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RESPONSIBLE LEADERSHIP IN BUSINESS AND SOCIETY

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Is it time for businesses to lead the charge **for sustainability, for equity, for lasting impact?**

The world's richest 1% have more wealth than the bottom 95% of the world's population (Oxfam, 2024). According to a recent Oxfam report, we are moving 'Towards a Global Oligarchy' with an increasing gulf between the rich and the poor. Oxfam report that extreme poverty is increasing for the first time in 25 years.

Figures compiled by Global Justice Now (2018) show that 157 of the largest 200 economic entities in the world are companies, not countries. Large corporations collectively have the resources effectively to control world events, and yet they often act amorally. They have huge influence over how capitalism operates, over global drug and food supply, and over sovereign debt burdens in LMICs. Low-income countries spend 40% of their annual budgets on debt servicing alone (Kempster & Jackson, 2021).

Companies therefore have the opportunity to recognise they have responsibilities to society as well as extracting value from society. This includes responsibilities to local communities from Manchester to the Niger Delta, or to people working in the clothing supply chains from Leicester to Vietnam. Responsibility also suggests that freedom to act is associated with taking responsibility for one's own choices and actions.

Companies and their executives have high degrees of freedom to act, especially in the super-national world of global business, which brings with it a responsibility to act in the wider interests of all those affected by their actions. Neo-liberal capitalism developed in the 1980s in reaction to the post-war economic era, when governments tended to manage and regulate markets to optimise growth (Kempster & Jackson, 2021).

The new emphasis on deregulation was based on freeing capital and labour to maximize productivity and profit. The most dramatic result of such deregulation was the 2007 global financial crisis (Engelen et al., 2011).

As 'economic man' became the bedrock of economic thinking in the 1980s we lost a strong sense of the importance of community and reciprocity, and moral responsibility was largely left to the state (Collier, 2018).

The influence of 'economic man' was a greater focus on consumption, celebrity and personal gain, which has contributed to the diminished role of communities, particularly in western society (Collier & Kay, 2020).

> *Anxiety in society is driven by the increasing divisions between the haves and the have nots.*

The well-educated, for example, are experiencing rising success ... with a commensurate loss of meaningful jobs for less educated, especially older workers and the young (Collier, 2018).

This polarisation is a breeding ground for populism and social breakdown. Fascism, Marxism, and religious fundamentalism are all popular with older and younger people, especially in less educated or marginalised regions. Businesses can assist in the restoration of reciprocity across our society, restoring balance and recognising the interrelatedness of people, business, nature and communities.

In his call for the 'rebalancing of society' (2015), Mintzberg suggests a balanced approach between the private, public, and plural (third sector) sectors to create a more sustainable society overall.
This represents a radical shift from the polarised worlds in which we operate, with shareholder capitalism dominating some western economies such as UK and USA, state capitalism dominating in China, and a worsening balance of prosperity between the north and the south.

This theme of radical renewal from Mintzberg suggests that we also need leaders who are real catalysts for change in their organizations.

Collier & Kay (2020) suggests 3 key organising units for society: families (key for successful child rearing, and social stability), firms (important for organising labour and work to generate prosperity) and states (required for coordinated societal wellbeing, like wealth distribution). Each has responsibilities for their people and wider stakeholders. As social breakdown grows due to widening gaps between the rich and poor and between the well-educated and less-educated, it would be helpful to see reciprocal obligations being re-established between nations, firms and families.

In the World Wildlife Fund's 'The Living Planet Report' (2024), they describe the "catastrophic loss" as wildlife numbers have fallen by 73% in the last 50 years, driven by human commercial activity such as food production destroying habitats. We are destroying our own planet, and the planet is one of the key stakeholders of many corporations around the world as they extract value from nature. This is compounded by the fact that Global South countries own just 31 percent of global wealth, despite being home to 79 percent of global population (Oxfam, 2024). The '2030 Agenda for Sustainable Development', adopted by all United Nations members in 2015, created 17 world Sustainable Development Goals (SDGs). The aim of these global goals is "peace and prosperity for people and the planet" – while tackling climate change and working to preserve natural environments. The SDGs highlight the connections between the environmental, social and economic aspects of sustainable development. These goals are ambitious, but current estimates suggest that most, if not all, of the goals are unlikely to be met by 2030.

