



Diagnosing Leadership in Global Organisations

Theories, Tools and Cases

Gayle C Avery
Harald Bergsteiner



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Preface

Resourceful leaders work through storytelling, so let us start this book with a story about some leaders we chanced upon.

One August evening we were sitting in a restaurant in Salzburg when it suddenly started to pour with rain. The diners who had been enjoying the sun in the garden area scrambled to find shelter. Since we were sitting at one of the few tables under cover, a couple asked if they could join us. Naturally we agreed and started to exchange pleasantries.

It turned out that the couple runs a small business with 20 employees. When they learned that we research leadership, they excitedly told us what they knew about leadership: about the leadership courses they had taken where the focus was entirely on the leader's behaviour and personality. 'Understanding myself and others helped me a lot in the business', the woman, who was CEO and owner, explained. 'And it helped us at home in managing the family too', her husband and business partner added.

The couple's main understanding of leadership seemed to centre on their own behaviour as leaders, and yet as they talked, we saw that they actually engaged in a wide range of leadership activities but didn't think of them as leadership. For example, the market had matured over the past ten years and the couple directed the business into broader fields to compensate. That is leadership. They explained how the vision for the company's future was clear and understood by all employees. Again, this was good leadership. Then they described how they motivated individual employees differently and adapted incentives and rewards to the people involved—all part of leadership. More and more examples of effective leadership practices followed. Succession planning was well in hand, they assured us, and they were training and developing several staff members for future management roles. All staff members were being trained in multiple skills so they could step into other people's roles to cover absences. Perhaps best of all, the couple could manage the business from afar thanks to modern technology and their skilled and motivated workforce.

This couple was clearly leading the business from many different perspectives, even though they thought about leadership just in terms of their own personalities and behaviours. They had in fact developed leadership systems that extended far beyond them as individuals.

This story reminds us that leadership is complex and has many facets to it—despite the popular belief that leadership is mainly about leaders and their personalities and behaviours. Effective leadership goes beyond the mythical heroic individual or two who control a business. Clearly the example shows that leadership is also about the followers, culture, vision and systems that people in an organisation create as they work together. Leadership is far more than the simplistic but widespread idea that leadership arises when a few really extraordinary people make things happen. Listening to the couple we met over dinner, it is clear that they and their staff know who they are and what their vision is. They try to make their actions, values and ethics transparent and consistent. They seek to be positive and project resilience and optimism into the collaborative culture they have created with their employees.

Every leader can implement leadership practices as systemically as this couple has done. In *Diagnosing Leadership*, our aim is to help practitioners better understand and effectively establish sound leadership practices and systems in their organisations. While no one template fits all circumstances, management science has identified a range of leadership factors that can be combined to produce several distinct approaches to leadership. We provide a range of analytical tools, theories and frameworks to help readers understand these underlying principles and how they can be applied to different situations.

In this book, case studies provide details about leadership in 12 real organisations. The first chapter opens with the case of Porsche, which went from being close to bankruptcy to becoming the world's most profitable motor company, and then lost its cherished independence by being absorbed into the VW Group. Then we present the case of the Virgin Group, showing how many tools and frameworks apply to understanding leadership in this visionary enterprise.

Finally, we invite you, the reader, to apply the tools to ten other cases based on real organisations in different countries. These cases illustrate many different leadership approaches in action. The tools provide frameworks to help understand and diagnose both effective and inappropriate leadership.

Our hope is that through this book, practitioners will become better at diagnosing and improving leadership in their own enterprises.

Finally, we'd like to give some sincere words of thanks. We are grateful to the many managers who shared insights into their organisations with us, the authors of the various case studies, the editorial team at Tilde University Press and the staff at Macquarie University Library for their support. In particular, we valued the opportunity to engage in writing retreats in the beautiful surroundings provided by the Bavarian Alps in Geiern, Germany.

Gayle C Avery
Harald Bergsteiner
April 2011

Part I

Setting the scene

This book is about leadership: leadership that makes a difference—for better or for worse. And leadership needs to make a difference, given the many corporate disasters in the 21st century—from Enron to Lehman Brothers and from Chrysler and General Motors to AIG (American International Group). Companies generally do not excel over the long term or fail purely by accident. They succeed and fail largely because of their leadership. Companies like Aesculap (maker of surgical instruments), BMW (automaker), WL Gore & Associates (producer of Gore-Tex® products and leader in all its markets), Swatch (maker of around 25 per cent of the world’s watches) and Colgate (maker of consumer products) all have one thing in common: exceptional leadership. Enron (energy), James Hardie (building products), and General Motors (automobiles) all have, or in some cases had, poor leadership at the time of their difficulties.

What makes the difference between excellent and poor leadership? Is it simply attributing success to good leadership and failure to poor leadership? That is, should we refer to organisations that are successful as being well led? What are the characteristics that distinguish good and poor leadership? Is there really something different about what organisations do that enables us to refer to them as having effective and ineffective leadership? Can leadership be analysed or is it just a gut feeling? Can leadership be learned? Does excellent leadership now guarantee survival into the future or do other factors play a role? And if so, how can we identify excellent leadership?

Case 1 discusses the interesting story of Porsche, which rose to become the world’s most profitable car company a decade after nearly going out of business in 1992, only to come close to bankruptcy again in 2009 and lose its independence. What happened to the legendary leadership of this company?

Case 1: Porsche's downs and ups and downs and...

Porsche is known for selling driving enjoyment, not just engineering perfection, in its luxury car brand. The company has always pursued its own rules and philosophies that often go against mainstream thinking—a tradition dating back to its visionary founder, Ferdinand Porsche, in 1931. This partially listed company continued to be controlled directly by Porsche's descendants for nearly 80 years until 2009. Based in Stuttgart, Germany, the Porsche company included more than 60 subsidiaries in sales, consulting, finance and engineering services worldwide and generated sales revenues of €6.6 billion from over 12 600 employees in 2009.

Despite its famous name and iconic status in the auto world, Porsche nearly went out of business at least twice in its lifetime. In the early 1990s, the company faced extreme financial difficulties, largely from currency losses. In 1992, Wendelin Wiedeking took over the helm just as the company was near collapse. Under Wiedeking, the entire organisation was reinvented and restored to prosperity. As one employee observed, 'not a single hand movement remained the same'. Along the way, CEO Wiedeking collected many honours, and other managers and the media applauded his achievements. He was made 'German Manager of the Year' in 1994, and in 2002 his peers voted Wiedeking the manager who had increased the profitability of a company most convincingly despite uncertain economic times. Porsche continued to be praised as the most profitable car company in the world. When he was made 'European Manager of the Year' in 2008, Wiedeking had been CEO of Porsche for about 16 years, the company was prospering and employees were devoted to him.

People are highly valued at Porsche and considered central to its success. Employees are encouraged to realise their potential and take advantage of a wide range of career training and development options for specialists, generalists and managers. Passion and optimism abound at Porsche, especially given that employees can identify specific cars that they actually built.

Financially, top management had been cautious since the 1990s. The company always had strong cash reserves to remain independent of the capital markets. Independence is particularly important to this firm, which had once been dismissed from the Frankfurt Stock Exchange for not providing quarterly financial reports, a listing requirement. Porsche regarded this directive as bureaucratic, short-term and unnecessary and stated that it would report to its shareholders when it chose to, such as half yearly.

In 2006, senior management started to pursue an ambitious new vision, namely to take over Volkswagen (VW), a giant German-based car conglomerate. By 2007, the small sports carmaker had acquired 27.3 per cent of VW's ordinary shares, making a paper profit of about €1 billion for Porsche. The leadership appeared to be doing well.

Suddenly, the global financial crisis arrived and things started to turn out very differently from what senior management envisaged. By 2008, Porsche owned over 51 per cent of VW but was facing a huge €14 billion debt, nearly twice the value of the company. Then sales fell by 25 per cent in 2009, and the banks no longer wanted to extend credit. The company could not raise the money to refinance its huge debts. In the end, VW agreed to take over Porsche to save it from bankruptcy with the help of the Emirate of Qatar. Stellar CEO Wiedeking and Holger Härter, the CFO involved in the takeover attempt, resigned as Porsche prepared to become part of the VW Group in 2011.

This case raises many questions. How could an iconic, successful, profitable company like Porsche be driven close to bankruptcy and lose its independence? What went wrong? Were the Porsche executives just innocent victims of a changing environment? Was it poor 'leadership' judgment at the top? Was the takeover due to a management mistake, bad luck or unforeseen external factors? How could Porsche's CEO change from winning awards to losing the business so quickly? This case raises many questions about leadership.

How can we begin to diagnose the leadership problems besetting Porsche and other organisations? Where do we start and which tools can we use? This book aims to provide frameworks and tools to assist in diagnosing leadership problems. But first, what is leadership and is it worth all this effort?

1. What is leadership?

The first challenge is to define leadership. This is not easy to do. Some writers argue that leadership is a myth—just a shorthand way of saying that things are going well in a business (or the opposite when things are going badly). Under this view, Porsche enjoyed the myth of good leadership for more than 16 years and then suddenly lost it. Not much changed in terms of the individuals involved, so what happened to the leadership?

Most academics and practitioners believe that there is more to leadership than a mere myth but cannot agree on what leadership itself is. Back in 1985, researchers reported finding at least 850 definitions of leadership in the academic literature.¹ No doubt many more ideas about leadership exist around the globe and have emerged since then. This makes leadership a concept that is difficult to agree on and understand, let alone apply.

Many people believe that leadership is about telling others what to do. Except in very simple situations, leadership involves much more than a designated person giving orders to their so-called followers, who in turn obediently execute those commands. In this book, we will see that leadership occurs at different levels, takes many forms, is complex and influenced by many factors, and needs to be looked at from multiple perspectives. There is no one-size-fits-all answer. Accordingly, in this book we present a range of frameworks and tools that aid in deciding on the appropriate kind of leadership for different situations.

About 100 years of research show that leadership is not simply the result of certain personality traits or behaviours displayed by extraordinary individuals but emerges from what happens when fairly ordinary people in organisations interact with one another. This creates a system that produces the leadership. By interacting to achieve some goal, leaders and followers start to create *leadership*. For a start, they create systems and processes and develop ways of doing things that shape their leadership system. This makes leadership a shared or collective phenomenon that emerges from the relationships between the people involved, even if some people's contribution is more visible than others'. In short, leaders form one part of the leadership system; followers another part; and the organisational systems, processes and culture form a third component.

Finally, many people overlook the fourth component of a leadership system, namely the broader environmental context. External factors play a key role in leadership outcomes, including the actions of competitors and regulators; the availability of a qualified workforce; and changes in technology, customer demands and societal expectations. In the case of Porsche, changes in the financial sector meant that it could not service its huge debt. This created an unanticipated external influence on Porsche's strategy and leadership, preventing it from achieving its takeover bid for VW.

Thus leadership is a phenomenon that emerges when people interact in order to achieve shared goals in a particular context. This is a systemic view of leadership. Leadership systems occur all around us. Many people realise that leadership occurs, or should be found, in formal organisations or in politics. However, leadership also arises within families and other social groupings, such as in churches, on the sporting field or in the school playground.

2. Is leadership different from management?

Scholars argue over whether leadership and management refer to similar or different concepts. Some assert that it is difficult to distinguish management and leadership because they overlap. Others believe that leadership is an aspect of management rather like a 'tool' that managers use to influence people.

Yet other writers propose that it is useful to distinguish between leadership and management processes. For example, John Kotter² proposes that management is about coping with complexity and bringing order into organisations. This includes managing operations, quality and profitability. For Kotter, leadership is about how to get people to change towards a desired future. From this perspective, it is clear that a successful organisation needs both management and leadership. Management keeps the daily processes functioning, whereas leadership is concerned about future changes.

To emphasise his belief that management and leadership are different, Warren Bennis³ proposes that managers do things right (such as organise and create order), whereas leaders do the right thing (such as develop strategy, innovate and adapt to change). Another view claims that leadership is a 'higher-level' activity

than management and inspires people to aim for a future. Yet another distinction is based on time, with leaders concerned about the future—via vision, strategy, internal communication and management of external relationships. Others, often called managers, deal with the day-to-day affairs within the organisation. In reality, these are different roles that could be performed by the same people; they just focus on different aspects of the business.

A good working basis for distinguishing between leadership and management is that these concepts refer to different but related functions. In practice, the roles are intertwined: individuals in leadership roles often lead as well as manage, while those in non-managerial roles might be highly influential leaders (and self-managers).

3. Does leadership affect performance?

The short answer appears to be yes—leadership matters to performance. But early research by Lieberman and O'Connor challenged this belief, initially suggesting that top leaders have little impact on the performance of their organisations. Findings from 167 major companies across 13 industries implied that, overall, top leadership does not vary much between successful and less successful organisations.

Looking specifically at the performance of individual firms, more recent research suggests that leadership does play a significant role in business performance. For example, whether aspects of leadership are well embedded throughout an organisation's systems affects performance. John Purcell⁴ and his colleagues studied major UK corporations such as Jaguar and retailers Selfridges and Tesco. Purcell concluded that corporations with a vision or 'big idea' embedded throughout the organisational systems and processes outperformed those without such a clear purpose. At Porsche, part of its excellent performance can be attributed to employees' passion for the cars they build, which infuses the entire organisation.

Similarly, evidence based on the US Malcolm Baldrige National Quality Awards shows that leadership drives the overall system underpinning organisational performance.⁵ Leadership creates results indirectly by driving various parts of the organisational system—financial results, customer focus, process management, human resources, strategic planning and information analysis. This is consistent with evidence that sustainable leadership practices, discussed later as one framework for diagnosing leadership issues, are likely to enhance various aspects of a business ranging from its brand and reputation and customer satisfaction through to its financial and operational performance.

Research also indicates that the kind of leadership operating in small businesses affects performance, including financial outcomes, customer satisfaction, staff satisfaction and the length of time employees and managers stay with the organisation.⁶ Leadership involving vision and emotion (later we refer to these as the visionary and organic leadership paradigms) enhances performance on all of

these measures. One interesting finding from this study conducted in pharmacies is that by adding criteria essential to the visionary and organic paradigms—namely trust, a warm organisational climate and a vision—even performance under classical and transactional leadership improved.

Thus these and other studies confirm that leadership at all levels is important to many aspects of organisational performance.

4. Summary

Leading an enterprise into a largely unknown future is complex, as the Porsche case illustrates. Therefore, in order to understand effective leadership and diagnose the source of leadership problems, we need to address the complexity of leadership.

In answering ‘What is leadership?’ we note that scholars and practitioners rarely agree on how to define leadership. Moving away from the conventional focus on leaders as special individuals who generate leadership, we support a systems view of leadership, namely that leadership arises when ‘normal’ individuals interact to pursue certain objectives in a particular context. Under this view, leadership can be found anywhere, from the family to the local church, sports club or business.

This chapter introduces the concepts of leadership and management and concludes that leadership and management refer to different but related and necessary functions. Leadership tends to deal with the future direction of the group, whereas management focuses on day-to-day operations.

Finally, leadership influences a group’s outcomes as measured by many criteria and hence does affect performance. This occurs particularly when vision, values and other elements of the leadership system are well embedded in the organisation’s culture and processes. Given the importance of leadership to organisational outcomes, we present a range of tools, theories and frameworks for understanding leadership in Part II.

Part II

Analytical tools and frameworks

In this section, eight basic leadership frameworks provide the reader with some tools for analysing leadership situations. The following frameworks are presented in turn:

- leadership paradigms
- levels of leadership
- Bergsteiner’s levels and leadership paradigms matrix
- selected leadership theories and approaches
- follower theories
- power and politics
- substitutes for leadership and management
- sustainable leadership practices.

Leadership paradigms

Given that there are so many theories and definitions of leadership, how can people possibly have a sensible conversation about leadership? One way is to view situations through Gayle Avery’s four leadership paradigms.⁷ Avery proposed that many major approaches to leadership can be accommodated under four broad leadership concepts: classical, transactional, visionary and organic.

Previous scholars, such as Bernard Bass⁸, had distinguished transactional leadership from visionary or transformational leadership. Many researchers subsequently adopted this framework in their investigations. However, Avery expanded these two basic paradigms to include classical leadership at one end

and organic leadership at the other end of the spectrum, going beyond visionary leadership. The four paradigms are illustrated in Figure 2.1.

Figure 2.1 Avery's four paradigms



Classical leadership describes a form of unilateral leadership whereby leaders command and control others – their followers – to act towards achieving goals, of which the followers may or may not be aware. Either an individual or an elite group can exercise this kind of leadership. Classical leadership relies on the leader's position and power, particularly the power to coerce followers to comply. Followers carry out the classical leader's instructions because the leader exercises considerable control or they fear his or her wrath for disobeying orders. Benign forms of classical leadership also occur in which leaders command and employees obey out of respect for the position or person, such as the president of the US. Benign leadership can happen where employees respect the brand, founder or entrepreneur behind a business and so willingly work with that leader. However, the leader is central to virtually everything that happens under classical leadership and need not consider or involve followers in decisions.

Classical leadership has limited effectiveness in large, complex enterprises where the leader cannot command and control every action. This includes the front line of many service organisations where decisions need to be made quickly. It can be hard to get additional effort or ideas out of followers who are used to waiting to be told what to do. When ideas about leadership change (e.g. through the expectations of different generations) or followers no longer accept domination for other reasons (because they are highly trained and know what to do, for instance), leadership will need to change. Finally, research has long shown that control, even if feasible, has serious downsides. It can lead to mere compliance, suppress feedback about problems and discourage innovative ideas. Classical leadership can work in an emergency situation or when followers are unskilled, but even in these situations, other paradigms can be more appropriate.

The *transactional* paradigm is based on the idea of a two-way relationship between leaders and followers. Through a process of consultation and negotiation, leaders influence followers to perform certain duties in exchange for specified rewards and conditions. Transactional leaders typically occupy a formal role that provides them with the power to reward, correct and discipline followers and make

decisions. However, followers have more say under transactional leadership than their classical counterparts because the transactional leader negotiates the terms and conditions of their employment with his or her staff. Followers' wishes are taken into account during negotiations to varying degrees. Transactional leaders are likely to aim for a united group that heads in the leader's set direction, albeit after the leader has listened to at least some of the followers' points of view.

People often equate transactional leadership with management because it is focused on the operational aspects of keeping a business running. Followers know where they stand, what they have to do and what the rewards or punishments for their actions will be. Transactional environments provide clear procedures and processes for workers to follow and allow for incremental and continuous improvement based on follower input. Examples of well functioning transactional leadership environments are often found in government departments. There, many important decisions are embodied in specified agreements, policies or regulations. In emergency situations where there is little time for consultation and designated leaders need to provide directions to well-trained employees, transactional leadership can be effective. Examples include fire departments, ambulance drivers and the armed services.

Transactional leadership is beneficial for keeping the wheels of an organisation turning and getting the day-to-day job done. In firms exposed to high risks where failures cannot be tolerated, such as in banks, pharmaceutical trials and airline cockpits, following transactional procedures is critical. This paradigm overcomes some of the problems with classical leadership by considering and involving followers more. In this way, leaders gain more information and ideas while employees can make their individual needs known.

The nature of environments created under transactional leadership can vary quite widely. At a minimum, a bureaucratic, process-driven environment emerges that gets the job done. By opting to include some elements essential to the visionary paradigm, 'progressive' transactional leaders can develop a warm, caring, trusting climate in their organisations. Although there is no reason why a transactional leader cannot have a vision, sharing a vision with staff is not central to this paradigm.

Challenges also arise for transactional leadership. In complex, global and rapidly changing situations, trying to influence, monitor and organise using transactional leadership can stifle innovation and quality decision-making. A transactional leader is likely to make decisions largely on the basis of short-term payoffs, which can be problematic for a firm's future. Relying on short-term horizons does not prepare the organisation for major change or radical innovation. In addition, some workers find the monitoring typical of transactional leadership constraining and in frustration may work to regulations or just do what their contracts specify.

The *visionary* paradigm revolves around a vision and set of shared values that appeal to followers and influence their behaviour. The vision can originate in a visionary leader or in a strong organisational culture that directs and energises

group members. Visionary leaders can be heroic, humble (see level five leadership) or coercive. Followers' efforts and involvement are critical to the success of visionary leadership, even though the visionary paradigm often focuses heavily on a heroic leader. This is a multilateral paradigm under which workers start collaborating with each other instead of fostering predominantly one-on-one relationships with the leader. The view of the future expressed in the vision inspires followers, who ideally share this vision and want to collaborate to achieve it. An example here comes from environmental activists around the world, who envision a world with greatly reduced pollution, global warming (or cooling) and consumption of renewable resources. Activists are united by this shared vision and participate in various collaborative events, such as protesting at G20 conferences, to help realise their vision. In addition to a shared vision, another component of the visionary paradigm is a shared set of values. Values highlight the appropriate behaviour for achieving the vision, such as holding nonviolent protests.

Being a manufacturer, Porsche adopts many transactional processes and agreements with its workers and suppliers. But in addition to this, Porsche leadership adds vision and values as part of its visionary paradigm. In the 1990s, Wendelin Wiedeking united the Porsche workforce behind the vision of restoring this legendary sports car maker to its former glory. This vision was achieved within a decade, as the company's long-term profitable future seemed assured.

Visionary leadership is powerful because it can enhance organisational performance compared with classical and transactional leadership, as many studies show.⁹ Effective visionary leadership cannot rely on a shared vision and passionate followers alone. It also requires clear systems and processes that support the teamwork, collaboration and innovation required in successfully realising a common future. For example, if workers are expected to be innovative, then it is counterproductive to blame and punish individuals when things go wrong. In this case, only the foolhardy will dare to try new things. Instead, accountability systems are needed whereby people can learn from their own and others' mistakes.

Visionary leadership is often presented as the ideal paradigm, but this paradigm also has limitations. Visionary leaders traditionally strive to unify organisational members behind a single vision, strategy and behaviours. However, conforming to a single vision also poses challenges. For example, complex organisations need to recognise that employees will hold diverse views, priorities, experiences and worldviews and try to accommodate and use this diversity in their activities. A side benefit of this is that an organisation that values diversity can better meet the needs of its customers and workers in different parts of the world and prepare itself for adapting to unknown changes. Nonetheless, in certain core values, ethics and beliefs there can be zero tolerance for deviants. The unethical and fraudulent behaviour for which Enron's top management was convicted provides a good example of this.

