# CORPORATE RESPONSIBILITY AND RESPONSIBILITY LEADERSHIP SYSTEMS: AN EXPLORATORY STUDY IN GERMAN MULTINATIONAL CORPORATIONS

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**Abstract**

The ongoing change in the perception of business, from a narrow view of profit making to a wider view of extended responsibilities towards a large set of stakeholders, is challenging enterprises globally. We base our research on the understanding that leadership is a key issue in making corporations face that challenge. We use an organisational leadership perspective and analyse corporate leadership systems with regard to the facilitation of Corporate Social Responsibility (CSR). We then use qualitative-exploratory research to upraise the current situation and the progress in some of the largest German Multinational Corporations (MNCs). The paper ends with a brief discussion on the research outcomes.

**Introduction**

CSR has been discussed since several decades (Carroll, 1979, 1991, 2000; Falck & Heblich, 2007; Matten & Moon, 2008; Wood, 1991). The perspective on why companies involve in CSR changed lately from a stakeholder-pressure rhetoric to a more value-driven rhetoric. In this sense, CSR is developed as a strategy (Bruch & Walter, 2005; Porter & Kramer, 2002, 2006) and business case (Schaltegger & Wagner 2006; Steger 2004; SustainAbility & UNEP, 2001). Furthermore CSR is often defined as a leadership task (IBLF & SustainAbility, 2001: 8; Pless, 2007; Quinn & Baltes, 2007; WBCSD, 2006: 28).

However, it remains somehow unclear how exactly companies involve in leadership to drive CSR. Previous empirical studies in German MNCs, which address CSR and leadership (or strategy), were either conducted considerably in the past (Steger 2004); include only very few cases (Bieker, 2005); target only one specific industry (Schmitt, 2005); or contain only superficial insights (GTZ, 2006). The subject of this paper is to fill this gap. We take an organisational leadership perspective and develop a framework to understand responsibility leadership structures and apply it in qualitative exploratory research in German MNCs.

**Development of Responsibility Leadership Framework**

As mentioned above, many scholars are interested in the link of leadership and CSR. Accordingly, different leadership schools emerged, like e.g. servant leadership (Greenleaf, Spears 1977; Hinterhuber & Cologna 2007) ethical leadership (Berenbeim, 2006; Brown, Treviño & Harrison, 2005; Seidman, 2004; Treviño, Brown & Hartmann, 2003) and responsible leadership (Maak, 2007; Maak & Pless 2006; 2006a; Pless, 2007). The latter expands the traditional leader-follower rationale to a leader-stakeholder relationship. In general, this tradition of leadership research investigates individual leaders and their required traits, behaviours and relations.

Literature suggests that the organisational context is of high importance for individual responsible leadership (Doh & Stumpf, 2005; Maak & Pless, 2006b: 3; Treviño, Butterfield & McCabe, 1998). To investigate this organisational context in more detail, particularly from a leadership perspective, we base our research on the *Generic Leadership System* framework of Reichwald and colleagues (Huff & Möslein, 2004; Möslein, 2005; Reichwald & Möslein, 2005; Reichwald, Siebert & Möslein, 2004, 2005; Siebert, 2006) which was recently adapted for CSR research (Hansen, 2008). The framework, which was derived from a global empirical study, is an organisational leadership framework which clusters leadership instruments, systems and tools in an analytical way in order to make comparison between different corporations possible. The main element of the framework is the leadership system composed of four clusters (Huff & Möslein, 2004):

- *Leadership as a day-to-day Interactive Process.* This cluster includes instruments which institutionalise and thus support communication between leaders and internal and external stakeholders. Possible instruments are e.g. vision, mission and value statements, leadership guidelines and codes of conduct. All of these have major relevance for responsible conduct (e.g. Logsdon & Wood, 2005; Müller & Siebenhüner, 2007; Waddock, Bodwell & Graves, 2002).

- *Leadership Metrics.* This cluster includes instruments and systems which address performance measurement. Possible instruments are KPI and scorecard systems, 180°/360° feedback and other surrogate measures (surveys). Literature on CSR reflects the importance of such instruments (e.g. Bieker & Waxenberger, 2002; BITC, 2003; LBG, 2004; Maak & Ulrich, 2007: 259).