I meet responsible leaders who are confirming their commitment to these sustainability goals, or similar standards, and crucially, changing corporate strategy so that it is driving the organization towards achieving them. Unfortunately, however, they are in the minority.

With a helpful eye on history, Kempster and Jackson (2021) describe how Adam Smith wrote (1759) about the 'invisible guiding hand' of morality and responsibility. It maintains justice: 'Justice is the main pillar that upholds the whole edifice [of human society]' ...and without justice society will 'crumble into atoms'. As we have seen, justice is in short supply in the capitalist system we currently work in.

Where there is little expectation of morality, companies can operate in a moral vacuum. We continue to see corporate scandals emerge year on year. Examples include Enron's fraud (2001), Volkswagen's emissions scandal (2015), Wirecard's fraud (2020), the Boeing 737 MAX tragedies (2018-2020), Theranos' false product claims (2021), Purdue Pharma's mis-selling of opioids (2020), Facebook (Meta) and Cambridge Analytica's use of personal data without consent (2018), and so on. Trust has become a key issue in the relationship between people and companies.
To quote Collier and Kay:

> *We live in an 'Age of elite Individualism' based on selfishness, celebrity and greed.*

It's all about me, money and attention. We need to shift to an emphasis on shared community, where success is based on shared activity and mutuality. Extracting maximum value from society is not a justifiable reason to exist' for a corporation supported by society's laws and institutions. As BP scales back its carbon reduction targets (2024), we see a broader and continuing moral vacuum driven for many corporate leaders by 'what we can get away with'.

We have been living with Milton Friedman's 1970 definition of the fiduciary duty of company directors to maximise shareholder profit for over 50 years. This is being challenged more frequently by academics and business people (like the B Corp movement) who believe that managers have a responsibility to all stakeholders in the firm, as suggested by R Edward Freeman in the early '80s. Freeman wrote how strategy needs to consider all stakeholders, and that 'a stakeholder is any group or individual who can affect, or is affected by, the achievement of a corporation's purpose and objectives. Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups who can help or hurt the corporation.'

So, there is a debate happening among corporate leaders, commentators and investors about whether the future of corporate governance and decision making should be aligned more closely with Friedman's doctrine of shareholder profit or Freeman's call for stakeholder value. Corporate leaders have a choice about, or at least can exercise influence over, which side of this debate their organization lands on.

This is a strategic issue and a leadership issue. Why do some leaders and investors decide to take more responsibility for their position in society and some continue to prioritise short term profit for shareholders? Agency theory provides the rationale for the latter focus on shareholder primacy, with its knock-on emphasis on financial measures, financial incentives for executives and financial returns. Clarke describes the 'new global era of financialization … typified by a more international, integrated and intensive mode of accumulation … of shareholder value' (2015).

Leveraged buy-outs and other corporate deal-making in the late 20th century led to businesses, especially in the US, debt-laden and less able to invest in innovation and social responsibility. 'It was in this hollowing-out of the social responsibility of business that the US business corporation emerged as primarily a financial instrument.' Enrichment, for shareholders and executives, trumped responsibility. Investment in stock buy-backs, for example, was often greater in US technology companies than investment in research and development in the 2000s (Lazonick, 2012).

Leadership is an integral part of this debate. As McKinsey state: 'the CEO is the person ultimately responsible for the success of a company. Their job is to develop strategy and deploy the resources to deliver on it' (2023). We also need to recognize in our research that leadership happens at all levels in an organization – from the Chair and the CEO to the individual contributor coaching colleagues to behave differently. But the CEO and his or her colleagues have disproportionate control of strategy, resource allocation and corporate policy. They have considerable choice, and they demonstrate that choice every day through the actions of the businesses they lead.

In recent years there have been growing concerns that economic systems across the globe are failing large sections of society with increasing concentrations of wealth (Piketty, 2014) and a growing sense that corporations are pursuing shareholder value at the expense of both societal wellbeing and the sustainability of the planet (British Academy, 2018).