The *organic* paradigm is radically different from the other three paradigms in that there is not usually a nominated leader. Instead the entire group or community becomes key. Under organic leadership, members create and share the vision, values and processes that underpin their organisation. Organic organisations can be 'leaderful' or 'leaderless'. US-based WL Gore & Associates, which makes Gore-Tex® products, is an example of a leaderful organic enterprise. Many Gore employees believe that they exercise leadership—even though no one can tell anyone else what to do in that organisation. To outside observers, the emergence of natural leaders acceptable to the group may make an organic organisation appear leaderless. The group decides who should be a leader, if anyone, and how long the group is willing to follow that particular leader. Organic leadership is shared among the organisation's members and different people can take the lead from time to time for a particular purpose. Most people are self-leading.

The organic paradigm requires high levels of trust, particularly in the capacity of members to collectively solve problems and make decisions in the interests of the organisation. Crucial to organic leadership is communication, which helps members make sense of what is happening and share information. This is vital in rapidly changing circumstances. Information is free flowing and decisions are made as a group. Responsibility and accountability for outcomes are shared as a result. Although organic leadership may appear chaotic, in reality all roles and functions get covered as members commit to undertake various tasks. The organic paradigm is about generating a form of self-control and self-organisation where people have a clear sense of purpose and autonomy within a particular context.

The organic paradigm builds on previous paradigms. It depends on the shared vision and core values of the visionary paradigm and requires high trust but lets go of tight control from a designated leader. Control is handed over to a group of self-organising and self-managing people. The effectiveness of the organic paradigm also depends on extensive communication, collaborative decision-making, a workforce that embraces this leadership paradigm and appropriate supporting organisational systems and processes.

Many people find the organic paradigm perplexing, partly because it de-emphasises the role and power of fixed leaders. It also represents a radical change of thinking about leadership, followership and the traditional nature of organisations. Conventional assumptions of control, order and hierarchy have to be replaced by trust and an acceptance of continual change, chaos and respect for diverse members of the organisation. Organic organisations develop an employee culture and mindset that embraces change as a continual process and stimulates creativity and innovation. Since it is more difficult for people in large organisations to communicate with and trust each other, organic enterprises tend to operate in smaller subunits. For example, the entire WL Gore & Associates global enterprise consists of about 7000 employees, all of whom operate under organic leadership. However, business units tend to be split after reaching about 150–200 members, even though they may be located close to each other to create operating efficiencies.

Table 2.1 Eight features distinguishing the four leadership paradigms

| Leadership features | Classical paradigm | Transactional paradigm | Visionary paradigm | Organic paradigm |
|---|---|---|--|---|
| 1. Role of leaders and followers | Leader(s) dominates and commands; followers comply | Leaders influence followers to abide by agreed goals and work routines | Leaders provide a compelling vision and build and nurture a corporate culture that fosters follower commitment and self-management | Leaders act as intrapreneurs; followers support projects they find compelling |
| 2. Sources of leadership power | Leader's power is by virtue of position, control of resources or knowledge and ability to coerce followers to comply | Leader's power is through interpersonal influence, negotiated agreements, consideration of followers and creation of suitable management environments | Power comes from the shared vision and the capacity of the organisational culture to tap into people's emotions | Mutual meaning created by the entire group and by project teams |
| 3. Main drivers for paradigm | Crisis situations that demand immediate answers, poor employee skills and followers with little choice combined with exploitative firms | Goal-oriented bureaucratic processes, high-risk situations | Complex, dynamic and highly competitive markets; 'talent' scarcity; performance potential; inability to embrace organic paradigm because of firm size and firm history | Complex, dynamic and highly competitive markets; 'talent' scarcity; performance potential |

| | | | | |
|---|--|--|--|--|
| 4. Role of vision | Followers may or may not be aware of the leader's vision | Optional, leader articulating the vision is helpful but not essential | Followers share the leader's vision | People at all levels of the organisation contribute to a shared vision |
| 5. Follower compliance and/or commitment | Compliance is forced through fear of punishment | Commitment is through belief that negotiated agreements will be honoured | Commitment is through members' adherence to a common vision and strong culture | Commitment is through people's ability to autonomously pursue the group's own vision |
| 6. Decision-making | Leader decides alone | Leader consults and then makes decision | Decisions are cascaded down to the lowest competent level | Mutual decisions are made among team members |
| 7. Trust in others | Little to none | Better if high, can be low | Must be high | Must be high |
| 8. Extent of follower power | Almost zero | Low to medium | Medium to high | High |

Organic practices can often be found in self-managing work and project teams. Some firms display organic leadership in some parts, or at some times, only. A good example of paradigms changing over time comes from Systems Excellence, one of the case studies in Part III. Challenges in changing to organic leadership include that managers pass control to their team members, workers have to take increased responsibility for decision-making and all participants are likely to experience greatly increased uncertainty. This can upset employees seeking certainty and predictability as well as managers who believe that their job is to control uncertainty. However, in today's world, certainty no longer exists and rapid change is normal, as is expecting the unexpected and having to innovate. These conditions favour the organic paradigm and disfavour the more cumbersome classical and transactional paradigms. Thus an increasing trend towards organic leadership is to be expected, particularly among start ups and small- or medium-sized enterprises (SMEs). However, organic leadership will not be as easily applied in some cultures and conditions as in others.

Table 2.1 summarises some of the key distinguishing features of the leadership paradigms. The paradigms are intended as four ideas about leadership that differ from one another in important ways rather than as four clearly separate leadership styles. The paradigms will not necessarily be found in their 'pure' form in a given organisation. Parts of an enterprise may be more visionary (e.g. the top

management team at Porsche) whereas others may be organic (such as research and development teams). However, the four paradigms provide a useful way of communicating about different kinds of leadership in a field with hundreds of definitions of leadership.

No one paradigm offers the perfect leadership solution for all contexts. Each suffers limitations that may make it inappropriate in a given situation. Furthermore, some challenges affect multiple paradigms, which if not mastered, interfere with how well the chosen paradigm works. For example, followers can become complacent and overly dependent on a particular leader, and all organisations require processes that match the prevailing leadership paradigm.

Many factors influence choice of leadership paradigm, including the size of units in an organisation and the nature of operations in different parts as well as existing systems, structures and cultural factors. Very important are the expectations and ideas of leadership that organisational members hold. Ideally, all leaders should recruit employees who can accept the prevailing leadership paradigm; otherwise those who find alternative employment may leave.

Finally, the four paradigms reveal different mixes of management and leadership, as discussed previously. The classical and transactional paradigms lie close to management, both in time (they are mostly concerned with the present) and with their focus on manager control. The visionary and organic paradigms, being more future oriented and inspirational, reflect leadership. These emotion-based paradigms depend on follower engagement with a vision of the future for their effectiveness in getting the day-to-day work done.

Levels of leadership

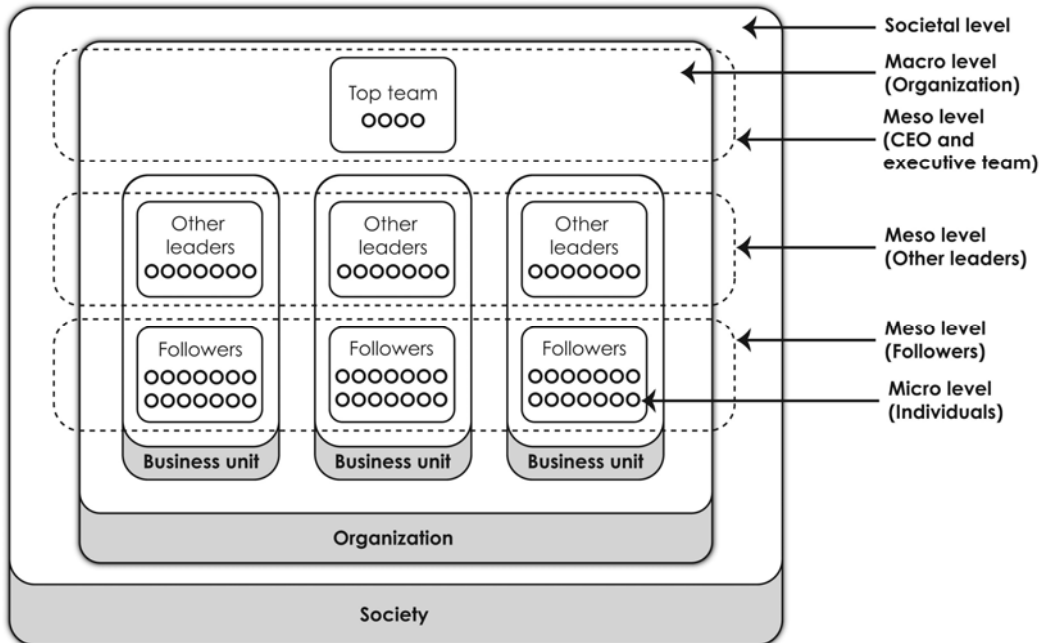
One of the reasons why leadership is so confusing is that people often do not distinguish between the various levels on which leadership can occur. Different theories and models apply at different levels, and approaches to solving leadership problems also vary with level. Many people think of levels just in terms of hierarchy – senior executives at the top, managers and then other staff members. Others think of levels just in terms of the size of the unit they apply to – individuals, teams, divisions and the entire organisation. However, we adopt a different idea of leadership level, one that is more relevant to the study and practice of leadership. We are interested in the leadership behaviours and consequences of categories of people with roughly similar roles and scope of responsibility.

It is therefore useful to analyse, describe and explain leadership as occurring on four levels: the micro, meso, macro and societal levels (see Figure 2.2). The micro level starts with individuals, dyads (pairs) or groups of people. The meso level covers entire categories of people who share similar leadership or followership functions. Examples include followers, team leaders, middle managers and the executive team. The macro level deals with the processes, systems, procedures, norms, business models and strategies that affect everyone in an enterprise.

Finally, the societal level concerns socialised expectations, values and norms from the broader environment. These four levels are described in more detail next, starting with societal issues.

Societal-level leadership theories or variables broadly describe ideas about leadership common in national or strong regional cultures. Geert Hofstede among other researchers, has highlighted the effects that national culture can have on management practices acceptable to, or prevalent in, a particular society.¹⁰ Not all management approaches fit everywhere, which poses challenges for companies operating in different countries or employing people born elsewhere. Workers and managers who have been socialised in different cultures may well bring different expectations about leadership to the workplace. For example, the traditional leadership style prevailing in many parts of Asia, the Indian subcontinent and France is top-down, classical leadership. Here the manager tells people what to do, and employees may have little or no expectation of participating in decisions. However, while these expectations may distinguish one society from another at a high level of abstraction, it is not valid to assume that everyone born into that society shares its particular characteristics.

Figure 2.2 Leadership levels with examples of groups



Macro-level leadership variables directly affect everyone in the organisation. These variables include broad strategy, how resources are allocated, organisational culture and the philosophy and vision guiding the enterprise. At Porsche, macro-level leadership involved the strategic move of taking control of VW and putting firm resources towards this way of securing the organisation’s future, with extreme consequences for the entire enterprise as it turned out.

Meso-level leadership deals with behaviours, attitudes, preferences and characteristics that affect, relate to or best describe specified categories of people within an organisation. Typical groups of people at the meso level include the executive team, middle managers and followers. However, others could be designated in specific circumstances. For example, the supervisory board could be included as a specific grouping. At Porsche, the top management group appears to have been driving the VW takeover, presumably with the support of the supervisory board. Meso-level researchers studying top teams would investigate issues such as the values and risk-taking levels of individual members of the Porsche management team and how these combined to influence the team's decision to pursue the VW takeover.

Micro-level issues relate to the behaviours, attitudes or competencies of specific individuals, leader-follower pairs (known as dyads) or small teams. A large amount of research and theorising occurs at the micro level of leadership. Questions here include how specific leaders and followers interact or whether given leaders coach and develop their teams. An example of a micro issue would be if at Porsche all production workers are expected to support their team members and one individual consistently refuses to cooperate with others. Then the supervisor would intervene to deal with this micro-level issue. Other micro examples from the Porsche case could involve looking at the traits and behaviours of the CEO himself as well as his personal relationships with his direct reports and the CEO of VW.

It is clear that leadership considerations vary depending on the level being examined. This has implications for choosing appropriate theories and frameworks for a given leadership situation, as discussed in the next section.

Bergsteiner's levels and leadership paradigms matrix

Harald Bergsteiner has developed a matrix combining the four levels of leadership described earlier with the four paradigms as shown in Table 2.2. This matrix identifies challenges (as illustrated in Table 2.2) and allows people to identify appropriate theories, models or actions depending on both the leadership level and the operating paradigm. This assists in analysing practical leadership situations, as the following examples show.

An example at the meso level for followers comes from automaker BMW. BMW requires all its workers to have business 'nous' and to work under a visionary leadership paradigm. At BMW, employees need to share the company vision and be prepared to innovate, work in teams and self-manage. Not everyone enjoys those kinds of working conditions, and so BMW needs to recruit and develop staff to suit the requirements of its visionary leadership paradigm. Therefore, on the matrix in Table 2.2, BMW workers fit the visionary-follower cell.

Table 2.2 Examples of leadership issues arising at different levels and under different paradigms using Bergsteiner’s matrix

| Levels of leadership | | Leadership paradigms | | | |
|--|--|---|---|---|---|
| | | Classical | Transactional | Visionary | Organic |
| Societal level: Possible issues | | How can we set up an organic advertising agency in ‘classical’ China? | How can we introduce government policy in France to make authorities less centralised and bureaucratic? | How can we build a corporate culture in a large German firm that dissuades employees from exercising their right to unionisation? | How can we identify persons who sign off on legally mandated financial disclosure statements? |
| Macro-organisational level: Possible issues | | How can we motivate employees to work beyond compliance? | How can we balance the need for risk minimisation with the need for flexibility and creativity? | How can we get employee buy-in into a powerful corporate vision that energises and guides behaviour? | How can we balance desire for growth with need to maintain business units at no more than 150 people? |
| Meso-organisational levels: Classes of people | Executive team: Possible issues | How can we prevent powerful leaders from becoming dictatorial? | How can we get the top team to ‘walk the talk’? | How can we transition from a visionary leader to a visionary leadership culture? | How can we communicate leader status to peers outside the company? |
| | Other leaders: Possible issues | How can we tap into lower-level leaders’ energy and know-how? | How can we get middle managers to ‘think outside the box’? | How can we ensure decentralisation does not degenerate into disintegration? | How can we know who is a leader and who is a follower? |
| | Followers: Possible issues | How can we recruit employees who accept being told what to do all the time? | How can we intrinsically motivate followers in a culture that tends to rely on extrinsic motivators? | How can we ensure that followers do not abuse the huge discretionary powers they have? | How can we acquire committed followers? |
| Micro-organisational level: Possible issues | | How does an employee deal with an abusive supervisor? | How can we ensure that good employee ideas get noticed and followed up on? | How much decision-making power do we divest down the line? | Who gives feedback to a low performer? |

Similarly, an Australian company starting up in China would need to take account of societal differences in leadership expectations traditionally found in those two countries. Australian leadership tends to be transactional, whereas the tradition in China is classical. Australian leaders operating in China would be wise to take special action to appoint a local workforce that fits their preferred leadership style. This can happen by recruiting, training and developing local employees to feel comfortable with transactional leadership. Alternatively, the Australian company could match its leadership paradigm to the style that Chinese employees are comfortable with, as indicated in the classical-societal cell. At the follower level, the desired competencies and behaviours will obviously be quite different from those at BMW, our first example.

In negotiating a pay rise, the relevant cell is likely to be at the transactional-micro level. In these negotiations, in all but the organic paradigm, a manager and employee will interact to reach agreement on a new deal. In organic organisations, pay rises would most likely be negotiated within groups. Of course, pay rises and other conditions can also be negotiated at the enterprise level (macro-transactional cell in Table 2.2).

Some cells may not be relevant to particular organisations. For example, organic organisations do not normally have any formal roles for middle managers or team leaders. WL Gore & Associates is an example of an organic organisation where there are no ranks, no titles and no assigned leadership roles. However, to the extent that individuals exercise broader levels of initiative, entrepreneurialism or scope of responsibility at Gore, differences in leadership and followership behaviours become discernable and are reflected in the levels of remuneration that people can command.

Other examples are given in different cells on the matrix, but many more are conceivable. In analysing an organisation's leadership issues, the matrix can identify matches and mismatches. For example, introducing transactional middle managers to an organically led business is likely to be counterproductive unless the organic paradigm is not working out. Similarly, in producing cars in China or India, BMW needs to be aware that its performance depends on attracting visionary, highly self-managing followers from countries with a tradition of classical leadership. Creating small-sized business units is an organic macro-level issue.

Selected leadership theories and approaches

Finding a way through the many theories and models of leadership can be very confusing. Using the levels of leadership listed earlier, we next summarise some of the key approaches found in the leadership literature, starting at the micro level. We then show how the different theories and approaches link to the four paradigms. Using these frameworks helps show how the many theories fit together and apply to different leadership situations.

Micro-level theories

Micro-level theories and models focus primarily on the specific characteristics of leaders or on interactions between leaders and their followers. At the micro level, we briefly cover the concepts of ‘great men’ being born to lead, various traits, behaviours and other characteristics of leaders, as well as leader–follower relations and contingency theories.

Theories about individual leaders

1. *Great man theory* proposes that certain people are destined to lead by virtue of being born into particular families, such as in royal, political or industrial dynasties. Alternatively, great ‘men’ are often said to emerge by chance or destiny. Historians often write about leaders who emerge from these situations (little is written about great women). However, instead of claiming leadership as a birthright, modern Western business leaders are expected to display appropriate characteristics. This has spawned a range of theories centred on leader characteristics.

2. *Trait theories* predict that leaders will differ from others because they possess special characteristics, called traits. Many trait theories exist, covering both tangible and intangible characteristics. Commonly accepted traits include displaying drive, a desire to lead, integrity, self-confidence, knowledge of the business and high-level intelligence, according to Kirkpatrick and Locke.¹¹ Scholars argue over what are the essential leader traits and whether a leader needs all of them or only some of them in a given situation. In any case, assessing the effectiveness of leader traits can be challenging unless they are expressed as behaviours.

3. *Behavioural approaches* identify leaders by their actions. Early behavioural theorists distinguished between behaviours related to getting the job done (called task behaviours) and behaviours concerned with supporting the people (relationship behaviours). Behavioural approaches address questions such as the following: Do leaders display appropriate behaviours for their particular roles? Can they resolve conflicts? Can they manage change? Can the leaders monitor employee performance? In recent times, additional behaviours have been associated with leadership that are often referred to as behavioural ‘competencies’.¹² Examples here include the ability to drive business performance, achieve results and innovate.

The behavioural approach has led to a huge industry for management training and development based on the assumption that leader behaviours and competencies can be learned, including emotional intelligence (EI). EI refers to people’s ability to perceive and understand emotions in themselves and others, express emotions appropriate to a given situation and regulate their own emotions. Daniel Goleman¹³ and others argue that people high in EI are likely to experience more success as leaders or in business, compared with their counterparts with lower EI.

4. *Authentic leadership* refers to the positive side of what leaders do. According to early developers of the concept¹⁴, authentic leaders are characterised by four criteria. First, they know who they are and what they believe in. Second, they are transparent and consistent between their actions and their values and ethics. Third, authentic leaders try to create positive states in both themselves and others, such as hope, resilience and optimism. Finally, authentic leaders are known and respected for their integrity. The business couple in the case described in the preface fit most of these characteristics.

5. *Charisma* refers to an emotional interaction between certain leaders and their followers. Charismatic leaders are said to transform their followers and organisations, to have 'presence' and to be able to lead people to high levels of performance. Many people look to the leader's person as the source of charisma but this may be incorrect. Rather, charisma may be something that certain followers attribute to the leader under some circumstances, such as in a crisis. Charismatic leaders may manage the impressions others form of them in order to increase followers' trust and belief in the leader's vision or purpose. Followers then admire and identify with the leader, the cause the leader stands for or both. It can be difficult for outsiders to assess whether a particular leader is charismatic if charisma is based on follower perceptions. The Porsche case suggests that many of Wendelin Wiedeking's employees would have perceived him as charismatic.

6. *Level five leaders* provide the antithesis to heroic leadership. Jim Collins¹⁵ identified some rare leaders of very successful companies who were personally humble, modest and shy, while at the same time being fearless and strong willed. Level five leaders are not boastful, do not seek the public limelight or desire to be charismatic. They act with calm determination to serve their organisations. Level five leaders do not blame others for poor outcomes but take the responsibility on themselves. When things go well, they modestly provide credit to others, to the external conditions or simply to good luck.

7. *Narcissistic leaders* want to impress others. They seek the limelight, often writing their own books and hiring publicists to manage their image. Kets de Vries¹⁶ distinguishes between constructive and reactive narcissists. A *constructive* narcissist is well balanced and has a positive sense of self-esteem. Constructive narcissists radiate a sense of positive vitality and are capable of empathy. Some might see Porsche CEO Wiedeking as a constructive narcissist if he basked in his successful image. By contrast, *reactive* narcissists are often driven by a lack of self-esteem, a need to get even and come to grips with the past; they tend to be preoccupied with emotions such as envy, spite, revenge or being vindictive to others. While some reactive narcissists achieve great things, their dark side often makes them emotionally isolated and highly distrustful of others. These leaders could self-destruct and lead their organisations astray.¹⁷ Was Hitler such a leader?

Leader–follower relations

Many theorists focus just on the leader, but clearly leadership requires leaders to interact with followers. When a leader relates to a single follower, this pair is

referred to as a 'dyad'. More than two people are termed a 'group'. Some micro-level leadership theories and models apply to the dyadic and group levels within an organisation, and two are introduced in the following paragraphs.