- *Leadership Deployment.* This cluster addresses incentive and compensation systems. Important for CSR are e.g. variable pay (Logsdon & Yuthas, 1997: 1223), awards

(Brunner, 2003: 33; WEF & IBLF, 2003: 23), recognition (Pless, 2007), compliance and punishment systems (Treviño, Brown & Hartmann, 2003: 18) and the institutionalising of stories and myths (Fulmer, 2005: 49). Non-monetary incentives can be even more important than monetary incentives (Pfeffer, 1998).

- *Selection of Leaders and Leadership Development.* This covers instruments and systematic processes of the selection and promotion of leaders as well as the development of leaders in the form of executive training, coaching, and experimental learning - both internally (HR professionals, corporate university) and externally (business schools, training service providers). Anecdotal and empirical evidence suggests to integrate CSR into these instruments (EFMD, 2005; Fulmer, 2005; Lockwood, 2004; Matten & Moon, 2005; Pless & Schneider, 2006; Redington, 2005).

The Generic Leadership System framework furthermore recognises three dynamic context fields: *strategy & change*, *culture & change* and *structure & change*. These context fields or structuring forces (Rüegg-Stürm, 2005: 12) influence the actual appearance of the leadership system and are themselves subject to change. The entire framework is presented in Figure 1 and an exemplary set of leadership instruments important for CSR is depicted in Table 1. To reflect the CSR perspective on the leadership system, we will refer to the framework as *Responsibility Leadership System (RLS).*

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**Qualitative Empirical Study**

We followed a qualitative research approach in six very large German MNCs. All companies are listed in the DAX index which includes Prime Standard's 30 largest German companies. At least half of the companies are renowned as sustainability leaders according to ratings like Dow Jones Sustainability Index (DSJI) (SAM & PwC, [2008]) and scoris (Wilhelm, 2007). The elevation included extensive secondary research (reports, articles, media) and semi-structured interviews. We interviewed the CSR manager in each case, and, to some extend, leaders in other positions. In sum, we interviewed 12 professionals with an average length of one hour. The elevation took place from January to June 2008.

The empirical study gave insight into the current state of integration of CSR and leadership structures in the form of responsibility leadership systems. Besides in-depth insight into firm-specific implementation we present some of the generic results which draw from the study:

1. The responsible leadership system is heavily influenced by the *context fields* of *strategy*, *culture* and *structure*. E.g. once corporate strategy proactively addresses CSR, considerably more leadership instruments are found in the responsibility leadership system. Furthermore we found that companies, which aim at improving their product portfolio in regards to sustainability, have more sophisticated responsible leadership systems. Last but not least, we identified that companies historically developed their CSR engagement through one particular context field: some drive CSR very strategically; some develop something like a "care culture"; and still others drives CSR mainly through the establishment of an organisational CSR structure (department, personnel function).

2. Most companies develop a large set of instruments within the cluster of *Leadership as a day-to-day Interactive Process* to communicate the responsibility claim of the

company and, hence, give guidelines and involve internal and external stakeholders. In this way most companies have decent values and mission statements as well as codes of conduct and sometimes social charters. This adds to the discussion on "rhetoric and reality" (Kuhndt, et al., 2004).

3. Regarding the cluster of *Leadership Metrics* we observed that a large part of companies currently focuses on the extension of current measurement systems as well as the development of new metrics. Companies are especially challenged in measuring their community involvement and to progress from a pure input-oriented to a more output-oriented evaluation. Definition and communication of organisational CSR targets play an increasing role may further drive adequate metrics.

4. Our analysis in the cluster of *Leadership Deployment* showed that incentives come more likely in a non-monetary form. Monetary incentives for CSR were sometimes seen as less useful, because it contradicts the voluntary character of "doing good".

**Discussion and Outlook**

We studied CSR from an organisational leadership perspective. The empirical data showed that large companies increasingly maintain and develop responsible leadership structures. However, companies still lack an entirely developed and integrated responsible leadership system which covers and integrates instruments in the four responsible leadership clusters. We identified two reasons for the current situation: (1) There is still no clear guideline or best practice to indicate how corporations ought to involve especially in the clusters of *Leadership Metrics* and *Leadership Development*. (2) The interviews indicated that the establishment of responsibility leadership systems are highly dependent on the attitudes and engagement of top executives (CEO, executive board). Further research should thus address the interplay of the individual top executives and the establishment of responsibility leadership systems.