Alongside macro research into the economic and strategic drivers of sustainable and responsible corporate practice, we need to look more deeply at the micro-foundational aspects of leaders – individually and collectively – and why and how they make decisions that influence how businesses behave in practice. In this paper I will explore some aspects of this focus on leaders and leadership that are relevant to addressing the societal issues of capitalism.

EVOLVING LEADERSHIP THEORY

Leadership theory over the last 100 years has tended to focus on behaviour, style and relationships in a more traditional leader/follower context. Many theories build on preceding theories or develop a particular strand in greater depth, such as transformational leadership theory evolving from Follett's 'power with' theory from the 1920s. Follett's vision of leadership 'not as the exercise of power but the capacity to increase the sense of power among those led' has echoes in more recent theories such as Servant Leadership (Greenleaf, 1970).

Since she wrote in the twenties, we have seen an increasing emphasis on shared outcomes, such as in Distributed Leadership Theory (Bolden, 2011), and more recently on the leader's influence on the organisation's role in the wider society in which it operates.

In my experience in practice, many corporate executives want to transform their organization to be more agile and adaptive, able to navigate the volatile, uncertain, complex and ambiguous world in which they operate. Pace, innovation and relevance to customers are typically significant concerns for corporate leaders.

My research into Agile Leadership (2021) has highlighted that leaders who create more adaptive organizations demonstrate certain key characteristics to unite others around a shared purpose and direction.

These characteristics include creating a psychologically safe environment to encourage learning, encouraging more disruptive thinking and customer vision to drive innovation and greater customer relevance, ruthless prioritisation to focus resources on those activities that will deliver most customer value, devolving decision making to empower employees to deal with issues in the moment, and building collaboration across boundaries to drive faster processes and reduced bureaucracy.

PURPOSE-LED BUSINESS

The British Academy commissioned a report called the Future of the Corporation in 2018, which concluded that 'the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems.'

The attractiveness of following a higher order company purpose is shown in Gallup research (2023) linking it to improved quality, employee retention, customer satisfaction and productivity.

An example from my own experience was at Cirrus, which I led, where our purpose was 'Better Leaders. Better Business. Better Lives.' Typically, we provided leadership development programmes to large companies. Every leader we enabled to be more compassionate, more empowering, more authentic, more collaborative, had a beneficial ripple effect on tens, hundred, even thousands of other people's lives. We were very proud of that.

Research by Gartenberg from Wharton (2023) provides powerful evidence that, 'on average, a stronger sense of purpose predicts superior financial performance'. Strong purpose relates to 'employees having a strong sense of meaning and impact from their work'. Gartenberg and Serafeim (2019) found that 'this measure of purpose is stronger among firms with more committed owners, including private companies and public corporations with long-term investors.'

In 'Grow the Pie', Edmans (2020) describes how purpose and profit don't need to be in opposition to each other. Creating 'more profit and benefiting society leads to greater long-term success for the company'. He defines purpose as: 'the answer to the question: how is the world a better place by your company being here?'

As I mentioned earlier, a key part of this debate about the role of firms in society hinges on the emphasis of their purpose. Are they here to maximise short term shareholder financial interests, or are they here to optimise the long-term prosperity of all stakeholders? As the examples above suggest, there is an increasing body of research showing that being purpose-led is not only good for society and the environment, it is also good for long term shareholder value. Higher order purpose 'is not just worthy,' states Edmans, 'it's critical to a business's long-term success.'

RESPONSIBLE LEADERSHIP

Klaus Schwab, founder of the World Economic Forum, states 'we need a society, economy and international community that is designed to care for all people and the entire planet ... leading to a more sustainable global economic system all around the world" (Schwab, 2021: p xv). To this end, Schwab advocates a reframing of the role of business and government to work on behalf of all stakeholders in service of 'the 3Ps' —a healthy planet, the well-being of people, and shared prosperity.