8. *Leader-member exchange (LMX)*¹⁸ theory is based on the observation that the quality of the relationship between a leader and individual followers can vary substantially. Leaders engage in close relationships with people regarded as part of the 'in-group'. Unlike members of the out-group, in-group participants experience rich exchanges, and their relationships with the leader are based on trust, loyalty and a sense of common fate. In-group members receive preferential treatment in the form of better assignments and more freedom compared with the out-group, whose members are often excluded from important decisions or activities.

9. *The socio-cognitive approach*¹⁹ is radically different from the theories presented so far. It proposes that leadership lies in the perception of followers rather than in the traits and behaviours of the leader. One way people form leadership perceptions is by observing someone's daily interactions with others and judging this against the observer's past experiences with leadership. Therefore, what individual followers recognise as leader behaviour will depend on their cultural background, upbringing and previous encounters with leadership. For example, those brought up in a society where classical leadership is traditional may not recognise organic environments as containing any form of leadership!

Contingency theories

Contingency theorists argue that to understand leadership, considering the context is essential and that merely looking at generalised individual traits and behaviours without context is limiting. Among the various micro-level contingency theories, three are particularly useful: situational leadership, Fiedler's theory and House's path-goal theory.

10. *Situational leadership theory* originally proposed by Paul Hersey and Ken Blanchard in 1969²⁰ is based on the assumption that leaders have a responsibility to develop their followers. It provides a four-quadrant tool for assisting managers in this process. Depending on each follower's skill and motivation on a given task, called their developmental level, the leader should use a different leadership style: directing, coaching, supporting or delegating.²¹ The objective is to develop enthusiastic beginners, using these various leadership styles at appropriate times, to the point where followers are sufficiently skilled and motivated to be able to conduct that activity properly without involving the leader. A leader will necessarily use different styles with different followers, or even with the same follower, on various tasks. Similarly, the model can be applied to developing teams, starting with directing and moving through the other three styles.

11. *Fiedler's contingency theory*²² proposes that a leader's effectiveness depends on the match between the leader's style and the 'favourability' of a given situation. Leader style describes leaders as being predominantly motivated either to complete tasks or maintain relationships with followers or to be somewhere in

between. According to Fred Fiedler, task-motivated leaders are more effective than relationship-oriented leaders when the situation allows the leader to exercise either high or low control. Where the situation permits only moderate control, relationship-oriented leaders are expected to be more effective. This is because they can collaborate with their staff by using their well-developed interpersonal skills, which are not available to the task-oriented leader. In Fiedler's theory, the match between the leader's style and the situation is key. The leader's effectiveness changes as the situation changes and so the leader can find himself or herself in and out of match at different times.

12. *House's path-goal theory*²³ emphasises that a leader's role is to clear the way for followers to accomplish tasks and to strengthen linkages between perceived effort, performance and outcomes. At the heart of Robert House's theory is the idea of an implicit or explicit exchange between leaders and followers. The leader's guidance or support is offered in exchange for the followers' productivity and satisfaction. Under path-goal theory, the role of the leader is to help strengthen linkages between follower effort, performance and outcomes and to remove any obstacles. The kind of task and the characteristics of the followers determine the appropriate leadership behaviour. For example, with a new, unstructured and unclear task, inexperienced followers may well waste their efforts and become unmotivated and frustrated. Here the leader needs to be task focused. This means providing instructions and training to remove major obstacles to employee satisfaction and motivation. If employees start to lose interest after mastering a routine task, the leader should show empathy, consideration and understanding to encourage the worker and so help reduce the blocks to satisfaction. How to motivate individual followers depends on the needs of each individual. Some followers may want guidance and clear instructions, particularly if they have not mastered a task. Others may prefer challenges and value the autonomy to solve problems themselves, in which case being directive may be counterproductive.

Meso- and macro-level theories

In trying to understand leadership, people traditionally focus on the micro level, but clearly leadership extends beyond individual leader-follower relationships. Leadership occurs in a context and is affected by external events. Therefore, different kinds of theories are helpful at the meso and macro levels. For a start, our four paradigms provide a framework to assist at these levels. Some other meso- and macro-level approaches are presented next, starting with the meso-level top echelon theory.

13. *Top echelon theory*. Authors such as Finkelstein and Hambrick²⁴ argue that what is really important in understanding leadership in an organisation is knowing about the characteristics of the CEO and top team members. This is because these are the key decision-makers within most organisations. Top executives decide how resources are distributed and through this have a major effect on their enterprises. Top echelon theorists are interested in the psychological make-up of a

firm's decision-makers. Which information do executives use to make decisions—facts or gut feel? How do these top executives make choices and process information? Do they like to look at the big picture and the future or just analyse figures and other details? Other topics of interest include the personal values that top decision-makers hold, their biases and the basis of their information and power. Previous experience also shapes executive action, as does the way the top team members interact with one another. For example, does the CEO dominate because of the position power he or she holds or because of his or her personality? What is the balance of power between the CEO, management team and supervisory board? And very importantly, how are executives remunerated? If executives are rewarded for short-term outcomes, their decisions are more likely to be focused on short-term results at the expense of long-term outcomes.

Furthermore, board members and top echelon executives are not representative of the broader community or workforce in many countries. This underrepresentation almost certainly biases the decisions that boards take. For example, women, who are underrepresented at the senior levels of many corporations, have been shown to be less willing to take risks than men.²⁵ Left to men, boards may well take higher risks than they would under the influence of women. Therefore, the diversity of supervisory board members can have a major impact on a firm.

Follower theories also apply at the meso level but are described in a separate section to highlight the importance of followers to understanding leadership.

14. *Organisational culture* is both created by leadership and reflects leadership at the macro level. Culture refers to the way a group integrates and creates shared patterns of behaviour—'the way things are done around here'. Culture reflects underlying beliefs and values that the organisational members share.²⁶ It influences the way members behave, feel and think. Different cultures can exist side by side in the same organisation, with subcultures in different departments. At Swatch, for example, production departments have a steady, operations-focused culture, whereas marketing has a fast-paced, fun, innovative culture. Organisations create and maintain culture through the decisions they make, the people they hire and how they allocate their resources. While leaders may want to manage organisational culture to achieve particular ends, this may be difficult to do in strong cultures. In such cases, leaders may be constrained or driven by the existing organisational culture. To many people's amazement, Porsche was able to resurrect its proud company culture following the firm's near collapse in the 1990s, even though all operations and procedures were entirely different.

15. *Learning and teaching processes* refer to adaptations occurring at the meso level but have implications for the macro level as well. Although it is individuals who learn in many different ways, sharing their knowledge helps an enterprise as a whole learn. So-called learning organisations evolve continuously and develop practices that enable members to acquire knowledge and then transform that knowledge into action.²⁷ For example, in preparing for the future, organisations need to learn from and respond appropriately to feedback from both internal and external sources. The people are required to develop their skills in the classroom

or on the job. Then organisational members need to reflect on the meaning of the information gained from various sources for the enterprise.

Practice shows that two kinds of organisational learning can be identified:²⁸

- *structural* organisational learning, which focuses on solving daily production and other problems
- *strategic* organisational learning, which focuses on the learning required for achieving the firm's long-term vision.

Some enterprises are referred to as 'teaching organisations'. A teaching organisation is considered even more adaptive than a learning organisation. In a teaching organisation, executives participate in developing others. Jack Welch was famous for spending an enormous amount of his time training the future leaders of General Electric (GE). Through this process, leaders and followers discuss the vision and values, exchange feedback, reflect on it and both the leaders and followers learn. A commonly used developmental tool is mentoring, whereby a more experienced individual or group helps develop a less experienced person or group. GE employs 'reverse' mentoring whereby younger employees also mentor older ones on new technology, for instance.

16. External factors. At the macro level, we also acknowledge the role of external factors that influence an organisation's leadership. Some of these factors arise because of where the firm is operating in its industry or geographical location. Every enterprise forms part of an even larger system that includes government regulations, the political landscape, availability of essential natural and human resources, competitors, globalisation and many other factors. However, detailed discussion of external influences, which can vary enormously, is beyond the scope of this book.

Societal-level approaches

Societal influences on organisational behaviour and leadership come from the community in which a firm is operating as well as from the cultural backgrounds of the organisation's members. Growing up in a particular national culture affects the expectations that members of a firm bring about appropriate leader-follower relationships, teamwork and other behaviours.

At the societal level, intercultural management becomes relevant and with it approaches such as Geert Hofstede's national values theory or the findings of the multinational GLOBE (Global Leadership and Organizational Behavior Effectiveness) research project that investigated national understandings of leadership in 62 societies. However, discussing these wide-ranging approaches in detail also falls outside the scope of this book. Suffice it to say that executives need to recognise that operating in different cultures or with a multicultural workforce brings different assumptions about leadership and followership behaviours at the societal level.

Leadership theories and paradigms

You might be wondering how the above approaches to leadership relate to the leadership paradigms. Table 2.3 summarises these relationships in a general sense. Although most theories can work under all paradigms, they do so in different ways.

Under classical leadership, micro-level traits and behaviours of the leader are important but most meso- and macro-level approaches are only peripherally relevant, apart from top echelon theory. Individual leaders may employ strategic tools like planning and aligning systems and create or work with a particular organisational culture but this is not required under classical leadership. Learning is likely to take a structural form under classical leadership, that is, to focus on solving daily production and other problems rather than preparing followers to implement strategic decisions.

For transactional leaders, many of the same theories relevant to classical leadership apply. However, contingency approaches such as path-goal theory and situational leadership become relevant as leaders seek to develop and support their followers. Again, learning is generally structural and related to solving operational problems rather than aimed at achieving a strategic vision under this paradigm.

Given the important role that leaders still play in the visionary paradigm, many of the micro-level theories apply here: great man, traits, behaviours and LMX, as well as the three contingency theories. The visionary paradigm involves working with culture and strategy and using strategic learning, teaching and mentoring. Emotion is a vital component of this paradigm and relationships play a central role here. Vision and values are also integral to the visionary paradigm.

The organic paradigm bears many similarities at the meso and macro levels to visionary leadership, but at the micro level, great-man theories, charisma, narcissistic and LMX theories are not particularly relevant to organic leadership. Other micro-level theories such as traits, behaviours and being authentic do apply, even though leaders in an organic environment will have different traits and exhibit different behaviours from more traditional leaders. This is because the focus is on shared leadership and not on controlling or directing. Under an organic paradigm, a systemic focus becomes vital in the absence of directive leaders. Like the visionary paradigm, organic leadership involves working with culture and strategy; it uses strategic learning, teaching and mentoring. Shared emotion, vision and values are also core to the organic paradigm.

Some theories apply to all four paradigms, such as situational leadership, which is useful for shaping and developing employee skills on new tasks. Authentic and level five leadership styles can also operate under any paradigm.

Table 2.3 Linking leadership theories and approaches to leadership paradigms²⁹

| Theory | Classical paradigm | Transactional paradigm | Visionary paradigm | Organic paradigm |
|-------------------------------------|--|-------------------------------------|-------------------------------------|---|
| 1. Great man | ✓ | ✓ | ✓ | Unlikely (except for some founders) |
| 2. Traits | ✓ | ✓ | ✓ | ✓ |
| 3. Behaviours | ✓ | ✓ | ✓ | ✓ |
| 4. Authentic | ✓ (optional) | ✓ | ✓ | ✓ |
| 5. Charisma | ✓ (optional) | ✓ (optional) | ✓ (optional) | ✓ (possible with certain individuals) |
| 6. Level 5 | ✓ | ✓ | ✓ | ✓ |
| 7. Narcissistic | ✓ (reactive likely, constructive possible) | ✓ (either constructive or reactive) | ✓ (constructive, not reactive) | ✓ (if relevant, then constructive, definitely not reactive) |
| 8. LMX | ✓ | ✓ | ✓ | Unlikely |
| 9. Socio-cognitive | ✓ | ✓ | ✓ | ✓ |
| 10. Situational | ✓ (directing at micro level) | ✓ (coaching at micro level) | ✓ (supporting at micro level) | ✓ (delegating at micro level) |
| 11. Fiedler's model | ✓ (task motivated) | ✓ (task and relationship motivated) | ✓ (mostly relationship - motivated) | ✓ (mostly relationship motivated) |
| 12. House's path-goal theory | ✓ (directive task focused) | ✓ (directive, mainly task focused) | ✓ (autonomy granting) | ✓ (autonomy granting) |
| 13. Top echelon | ✓ | ✓ | ✓ | Not applicable |
| 14. Organisational culture | ✓ (optional) | ✓ | ✓ | ✓ |
| 15. Learning and teaching | ✓ (structural) | ✓ (structural) | ✓ (strategic with mentoring) | ✓ (strategic with mentoring) |

Legend: ✓ indicates a link exists between the theory and leadership paradigm

Follower theories

Followers are not as widely considered in the leadership literature or popular media as leaders are. However, the leadership paradigms discussed earlier require followers with different characteristics. For example, classical leadership would fit compliant followers who accept commands and direction. Transactional followers need to strive to achieve agreed goals. Under the visionary paradigm, followers are expected to initiate ideas, collaborate in teams and self-manage towards realising a shared vision. Finally, self-leading followers are required for organic leadership, people who are comfortable in unstructured environments without job descriptions and hierarchies.

Three other views of followers can be useful for understanding followership in organisations: Kellerman's follower typology, Howell and Shamir's view of why people follow visionary leadership and Kets de Vries's concept of followers' need for supervision. These other theories are then linked to the leadership paradigms in Table 2.5.

Kellerman's follower typology. Barbara Kellerman³⁰ points out that followers are not all the same. They bring different levels of involvement to their employer, which she refers to as their 'level of engagement'. Engagement can range from 'feeling and doing absolutely nothing' to 'being passionately committed and deeply involved'. Kellerman has an unusual interpretation of engagement. Many writers argue that engagement has to do with employees speaking well of their employer ('say'), intending to remain with that employer ('stay') and exerting extra effort ('strive'). Thus Kellerman's typologies more accurately reflect follower involvement with the work and workplace rather than engagement.

Kellerman's classification aims to enable leaders to quickly assess the degree of engagement or involvement in their staff. She has identified five categories of followers: isolates, bystanders, participants, activists and diehards. These five follower types are described in Table 2.4. One feature of Kellerman's theory is that a negative side is highlighted for all categories of followers as well as the positive side. It is also noteworthy that any one of these follower types can occur at any level under any leadership paradigm, as indicated in Table 2.5, but presumably most firms would prefer positive activists. Nonetheless, Kellerman's types, being among the few frameworks that focus on followers, may assist in identifying follower issues in certain situations.

Table 2.4 Kellerman’s (2007) follower types

| Follower type | Description |
|----------------------|---|
| Isolates | <ul style="list-style-type: none"> ▪ completely detached from leaders and the organisation ▪ barely aware of what is going on around them ▪ care little for their leaders ▪ not particularly responsive to their leaders. |
| Bystanders | <ul style="list-style-type: none"> ▪ disengaged from their leaders, groups and the organisation ▪ observe but do not participate ▪ deliberately stand on the sidelines ▪ offer little resistance or active support. |
| Participants | <ul style="list-style-type: none"> ▪ engaged in some ways ▪ try to make an impact ▪ may clearly support or oppose their leaders and organisations ▪ will invest some of their own time and energy in what they believe in. |
| Activists | <ul style="list-style-type: none"> ▪ work hard either for or against their leaders ▪ are eager, energetic and engaged when supportive ▪ feel strongly about their leaders and organisations and act accordingly. |
| Diehards | <ul style="list-style-type: none"> ▪ are rare ▪ fully dedicated to someone or something they believe in ▪ willing to endanger their own health and wellbeing for their cause ▪ can be a strong asset or a dangerous liability to their leaders because of their extreme dedication. |

Visionary followership. Jane Howell and Boas Shamir³¹ argue that people follow visionary or charismatic leadership because of two main kinds of relationships that they can have with those leaders: personalised and socialised relations. Under *personalised* relationships, followers identify with the leader, and it is the relationship with that person that is important rather than the leader’s vision or message. Personalised followers may already share the leader’s values, or they may change their own values to align with those of their chosen leader. By contrast, *socialised followers* have a clear sense of self and their values. For these followers, the leader’s message, vision or purpose is what motivates them, not the leader as a person. Belonging to the group that is pursuing an important vision drives socialised followers to strive to achieve that vision. It is also possible for both personalised and socialised motives to combine rather than be alternative motivators for following visionary leadership.

Table 2.5 Linking followership theories and approaches to leadership paradigms

| Theory | Classical paradigm | Transactional paradigm | Visionary paradigm | Organic paradigm |
|--|--|--|--|--|
| 1. Avery–Bergsteiner paradigm follower types | Followers should be compliant and willing to accept commands and direction | Followers must be willing to work towards achieving agreed goals | Followers expected to initiate ideas, collaborate in teams and self-manage towards a shared vision | Self-leading followers, comfortable in unstructured environments without hierarchies |
| 2. Kellerman types | All types can apply, positive activists preferred | All types can apply, positive activists preferred | All types can apply, positive activists preferred | All types can apply, positive activists preferred |
| 3. Howell and Shamir’s reasons for visionary followership | Personalised can be relevant, but there is no explicit message for socialised purposes | Personalised can be relevant, but explicit message for socialised followers usually absent | Both personalised and socialised reasons can be relevant | Socialised |
| 4. Need for supervision | High | High | Low | Low |

Need for supervision. Under this view, followers can be distinguished by their need to be supervised.³² Individual differences in need for supervision may help explain why leaders sometimes affect follower behaviour and not at other times. Leaders have more opportunity to influence staff members with higher levels of need for supervision because of the greater amount of direction and leader attention that these followers require, compared with their colleagues with lower supervision requirements. Need for supervision can vary in strength between individuals and within individuals in different situations. However, overall, followers with higher need for supervision would be expected to prefer classical and transactional leadership, whereas people with lower levels of need for supervision would be more comfortable under visionary and organic leadership.

Power and politics

Leadership is often defined as a ‘process of influencing others’, and interestingly, many writers define power in the same way. People with power influence others to do their bidding, and often we call these people ‘leaders’. However, the two concepts are not identical, as the following examples show. *Power alone* arises

when a cowardly army sergeant orders unwilling troops to take an action they know will fail. *Leadership without (much if any) power* can be found when a passenger on a stranded ship takes charge of survival actions. *Power and leadership combine* when a respected police officer coordinates a difficult mission.

Given the closeness of these two concepts, no study of leadership would be complete without some understanding of where a leader's power can come from. Power can stem from many different sources. The following are ten common forms of power according to Bertram Raven:³³

1. *Legitimate or position power* derives from the role or position a person occupies, rather than from a person's attributes. People at higher levels in traditional organisations tend to have more power than the people below them. This does not apply to organic organisations, where there is no formal hierarchy.
2. *Reward power* comes from being able to grant favours or offer rewards to people.
3. *Coercive power* is derived from the ability to punish others, for example for non-compliance. Punishments can vary but might include a demotion, missing out on a bonus, humiliation or losing one's job.
4. *Expertise power* stems from a person's knowledge or experience. Here even junior people with technical expertise can become quite powerful.
5. *Information power* arises from having specific knowledge that others do not have access to or when one can gather and control key information. Executive assistants can wield considerable information power.
6. *Referent power* arises when a person is admired and respected by others or possesses desirable traits, status or reputation.
7. *Ownership power* is a characteristic of entrepreneurs or majority shareholders in a corporation.
8. *Opportunity power* refers to being in the right place at the right time or perceiving opportunities.
9. *Relationship power* refers to when being close to others with power enables some of the other person's power to rub off.
10. *Coalitions and networks* confer power by enabling the person to call on others for support of various kinds.

These sources are not alternatives but can occur in combination. Certainly many powerful people rely on more than one source. Furthermore, acquiring multiple sources of power can be expected to enhance an individual's overall power.

Substitutes for leaders and managers

The concept of substitutes for leaders³⁴ is related to the systems view of leadership. Substitutes for leaders refer to how elements of the system, culture or

operating environment can fully or partially replace the need for supervision or other traditional leader and manager activities. Substitutes for leaders are usually unrecognised contributors to leadership but relieve managers and leaders of various operational tasks. Leader substitutes are very common in practice, particularly for operational processes, and they operate within all paradigms.

Many different kinds of transactional leader substitutes can be identified. These include employing people who are guided by the ethical requirements of their profession (e.g. surgeons or lawyers), creating closely knit work teams whose members can support each other, formalising extensive rules that people can refer to (e.g. following specified steps in quality management), using computer or other automated monitoring systems, ensuring that feedback is available (e.g. customer survey results), and providing access to handbooks or other guidelines for when people are unsure about what to do in certain situations. Call centres provide a prime example of using substitutes for management. There, a computer directs incoming calls to the next available operator (or the computer may actually answer the phone), provides a script for the operator to speak (which can change depending on what the caller wants), monitors the length of the call, times the operator in answering calls or being away from the phone, signals if there are problems, records and analyses data and produces summary reports. This frees up transactional leaders from supervising routine operational tasks.

The leadership challenge in such call centres is how to enable workers to remain motivated in highly automated environments. One way is to develop employees to work on customer problems at increasing levels of difficulty; another is to create a fun environment. The Australian Taxation Office does both of these things to motivate and challenge the professionals operating its taxpayer call centre.

Visionary leader substitutes include having a clearly shared and understood vision and a set of values so that members can make many decisions themselves without bothering the leader. People know where the organisation is heading via the vision. They understand the way that the organisation wants its people to achieve the vision through the espoused values – for example, with integrity and respect rather than through fraudulent and unethical practices. When the vision and values are widely shared, it reduces the amount of time and effort that human leaders need to expend in directing and guiding their staff. Similarly, creating a culture of self-leading members reduces the supervisory burden on the leader.

In organic environments, social pressure on members to abide by organisational norms is particularly strong and can act as a substitute for leaders. Of course, values, vision and peer pressure can substitute for leaders wherever they occur.

Some people argue that if leaders find substitutes for their activities, there is no leadership! Another way of looking at this is to see building substitutes for leaders into an organisational system as itself an act of leadership. This then frees managers and leaders from many routine tasks, enabling them to focus on strategic and long-term thinking, for example.

Table 2.6 contains a checklist for identifying some common substitutes in leadership and management. To what extent are these or other substitutes evident in your organisation?

