formal) RLS (“systems perspective”)?

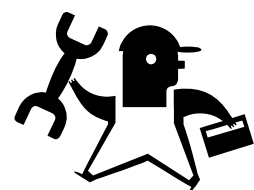
We investigated these research questions through qualitative research using expert interviews and case study research. Data collection was mostly achieved during 2008 covering 35 interviews and documentary data from more than 12 organisations. At the core of the study is a *benchmarking analysis* covering seven of the largest German companies (BMW AG, Henkel AG, Linde AG, Merck KGaA, Deutsche Telekom, Siemens AG, and one anonymous company from the automotive industry).

Based on earlier research in leadership excellence, we developed a “RLS framework” in order to structure the empirical investigation. The framework structures different types of leadership instruments and tools into seven fields: The four *core fields* are termed leadership as a day-to-day interactive process; leadership metrics; leadership deployment; and selection of leaders and leadership development. These core fields are framed by the three *contextual fields* strategy, structure, and culture.



Result 1: Responsible Leadership Systems Toolbox

The details of individual corporate solutions for leadership instruments in each of the seven fields of the RLS framework are presented in descriptive manner and, ultimately, result in the *RLS Toolbox*. Some of the most innovative solutions are the



following (structured according to the framework):

- *Corporate strategy*: One company developed an environmental portfolio in order to nurture sustainability-oriented products and technologies through dedicated investments and market goals.
- *Organisational structure*: One of the companies aims at establishing a stakeholder advisory board consisting of various external experts (e.g., NGOs, researchers, political representatives) in order to advise the executive board.
- *Leadership as day-to-day process*: Most companies integrate CR in their formal values statements and related instruments. One automotive company made principles like responsibility and sustainability a basis of their leadership model (which serves as a basis for evaluation, compensation and development of their managers).
- *Leadership metrics*: One company introduced an “environmental innovativeness KPI” which is used to control the share of environmental technologies in the innovation pipeline. Another company developed an innovative “community-focused balanced scorecard” integrating their long-term community involvement projects into the top-management scorecard system. Innovative output and impact metrics for measuring these societal projects were linked to the goals in the scorecard.
- *Leadership deployment*: As a non-monetary incentive, one firm awards teams engaging in extraordinary CR projects with a “CSR award”. The award ceremony is integrated in the yearly general leadership meeting and, hence, reflects the importance of the topic for top-management.
- *Selection of leaders and leadership development*: One innovative organisation uses service-learning in social projects in order to raise awareness of top executives with respect to sustainability and diversity. The projects have a duration of several weeks and are accompanied by introspective methods like coaching.

Result 2: Benchmarking for Use by Individual Firms

Rooted in a scoring model, a comparative analysis in the sense of benchmarking reveals similarities and differences in each area of the responsible leadership systems of the seven benchmarking companies. Informative charts facilitate a cross-company analysis. The benchmarking is achieved on three different levels:



- At the first level, companies are compared using a *single* aggregated score. This single score also determines the “CSR Leadership ranking” of companies.
- At the second level, the level of the overall RLS, companies are benchmarked using the main fields of the RLS framework (i.e., core fields: interactive process; metrics; deployment; selection and development; and contextual fields: strategy; structure) using aggregated scores.
- At the third level, each “field” (both core and contextual fields) is subject to a detailed benchmarking which compares the degree of CR integration in specific *leadership instruments*.

The benchmarking results show various *similarities* between companies:

- Companies most strongly engage in instruments of the *interactive process* field (e.g., values statements; guidelines) and in non-monetary instruments of the leadership deployment field (e.g., awards, compliance instruments);
- they are less strong regarding instruments in the field of *leadership metrics* and with regard to monetary instruments in the field of *leadership deployment* (e.g., CR-oriented variable pay); and
- they almost entirely neglect the field of *selection of leaders and leadership development*.

Still, differences exist resulting in a *typology* of RLS covering four types: “doubters”, “newbies & greenwashers” (2), “careful optimists”, and “enthusiasts”. Only two companies are considered *enthusiasts* scoring high in all (core) fields of the leadership system (Figure 1).