Since Follett 100 years ago, some leading academics and practitioners have emphasised the need for firms and their leaders to take their responsibilities to all stakeholders seriously. She wrote 'The profession of business management ... [involves] assuming grave responsibilities' (1927). This is in direct contradiction to Friedman's assertion in his 1970 New York Times essay that 'the social responsibility of Business is to increase its Profits'. There is progress, for example in the movement towards a more balanced approach to company reporting, rather than the profit focus, such as the code of International Integrated Reporting framework.

Here is an extract from the IRR Guiding Principles (2021):

Strategic Focus and Future Orientation
An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals [financial, human, social, manufactured, intellectual and natural]

Stakeholder relationships
An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

The IRR is seeking to nudge business leaders to rethink value beyond financial capital to a more balanced view of the multiple capitals involved in corporate value creation.

It is also asking executive leaders of organizations to be more responsible for the consequences of the firm's actions for all stakeholders.

There is a growing public desire to see legal reform for business responsibilities, according to research by B-Lab (2024). 76% of the UK public believe that the law needs to change to give businesses a legal responsibility to prioritise people and the planet alongside making a profit.

This would require a change to Section 172 of the UK Companies Act. People are looking for business to step up and to act as a force for good in society.

A classic definition of a 'Responsible Leader' comes from Waldman and Siegel (2008):

A responsible leader feels an inner obligation to do the right thing. In other words, responsibility is based largely on a moral standard geared toward the concerns of others, and an obligation to act on that standard and to be accountable for the consequences of one's actions. ... to balance the concerns of multiple stakeholder groups.'

Notice there is a clear ethical dimension here, as well as a responsibility for concern to translate into consequential action for all stakeholder groups. The notion that companies can profit from maximising the value given to multiple stakeholders at the same time is in line with the theory of shared value (Porter & Kramer, 2011), which holds that companies can use their core competencies to provide solutions to social and environmental problems.

There are at least 3 levels of leadership responsibility we can use to explore leader mindset and behaviour (Stahl and Sully, 2014; Perez et al, 2022):

- **Minimum practice,** or 'do no harm', which is often associated with risk mitigation as companies refrain from harmful activities to society
- **Common practice,** making significant effort to 'do good', which is often doing enough to provide evidence of commitment; some investment is made, often outside core business activities, but it does not affect the wider impact of core business activities
- **'Next level' practice,** creating regenerative organizations that contribute prosperity to all stakeholders (adding more to society and the planet than they take from it); typically, full integration of ESG practices into strategy, operations, investment, and incentives.

It will be helpful to research my hypothesis that many executives (and managers at all levels across the corporate hierarchy) are caught in the middle, seeking to avoid harm and do some good, but lacking ambition to move to 'next level' practices that really change the company's impact in society. We need to understand the trade-offs they are making, and why, to help hold up the mirror to leaders in practice. It is likely to include both personal factors such as values and aspirations and wider situational factors such as culture, incentives and media attention.

We know that individual and contextual factors combine to influence responsible leader behaviour – 'situational strength' moderates the relationship between individual level factors and a leader's propensity to engage in each of these levels in turn. So this is a helpful avenue for further research to understand how situational strength affects leader judgement and the resulting level of responsibility they achieve.

Shareholders are also central to this debate about the responsibilities of corporate leaders. Mayer (2018) proposes this definition of the responsible shareholder:

> *"Shareholders do not and should not have rights to do with their companies what they please... they have roles and responsibilities as well as rights and rewards deriving from their dependence on and obligations to the societies in which they operate."*

This is counter to Friedman's absolute focus on shareholder return. Charles Handy makes a telling comment about 'good business': 'In a knowledge society, a good business is a community with a purpose, not a piece of property.'

The responsible leader appreciates that the company is an important part of a wider community, a network of stakeholders with varying interests but with a shared interest in the behaviour and outputs of the company. It is not at the whim of shareholders alone to dictate corporate policy, as the needs of a wider stakeholder group need to be included on the policy decision making process.

THE RESEARCH AGENDA

The current research landscape into this area of Responsible Leadership has three overlapping areas of interest, with scholars working in varying levels of isolation from each other: purpose-led leadership, responsible leadership and responsible management.