Table 2.6 Checklist for common substitutes for managers and leaders

| Substitutes | Strongly evident | Somewhat evident | Not evident |
|---|------------------|------------------|-------------|
| 1. Clear vision | | | |
| 2. Shared values | | | |
| 3. Specified goals | | | |
| 4. Access to information about progress | | | |
| 5. Feedback mechanisms | | | |
| 6. Self-managing workforce | | | |
| 7. Professional codes of conduct | | | |
| 8. Widespread skills training for staff | | | |
| 9. Closely knit work teams | | | |
| 10. Specified rules or procedures | | | |
| 11. Computer or other systems for managing work processes | | | |
| 12. Handbooks or written guidelines | | | |
| 13. Peer support or pressure | | | |
| 14. Strong cultural norms | | | |

Sustainable leadership practices

Following the collapse of Enron, Worldcom and other large firms in 2002, as well as more recent major shake-outs in the financial industry, business models based on short-termism and poor ethics have come under fire. Eminent critics are calling for more sustainable practices at all levels of an organisation than those found in business as usual.

At an absolute minimum, firms increasingly have to report on the environmental and social effects of their activities in addition to their financial viability – adopting John Elkington’s ‘triple bottom line’.³⁵ However, a strong business case can be made for operating on a much wider range of sustainable principles beyond being green and socially and financially sound. Avery and Bergsteiner³⁶ refer to a particular collection of these practices as ‘sustainable leadership’, or ‘honeybee’ practices.

Honeybee practices are not meant to simply make leaders feel good or be seen as being charitable. On the contrary, sustainable leadership brings with it substantial business advantages that all firms should be striving for. According to the World Business Council for Sustainable Development (WBCSD), sustainable leadership makes firms more resilient and competitive and helps them respond faster. Sustainable leadership practices help attract talented employees as well as make businesses more attractive to customers, investors and insurers.

The evidence is mounting that, all things being equal, operating on sustainable principles can add financial and other value to a firm. Sustainable leadership helps an organisation endure over time and weather the inevitable storms that beset an enterprise, as discussed in the next section.

Locust versus honeybee leadership

The terms 'sustainable' and 'leadership' both imply moving towards some future state. Clearly this can be done in many different ways, but in practice two fundamentally differing philosophies can be identified at the macro level of a firm: the 'honeybee' and 'locust' approaches. Evidence from the research literature and practice overwhelmingly identifies the honeybee approach as the more sustainable of the two.³⁷

The honeybee philosophy centres around 23 leadership practices that not only underpin sustainable leadership but also enhance a range of performance outcomes: brand and reputation, customer satisfaction, financial performance, shareholder returns and long-term stakeholder value.

Honeybee leadership is highly strategic, sophisticated and sharing, creating resilience and wealth for its protagonists. Honeybee leadership focuses on the long-term, delivering better outcomes more responsibly for more stakeholders. Honeybee-led firms care for and develop their people, try to protect the planet, care for the local communities in which they operate, consider the needs of a wide range of involved or affected parties and protect their image and brand through ethical behaviour – and they generally prosper.

The locust approach stems from business practices originally promoted by the Chicago School that are now widely entrenched as business as usual in many firms. It reflects a tough, ruthless, asocial and profit-at-any-cost business philosophy. Locusts believe that the sole purpose of a business is to generate a continuous stream of short-term profits and growth for its shareholders and that their model is the most effective way to achieve this. Locust managers are required to do whatever is necessary to get short-term results, irrespective of the interests of other stakeholders.

It is puzzling that locust practices continue, given that research is increasingly showing that honeybee practices are not only the more sustainable but deliver better long-term performance, including in shareholder value and financial returns. Given a choice between likely success and failure, one would expect

executives to opt for the more sustainable, and ultimately more profitable for all parties, honeybee leadership.

Sustainable leadership is not intended to provide a 'one-size-fits-all' approach. As the case studies in this book demonstrate, the practices found in honeybee firms can take many forms while conforming to sustainable principles.

Honeybee practices

Table 2.7 shows the 23 sustainable leadership practices that Avery and Bergsteiner³⁸ identified after visiting and studying honeybee organisations. The elements form three groups: foundation practices, higher-level practices and key performance drivers. Although these are all called 'practices', some reflect broad principles, attitudes and behaviours. The practices at each level are described next.

Foundation practices can be introduced immediately if senior management decides to do so. It might take some time to perfect the practices, but they do not require other elements to be in place first. The 14 foundation practices include the following:

1. training and *developing employees* at all levels, not just elites or special people
2. maintaining amicable, or at least respectful, *labour relations* between management and unions or other representatives of labour
3. *retaining staff* wherever possible, as opposed to quickly laying off people in tough times or to meet short-term budgets
4. *succession planning* to ensure that every role has someone being groomed to move into it and that employees can see a developmental path
5. *valuing employees* by treating them well beyond simply paying them more money
6. making the *CEO's role* that of a participating member of a top team as opposed to the heroic, solo decision-maker
7. ensuring *ethical behaviour* throughout the organisation by introducing appropriate systems and processes to support an ethical culture
8. encouraging a *long-term perspective* in making decisions, in addition to coping with short-term pressures
9. managing *organisational change* carefully as opposed to trying every passing fad—after all, a complex organisational system should not be interfered with without good reason
10. maintaining an *independent orientation towards the financial markets*, external investors or others who would dictate what the firm should do and not being a slave to this outside interference

11. promoting *environmental responsibility* in all processes, products and services
12. ensuring that the firm operates in a *socially responsible* manner
13. taking the interests of a broad range of *stakeholders* into account in making decisions
14. driving the business through a *vision* and set of values that people in the organisation share.

Higher-level practices require different combinations of the foundation practices to be in place before they can emerge. The following are the six higher-level practices:

15. *decision-making* – devolving responsibility for decisions to the lowest feasible level and encouraging the affected people to reach agreement or consensus. This contrasts with locust leadership, in which managers make the decisions.
16. *self-managing employees* characterise honeybee leadership
17. *team orientation* – teamwork is highly valued in sustainable enterprises
18. creating *organisational cultures* that enable and support honeybee leadership
19. *managing knowledge* – encouraging people to share their knowledge and retain it for the organisation's future benefit
20. *trust* is widespread and based on goodwill and long-standing relationships instead of close monitoring.

Key performance drivers make up the third level and are contributed to by combinations of the foundation and higher-level practices. The three key performance drivers underpin what customers are looking for and so drive the business. The following are the key performance drivers:

21. *innovation* – which is systemic and embedded in the organisation's culture, systems and processes
22. *staff engagement* – employees speak positively about the organisation, intend to remain with that employer and invest extra effort in making the business a success
23. *quality* – high quality and value for money are a given.

The practices listed in Table 2.7 have been grouped according to whether they belong to the foundation, higher-level or key-performance levels. They are not listed in any particular order of priority within those groupings.

In Table 2.7, the practices and drivers are listed in the left column. The phrases next to each practice in the middle and right columns represent the two extreme ends of the honeybee-locust spectrum. The middle column represents honeybee practices. The right column reflects 'pure' locust leadership.

Table 2.7 Sustainable leadership practices comparing honeybee and locust approaches³⁹

| Leadership practices | Honeybee philosophy (sophisticated, stakeholder, social, sharing) | Locust philosophy (tough, ruthless, asocial, profit at any cost) |
|--|---|---|
| Foundation practices | | |
| 1. Developing people | Develops everyone continuously | Develops people selectively |
| 2. Labour relations | Seeks cooperation | Acts antagonistically |
| 3. Retaining staff | Values long tenure at all levels | Accepts high staff turnover |
| 4. Succession planning | Promotes from within wherever possible | Appoints from outside wherever possible |
| 5. Valuing staff | Concerned about employees' welfare | Treats people as interchangeable and a cost |
| 6. CEO and top team | CEO works as top team member or speaker | CEO is decision-maker, hero |
| 7. Ethical behaviour | 'Doing the right thing' is an explicit core value | Ambivalent, negotiable and an assessable risk |
| 8. Long- or short-term perspective | Prefers the long-term over the short-term | Short-term profits and growth prevail |
| 9. Organisational change | Change is an evolving and considered process | Change is rapid and volatile, can be ad hoc |
| 10. Financial markets orientation | Seeks maximum independence from others | Follows its masters' will, often slavishly |
| 11. Responsibility for environment | Protects the environment | Prepared to exploit the environment |
| 12. Corporate social responsibility (CSR) | Values people and the community | Exploits people and the community |
| 13. Stakeholders | Everyone matters | Only shareholders matter |
| 14. Vision's role in the business | Shared view of future is essential strategic tool | The future does not necessarily drive the business |
| Higher-level practices | | |
| 15. Decision-making | Consensual and devolved | Primarily manager centred |
| 16. Self-management | Staff are mostly self-managing | Managers manage |
| 17. Team orientation | Teams at all levels are empowered | Teams are limited and manager centred |

| | | |
|---|--|--|
| 18. Culture | An enabling, widely shared culture | Weak culture except for focus on short-term results |
| 19. Knowledge sharing/ retention | Spreads throughout the organisation | Limits knowledge to a few 'gatekeepers' |
| 20. Trust | High trust through relationships and goodwill | Control and monitoring compensate for low trust |
| Key performance drivers | | |
| 21. Innovation | Strong, systemic, strategic innovation evident at all levels | Innovation is limited and selective; buys in expertise |
| 22. Staff engagement | Values emotionally committed staff | Financial rewards suffice as motivator, no emotional commitment expected |
| 23. Quality | Embedded in the culture | A matter of control |

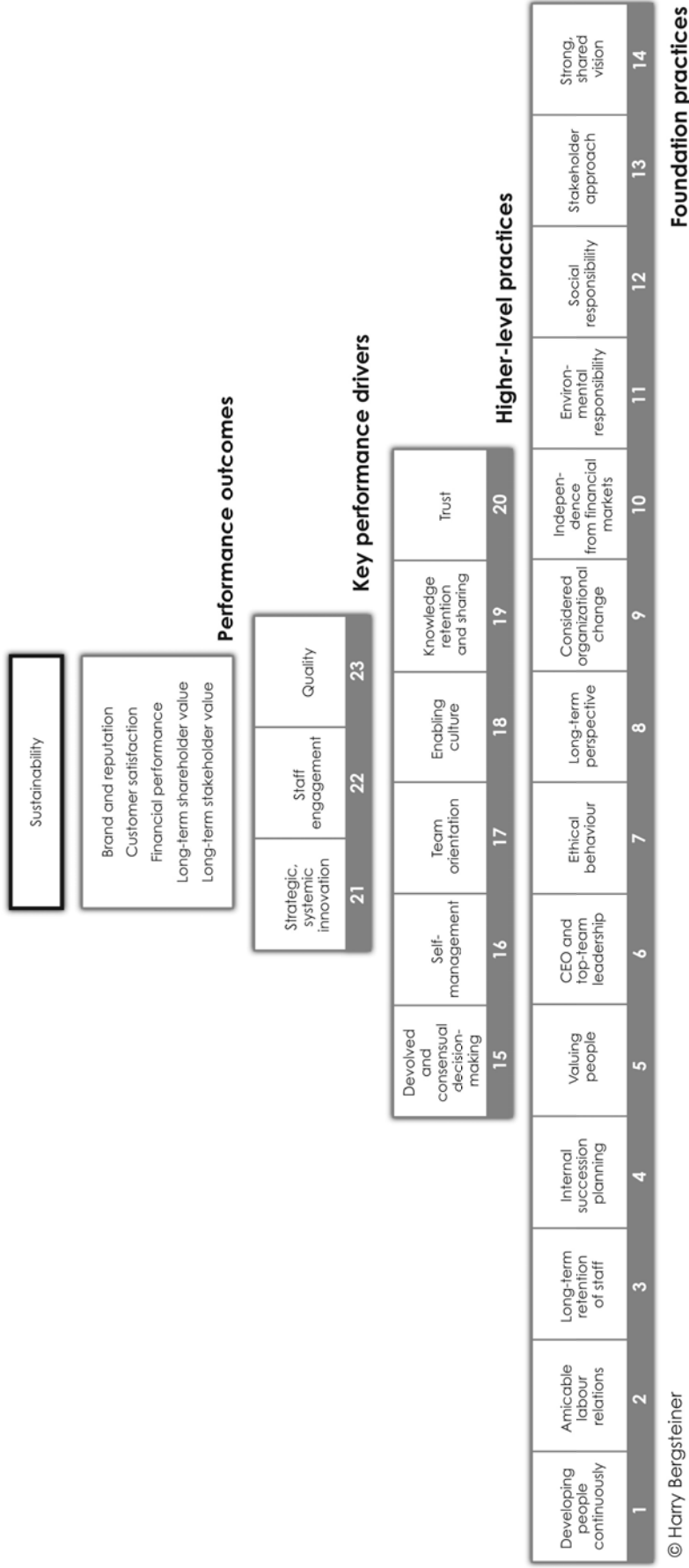
Table 2.7 can be used as a quick checklist to assess a firm’s prevailing leadership philosophy: is it predominantly honeybee or locust? In practice, ‘pure’ honeybee or locust types are rarely found because of the dynamic nature of real enterprises. Typically there is a tendency towards one of the two ends of the spectrum. This mixture can be historic, possibly reflecting the personal preferences of the founder or can result from dramatic events arising from new investors, political pressures, public listing or mergers and acquisitions.

The two leadership approaches form two largely self-reinforcing leadership systems, reflecting either honeybee or locust philosophy, or some mixture. For example, the locust practice of laying off staff for short-term gains affects many other practices. It removes skills from the firm, breaks trust with employees and other stakeholders, reflects an often ill-considered organisational change and disrupts teams, labour relations and the firm’s knowledge base. Staff engagement among the remaining employees tends to suffer, which in turn disaffects customers. This then has further consequences given that engagement underpins innovation and quality. Thus after a firm lays off workers, the two most important stakeholder groups are likely to be (dis)affected, namely customers and employees. This will also reflect on a firm’s brand and reputation and hence affect revenues and shareholder returns.

To display the dynamic nature of sustainable leadership, Harald Bergsteiner created the ‘sustainable leadership pyramid’ (Figure 2.3).⁴⁰ The pyramid shows how the 23 practices interact to influence five performance outcomes and ultimately the organisation’s sustainability. Interactions between the elements are not only bottom up and top down, but practices on the same level also reinforce each other. Thus the system is dynamic.

Each higher-level practice depends on the presence of particular foundation practices, which can be introduced at any time. For example, trust is classified as a higher-level practice because managers cannot inject trust into an organisation the

Figure 2.3 Sustainable leadership pyramid⁴¹



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way they can introduce a training and development program. Developing and maintaining trust depends on the presence of many of the foundation practices.

Among other things, trust requires:

- people to be trained and developed (Can you rely on unskilled colleagues.)
- amicable labour relations (Can you trust an employer who treats employees with disrespect?)
- a commitment to long-term staff retention (If people can be laid off at any time, who can feel safe?)
- internal succession plan (Do I have a future here?)
- valuing people (Am I more than just a pair of hands to do the work?)
- ethical behaviour (If the company acts in a corrupt way, how do I know they won't treat me badly?)
- considered organisational change (What can I rely on around here?)
- environmental responsibility (My employer is acting irresponsibly, so how can I trust him?)
- social responsibility (How can I trust an employer who operates at the expense of others?)
- taking a stakeholder approach (How can I trust an employer who ignores the needs of customers and other stakeholders?)
- sharing a strong vision (Does not knowing what we are here for or where we are heading create trust or uncertainty?).

Similarly, the key performance drivers depend on the presence of some or all the higher-level practices. For example, research shows that achieving high quality services or products requires a team orientation, empowered employees able to make decisions, shared knowledge and trust. In short, practices at the upper levels emerge from lower level practices. Note that the sustainable leadership pyramid does not reflect every possible leadership practice but only includes those elements that constitute honeybee leadership.

As is apparent in the case studies that follow, examples of sustainable business leadership can be found all over the globe, from Asia to Australia, Europe and the US, particularly in family businesses but also in listed firms. Not surprisingly, high concentrations of sustainable enterprises occur in regions where sustainable thinking has widespread support in the community, such as in Europe. However, geography does not determine an enterprise's leadership philosophy. Examples of firms following sustainable principles occur in countries such as the US, UK and Australia where locust thinking prevails. Honeybee firms flourish not only in the developed world but also in developing economies as our cases on the small Sa Paper Preservation House and large Kasikornbank from Thailand show.

Finally, how does sustainable leadership link to the leadership paradigms? Basically, every firm should embrace sustainable leadership principles because the research evidence shows that honeybee practices are likely to enhance performance and promote resilience and sustainability. As such, sustainable practices form the basis for running a business. Underneath this broad umbrella, different paradigms can be chosen to suit the diverse requirements of specific organisations, situations and individuals. The visionary and organic paradigms fit particularly well with honeybee practices because both rely on a shared vision and employee involvement. However, all paradigms can accommodate most of the sustainable leadership practices. Essentially, the leadership paradigms reflect the specific leadership requirements of an organisation beneath the overarching sustainable leadership practices.

Summary

In this section, many different analytical frameworks relevant to leadership have been presented. Four leadership paradigms and four broad levels of leadership were introduced. By combining these four paradigms with the levels, Bergsteiner produced a 24-cell leadership matrix that enables leaders to relate their activities to the kinds of leadership they want to create.

Sixteen leadership theories were described at the micro, meso and macro levels of an organisation, starting with micro-level approaches to individual leadership, leader-follower relationships and contingency theories. At the meso and macro levels, three theories were introduced: top echelon theory, organisational culture and learning and teaching organisations. In this section, we linked the various theories to the four paradigms. External influences also arise at the macro level but, together with the details of societal-level theories, they fall outside this book's scope.

Given the neglect of followers in practice and the literature but their importance in leadership, follower theories were discussed in a separate section. Follower differences under the leadership paradigms and three other theories were introduced: Kellerman's five levels of follower involvement, why people attach themselves to visionary leadership and employee variation in need for supervision.

Viewing an organisation as a system makes substitutes for leaders and managers particularly important. Substitutes for transactional or visionary leaders in particular can be designed into an organisational system to guide or manage tasks previously performed by managerial leaders.

Since power and leadership are closely linked, ten sources of power were identified, noting that powerful people are likely to derive power from multiple sources.

The final framework was Avery and Bergsteiner's 23 sustainable leadership elements, which can be adopted in the locust tradition similar to business as usual or as the more sustainable honeybee model. The sustainable leadership pyramid

can be used to audit the sustainable practices that together influence five performance outcomes: brand and reputation, customer satisfaction, financial performance, long-term shareholder returns and stakeholder value.

The four leadership paradigms were used to link many of the other approaches including levels of leadership, leader and follower theories and sustainable leadership.

The purpose of introducing such a wide range of approaches and frameworks in Part II is to provide basic tools for analysing leadership situations from different perspectives. Many other theories and models could have been chosen from the hundreds of approaches available. However, we believe that the selected frameworks provide a tool kit for dealing with many practical leadership issues. Sheets containing blank forms for the key frameworks and tables are provided in the Appendix for your use.

Applying the tools and frameworks

This section illustrates how some of the frameworks can be used to understand leadership in the Virgin Group. First, the Virgin Group is described based on publicly available information, then the case is viewed through relevant theories and tools to highlight leadership issues in this organisation.

Case 2: The Virgin Group⁴²

Among the most recognised brands in the world, the Virgin Group consists of more than 200 branded companies involved in planes, trains, finance, soft drinks, music, mobile phones, holidays, cars, wines, publishing, hot air ballooning, gaming and formerly bridal wear. The group operates worldwide, employing about 50,000 people in 30 countries. Reported global revenues exceeded US\$17 billion in 2008.

At the heart of the Virgin brand are the entrepreneurial instincts and strategic vision of the founder, Sir Richard Branson, who is now chairman of the board. Born in 1950, Branson was educated at Stowe School. His first entrepreneurial venture was setting up a student magazine when he was 16. In the 1970s he founded Virgin, starting as a mail order record retailer, followed by opening a record store in Oxford Street, London. The rest is history. Branson is very accessible through his online blogs, frequently appears in the media and is well known for his publicity stunts. For example, at the launch of Virgin Bride, Branson shaved off his beard and wore a wedding dress.

The group's mission is to make the industries it goes into better for customers. Although the companies in the Virgin Group span many very different industries, entering a new business is far from haphazard. All ventures are carefully analysed beforehand. The group looks for opportunities that offer improvements for, or otherwise add value to, customers, particularly where the competition is complacent. Talented people from throughout the group are then often seconded to steer new ventures, thereby bringing new perspectives

and sharing knowledge and experience. People at Virgin claim to be passionate about creativity, taking an innovative approach to business and not being dictated to by convention.

According to the group's website, once a Virgin company exists, various factors contribute to its success, including the power of both the Virgin name and Richard Branson's personal reputation. This is supported by the group's network of friends, contacts and partners and the way talented people from within the group are empowered and supported. In addition, Virgin has its own management style: minimal layers of management, no bureaucracy, a tiny board and no large expensive global headquarters. The group aims to deliver a quality service by empowering employees and continually improving the customer's experience through innovation and feedback.

For over 40 years, Virgin's values remained constant: value for money, quality, innovation, fun and a sense of competitive challenge. In recent years, two more values have been added: the wellness and happiness of all stakeholders plus sustainability of the planet. Employees are expected to share these values and act accordingly. Management believes that this clear set of corporate values has the advantage of needing fewer management controls. However, employees are still held accountable for their performance.

The companies regard themselves as part of a family rather than as part of a hierarchical conglomerate. The companies manage their own affairs, collaborate with other entities in the group and share ideas, values, interests and goals. The group headquarters takes a primarily advisory role. For example, to help manage the growth and development of the group, teams look after different sectors of the business, such as aviation, telecommunications, financial services and health and wellness. A managing partner runs each sector team.

Employees are attracted by Virgin's strong culture, vision and values. The fun culture is evident in the folksy wording used on the website. Here is the opening sentence on the 2010 careers portal: 'Expansive global enterprise, wide ranging interests, often maverick but never reckless, seeks passionate professionals, from all walks of life, for challenging adventures...'