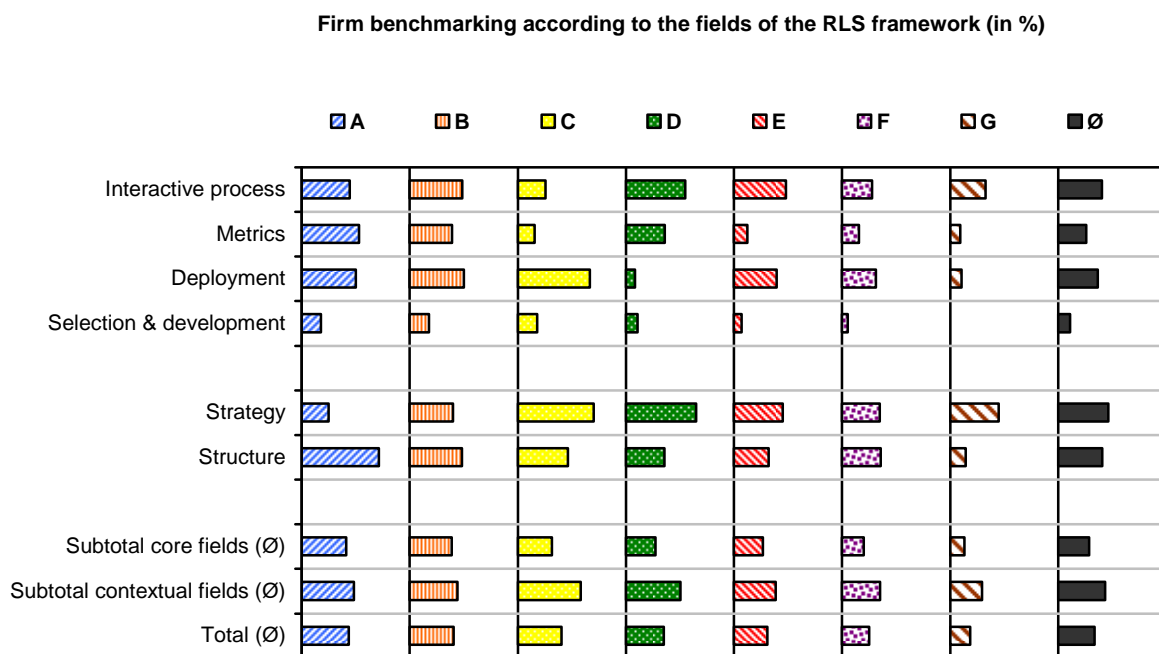


Figure 1 Overall Benchmarking Results

Result 3: Success Factors

The above benchmarking results reveal various *success factors* for responsible leadership systems:

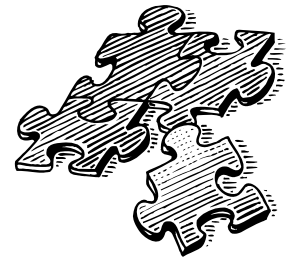
- Leading companies use CR to rethink their current business models and to tap into new markets.
- Leading companies implement strong CR-oriented organisational structures, especially cross-functional structures to coordinate CR (e.g., CR committees, carbon committee). Maybe one of the most controversial findings – these companies *do not necessarily* integrate CR in their *formal, corporate* strategies; sometimes, they only have (functional-level) CR strategies in place.



- Leading companies go beyond “leadership as day-to-day interactive process” (e.g., values statements) and integrate CR also in other areas of the leadership system, namely performance measurement, incentives and compensation.
- Leading companies integrate CR into leadership development programmes and specialists training more strongly than other companies.

Result 4: A Broader Perspective

The data also shows some broader relationships which help to establish responsible leadership systems and which also show how RLS relates to other constructs like financial performance:



- Different *pathways* towards responsible leadership systems exist. Findings show that, historically, companies either begin their journey towards responsible leadership systems via strategic initiatives (context field strategy), departmental activities (context field structure), or through selection and development efforts aiming at a change in shared values amongst corporate leaders (context field culture). Findings also show that companies with strong *contextual* fields (strategy, structure, culture) of the RLS also have strong *core* fields. We thus assume that CR-oriented corporate strategies, organisational structures, and cultural initiatives all lead to a CR alignment at the core fields of the leadership system. There is, however, no causality and some findings also show that, vice versa, successful CR-oriented changes in the core fields of the leadership system (e.g., new measurements) subsequently lead to revised strategies and organisational structures.
- Our findings also show that investments into RLS are correlated with *CR performance* as evaluated by rating agencies. A direct link to *financial firm performance* is not possible by this study, but could also be implied, considering that some ratings like the Dow Jones Sustainability Index (DJSI) include financial performance as one aspect of CR performance.

Result 5: Trends

The interviews also gave insight into projects and initiatives companies are currently planning or already engaged in:



- *Most frequent:* Most companies currently development appropriate metrics for measuring CR, especially metrics for community involvement schemes. Also, companies are developing CR training units for functional specialists (e.g., product development) or training regarding specific new CR policies (e.g., training on new compliance guidelines).
- *Frequent:* Also, formal stakeholder dialogues, employee community involvement schemes, and innovation KPIs are being developed.
- *Less frequent:* Some companies also work on the alignment of CR with compliance mechanisms, broader (CR-oriented) leadership development programmes, and incentive pay.

About the Authors



Erik G. Hansen

Since 2006, Erik G. Hansen is a full-time researcher Institute for Information, Organization and Management at TUM Business School, Technische Universität München in Munich, Germany, where he is currently finishing his doctoral degree about “Responsible Leadership Systems”. His research interests are leadership, corporate culture, and innovation in the context of corporate responsibility and sustainability. Together with Prof. Reichwald, Erik also teaches business classes at undergraduate, graduate and executive level.

Before his position at TUM Business School he gained a diploma (“Dipl.-Wirtsch.-Inf.”) in Management Information Systems at Technische Universität Darmstadt, Germany. Erik also gained broad experience in industry jobs and academic exchanges in Brasil, China, Germany, and Thailand.



Ralf Reichwald

Prof. Dr. Ralf Reichwald is TUM Emeritus of Excellence at Technische Universität München (TUM); research director at the Center for Leading Innovation & Cooperation (CLIC) at HHL – Leipzig Graduate School of Management; and Professeur honoris causa de l'Université de Tunis El Manar. He has been head of the Institute for Information, Organization and Management at TUM since 1990 and has turned this institute into one of the largest and most renowned for business administration in Germany.

The founding of the new TUM Business School builds on a deep commitment of the entire university, its president, faculties, staff and students. Engaging in this ambitious start-up was one of Ralf Reichwald's most prominent projects in the last few years. In 2002 he was elected to be the first dean of the TUM Business School.

Furthermore, from 1991 until 1993, he was founding dean of the Faculty of Economics, Business and Management Studies at the Technical University of Freiberg, Saxony; the university awarded him an honorary doctorate in 1994.

In 1987 Ralf Reichwald became director of the Department of General Business Administration at the University of the Federal Armed Forces, Munich. In 1975, at the age of 32, he had become associate professor for business administration at the same university.

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