Yet there are various ways in which these areas overlap significantly, such as ethical decision-making, stakeholder responsibility, sustainability of the planet, purpose above profit, long term goals and value, and trust and open communications.

There is an opportunity I believe to review these areas and develop a more coherent, more integrated approach without losing the important nuances of each area.

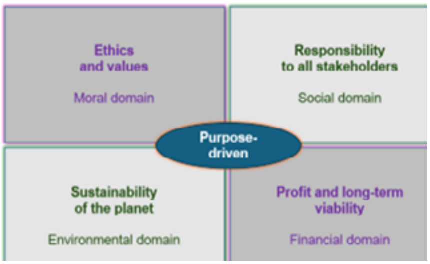
This is likely to include research into the antecedents (such as investor expectations, corporate ethics, culture), leader attributes (such as mindset, capabilities and behaviour) and social processes (such as decision-making, implementation and review processes) involved in delivering responsible business outcomes.

Further to this, we suggest that there are four domains of responsible leadership research which would benefit from more joined up research (Cambridge Institute of Sustainability Leadership (2023), Laasch et al (2020), Cardona et al (2019), Hayward (2016)).

At the centre of all four is the importance of being driven by a higher order societal purpose beyond short term profits for shareholders, as shown in Figure 1. The four domains are:

- Moral domain – leaders' ethical position (Waldman & Siegel, 2008) and its impact on decision making
- Social domain - leaders' attitudes to taking responsibility for all stakeholders of the corporation (Freeman, 1983; Carroll, 1991)
- Environmental domain – leaders' attitudes to sustainable development and the health of the planet (Metcalf & Benn, 2013)
- Financial domain - leaders' focus on long-term prosperity to ensure sustainability for the organization and its stakeholders, rather than the prioritisation of corporate profit vis a vis these other domains as the primary driver of decision making (Caroll, 1991).

Figure 1: Responsible leadership framework



A more integrated approach based on these four domains will help to focus on intra- and inter-personal decision making especially among managers with power and interest to affect organizational and industry change.

A systems view is required to integrate our understanding of these elements and how they interact in the minds of decision-makers and the actions of businesses.

The need for more responsible business has been the subject of research for several decades (Freeman, 1984, Crilly et al, 2008, Stahl et al, 2014) as societal issues about ethics, sustainability, and responsibility for a range of stakeholders are seen as lower priorities to many business managers than profit and shareholder returns (Clarke, 2014; British Academy, 2018).

Reform via macro research and action has not achieved sustained change to this predicament, and the missing ingredient is the microfoundational approach which emphasises responsibility at the individual and team level (Hodgkinson and Healey; 2014, Wang, 2022).

More emphasis on microfoundational research will counterbalance the macro contributions largely aligned with critical management studies and radical organisational theory. Insight into management practice at the macro level will assist understanding for individual decision makers at multiple levels acting alone and in concert who have the organizational influence needed to effect reform. It is helpful to differentiate between leadership practices inside the organization and outside (Kempster & Jackson, 2021). Both are important for the responsible leader. The leader who is enabling mutual purpose and responsible practice inside the organization and mutual benefit for all stakeholders (people and the planet) is acting out 'responsibility' internally and externally, for the long term.

It may be that the prevalent view in society is that these external responsibilities are still the primary responsibility of governments and not businesses.

But it is helpful to remember the economic power of large companies and the control they exercise over global resources, over environmental damage through extraction and food production, and over human communities through, for example, supply chains and markets. Governments can create the enabling structures to address societal issues, but the wealth, power, resources and influence reside largely with corporations. Typically, that power rests with a few individuals who shape the strategic responsibilities of the companies.

Radical change of the status quo requires leadership internally to create a climate of readiness and a purpose-driven mindset and externally to engage with different stakeholders and to drive positive outcomes for them all. Agile Leadership (Hayward, 2021) provides a primarily internal leadership framework to shape behaviour across organisations and Responsible Leadership provides the external framework to shape corporate strategy and ongoing ethical decision making.