Various kinds of financial reward systems also help keep individuals committed including stock options, bonuses and profit sharing. Entrepreneurial opportunities for advancement and promotion abound within the group.

It is difficult to find information about the privately held Virgin enterprises as a whole, especially because Branson reportedly has a love-hate relationship with the financial markets. After listing on the stock exchange, he then re-privatised some of his companies. He said this was because the short-termism of the markets went counter to his philosophy of building businesses for the long-term and bearing losses along the way. After briefly running the Virgin Group as a public company, Branson took the former holding company private, leaving only one of the companies, Virgin Express, publicly traded at the time.

He often floats a company and then withdraws it again, as he did with Virgin Records in the late 1980s, or threatens to do so, as he did with Virgin Mobile in 2000. Reportedly, many of the Virgin companies do not make a profit. For example, Virgin Atlantic, the airline regarded as a Virgin cash cow, lost US\$90 million in 2001–2, and Virgin Brides had to close in 2007 because it was unprofitable.

The Virgin Group supports a number of philanthropic activities including Virgin Earth Challenge, which offers a \$25 million prize to encourage a viable technology to remove atmospheric greenhouse gases. The Carbon War Room gets entrepreneurs together to create market-driven solutions to climate change. The Elders is a group of prominent leaders, including Branson and Nelson Mandela, who contribute their wisdom, independent leadership and integrity to tackle some of the world's toughest problems. A non-profit foundation, Virgin Unite, focuses on entrepreneurial approaches to social and environmental issues.

Virgin's first Corporate Responsibility and Sustainable Development Report was released in 2010, although senior executives claim that they have been concerned about sustainability for some time. According to the report, the corporate vision for sustainability is to 'make a credible contribution towards sustainable lifestyles while meeting or exceeding the expectations of our staff, customers and stakeholders'. What this means in practice for the various companies in the group differs. For Virgin Gaming, social responsibility means helping to prevent gambling addiction, for Virgin Wines it means ensuring a fair price to producers and promoting responsible drinking and for Virgin Money, responsibility refers to responsible lending. Finally, the Virgin Group acknowledges the high environmental impact of its aviation businesses and says that it is working on ways of making flying more sustainable.

Analysing the case using the frameworks

In analysing leadership within the Virgin Group, the following frameworks and tools are systematically applied to the case:

- leadership paradigms
- levels of leadership
- Bergsteiner's levels and leadership paradigms matrix
- selected leadership theories and approaches
- follower theories
- power and politics
- substitutes for leadership and management
- sustainable leadership practices.

Analysing the Virgin case yourself before reading on will test your understanding.

Leadership paradigms

Based on the information provided in the case, it appears that the dominant leadership paradigms operating within the Virgin Group are visionary and organic. Richard Branson's entrepreneurial vision underlies the entire business, but he can only achieve this vision in such a large, diverse enterprise by empowering and inspiring his employees. This he does with a clearly stated vision and set of values that people are expected to buy into from the time they join. Teamwork and collaboration are highly valued in the group's culture.

To the extent that employees within the various businesses are able to make decisions, take on leadership roles and establish new businesses, one could say that elements of organic leadership exist at Virgin. However, there is insufficient evidence for widespread organic leadership in the case study, despite the few layers of management, entrepreneurial opportunities and widely shared vision and values. The Virgin Group appears to display strong and consistent visionary leadership characteristics.

Levels of leadership

Looking at the Virgin case by leadership level reveals:

- *Societal-level leadership.* The company operates in about 30 countries, requiring considerable intercultural management. The corporate culture appears strong enough to operate in many national contexts. For example, even in cultures where classical leadership is traditional, Virgin's entrepreneurial culture attracts self-starters.
- *Macro-level leadership.* The Virgin Group has a clear strategy, vision and set of values. The firm is concerned about a range of stakeholders, with a particular emphasis on customers and staff. Talent is attracted and used in creative ways. Teamwork operates throughout the enterprise. With few layers of management, bureaucracy is minimised. Systems and processes are in place for managing many functions. HR plays an advisory role. Staff development is enabled and promotion from within encouraged. Sustainability is an increasingly strong focus, including corporate social responsibility.
- *Meso-level leadership.* Like the board, the top team is kept very small and provides autonomy to the individual businesses. Members of the top team are expected to support the visionary leadership paradigm operating throughout the group. Similarly, the CEOs of the subsidiaries and the relatively few middle managers are expected to operate within the firm's vision, values and management philosophy. For its management philosophy to work, the Virgin Group requires special kinds of followers—those who are willing to accept responsibility and accountability via empowerment, share the values and vision and bring the ability to think outside the box. Followers can expect opportunities for promotion and entrepreneurial 'adventures'. Agreements in place

across all meso-level groups of employees include financial incentives, stock, bonuses and profit sharing.

- *Micro-level leadership.* Little information is provided about what kinds of issues arise at the micro level in this organisation and how they are dealt with.

Bergsteiner’s leadership levels and paradigms matrix

Bergsteiner’s matrix combines the previously mentioned levels of leadership with the four leadership paradigms. The analysis of the Virgin Group using these combined frameworks is summarised in Table 2.8.

Table 2.8 Bergsteiner’s leadership levels and paradigms matrix applied to the Virgin Group

| Levels of leadership | | Leadership paradigms | | |
|--|-----------------------|----------------------|----|--|
| | | C* | T* | O* |
| Societal level Prevailing culture | | | | The company is operating in several different leadership cultures. |
| Macro-organisational level Organisational or divisional systems, processes, traits, life cycle, size, economic models, strategy | | | | In addition to systems, vision and values are widely shared across the firm. Social responsibility is important, multiple stakeholders considered and staff empowerment is widespread. Bureaucracy is minimised and employees are empowered. |
| Meso-organisational levels Classes of people | Executive Team | | | A small top team sets the vision but does not appear to control operations. |
| | Other Leaders | | | Relatively few middle managers exist, but roles exist for sector team managers and CEOs of subsidiaries. Strong autonomy is accorded to these managers. |
| | Followers | | | The company desires self-managing followers who share the vision and values, are willing to be empowered, are entrepreneurial and enjoy fun and innovation. |
| Micro-organisational level | | | | This is unclear from the case. |

* C=Classical, T=Transformational, O=Organic paradigms.

The matrix shows that the Virgin Group operates under a visionary leadership paradigm and is aligned across all levels in the visionary column. Unfortunately, insufficient information was available in the case to be able to comment on some cells in Table 2.8, particularly at the micro level and about other leaders, the board and members of the top team (apart from Richard Branson).

Selected leadership theories and approaches

Which theories and approaches can be drawn on to understand leadership in the Virgin Group as described in the case? Table 2.9 summarises the analysis using the leadership theories presented above. Evidence for the relevance of only four approaches was missing from the case—LMX theory, Fiedler’s model, learning and teaching organisation and the use of situational leadership. Of these missing elements, only LMX theory and being a teaching organisation are theories expected to apply specifically to the visionary paradigm. This does not mean that the missing theories cannot apply to this enterprise, just that they were not evident in the case.

Table 2.9 Linking theories and approaches to the Virgin Group

| Theory | Does the theory offer insights into the Virgin Group case? |
|-----------------------------|--|
| Behaviours | Yes, many visionary behaviours are evident. |
| Great men | Yes, Branson is a self-made great man, not born into leadership or wealth. Other leaders do not appear as individuals in the case. |
| Traits | Yes, all six of Kirkpatrick and Locke’s traits appear present in Branson. Others in the organisation are expected to possess most of these traits as well, especially drive, integrity, self-confidence and intelligence. Knowledge of the business can be acquired. |
| Charisma | Yes, Branson is considered charismatic. Other individuals are not specified in the case. |
| Authentic leadership | Yes, Branson seems to ‘walk the talk’ and encourage people in a positive way. Other leaders are not known. |
| Level 5 | Yes, Branson seeks the limelight and is therefore not a level 5 leader. Not clear whether he attributes mistakes to himself and success to others. Other people are not discussed in the case. |
| Narcissistic | Yes, Branson appears to be a <i>constructive</i> narcissistic leader who is well balanced and has a positive sense of self-esteem. He radiates a sense of positive vitality and empathy. Other individuals are not mentioned in detail. |
| LMX | It is unclear from the case, but no evidence of in-groups or out-groups is presented. The practice of group-wide secondment speaks against the dominance of in-groups. |
| Socio-cognitive | It is unclear how the staff perceive their leaders. |

| | |
|---------------------------------|--|
| Fiedler's model | Yes, Branson and other leaders exercise moderate control and are relationship oriented. |
| House's path-goal theory | Yes, leaders are to empower staff and help remove obstacles even though employees are largely self-managing. |
| Top echelon | Yes, the case tells us that the top team is small, unbureaucratic, talented, flexible, advisory, and 'family' and team oriented. There is no information about the dynamics of the top team or personal characteristics of most members. |
| Learning | Yes, strategic on-the-job learning is evident. |
| Situational leadership | It is unclear from the case. (This transactional leadership tool could be useful for developing staff in any firm.) |
| Culture | Yes, there is a strong, widely shared culture. |

Follower theories

First, it is important to consider the follower requirements in relation to the four paradigms. Given the visionary nature of the Virgin Group, the followers seem to fit well in terms of sharing the group vision, initiating ideas, collaborating in teams and being self-managing. In addition, employees are expected to fit into a passionate, challenging and entrepreneurial environment with low bureaucracy and few levels of management.

Next, we apply three follower frameworks, the results of which are summarised in Table 2.11: Kellerman's follower typology, personalised versus socialised visionary followers and followers' need for supervision. But first, Kellerman's five levels of follower involvement are summarised in Table 2.10.

Normally, Kellerman's five follower types based on level of engagement would be applied to individual employees. However, Table 2.10 shows the results of applying it across an organisation. It is clear that the Virgin Group tries to recruit and retain a workforce that is mainly in the activist category, with at least one positive diehard (its founder).

Why do people follow visionary leadership at Virgin? Richard Branson can be described as a visionary leader and some staff would admire him and want to be part of his organisation because of him, that is, for personalised motives. Others would be attracted by socialised motives of wanting to be part of an entrepreneurial enterprise that improves the world for customers. Both personalised and socialised motives could equally well apply to some of Virgin's employees.

The case suggests that followers with a low need for supervision are preferred at Virgin, particularly given the minimal layers of management in that organisation.

Table 2.10 Kellerman’s (2007) follower typologies applied to the Virgin Group

| Follower type | Description | Apparent at Virgin? |
|----------------------|--|--|
| Isolates | <ul style="list-style-type: none"> ▪ completely detached from leaders and the organisation ▪ barely aware of what is going on around them ▪ care little for their leaders ▪ not particularly responsive to their leaders. | No |
| Bystanders | <ul style="list-style-type: none"> ▪ disengaged from their leaders, groups and the organisation ▪ observe but do not participate ▪ deliberately stand on the sidelines ▪ offer little resistance or active support. | No |
| Participants | <ul style="list-style-type: none"> ▪ engaged in some ways ▪ try to make an impact ▪ may clearly support or oppose their leaders and organisations ▪ will invest some of their own time and energy in what they believe in. | No |
| Activists | <ul style="list-style-type: none"> ▪ work hard either for or against their leaders ▪ are eager, energetic and engaged when supportive ▪ feel strongly about their leaders and organisations and act accordingly ▪ are heavily invested in people and processes. | Yes (those working for their leaders) |
| Diehards | <ul style="list-style-type: none"> ▪ are rare ▪ all-consuming dedication to someone or something they believe in ▪ willing to endanger their own health and wellbeing for their cause ▪ can be a strong asset or a dangerous liability to their leaders because of their extreme dedication. | No (except for Branson himself) |

The results for all follower approaches are summarised in Table 2.11.

Table 2.11 Summary of follower theories applied to the Virgin Group

| Theory | Do Virgin followers fit the theory? |
|--|--|
| 1. Avery–Bergsteiner follower types | Yes, followers are expected to initiate ideas, collaborate in teams and self-manage towards a shared vision. |

| | |
|--|--|
| 2. Kellerman types | Yes, activists are preferred, but Richard Branson is likely to be a diehard. |
| 3. Howell and Shamir's reasons for visionary followership | Yes, both personalised and socialised reasons can be relevant here. |
| 4. Need for supervision | Yes, the need for supervision is expected to be low. |

Substitutes for leaders and managers

Substitutes for leaders are widely evident at Virgin because of its characteristic management approach. Rather than relying on managers, the group's philosophy is to provide a clear vision and set of values to guide employee behaviour, thereby requiring fewer management controls. In addition, people work in teams that can

Table 2.12 Substitutes for leaders and managers in the Virgin Group

| Substitutes | Strongly evident | Somewhat evident | Not evident |
|--|------------------|------------------|-------------|
| 1. Clear vision | ✓ | | |
| 2. Shared values | ✓ | | |
| 3. Specified goals | | ✓ | |
| 4. Access to information about progress | ✓ | | |
| 5. Feedback mechanisms | | ✓ | |
| 6. Self-managing workforce | ✓ | | |
| 7. Professional codes of conduct | | | ✓ |
| 8. Widespread skills training for staff | ✓ | | |
| 9. Closely knit work teams | ✓ | | |
| 10. Specified rules or procedures | | | ✓ |
| 11. Computer or other systems for managing work processes | | | ✓ |
| 12. Handbooks or written guidelines | | | ✓ |
| 13. Peer pressure | | ✓ | |
| 14. Strong cultural norms | ✓ | | |

support the members. Staff members know the company goals and cultural expectations. Employees have many opportunities to share information, including when seconded to new product and other teams, thereby reducing the need for managers to control. A clear set of guidelines is in place for determining and evaluating future projects. With a lean management structure, it is essential that substitutes for leaders and managers are built into the system. Table 2.12

summarises the extent to which substitutes for leaders and managers are evident from the Virgin case.

Power and politics

Power varies between different individuals and groups at Virgin. Founder and chairman Branson is strongly associated with many forms of power, as the left

Table 2.13 Sources of power among leaders at the Virgin Group

| Sources of Branson's power | Sources of other leaders' power |
|--|--|
| <i>Legitimate or position power</i> — Strong : this derives from his role or position, although it appears that he does not rely on it. | <i>Legitimate or position power</i> — Strong : derives from their roles or positions, but it appears that they do not rely on it. |
| <i>Coercive power</i> — Strong : this goes with Branson's position. | <i>Coercive power</i> — Strong : potential with own followers; weak towards upper managers. |
| <i>Reward power</i> — Strong : Branson has many opportunities to reward people. | <i>Reward power</i> — Strong : many opportunities to reward people. |
| <i>Ownership power</i> — Strong : this is clearly a strong source of power for Branson. | <i>Ownership power</i> — Weak : privately held firm. |
| <i>Referent power</i> — Strong : Branson is very widely admired and this would be a strong source of power for him. | <i>Referent power</i> — Variable : depends on individuals. |
| <i>Opportunity power</i> — Strong : he values being in the right place at the right time to find opportunities that others miss. | <i>Opportunity power</i> — Strong : the group values being in the right place at the right time to find opportunities that others miss. |
| <i>Relationship power</i> — Strong : Branson associates with powerful others, which would augment his own power. | <i>Relationship power</i> — Variable : depends on whom they associate with in addition to Branson. |
| <i>Networks and coalitions</i> — Strong : Branson has extensive networks, starting with the people involved in the Elders and Carbon War Room endeavours. | <i>Networks and coalitions</i> — Strong : part of the culture is to use networks and partnerships. |
| <i>Information power</i> — Strong : the threads of the organisation would converge on the chairman and owner. | <i>Information power</i> — Variable : individual differences. |
| <i>Expertise power</i> — Weak : Branson relies on others with expertise instead. | <i>Expertise power</i> — Strong : for most people. |

column in Table 2.13 shows. Only expertise power is weak, as Branson himself acknowledges. The likely power sources for other leaders are shown in the right column. Other leaders are likely to be strong on six sources—legitimate or position, coercive (towards followers), reward, opportunity, expertise and networking or coalition power. Although they may be in a position to coerce or punish staff members, these leaders are unlikely to be able to coerce their own bosses and would have no ownership power in a privately held enterprise. The remaining three sources of power will be held in variable amounts depending on individual differences in the other leaders' situations or dispositions: referent and relationship, networks and coalitions and information power.

Sustainable leadership practices

Using Avery and Bergsteiner's⁴³ sustainable leadership criteria in Table 2.14, we see that the Virgin Group meets the honeybee criteria very well. In the left column of Table 2.14, the 23 sustainable criteria are listed. In the centre column, the honeybee practice or philosophy is described and in the right column, practices in the Virgin Group have been extracted from the case. We have used different fonts to indicate the match with the honeybee philosophy. Normal font indicates a good match based on the case information, whereas italic means that the information was unclear on that element in the case.

Our analysis suggests that the Virgin Group matches the honeybee leadership philosophy on 20 practices, with three somewhat unclear (indicated in italic type). On no elements does the group appear to follow non-sustainable practices. This is not surprising for an enterprise that is predominantly privately held and where its founder is actively involved. Considerable evidence suggests that family businesses or listed firms still managed by their founders tend to operate on honeybee principles, perform better and be more sustainable than many people expect.⁴⁴

Clearly we have based the case on publicly available information supplied by the Virgin Group. Given the independence that the subsidiaries have in managing their own affairs, the culture and leadership practices could vary between the businesses. However, the purpose of this exercise was to show how a company could be analysed using sustainable leadership criteria.

Figure 2.4 shows the application of the sustainable leadership pyramid to the Virgin Group. At a glance, the 20 practices clearly evident in the case are visible on the pyramid, as are the performance outcomes. Clearly the Group has a strong brand and reputation. Its business purpose is to create satisfied customers particularly where competitors underperform. Financial performance is difficult to assess in privately held companies, as is investor return where there is only one main shareholder (Branson). However, the Virgin Group does appear to be striving for long-term stakeholder value through its new value of promoting the happiness and well-being of its stakeholders.

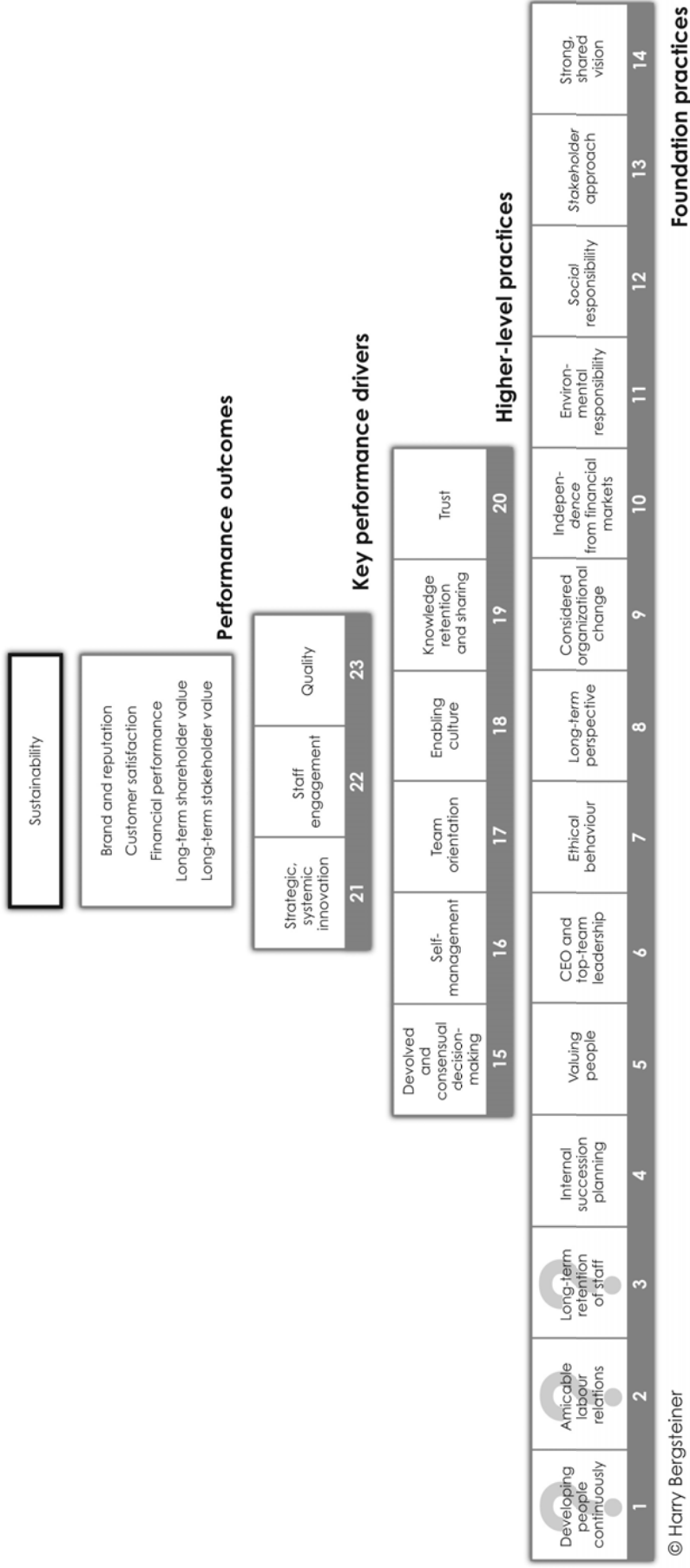
Table 2.14 Sustainable leadership practices identified in the Virgin Group case

| Sustainable elements | Honeybee philosophy | Virgin Group |
|---|---|---|
| Foundation practices | | |
| 1. Developing people | Develops everyone continuously | <i>People have many career opportunities and can start new businesses within the group but the case is unclear on training opportunities.</i> |
| 2. Labour relations | Seeks cooperation | <i>No evidence presented on attitudes to unions or whether unions are involved in the Virgin Group.</i> |
| 3. Retaining staff | Values long tenure at all levels | <i>No evidence presented on levels of staff turnover.</i> |
| 4. Succession planning | Promotes from within wherever possible | A declared goal. |
| 5. Valuing staff | Concerned about employees' welfare | People appear to be valued and treated well. |
| 6. CEO and top team | CEO works as top team member or speaker | CEO is certainly a media hero but exercises an empowering leadership style with decisions devolved to the individual companies; headquarters is kept small and takes an advisory role; no information is available about how the small top team functions or who makes the final decisions; being owner of many of the companies, Branson could act alone if he chose to. |
| 7. Ethical behaviour | 'Doing the right thing' as an explicit core value | No evidence of unethical behaviour; Group values social responsibility, responsible drinking and responsible gambling. |
| 8. Long- or short-term perspective | Prefers the long-term over the short-term | Branson's philosophy is to take a long-term view and bear losses along the way if need be, rather than be driven by short-term concerns. |
| 9. Organisational change | Change is an evolving and considered process | Change can be rapid but establishing new businesses is carefully considered. Long-term retention of values and firm's management philosophy. |
| 10. Financial markets orientation | Seeks maximum independence from others | Mostly privately held, independence from the financial markets is valued by Branson who frequently delists his companies to regain this independence. |
| 11. Responsibility for environment | Protects the environment | Actively concerned about the sustainability of the planet, attempting to make its air travel as sustainable as possible. |

| | | |
|--|---|--|
| 12. Corporate social responsibility (CSR) | Values people and the community | Engaged in a range of socially responsible activities that differ between group companies. |
| 13. Stakeholders | Everyone matters | Values wellness and happiness of all stakeholders including customers, employees and others. |
| 14. Vision's role in the business | Shared view of future is essential, strategic tool | Has a strong, clear vision; consistent 40-year-old suite of values apart from two recently added ones. |
| Higher-level practices | | |
| 15. Decision-making | Consensual and devolved | Appears to be devolved to empowered employees for operations and talented people steer new ventures. |
| 16. Self-management | Staff are mostly self-managing | Employees are encouraged to be self-managing and are empowered to act with few management controls. |
| 17. Team orientation | Teams are extensive and empowered | Teamwork and collaboration are encouraged including between subsidiaries of the Group, sector teams manage different parts of the business. |
| 18. Culture | An enabling, widely shared culture | Family focused, collaborative and sharing, entrepreneurial, innovative and fun, culture appears to be widely shared and enables people to be innovative. |
| 19. Knowledge sharing and retention | Spreads throughout the organisation | Extends across members of the group who share ideas and interests, including on new ventures. |
| 20. Trust | High trust through relationships and goodwill | Employees are trusted with new ventures and to adhere to corporate values in guiding their work. Low levels of control by management preferred. |
| Key performance drivers | | |
| 21. Innovation | Strong, systemic, strategic innovation evident at all levels | Highly innovative in products and services, uses continuous improvement and will not be dictated to by tradition. |
| 22. Staff engagement | Values emotionally committed staff and the resulting commitment | Engagement is encouraged through empowerment, fun, folksy language, focus on people. |
| 23. Quality | Embedded in the culture | Quality is a core value encouraged via innovation and feedback. Continuous improvement for customers is a strong focus. |

Diagnosing Leadership in Global Organisations

Figure 2.4 Sustainable leadership pyramid applied to the Virgin Group



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Summary

This section applies virtually all the frameworks and tools covered in this book to analyse the Virgin case, highlighting different aspects of leadership in this visionary organisation. Some theories and models focus on the characteristics of Richard Branson, others look at lower level leaders and followers. Yet other tools reveal the way leadership stems from the systems and processes within the Virgin Group. We have examined leadership at four levels of the firm, highlighting different kinds of consideration at each level. Finally, Virgin addresses most of the sustainable leadership criteria that distinguish honeybee and locust leadership philosophies.