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**Tables and Figures**

**Figure 1  The Generic Leadership System and its Context (Huff & Möslein, 2004: 257;**

**Möslein, 2005: 165)**

*Strategy & Change*

Leadership as a day-to-day Interactive Process

Selection of Leaders and Leadership Development

**LEADERSHIP SYSTEM**

Leadership Metrics

Leadership Deployment
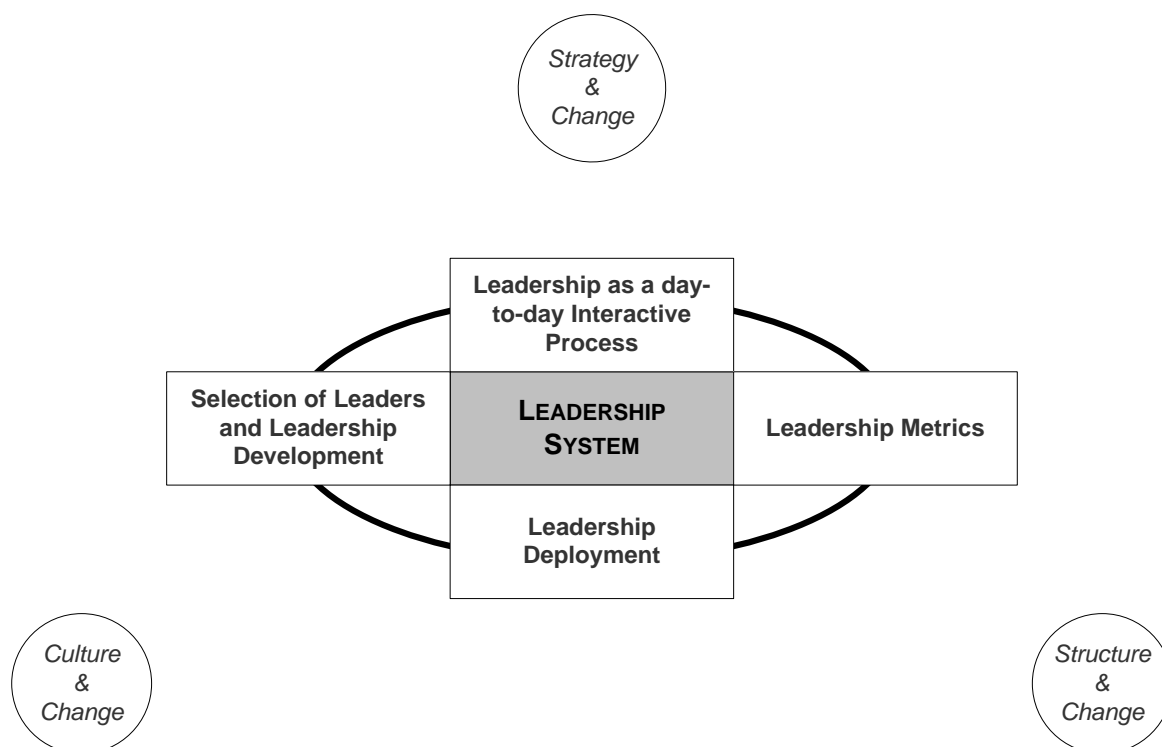
*Culture & Change*

*Structure & Change*

**Table 1  Exemplary instruments in the Responsibility Leadership System (based on**

**Hansen, 2008; Huff & Möslein, 2004; Reichwald, Siebert & Möslein, 2004, 2005)**

| CLUSTER | INSTRUMENTS, SYSTEMS AND TOOLS |
|---|---|
| **Leadership as a day-to-day Interactive Process** | - Vision & mission statements<br>- Values statements<br>- Leadership guidelines<br>- Codes of conduct |
| **Leadership Metrics** | - KPI systems & scorecards,<br>- 180°/360° feedback,<br>- other surrogate data / surveys |
| **Leadership Deployment** | *Non-monetary incentives:*<br>- Recognition,<br>- Special projects<br>- Board awareness<br>- Institutionalized stories & story telling<br>*Monetary incentives:*<br>- Variable compensation based on KPIs<br>- Integration into MBO<br>- Awards |
| **Selection of Leaders and Leadership Development** | Recruiting and promotion guidelines<br>- Executive Training<br>- Corporate Universities<br>- Experimental Learning & Outdoor programmes<br>- Coaching |