It might be helpful to reflect on the typical content of business school curricula. Is it primarily based on Friedman or Freeman? Is it focused on profit for shareholders or prosperity for all stakeholders? Is it based on amoral or moral leadership? In my view, it cannot be both. To quote the AACSB: 'let's be bold!', let's prepare leaders of the future with the understanding that their role is to create and serve a societal purpose beyond profit and shareholder value.

We need a multi-disciplinary approach in business schools to this complex problem, and to join up across departments, such as business ethics, behavioural research, strategy and decision making, sustainable production and consumption, financial reporting, regulation and long-term investment policy, and political science.

At the British Academy of Management Annual Conference in 2022 at the University of Manchester, we heard from a range of academics, thought leaders, business people and regulators. They spoke about the need for concerted research and publication in a range of media to explore the societal responsibilities of business and how it can become an increasingly powerful force for good in the world.

There is an opportunity, I believe, to create a cross-institutional movement, with academic, business and not for profit organisations, to extend research and work in partnership with corporate leaders to support the shifts in policy, mindset and behaviour needed to achieve 'next level' responsibility on a broader scale.

MICRO-FOUNDATIONAL FOCUS

A microfoundational research agenda in the four domains of responsible leadership will include social and psychological research, including the affective, cognitive, and conative processes (both explicit and implicit) in individual and collective decision making about the four areas of RL. Examples of individual differences which influence these processes might include cognitive styles, proactivity, personality, personal values and ethicality.

Identifying individual differences will also help to engage with practitioners through reflexive practice, leading to increased self and emotional regulation.

It is helpful to note the importance of social context: responsible leadership is, in my experience, typically not an individual act, rather a result of socially situated cognition (Smith & Semin, 2004). Cognition is an adaptive process, socially situated in the dynamics of executive and board-level dialogue and decision-making. Cognition about responsibility is also distributed more widely, among stakeholders, evolving over time through influence and action.

The socially situated nature of executive decision-making relates in particular to the executive team and the board contexts. Socially situated cognition (Hodgkinson and Healey, 2015) is an 'overarching conceptual framework that connects the brain, body, and mind to social, cultural, and environmental forces, as significant components of complex organizational systems.'

Hence, it is helpful to explore the relative differences of intra- and interpersonal cognition in responsible decision making and offer fresh insight into this dynamic. One technique that can contribute to this understanding is scenario planning (Hodgkinson, 2024).

Where these individuals and collectives have both the interest and the power to accelerate corporate action, another research question is how to accelerate mindset shifts that will affect decisions that cause changes in strategy, resource allocation and execution in the field.

Related research questions include the effect of individual utility, how to empower those who lack power and how to engage and motivate those who lack interest. It will be helpful to integrate into this research the socially situated nature of executive decision-making, both in the executive team and the board contexts.

Other frontier questions include how managers make the trade-offs necessary in their context between conflicting demands for responsible practice. If, for example, an organisation is using the UN's Sustainable Development Goals (SDGs), they will typically focus on some not others, such as decent work and economic growth versus responsible consumption and production.

This implies leaders deciding that some goals are more important than others in the situation of the firm, and we need to understand the microfoundational factors involved in these trade-offs.

An initial stage in this research is to develop a descriptive model that can inform understanding of current practices and provide prescriptive insights for individuals with power and interest to affect change.