In Part III, you will find more cases to examine through these leadership lenses.

Part III

Cases

The following ten case studies come from different industries and various parts of the world. The cases take different perspectives, allowing use of the theories, frameworks and tools presented in Part I of this book. In Appendix 1, you will find blank copies of the various tables and frameworks to help your analysis.

Not all theories, frameworks and tools will necessarily apply to the one case. Taken together, the cases are designed to enable you to diagnose many different kinds of leadership practices and philosophies within a range of real businesses.

The case studies are based on information available to the authors at the time of writing. Clearly, only a partial view of the organisation in question can be presented in the short space available. The situations presented refer to a particular point in time, sometimes across several time periods, and things may well have changed since the case was written.

For learning purposes, whether the cases represent what is currently happening in the business is secondary to having material from real enterprises to apply the tools and frameworks to. What is important is to be able to identify both effective and ineffective leadership in a range of situations and at different levels. These cases enable you to do this.

You are invited to diagnose the following leadership situations guided by a series of questions at the end of each case. Sometimes the answers will be clear; at other times they will be ambiguous and open to debate. This reflects the complex nature of leadership.

Case 3: Australia

Westpac: Down the road to sustainability...and back?

Gayle C Avery⁴⁵

We have come to understand that sustainability is not a program, nor even a set of priorities. It must be an overarching management approach.

Ted Evans, chairman of the board, and
David Morgan, former CEO, Westpac⁴⁶

The Westpac Group provides a comprehensive range of banking and financial services to about seven million customers in Australia, New Zealand and the Pacific region. Australia's oldest company, its foundations date back to 1817 in Australia and to 1861 in New Zealand and the Pacific. Westpac is one of the four major banks in Australia and one of the largest in New Zealand. Its financial and banking services operate in a wide range of markets, including retail, business and institutional banking and wealth management services. The 2010 market capitalisation of this public company was about A\$69.5 billion and its assets totalled A\$618 billion.

By 2010, the group controlled the following brands: Westpac, St George, RAMS, BankSA, BT Financial Group and Asgard. Each brand has a distinctive identity. For example, Westpac is projected as a professional, aspirational bank with a social conscience for the environment and social issues. The St George brand reflects humanity and warmth. Bank SA retains its regional identity as a South Australian icon. Home lender RAMS has the image of a down-to-earth lending specialist for those on lower incomes and those who are self-employed.

Over the company's nearly 200 years of operation, there have been 23 CEOs with an average tenure of about eight years. Several recent CEOs in particular have had a major effect on Westpac's survival and culture. These include the former CEO, Dr David Morgan (1999–2007), and the current CEO, Dr Gail Kelly (since 2008).

Business has not always been smooth sailing for Westpac as the following story recounts. The company nearly went out of business in the early 1990s, recovered for over a decade, primarily under CEO David Morgan, to become a highly sustainable enterprise, only to be hit by the global financial crisis in 2008–9. Can Westpac retain its culture as a sustainable business following this crisis and under a new CEO?

Survival threatened—the bad 1990s

Although the member companies forming the Westpac Group had originally flourished, by the early 1990s Westpac was in serious trouble. The bank's behaviour under deregulation of the Australian banking system, coupled with what ex-CEO David Morgan called 'hubris', threatened its very survival. As Morgan recalls:

In the space of six months, the chief executive, the chief operating officer, the chairman and four other board members had resigned or been sacked as the price for a badly botched response to the deregulated financial system...⁴⁷

Although the bank survived the difficult 1990s, the cost was high. According to Morgan, shareholders were somewhat satisfied, but the staff had paid a high price. Thousands of employees had been laid off, and many remaining employees were demoralised, disenfranchised and alienated. Customers were even more alienated. At the end of the 20th century, Australians generally thought that all the major banks were ‘greedy, arrogant, contemptuous and ignorant of their needs’.⁴⁸ Big banks only seemed to care about their shareholders and in the process had lost the trust and confidence of other key stakeholders.

Then in 1999, bank insider David Morgan was promoted to CEO of Westpac. Although the bank had survived the 1990s financially, even in 1999 the future did not look sustainable because the bank was losing market share despite record profits. Was this a visible sign of a crisis in stakeholder confidence?

As Morgan admitted, “‘shareholder value’ had become the mantra of big business: business should look after the shareholders and the government should look after the people. This was a big mistake...’.⁴⁹ A new Westpac culture was required that actually reinstated some of the company’s traditional foundations, including trust.

The transformation—the Morgan years

Restoring trust with the staff was difficult because it had to happen in a context of major technological and other changes that created uncertainty and stressed the people. The former CEO explained that trust means:

that you care about them [employees]; that you will listen to them; that it is safe to speak up; that you care about what they think and value and believe. I have spent a lot more time than I ever imagined talking and listening – frequently and directly – to the 2000 leaders of our 28,000 strong staff.⁵⁰

The result was a more open culture in which people could challenge the way things were done. In reinventing itself, Westpac paid particular attention to leadership and teamwork. It set out to create a trustworthy, responsible and ethical organisation focused on corporate responsibility and sustainability.

Over a decade later, a focus on sustainability is core to the bank’s culture, brand and strategy. The bank has become a preferred employer and returned to being a good citizen. Further indices of Morgan’s success in transforming the business include having the highest employee commitment and engagement of any large company in Australia (87 per cent group-wide in 2007), enjoying record levels of customer satisfaction, being ranked as the leading bank in the world or equal leader for sustainability for the last six years of his tenure, and for its investors, a leading combination of growth and returns in its sector, which were sustained for most of the previous decade.

On the financial front, Westpac had increased its performance fairly consistently during the Morgan years. Financially, the bank reported a strong but negative ending in 2008 during the global financial crisis. The bank's market capitalisation dropped from A\$53.2 billion in 2007 to \$40.7 billion in 2008. However, Westpac's market performance was substantially ahead of that of other banks and the local stock market. In 2008, income from operations, interest and other sources exceeded \$22.8 billion. After-tax profit that year increased by 12 per cent over the previous year to \$3859 million. Dividends had risen continually over the previous ten years, from 47 cents per share to 142 cents per share in 2008, and even the 2008 dividend was 8 per cent higher than in 2007. Importantly, in 2008 the bank enhanced its efficiency, reducing its cost to income ratio by a full percentage point. In December 2008, it also engaged in major capital raising, selling billions of dollars worth of shares at a discount.

According to Chairman of the Board Ted Evans in his address to the 2008 Annual General Meeting, 2008 was a watershed year for Westpac. The company effectively responded to the global financial crisis, transitioned to a new CEO and delivered on the merger with St George Bank. New CEO Gail Kelly sees the core strengths of the company as its customer base, people, brand and extensive risk management expertise. In addition, Westpac is a leader in sustainability – in its broadest sense.

Sustainable leadership culture following the transition

Sustainability was clearly embedded in the new Westpac culture when Morgan stepped down in 2007. As Kelly put it, corporate responsibility and sustainability are essential to a financial services company because they involve *'managing risk and opportunity in a way that best balances the long term needs of all our stakeholders – our customers, employees, investors, and the community and environment at large'*.⁵¹ Sustainability at Westpac encompasses its lending practices, sourcing policies and high levels of corporate governance and is reflected in the company's early adoption and support of climate change initiatives. Comparable sustainability practices also apply to Westpac's New Zealand operations. There, Westpac sponsors a rescue helicopter, is associated with various trusts and has plans to reduce its carbon emissions per customer.

The corporate vision is to become Australia and New Zealand's leading financial services company. Westpac intends to achieve this vision by delighting customers and earning all of their business. This means putting customers at the centre of whatever it does. According to Kelly, this includes:

*driving a strong customer culture with clear customer segments; strengthening our distribution; focusing on improving the quality and efficiency of our operations; strengthening technology capability; and, driving a 'One Team' approach.*⁵²

The One Team approach means delivering integrated solutions from across the bank to meet customer needs. To help achieve the One Team approach, a detailed integration plan was drawn up to cover the first ten months of the merger with St George.

In line with the customer-centred vision, changes have been made to the company's call centre and complaint resolution processes to improve interactions with customers. A further innovation at Westpac is to bring back bank managers to local communities. The new bank managers are empowered to make decisions quickly for customers. As part of this process, bank managers have greater autonomy and accountability and bring branch activities, business bankers and wealth advisors under one roof.

The vision and values are supported by a set of seven principles, as set out in the bank's *Principles for Doing Business*. The principles are closely linked to a code of conduct and are designed to create and maintain the trust and confidence of key stakeholders including customers, employees, shareholders, suppliers, advisers and the community at large. The company recognises that being trustworthy requires it to act ethically and responsibly in all its dealings and to continuously improve. The principles in turn align with the core values.

To promote ethical and responsible decision-making, Westpac has comprehensive policies about ethical behaviour, transparency and accountability. These policies include Westpac's code of conduct: the principles for doing business, and policies on insider trading, new issues, and whistleblowing.

Westpac asserts that corporate social responsibility (CSR) makes good business sense. Therefore, it manages a wide range of sustainability issues across the value chain. This starts with screening the environmental, social and ethical practices of its suppliers. It also includes helping customers with accessible services, e-statements and responsible lending practices. Westpac Assist, part of the bank's responsible lending approach, provides a telephone-based advisory service for customers facing repayment difficulties. The program has resulted in over 11,000 customer interactions, reduced financial pressure on customers through repayment pauses and financial restructuring, prevention of over A\$1.2 billion in potential bad debts and teaching the organisation about how to help customers avoid financial difficulty. In addition, the bank is proactive in helping community groups improve their operational effectiveness through training and access to business and finance tools, including financial literacy.

The bank engages in external consultation and community partnerships to better understand the social, environmental and other concerns within local communities. Ongoing stakeholder dialogue is considered an important part of constantly improving the bank's practices. The company participates in a number of long-term partnerships when engaging with its communities, including with indigenous communities. Details of the bank's extensive community activities are published in its *Community Involvement Report*.

In 2008, Westpac allocated \$63 million to community contributions. Bank employees are encouraged to get involved with the community, and the bank supports its staff with community leave and flexible working hours to allow them to do so. During the 12 months of May 2008, 60 per cent of Westpac employees had volunteered their time, twice the national average. In 2007, Westpac's staff volunteering program received Volunteering Australia's Corporate Volunteering Award for Excellence. This award also acknowledged the bank's own outstanding volunteer reward system, under which Westpac teams and individuals can win up to A\$10,000 for their chosen charity. In 2008, employee donations amounted to A\$1 million, which Westpac matched.

The bank continues to be widely recognised as a leader in sustainability, ethics and reporting. A few examples include its listing in the Dow Jones Sustainability Index's global banking sector from 2002 to 2009, including taking the sector leadership between 2002 and 2006, until it was ousted by the Australia & New Zealand Banking Group in 2007. The World Economic Forum rated Westpac as one of the Global 100 Most Sustainable Corporations in 2006–8 and again in 2010. Westpac was Employer of Choice for Women for the 12th consecutive year in 2008 but was not listed there in 2009–10. In the Governance Metrics International Global Governance Ratings, the bank was in the top one per cent of more than 4000 companies in 15 consecutive ratings between 2005 and 2008. Westpac was included in Ethisphere's 2008 and 2010 World's Most Ethical Companies lists. The group's efforts in the environmental area have also been widely recognised and the bank continues to be included in the global leadership index of the Carbon Disclosure Project.

Overall responsibility for environmental policies and performance belongs to Westpac's CEO, overseen by the board's Sustainability Committee. In 1992, Westpac was a founding signatory to the United Nations Environment Program Finance Initiative (UNEP FI). The bank has introduced an ISO 14001-based Environmental Management System (EMS).

The bank aims to minimise its own direct environmental footprint (and has been doing so for more than 15 years), manage climate risks and build capacity across the business, develop products and services that drive positive environmental outcomes, engage employees around climate change issues and impacts and communicate and advocate within the wider community. Some concrete outcomes include Westpac reducing its own direct emissions by over 40 per cent since 1996 and offering environmental products and services such as green home loans and a Socially Responsible Investment fund. In 2002, the bank began carbon trading renewable energy certificates in Australia, participated in the European Union's Emission Trading Scheme in 2006 and made its first Australian trade under the Carbon Pollution Reduction Scheme in 2008. The company has established its own expert Commodities, Carbon and Energy Team.

Westpac has also scrutinised the environmental performance of its suppliers since 2002. Requirements are clearly set out in the company's *Sustainable Supply*

Chain Management Policy. Essentially, Westpac seeks suppliers that demonstrate CSR themselves and complement Westpac's approach and commitment to best practice, continuous improvement and collaborative approaches. The bank aims to deal in good faith, ethically and responsibly with its suppliers and build trusting, cooperative and long-term relationships. In addition, it wants to encourage suppliers to make available cost-effective, environmentally and socially responsible products and services. Wherever possible, suppliers should create additional benefits for the bank, including reducing costs, improving risk management, enhancing quality and innovation in products or services.

It is clear that sustainability is part of an overarching management approach at Westpac. As Ted Evans and David Morgan wrote in the company's 2007 *Stakeholder Impact Report*, management for sustainability requires:

managing long, that is for the long term not the short term; managing broad, in the sense of meeting the legitimate needs of all stakeholders; and managing around a set of values. We do not run the company for today's market or for the short term – as ultimately, the only returns that matter are long term.

People at Westpac

Morgan considered people central to Westpac's success. In 2010, Westpac had about 35,000 employees. In 2008, employees, then referred to as 'team members', were offered a 'deal'. They were expected to display integrity, achievement and teamwork and receive in return opportunities, rewarding relationships, a customer and community focus and competitive compensation. In addition, employees who displayed the desired characteristics could expect to feel valued, respected, challenged and proud.⁵³ As Morgan said, '*...given clear and worthwhile goals, respect, a voice, aligned values, and proper rewards, people can and will do remarkable things*'.

In Australia, females make up nearly two-thirds of the Westpac staff (64 per cent). Attracting women into senior ranks is a priority. The proportion of women in management has reached 43 per cent, which has nearly doubled since 1997 and is well above the sector average of 26 per cent. Three of the ten members of the board of directors are women, including the CEO.

The company also promotes diversity, with about 52 per cent of employees coming from a non-Australian ethnic or cultural background. Recruiting indigenous people is a priority, as is expanding trainee programs for them. Around 44 per cent of employees have carer responsibilities and 3 per cent acknowledge that they have a disability. Westpac's Doing the Right Thing mandatory training program also covers disabilities, bullying, harassment and other forms of discrimination.

Westpac offers many employee benefits. The company provides childcare for over 450 children from 360 families in its own centres. All employees have access to 12 weeks' paid parental or adoption leave and up to two years unpaid leave. In 2010, Westpac decided to pay superannuation to employees taking

unpaid parental leave for one year. The company offers retirement planning sessions and flexible work options to older employees. Job sharing and part-time roles can be arranged with those employees who seek it. Remuneration is linked to performance. Pay and benefits are modified periodically to ensure a fit between the needs of Westpac's people and the workplace. Working from home is permitted.

The bank engages in extensive technical and service training for its staff, and many of its programs gain Australia-wide recognition. The Westpac Academy provides the company's learning programs in flexible formats, such as in podcasts. Learning programs include an enterprise-wide online induction module, interactive learning tools and virtual environments for induction, learning and development.

So-called people leaders are accountable for managing employees, including the health and safety of their people, contractors and customers. The company focuses on improving many aspects of health and safety. For example, safety is improved by managing hazards and risks and better analysis of incidents. Other initiatives embrace noise protection for call centre people, ergonomic workstations and mental health.

Going forward—the Kelly years

Gail Kelly was formerly CEO of St George Bank, which Westpac later took over in December 2008. According to *Forbes*, she is the most powerful businesswoman in Australia. At St George, Kelly kept a relatively low profile but continues to interest the media because she is the first woman to hold the top job in a bank, now in an even larger bank, and to have headed two of the largest public companies in Australia. She believes very much that people should do work that they love. Kelly told a reporter for *The Age* newspaper in 2005:

My whole model is based around gathering the best people you can around you and creating an environment where people can do their best work, and creating a team and powering a team that has fun, and a team that likes working together, and a team that delivers...I'm not driven by money, ego, power or any of those things. I like to achieve—I like to achieve quality outcomes.⁵⁴

Can Westpac continue its remarkable sustainable path with its new CEO? In the 2009 annual report, CEO Kelly wrote:

The 2009 financial year has been one of the most extreme in the history of financial markets. This environment impacted our funding, increased market volatility, reduced asset values, weakened operating conditions and caused increased company stress and associated impairments. In the second half, while operating conditions improved, they remain materially different from those experienced prior to the crisis and we do not expect a return to pre-crisis conditions.

Interestingly, in the 2009 annual report little mention is made of Westpac employees. Instead, under the heading ‘People and Leadership’, the chairman of the board discusses various changes at the executive level and praises the top team. He wrote:

The extraordinary performance of the Group this year reflects the outstanding leadership of our CEO and her hard-working Executive team. I acknowledge also the support and dedication of my Board colleagues.

Similarly, the CEO, in her report under ‘People’, praised the executives extensively but mentioned employees only once in the context of ‘the high levels of engagement of our people’. Can Westpac’s team members have become ‘people’, who are barely acknowledged? If so, it is not surprising that employee engagement decreased from a record high 87 per cent under Morgan in 2007, to 78 and 81 per cent respectively in 2008 and 2009.

Questions to consider

1. Which paradigm(s) can you identify in the various leaders at Westpac, and were they or are they appropriate for the organisation?
2. Plot the paradigms and levels on Bergsteiner’s matrix, writing in your evidence.
3. Which criteria does Westpac meet in the sustainable leadership pyramid, and which are missing from the case?
4. Apply some of the follower theories to Westpac at its various stages.
5. Which weaknesses can you identify at Westpac that you would recommend the company addresses? Why?
6. Which substitutes for leadership can you see in the case?
7. Apply as many leadership theories as you can to Westpac.
8. Do authentic, charismatic, narcissistic or level five leadership occur in this case, and if so, to which leaders?
9. How would you describe the key differences between David Morgan’s leadership at Westpac and the leadership of Gail Kelly? Are these differences likely to affect employees?
10. Compare the sources of power of these two CEOs.

Case 4: Australia, South Africa, US

Systems Excellence: Changing leadership philosophies

Michael Morgan⁵⁵

This is the story of a privately owned Australian-based information technology (IT) consulting organisation named Systems Excellence.⁵⁶ It describes a global journey across different leadership philosophies.

Systems Excellence traces its roots back to a niche software house in South Africa. In 1968, a small group of South African university graduates, passionate about the new and exciting era of computing, pooled a small amount of money to create a software house. The business, named Data Programming Limited, soon became known by its abbreviated name, DPL. The firm grew quickly. It established itself as the sole distributor of many of the large European and American computer software and tools suppliers and built a strong service support capability around these products. DPL was employee owned, a place where jobs were highly sought after by the best and brightest of South Africa's computing professionals. Employee turnover was close to zero. The company's mission was simple: to provide exciting opportunities for creative and innovative computing professionals to use the latest technology to solve difficult critical business problems for their clients. Sales, management and administration functions were created as a 'service' to the practice. Success was measured by the quantity and quality of exciting work opportunities these services were able to supply to employees.

By 1974, violence in South Africa had become a major problem and the country's educated workforce began leaving in droves. Three of the original four founders of DPL decided to leave the country permanently, each moving to a different country – Australia, the US and Israel. The fourth remained in South Africa and continued to grow DPL's business locally. Driven by the success of the model they had helped develop in South Africa, each of the relocated businessmen established software houses in their respective new countries. Each called their local business DPL, without any formal business relationship or reference back to South Africa or to each other. The four men maintained their friendship and professional association despite living in different countries.

Shaped by a strong Dutch influence, it was common for companies in South Africa to be owned privately, funded by wealthy families and financial institutions. This is still largely the case today, with the majority of South Africa's most prestigious companies remaining in private hands. The Johannesburg Stock Exchange represents a very small proportion of business ownership. When DPL (South Africa) successfully listed on the Johannesburg Stock Exchange, it became one of the country's first public computer companies. Although heralded locally as a great milestone for the organisation, listing was to change the culture and profile of the South African operation

significantly. DPL became answerable first and foremost to the capital markets rather than to its former employee-owners. Consequently, the South African operation would remain permanently disconnected from the other DPLs that had begun to prosper in their respective international locations.

Birth of DPL GlobalGroup

In 1994, the internationally relocated founders of their respective DPL organisations saw an opportunity to leverage their collective success by bringing their organisations together under the umbrella of a new holding company structure. Thus DPL GlobalGroup was born. The organisation was still privately held and largely employee-owned in each country. Employees were excited by the prospect of owning a stake in the new international operation and the career opportunities that working for a global IT organisation provided. A global corporate headquarters was established in the US. A board comprising mainly US businessmen and South African ex-patriots governed the new firm. DPL GlobalGroup Australia was also established at that time.

The new structure and a booming global market spawned a period of sensational growth for DPL GlobalGroup. By 1998, the firm had over 1000 employees in ten countries. In recognition of the now global nature of the organisation and the immense success of the consulting model implemented in the Australian subsidiary, the organisation's US headquarters decided to replicate the consulting model globally. The US operation had developed a very successful and lucrative software solution to provide customer information and billing to the utilities industry and hence had become known as a software vendor. However, the US consulting operation was struggling to gain either market traction or management attention.

The next two years brought significant change to the culture and operations of DPL GlobalGroup. The employee ownership model that had characterised the firm since its creation had changed significantly since the creation of the now massive US corporate headquarters. Employee shares were phased out in favour of the popular US model of stock options. In the hype of the 'dot-com' boom, US-based IT companies were under significant pressure from their owners to realise massive capital gains by listing on the newly created NASDAQ exchange in New York. As option holders rather than shareholders, employees could only realise the value of their accumulated options if the organisation floated and stock was publicly traded. In response to this pressure, the group appointed analysts in the US to value the company in preparation for a NASDAQ initial public offering (IPO). As is common in Anglo/US markets, analysts have a strong preference for focused companies with a single specialisation. Consequently, in valuing the group, analysts expressed concern over the mix of product and consulting lines of business within the one company. The analysts therefore recommended that the group split its product and consulting businesses into separate operations and conduct two valuations and two share market floats. This represented a major

shift for a group that had historically benefited greatly from the cross-pollination that comes from a diversified yet integrated portfolio of products and services, especially as these products and services had been selected largely for their value in providing creative and exciting work for the group's employees. In hindsight, this move can be seen as one of the final steps in the group's transition from a honeybee to a locust style of operation.

Birth of GlobalGroup Consulting

In 2000, in keeping with analysts' recommendations, DPL GlobalGroup moved 250 of its 1300 employees into a new, completely separate and autonomous IT consulting organisation called GlobalGroup Consulting. The then CEO of GlobalGroup Consulting became frustrated by the large, multilayered, centralised management structure that had now grown in DPL GlobalGroup's US corporate headquarters. He moved to Sydney, where he established GlobalGroup Consulting's global headquarters. As an original founder, the Sydney CEO was disillusioned by the changes in DPL as it grew into a global player. The organisation had started life as a very organic operation, without onerous chains of command. Decisions were delegated to those closest to the problem. By the time the CEO left the US, the corporate headquarters had swollen to over 100 people, all of whom were managers or administrators. Control of strategy and operations moved from the local practices to corporate management in the US. The firm began to lose touch with its local markets. Employees in local practices had also begun to feel less empowered and less connected to the organisation. In a still-booming IT market, staff turnover had become a problem for the first time in the company's history.

In response to these observations, the CEO of GlobalGroup Consulting was determined to establish the new organisation in the spirit and form of the original DPL. While Sydney was nominally known as the global headquarters, the CEO himself was the only member of staff there. The new business had operations in major capital cities in Australia, Malaysia, Singapore and the US. A local general manager (GM) headed each city practice and was left to drive the business in whatever direction the GM deemed most appropriate to meet local market requirements. The CEO described the new organisation as a 'global network of independently strong business units'. Staff in each of the operations was excited by a renewed sense of autonomy. People, now 'unshackled' from the corporate centre, felt that they could be more effective and more directly involved in shaping the direction and success of their practice.

Cracks in the new model

While all the local operations became successful quickly, problems began to emerge. Although officially a brand-new organisation, the employees who comprised the various GlobalGroup Consulting practices were the same group of people that had previously called themselves DPL GlobalGroup. DPL had started life as an organic organisation. As it moved countries and struggled with the management challenges that come with rapid global growth, DPL

rapidly 'regressed' back to a classical or transactional model of leadership. Attempting to move from classical to organic overnight can be a dangerous and unsettling process.⁵⁷ The initial euphoria of feeling free to act locally quickly gave way to problems in quality characterised by a lack of process, consistency, structure and individual accountability. Each practice rapidly developed not only its own way of responding to its local market but its own value proposition, terminology, strategy and mission. The practices became linked only in name. Specialist consultants could no longer be seconded from one practice to another because the methods, skills and terminology used had diverged so far.

The advantage of cultural group synergy that the original architects of DPL GlobalGroup had harnessed had now been lost at GlobalGroup Consulting. Successes in one city could no longer be replicated in another. Perhaps even more damaging, lessons from mistakes made in Asia were not applied in the US. With little in the way of structure, process and accountability, organisational learning was not even occurring at the local level.

By 2002, GlobalGroup Consulting had moved from a highly profitable global IT consulting operation to a loose collection of practices—all of which were losing money except in the US. This created further division between the practices. People in the US operation began to see the other branches as holding them back and destroying the value they were creating. For the first time in the group's history, interstate and international rivalry and lack of cooperation and collaboration began to seriously damage its ability to function as a group. The remainder of 2002 was characterised by poor morale, staff redundancies and the closure of the South East Asian operations.

By 2003, the GM of GlobalGroup Melbourne despaired of building and sustaining a viable business in that city. His team was significantly hindered by being part of what he saw had become a toxic organisation lacking leadership direction and vision. In early 2003, the operations of GlobalGroup Melbourne were wound up and all staff made redundant. By mid-2003 all but a handful of GlobalGroup Sydney staff had also been laid off. In early 2004 the small remaining division was sold off. GlobalGroup Consulting Australia ceased to exist.

Systems Excellence is born

In reaching agreement on the closure of the Melbourne operations of GlobalGroup, the former GM retained the local office space, equipment, client base and current projects of the Melbourne practice. In July 2003, as GlobalGroup Melbourne closed, Systems Excellence was born. The GM rehired the majority of those he had retrenched into the new organisation. He asked employees to contribute a portion of their redundancy payment to purchase shares in Systems Excellence. In effect, Systems Excellence picked up where GlobalGroup Melbourne had left off: with the same key staff, the same key clients and an operational business. However, for the first time in many years,

the practice was truly employee owned, and the GM was determined to recreate an organic organisation in the honeybee tradition.

Systems Excellence started trading with a staff of 12, all of whom were given an immediate voice in the strategy and direction of the new business. Significant time was spent up front with all members of the organisation, from the receptionist to the managing director. Members discussed and debated lessons learned from the GlobalGroup experience, the way forward, vision, mission, strategy and operational issues.

All the operational affairs of the new business are shared and discussed openly among members of the practice—the financial status and accounts of the business were communicated and shared with all employees from day one. This is an important process given that as the shareholders of the company, the employees share the risk and success of the business. Although a going concern, the business inherited from GlobalGroup Melbourne was not profitable. Remuneration was standardised using a significantly different model from GlobalGroup. Utilisation (consultants' days billed as a percentage of available days) was the key measure of consulting profitability. Systems Excellence's consultants were all paid the same base salary, which had been reduced to 25–30 per cent below market average. On top of their base salary, however, consultants received 30 per cent of their client billings per month. As a result, utilisation was consistently higher than it ever had been under the previous regime. All consultants now earned more per month than they had on their previous above-market salaries. The remuneration model is still openly published and discussed, and the consultants themselves drive changes to it. As owners of the business, they are now focused not only on maximising their own personal income but also on building a profitable and sustainable company for all.

Official titles have little place in the new business. The former GM, now the managing director, sees himself as a 'servant to the practice' – far more closely aligned to the 'top team speaker' concept of the honeybee model than the popular 'hero' role. Each of the four key service lines in the operation has an owner who is responsible for ensuring the development and enrichment of the offering. These owners are tasked with gaining the buy-in of others in achieving this goal, without the assistance of positional power. These are examples of the team approach that has been with the business since its inception and has developed and strengthened over the years.

This renewed sense of ownership and shared responsibility extends to all areas of the business. Consultants have initiated a range of changes that would have previously fallen into the domain of 'management'. Changes included instituting a new office recycling system. Another was designing a process to ensure that valuable and necessary work done to develop intellectual property and systems for the practice is recognised as 'billable' for the purposes of remuneration.

Questions to consider

1. Management used different leadership paradigms at various stages of the company's progress. Can you identify these shifts in paradigm?
2. Were these kinds of leadership paradigms appropriate to manage a growing and geographically dispersed operation in the IT industry? Why or why not?
3. Which levels of leadership are evident in this case? Can you give examples?
4. Apply the various follower typologies to the different stages of the case.
5. Can you identify any substitutes for leaders or managers at any stage of Systems Excellence's history?
6. Systems Excellence started life as DPL in South Africa with a small team of talented people working successfully together in an organic culture. What made this group successful?
7. Identify the factors that eventually led to the group's decline.
8. Which sustainable leadership practices are evident at different stages of Systems Excellence's history? Use the table to audit the company at its different stages.
9. Is Systems Excellence positioned to be a sustainable organisation? If not, what still needs to be done?
10. What are the leadership challenges for firms like Systems Excellence as they grow and expand locally and to new geographies?

Case 5: China

Huawei Technologies: Making best practice common practice

Gayle C Avery⁵⁸

Ren Zhengfei, a former People's Liberation Army officer, founded Huawei Technologies in 1988. He is currently the CEO and major shareholder, owning 1.42 per cent of the company in December 2009. The company describes itself as 'a world-leading telecom solutions provider'.

This Shenzhen-based company is China's largest manufacturer of telecommunications equipment. Huawei specialises in providing customised equipment, service and solutions in diverse telecom fields. It has built a product portfolio covering mobile, broadband, IP-based and optical networks; telecom value-added services and terminals. Its processes are highly integrated from development to marketing, which means that Huawei engages in research and development (R&D) and production, as well as sales and marketing of its equipment and services. The company's products and solutions are used in over 100 countries by 45 of the world's top 50 telecom operators. In addition, its products and services touch about one-third of the people in the world.

Originally, the ownership of Huawei was once a matter of speculation, but the company website states that it is a wholly owned subsidiary of Shenzhen Huawei Investment & Holding Co., Ltd ('Huawei Holding'). The holding in turn is solely owned by Huawei employees, without the Chinese government or any other third parties holding any shares. Employees do not buy shares but are instead allocated shares annually on the basis of work performance, duties and their capabilities and development potential. Through this holding scheme, about 61,457 employees are represented by, and exercise their rights through, representatives. This scheme is intended to align employees' personal goals with the company's long-term vision. If employees leave, the shares have to be returned to the company.

Norson Company Profiles wrote:

*The company is fully staff-owned and directed by founder Ren Zhengfei in a strict hierarchal structure, a strong reflection of his military background. Ren is the main, the final, and sometimes the sole decision maker at Huawei.*⁵⁹

Certainly senior executives are not widely profiled at Huawei. The CEO is reluctant to speak with the media. Notably, the anonymous 'executive management team' signed off on early annual reports rather than the chairwoman, Sun Yafang, or Ren Zhengfei as CEO. More recently, the chair and the CEO each sign a letter in the annual report.

In 2009, the activities of the nine-person board of directors included reviewing and approving the three- to five-year strategic plan, the annual business plan and budget, the appointment and remuneration of senior management and

process enhancement programs. In addition, the board passes resolutions relating to Huawei's strategic directions, financing arrangements and major contracts.

The business landscape

Chief competitors globally include Cisco Systems, Datang Telecom Technology, Ericsson and Lucent Technologies. However, a fast growing local competitor, ZTE, also strives to lead in the world's land and mobile telephone network business from its base in China. Unlike Huawei, ZTE is publicly listed on the Hong Kong and Shenzhen Stock Exchanges. Chinese firms are still able to offer telecommunication components, systems and solutions at lower prices than their Western competitors, but costs are rising. This is partly because competitors are setting up in China and India to take advantage of the lower wages and partly because Chinese manufacturers are moving into Western locations either alone or in joint ventures with Western telecommunication firms to be near their customers.

For a time, not much information was available about Huawei's finances, except the blanket statement on its website: *'Our company has a stable and healthy financial situation'*. Under the company's three-layer auditing system, financial and operational risks were said to be minimised via external audits, internal controlling and business audits. In 2007, the company adopted an Integrated Financial Service program to help it achieve global financial reporting standards. The audited results have been impressive.

What has long been admired is the company's growth in leaps and bounds. Revenues increased each year in the five years prior to 2009. In 2009, Huawei recorded revenues of US\$21.8 billion, a net profit of US\$2.7 billion and a net profit margin of 12.2 per cent, despite the difficulties created by the global financial crisis.⁶⁰ Perhaps this is because Chinese banks have financed much of Huawei's growth. These banks not only make credit easily available to the company but also supply credit to Huawei's customers so that they can buy the firm's products. In 2008, the company tried unsuccessfully to raise capital by selling a stake in its mobile phone division to an outside investor, just before the financial markets collapsed.

Vision and values

Huawei's vision is to enrich life through communication, with a particular mission to consistently create maximum value for customers. The company pursues its vision by focusing on customers' market challenges and needs, seeking excellence in solutions and services provided to customers and collaborating with peers to develop the entire communications sector.

The firm's six core values are putting the customers first, dedication (valuing employees' contributions), continuous improvement (actively listening and learning), openness (innovation), integrity and teamwork (including cross-cultural collaboration, streamlined interdepartmental cooperation and efficient

processes). The vision is achieved via the principles of customer focus, innovation, steady and sustainable growth and harmony.

Innovation

Innovation and R&D are core to Huawei's business, including transforming its management processes regularly to reflect best practice. *'China-based cost-effective R&D is one of our advantages... We spare no investment in R&D'*, according to the company website.⁶¹ This is reflected in the spreading landscaped gardens on its 1.3-square-kilometre campus outside Shenzhen. This campus is part of Huawei's strategy to stimulate creativity and innovation among its employees. The campus includes an R&D centre, exhibition hall, manufacturing and administration centres, plus housing for company employees. Nearly half the workforce (46 per cent in 2009) is engaged in R&D in some way with only about 6 per cent of employees engaged in administration. By 2009, the company had 17 global R&D centres with more than 100 service offices and 20 innovation sites on which it collaborates with customers.

From its inception, even during recessions, Huawei has continued to invest over 10 per cent of its revenue in R&D each year. In 2009, Huawei increased its R&D investment by 27.4 per cent over the previous year to US\$1.95 billion. Investment in R&D is paying off in the form of patents, inventions and innovations. By 2009, Huawei had filed 42,543 patent applications, ranking second in terms of global Patent Cooperation Treaty patent applications across all industries. Of these patent applications, 13,236 have been granted.

Consistent with its customer focus, the company has 29 training centres worldwide to help customers and local people study advanced management and technologies. This not only helps in understanding local markets; it contributes to the local economy by increasing employment.

R&D at Huawei is driven by customer requirements. Customers need solutions that bring them business success rather than simply more products and technology. Huawei has transformed itself from being 'technology-driven' to 'customer requirements-driven'. It has moved from 'providing products' to 'providing total solutions' aimed at achieving customers' success.

The company claims to have built a complete core technology system in the R&D area.⁶² Huawei has shifted from relying on individual performers to creating an entire management system designed to launch high-quality products. Teams of Huawei specialists collaborate in meeting the special requirements of individual customers. Asynchronous development allows R&D to be coordinated at all levels, shortens the time to market of products and speeds up the response to market. For this company, innovation will 'never' be reduced.

Suppliers and partners

To realise its vision, the company seeks long-term cooperative relationships with customers and suppliers. It partners with some of the major players in the industry, including potential competitors and peers. Huawei also cooperates with leading Western advisors. To ensure that it stays in tune with best practice, Huawei cooperates with global consultancy firms such as IBM, Towers Watson, the Hay Group, PricewaterhouseCoopers and the Fraunhofer Society. These partners advise on business process improvements, employee stock option plans, human resource management, financial management and quality control. For example, Huawei cooperated with Germany's leading applied R&D organisation, the Fraunhofer Society, in building its fully automated logistics centre. The supplier of the system, Dematic, described the challenge this way:

First-class logistics for first-class products is now the standard at Huawei Technologies... In the past, the company had used manual warehousing and logistics for the roughly 13,000 different components it handles. Not surprisingly, this resulted in low productivity and a high error rate... We worked together with Huawei to develop a warehousing and materials flow solution perfectly suited to the fast growth of this industry.⁶³

Huawei seeks to meet best practice in everything it does, including in its supply chain processes, R&D and management processes. A flexible supply chain provides a competitive edge from rapid, high-quality and cost-effective supply. The firm has implemented supply guarantee strategies, an integrated supply chain process and flat manufacturing structures so that it can meet market demand efficiently and flexibly. Huawei has introduced quality engineering technologies for continuous improvement of customer service levels and supply chain capabilities.

As a supplier, Huawei receives many accolades. For example, in 2009 alone it was awarded Vodafone's Supplier of the Year, the IEEE's Outstanding Contribution Award, the Asia-Pacific Wireless Infrastructure Vendor of the Year, the Broadband Equipment Vendor of the Year and Vendor of the Year by Frost & Sullivan. Huawei was ranked the fifth most innovative company in the world by *Fast Company* and received the *Financial Times* Boldness in Business award for performance in, and contribution to, emerging markets.

People at Huawei

In December 2009, Huawei employed over 95,000 employees, about two-thirds of whom were based in China. Wherever possible local employees are hired.

The company says that people form the core of Huawei, which places great emphasis on learning and development for everyone. In seeking to establish itself as a learning organisation, Huawei invests heavily in various forms of employee learning, including formal study and skills development. Huawei University is responsible for in-house training for staff, training for

customers, plus an orientation program for new employees. Huawei University's 200 full-time trainers service staff and customers globally. New employees attend a series of training courses for one to six months covering topics such as corporate culture, product knowledge, marketing and sales skills. In-house training for employees covers management and technical skills. Development plans are available for all employees, tailored to their needs.

Employees can choose between a career in management or following a professional or technical path. This dual career development path provides scope for employees to grow personally and professionally. A competencies and vocational qualification system allows staff to continually improve their skills and competencies as they follow their chosen future. With a culture that values results, Huawei's performance management system emphasises self-motivation and self-improvement. Managers use ongoing goal setting, coaching, appraisal and communication to assist employees in raising their performance and capability. Rewards are based on employees' contributions and qualifications, not their years of experience, seniority or title.

In preserving its corporate culture, the company is very careful about its recruiting processes. Recruits must share the dream of enriching life through communication. On the careers page of the company website, potential employees can read the stories of successful Huawei employees from around the world. In this way, prospective employees are prepared for some of the experiences, challenges and rewards the company offers.

Developing managers who share the vision and corporate culture is a high priority. Huawei managers are expected to have high moral standards, a strong sense of responsibility and mission, commitment to work and the ability to identify with and practice the corporate values and culture. A mentoring program helps new employees adapt to Huawei's culture and a code of conduct ensures that employees hold themselves to high standards of ethical behaviour.

By developing people who share the same vision and values, the company maintains its esprit de corps and competitiveness. The company considers this vitally important to developing a sustainable business, even though staff members operate under intense pressure to perform. The company provides social service benefits beyond what the law prescribes. It also expects employees to participate in sports and social activities at employees' own expense, as well as in social clubs and other recreational facilities, to relieve the pressure of work.

Environmental and social responsibility

Huawei views itself as an integral part of the society in which it operates and hence believes in contributing back to its local countries and communities. The company promotes corporate responsibility and strives to advance socially minded practices and harmony. In addition to responding generously to catastrophes in its region, the company has built five Hope Schools in needy

areas of Shaanxi and Gansu provinces. RMB\$25 million was donated to China's Education Ministry to create a fund for helping needy children obtain an undergraduate education. Huawei is a member of the UN's Global Compact, which advocates ten principles on human rights, labour rights, environmental protection and anticorruption. These tenets have been incorporated into the company's corporate culture and practices.

Suppliers are also expected to become part of Huawei's socially responsible supply chain and are subject to audits. The company strives to comply with international standards and environmental policies and regulations. It has adopted ISO 14001:2004 and OHSAS 18001:1999 standards for environmental management and occupational health and safety (OH&S). Huawei complies with the new directive on the eco-design of energy-using products. Under this directive, the impact on the environment is to be considered at every stage of the product life cycle and assessed in terms of resource and energy consumption; waste; recycling; emission to air, land and water; noise; vibration; radiation and electromagnetic impact. An example is that Huawei's next generation green base stations adopt amplification technology that reduces power consumption by increasing amplification efficiency by 45 per cent, saving 20 per cent of power. It also reduces noise pollution and the need for air conditioning.