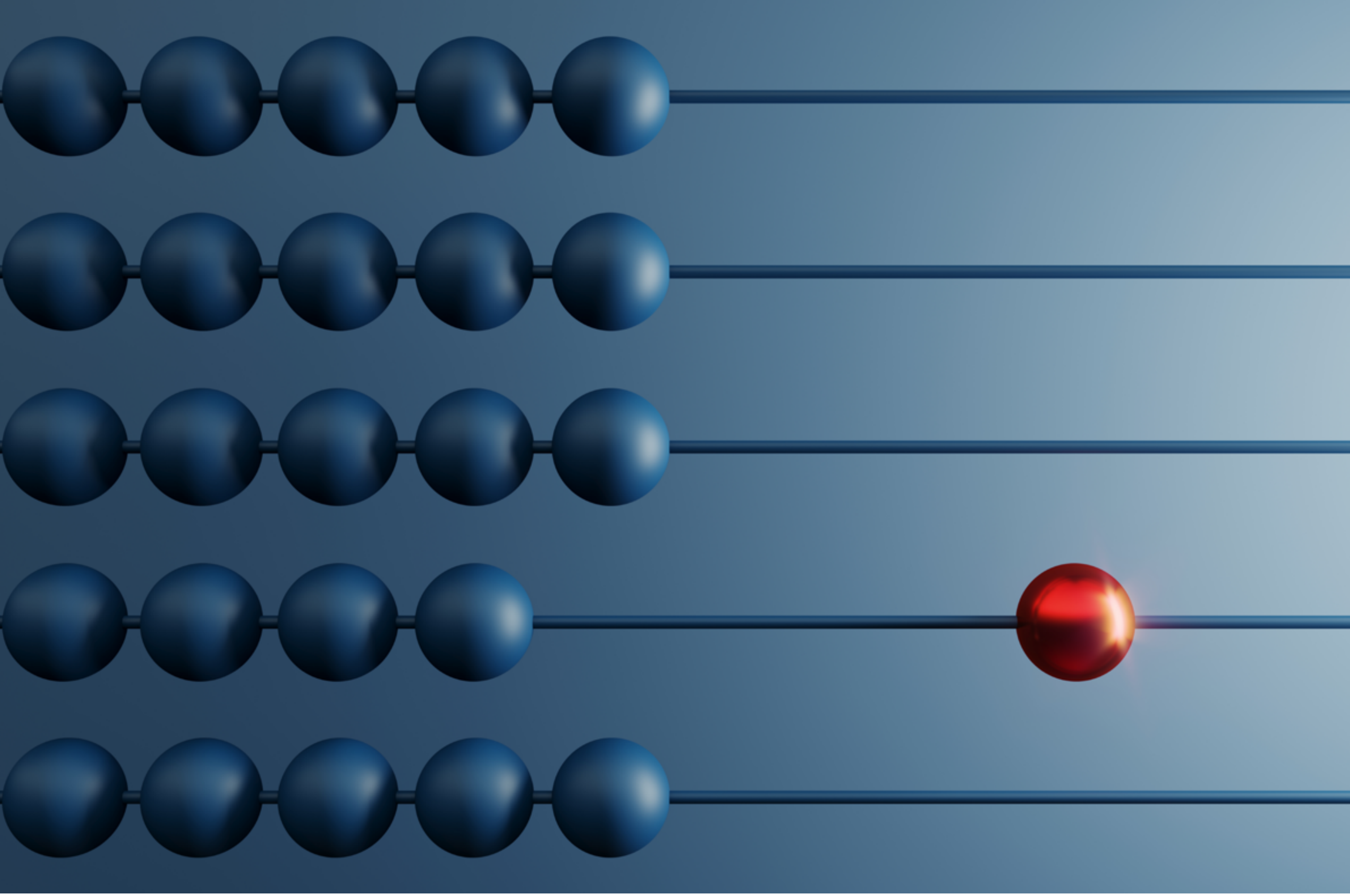
To develop behavioural insights into how to shift executives' mind-sets and behaviours in respect of responsible organizational and management decision-making'. It's about holding up the mirror to corporate leaders to give them the opportunity to reflect on their role and the role of the organizations they lead.

CONCLUSION

Can we build on this work to enable organizations to embrace their societal purpose in practice, and to implement their responsibilities to the environment and all stakeholders strategically?

Can we help to highlight this as a strategic issue, a leadership issue, which I believe is at the heart of the crisis in capitalism (Azmanova & Chamberlain, 2022). Can we provide deeper insight to hold up the mirror to corporate leaders in a way they appreciate? Can we be catalysts for mindset and behavioural change for leaders to embrace wider societal responsibility?

Micro-foundational leadership research and practice needs to be part of the solution. For many, it is the key to unlocking faster progress to solve the pressing issues facing our society and enabling long term corporate success.



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