In 2009, the board's chairperson announced that the resource consumption of the company's main products had achieved a year-on-year decrease of more than 20 per cent. At headquarters, Huawei saves on air conditioning by adjusting the inside temperature in the offices to 26 °C or above. This saved nearly four million kilowatt hours of electricity in 2007 alone. Furthermore, they use recycled chopsticks in the canteen, saving the equivalent of 16,800 fully grown trees or 1800 tons of CO₂ emissions every year. Huawei has also adopted advanced solutions to help customers lower energy consumption and carbon emissions.

Challenges—too good to be true?

What is really happening at Huawei Technologies? Foreign critics wonder whether Huawei is too good to be true. A *Newsweek* article⁶⁴ claimed that market forces are not the only catalyst for Huawei's growth. The company's growth may have been boosted by government advantages stemming from Beijing—from government R&D funding to tax breaks and export credits.

Other rumours relate to employees at Huawei. Bloggers write of 37 staff suicides in the company, possibly attributable to its highly competitive work environment. The *China Labor Bulletin* claims that on 6 March 2008:

*a Huawei employee jumped to his death from the third floor of the company cafeteria. He was the sixth Huawei employee to have committed suicide or die in mysterious circumstances in the previous two years.*⁶⁵

The same source describes the company's culture as an aggressive and predatory 'wolf culture' and 'mattress culture', which compels overworked employees to sleep in their workplace.

The *China Labor Bulletin* also reports on a letter that Ren Zhengfei wrote in 2007 to a member of the Communist Party committee. CEO Ren allegedly wrote:

*At Huawei, employees are continuously committing suicide or self-mutilation. There is also a worrying increase in the number of employees who are suffering from depression and anxiety. What can we do to help our employees have a more positive and open attitude towards life? I have thought about it over and over again, but I have been unable to come up with a solution.*⁶⁶

In 2005, prior to the CEO's observations, Norson Telecom Consulting had referred to 'the company's unique corporate culture, including Huawei's "boot camp" for new employees and how Mao Zedong's military theories have influenced Huawei's growth strategies'.⁶⁷

The *China Daily* reported that about 7000 long-serving employees formally 'quit' and were immediately rehired by the company again, on one- to three-year contracts in return for some cash compensation.⁶⁸ Writers suggest that this happened because of an impending new labour law making it harder to fire staff who had worked for the company for over ten years in one stretch. Workers who have been with a company for ten years or more are legally eligible to sign open-ended labour contracts. Employees with about eight years service were affected. One of the employees to resign and be reinstated was apparently Huawei's CEO and founder, Ren Zhengfei. Some question the ethics behind some of the company's actions.

Questions to consider

1. Which leadership paradigm(s) can you see operating at Huawei and at which level? Are these appropriate for leadership in an IT and telecommunications company?
2. Apply the follower theories to Huawei employees.
3. Is Huawei's leadership philosophy closer to the honeybee or locust model and why? Apply the sustainable leadership pyramid to highlight which practices lead to this conclusion.
4. If innovation and quality depend on long-term perspectives, what enables Huawei to innovate? Is it simply money, or are there other factors that could contribute to successful innovation?
5. Which leadership theories can you see applying to Huawei?

6. Do authentic, charismatic, narcissistic or level five leadership occur in this case and if so, where?
7. Identify any substitutes for leadership evident in the case.
8. In what ways does the company appear to treat its people well? Would anything worry you about how people are treated at Huawei?
9. If you think that the leadership as described in the case could be improved, what changes would you recommend?
10. Identify the sources of power that leaders and followers have in this case.

Case 6: Germany

Kärcher: Clean futures

Wendy Poyser⁶⁹

Eighty per cent of products are less than four years old. This is not a coincidence, but it is a process.

Retired Kärcher employee, 2008⁷⁰

Alfred Kärcher GmbH & Co. KG is a family-owned company founded in 1935 by engineer Alfred Kärcher. A leader in its field, the company produces an extensive range of cleaning products, services and solutions. These cover domestic use in the house and garden, products for professional and industrial application, professional vehicle washing systems, and water and waste treatment units.⁷¹

Alfred Kärcher began by producing heaters for aircraft engines, cabin heaters and atomising nozzles for high-performance engines. After production was disrupted during World War II, Kärcher started again, making a diverse range of products. These included round iron stoves (made from artillery shells) and the world's first high-pressure water cleaner. Following a heart attack in 1959, Alfred died at the age of 58. His wife, Irene, took over the business. Irene Kärcher is credited with expanding the product range to cover all cleaning requirements, globalising the company and developing cleaning products to cater for individual domestic users. Despite early diversification into other areas, such as the manufacture of twin-hulled boats in the 1960s, the 1970s saw the company consolidate and focus on cleaning products and solutions.

After Irene's death in 1989, her son Johannes Kärcher became managing partner. Johannes and his sister, Susanne Zimmerman von Siefert, remain the only shareholders in the business.⁷² The board of management is chaired by Hartmut Jenner, who had worked in the company for about 11 years before taking on the top role in 2001.⁷³ As CEO, he is responsible for the business operations and strategy. Jenner describes his job as making sure that the company is 'better in 10 years than today'.⁷⁴

Kärcher's head office is located in Winnenden in southern Germany. In 2009, nearly 6900 employees produced 6.5 million cleaning machines in 14 factories in 41 countries, selling them in more than 190 countries.⁷⁵ Despite the global financial crisis, Kärcher created new jobs in 2009, made substantial investments and increased the company's market share worldwide and in most product groups.

Vision and guiding principles

Top performance for cleanliness and maintenance of value is the company motto. Kärcher strives to remain the world's leading provider of cleaning systems, cleaning products and services for recreation, household, trade and

industry. Associated with this vision are 12 guiding principles that underpin, support and direct business activities. The principles are shown in Box 1. The guiding principles are placed in front of every employee, using computer screensavers, for example, and are complemented by a set of leadership and conduct principles.⁷⁶

The company sets high standards in many areas including employee involvement, brand development, supplier relationships and innovation. CEO Jenner explained that ‘our goal is to preserve and continuously expand the company for many generations to come’.⁷⁷ According to the company’s sustainability report, the goals for 2010 include developing an international, open and shared corporate culture. Kärcher ensures that wherever it operates, it has committed local employees who are very familiar with the customs and language of the particular country that it is operating in. This enables the company to respond to diverse customer requirements.

Central to acquiring other companies is making sure that the corporate cultures of new acquisitions are compatible with Kärcher’s culture. CEO Jenner describes the culture in the following way:⁷⁸

There are five principal themes that are already firmly anchored in Kärcher’s corporate culture but which I would like to strengthen further: excellence, dedication, ambition, discipline and responsibility. The aspiration to produce excellence and to continuously improve ourselves is a very important value for us... What distinguishes us is our constant striving to be better. We have only succeeded in this in the past because our employees tackled their jobs, which were certainly not always easy, with dedication, healthy ambition and passion.

Box 1: 12 guiding principles at Kärcher⁷⁹

1. Customer orientation
We establish partnerships through open dialog with our customers.
2. Employees
We recognise that qualified and motivated employees who enjoy their jobs are a major success factor for Kärcher.
3. Cooperation
All Kärcher’s relationships, internal and external, are governed by trust, loyalty, openness, fairness, reliability and mutual respect. We take advantage of all the experience and knowledge available in the company by means of teamwork and an active exchange of information.
4. Our range of services
We offer cleaning systems, cleaning products and services for recreation, household, trade and industry with an optimal price-performance ratio.

5. Market position

Kärcher is an international company and regards itself as the benchmark. Our aim is to have the lead in market share, innovation, quality and image, as well as to be the world's market leader in each of our business segments.

6. Innovation

As innovative leaders we are setting standards in technology, service and design to provide optimum benefit for our customers and to satisfy our customers' requirements. Our innovations are convincing and fill our customers with enthusiasm.

7. Marketing

The Kärcher brand is associated worldwide with top performance, innovation and quality. Our aim is to continuously strengthen our brand image.

8. Production and purchasing

Our suppliers are integrated into the value-added chain. We are working continuously together to improve manufacturing processes and optimise the level of in-house production. We guarantee competitiveness in quality and cost by our willingness to change and by our speed and flexibility.

9. Social responsibility

Kärcher takes on social responsibility: in all countries we respect the local values and standards, the human rights and the legal and social systems – in the sense of a good citizen.

10. Resource handling

We create our products, services and processes in an environmentally friendly manner. Wherever we operate, we meet environmental requirements and make responsible use of all resources at our disposal.

11. Growth, finance and earnings

We will increase our earnings and financial strength by profitable growth. This will secure the existence and long-term development of our company. Our entrepreneurial conduct is based on the priority of maintaining our financial independence and decision-making freedom. Additionally, growth generated internally has priority over acquisitions.

12. Family-owned company

The shareholders identify themselves with the company. Kärcher will remain a family-owned company.

Financial performance

Kärcher's growth and overall financial performance have been very strong for decades. Its compounded annual growth rate was 14.5 per cent between 1975 and 2005.⁸⁰ This growth is even more remarkable in the context of Germany's low annual economic growth of 2.1 per cent over the decade 1994–2004.⁸¹ Kärcher continued its strong growth into 2008 when it achieved a turnover of €1.4 billion and sold more than 6.38 million units.⁸² Although it sold a record number of machines in the midst of the global financial crisis in 2009, revenues fell to €1.3 billion.

Being family owned is also critical to Kärcher's success. The owning family is able to 'stand wholly by the company and fulfil its responsibility toward employees and the company'.⁸³ The current owners reinvest all profits back into the business. As the eleventh guiding principle indicates, Kärcher intends to remain financially independent and make its own decisions.

Innovation

Innovation dates back to the founder, Alfred Kärcher, and remains firmly embedded in the culture. The company's strong orientation to innovation is demonstrated in many ways. For a start, the number of patents and registered designs in 2008 was 348, an increase over the 342 and 329 patents registered in the two previous years. Many patents are born from the employee suggestion scheme that rewards employees for ideas the company implements. Even ideas that are not implemented are rewarded in a smaller way to ensure that employees are always thinking of improvements and innovation for better quality and faster production.⁸⁴ Over 500 engineers and technicians in Kärcher development centres work on new problem solutions.⁸⁵

Year for year, up to 85 per cent of Kärcher's products are less than five years old.⁸⁶ Most of the remaining products have been created in the previous five years. During design and development, a sophisticated virtual 3D design system allows for extensive product checks and modifications to create an optimum design even for the first prototype. This ensures that any glitches, such as being able to clean into a corner, can be tested and corrected prior to production of the first prototype of any machine.⁸⁷

Using virtual technology generates considerable savings in both time and money. It is estimated that the 3D process has reduced preproduction time from two years to eight months, providing a speed to market advantage for the company. The highest possible quality is attainable because corrections can continue to be made after production of the first prototype. The 3D technology also reduces the need for a second or third prototype to be built, which would otherwise extend timeframes and cost.

People at Kärcher

Employees form the centre of Kärcher's operations and strategy, and the company makes a strong commitment to its employees. This is a mutual commitment, as is evident by a low staff turnover. Although employee turnover is reported to be at 'only' one per cent, CEO Jenner laments that 'everyone you lose is a problem'. Kärcher does not have a unionised environment and does not belong to any employer association. According to Jenner:

*an intrinsic strength of ours is that we solve our problems ourselves as soon as they crop up. We need no industry association, no trade union or judge, but are able to find solutions jointly on the spot.*⁸⁸

The Kärcher Academy provides a range of training programs for employees, from product training to sales and communications skills. A series of e-learning modules is available, and specialised programs are in place for junior management through to senior leadership roles. Kärcher recruits over 100 young people each year as graduates and continues their development with in-house training. Employees in German locations spend an average of 2.35 days per year on in-service training.⁸⁹

Many programs are in place to look after staff. For example, women on maternity leave are invited back every three months to keep them informed and special programs are in place for employees who are aged 50 years plus to educate, inform and offer them opportunities.⁹⁰ All employees are eligible to earn a bonus based on cash flow. Demand is smoothed by asking people to work longer hours when required, which can earn them a bonus of up to 1.5 month's salary.⁹¹

A bonus system allows teams to earn up to 30 per cent in addition to their usual wage. The emphasis is on the whole team's performance and not on individual members. Charts track each team on factors such as cleanliness, visual management, worker qualifications, safety, improvements in the Kärcher Production System (KPS) and the environment. Each production line is rated and bonuses are paid to the team based on overall results.⁹²

Quality

The commitment to quality at Kärcher starts with the KPS. Whether in assembly, commissioning or service, the KPS involves working to optimise production and logistics worldwide. In doing so, the central focus is on producing first-rate products, on treating resources responsibly and efficiently and on employees' contribution towards the company's success.

One incentive for effective implementation of the system is the KPS Award, a competition held annually at Kärcher factories worldwide with the motto 'learning from the best'. The individual teams' objectives include, for example,

improving labour productivity, throughput times, stocks of materials and production quality. Environmentally friendly production processes and ergonomic workplaces also have high priority.⁹³

All products are put through rigorous tests to ensure their ongoing performance. Machines are tested in laboratories that simulate real life conditions including pavement surfaces, weather, ultraviolet light, voltage drops and extreme environmental conditions. Machines are tested for three years, five years and beyond to establish maintenance requirements. When a machine breaks, it is disassembled and examined to determine what has broken and why and what could be done to prevent the breakage recurring. This also assists in stock planning for spare parts, ensuring that the right parts are in the right place at the right time for optimal customer service.⁹⁴

Noise testing forms an integral part of Kärcher's quality commitment. Noise levels are particularly important when machines are likely to be used in hospitals, hotels or aged care facilities. State-of-the-art measuring methods are used to test the efficiency of low-noise kits, which minimise the noise emissions of Kärcher appliances as far as possible. Cooperation with universities and institutes and participation in research projects enables the latest findings to be incorporated into product development.⁹⁵

A Certified Quality Management System is in place for the organisation, and Kärcher was the first manufacturer in its industry to achieve ISO 9001 certification in 1991.⁹⁶

Social responsibility

Through the Alfred Kärcher Foundation, the company engages in many facets of social responsibility. For example, it supports university and other research into cleaning, including mechanisation and automation of cleaning tasks. Since 1993, Kärcher has collaborated with local workshops that provide regular daily work as therapy for people with mental health problems. Participants in the mental health program prepare up to 40,000 items a day for transport. The objective is to give mentally ill people a helping hand back into society, providing reassurance and recognition and enhancing their self-esteem. Kärcher also supports the arts by sponsoring young musicians globally.

Kärcher has a long history of donating technology, skills and labour to clean works of art and listed buildings all over the world. This is completed free of charge and is done to preserve buildings and other works of importance for the future. Some notable examples include the statue of Christ in Rio de Janeiro, the colonnades on St Peter's Square in Rome and the statues at Mount Rushmore in the US. Each project is done in close collaboration with restorers, art historians and other scientific experts to ensure that the best cleaning methods are applied. These out-of-the-ordinary cleaning jobs now exceed 80.⁹⁷ Cleaning is Kärcher's way of helping the world's cultural heritage. The company not only contributes money, but also its experience, knowledge and technology.

Kärcher carries out a range of smaller-scale cleaning projects on items that are less prominent, but no less important. This includes fountains, sculptures or surfaces defaced by graffiti. Projects are undertaken in association with local management and with an emphasis on restoration and cleaning without inflicting any damage.

At another level of social responsibility, Kärcher's FutureTech company provides a range of special needs products for armed forces, fire brigades, civil defence, disaster control and relief organisations. Using innovative water packaging systems, FutureTech provides mobile systems for water purification and catering purposes for peacekeepers and disaster control organisations. The emphasis is on mobility.

Environmental sustainability

As the world's leading developer, manufacturer and seller of cleaning systems and solutions, Kärcher has long taken its global responsibility for preserving natural resources and the environment seriously.⁹⁸ Its Winnenden headquarters first received ISO 14001 certification in 1996, and the company pays strict attention to compliance with environmental standards at all its production locations.

As part of this process, the company takes many forward-thinking initiatives. For example, at the Winnenden site, large areas of roofing have been grassed to provide not only ecological and optical benefits but also positive effects for staff well-being. Kärcher's 20 environmental goals include stipulations such as that it will only buy company cars with diesel engines if they are fitted with a carbon particulate filter. The Kärcher fleet also incorporates vehicles that run on alternative fuels.

Kärcher works to provide links between innovation, production, employee compensation and rewards, health and safety at work, environmental protection and quality to ensure the maximum compliance with environmental standards. In setting annual goals, local teams and departments are responsible for announcing environmental objectives and implementing goals and activities. The aim is that each year will advance, rather than merely maintain, environmental standards and contributions.

A number of achievements have been made in this area. For example, two solar power stations were installed that saved 20,000 kg of carbon dioxide (CO₂) annually. Using waste heat from ventilation systems and production processes to heat factory halls and provide hot water saves over 100,000 kg of CO₂ emissions each year. A further contribution to climate protection is made by a geothermal system used for heating in winter and air conditioning in summer. The cleaning of 75,000 cubic meters of ground water a year for industrial use in testing appliances saves drinking water.⁹⁹

At an employee level, Kärcher's mobility concept encourages staff to use environmentally friendly modes of transport. The company has won awards

for this program. For example, back in 2004, it won both the first Business-on-the-Move award and the state government environmental prize in its industry category. Since 1994, Kärcher has reimbursed employees 50 per cent of the cost of tickets on local public transport, 75 per cent for trainees. Those who cycle to work become eligible for prizes (such as a new bicycle) by collecting ‘rider stamps’ as they arrive. In addition, employees can recharge their electric car batteries at the firm’s expense while at work, and drivers can take free courses in fuel efficiency. Car-sharing arrangements can be organised using the company’s intranet. Once a year, the company organises a cleanup of the stream at their main plant in Winnenden. Trainees spend a whole day clearing the past year’s accumulated rubbish from the on-site stream and its banks.

End users are also not forgotten. The company’s website offers tips on how to use Kärcher’s equipment in an environmentally-friendly way.

Questions to consider

1. Which leadership paradigm(s) can you identify operating at Kärcher based on this case?
2. Apply the follower theories to employees at Kärcher, and consider whether the followership is likely to be personalised or socialised.
3. Can you see any substitutes for leaders or managers operating at Kärcher? If so, which ones?
4. Apply the sustainable leadership pyramid to Kärcher.
5. On which elements in the sustainable leadership pyramid do you think Kärcher is particularly strong?
6. Which leadership theories apply to Kärcher?
7. Do examples of authentic, charismatic, narcissistic or level five leadership occur in this case, and if so, where?
8. Which sources of power can you identify in the case for different individuals or groups?
9. What weaknesses can you find in Kärcher’s leadership?
10. Overall, is this a sustainably led enterprise as far as you can tell from the case?

Case 7: Switzerland

Holcim Group: Building sustainable value

Wendy Poyser and Gayle C Avery¹⁰⁰

*Not just a target or an aspiration. It is a promise and it will happen...*¹⁰¹

David Kingma, manager,
Sustainable Development Coordination and Reporting

The Holcim Group is a leading global provider of materials for the construction industry, particularly cement and aggregates (crushed stone, gravel and sand). The company also offers ready-mix concrete, concrete goods and asphalt, including associated services.¹⁰²

As major economies around the world continue their rapid expansion and growth in urban areas, so too has the need for materials to build these developments increased. The need for viable, alternative products that use less energy to produce, are easier to maintain and will withstand natural and human interventions never encountered before has created an ideal market for Holcim.

The famous Swiss Schmidheiny family has long been associated with the business now known as Holcim. Under Ernst Schmidheiny's leadership, the family merged its existing assets in the cement industry with Holcim's forerunner company based at Holderbank in 1912, and Ernst joined the board. Expansion and further amalgamations in the cement industry continued with some investment in Europe and later global expansion until Ernst's death in a plane crash in 1935. The family continued its involvement with the cement business. The company first listed on the SIX Swiss Exchange in 1958. Although it is a public company, Thomas Schmidheiny, grandson of the founder, directly or indirectly controls about 18 per cent of the shares in Holcim. In 1976, Thomas Schmidheiny joined the management team and in 1978, he became a member of the supervisory board. He was CEO from 1978 until 2001, and also chair of the board between 1984 and 2003. He continues to serve as member of the board.

Today, the group operates in 70 countries across all continents and employs a workforce of some 80,000. It has a market capitalisation of around US\$23 billion. An era of strong financial performance came to an end during the global financial crisis that affected the European and North American construction industries severely. Holcim's net sales dropped by nearly 17 per cent between 2008 and 2009, achieving net revenues of US\$19 billion.¹⁰³ Operating profit in 2009 was over US\$2.5 billion. In 2008-9, the company had instigated rigorous cost-cutting measures across the group to cope with the predicted drop in sales. The one area where the company refused to cut corners was in sustainable development, which lies at the core of its strategy.

Holcim takes its environmental and social responsibilities seriously even under poor economic conditions.

Holcim's business strategy is based on three main pillars: concentration on the core business (construction materials), geographic diversification and balancing local and global requirements. Geographic diversification guarantees stable earnings for the group. Indeed, its continuous growth in strong emerging markets as well as in developed economies helped the company weather the global financial crisis. Through recent moves in China and India, Holcim has further strengthened its position in regions of high economic growth and increased demand for cement and related products.

Holcim aims to achieve 'local responsibility with global leadership'. This means striving for a balance between the conditions and needs of each specific market while applying group-wide standards and systematic benchmarking worldwide. To manage its global focus, the company culture is characterised by openness, respect and understanding for people from a wide range of cultural backgrounds.

One of the challenges in being innovative in a globally distributed organisation is how to transfer knowledge and exchange experience. Holcim has developed systems designed to achieve a faster and more effective group-wide roll-out of innovations through internal cooperation. In 2009, the group began implementing a newly developed knowledge management system called iShare. The iShare platform captures key business knowledge contained in its various companies and at corporate headquarters and makes this available to employees in a readily accessible form. In 2010, the system contained 10,000 important documents on a wide range of topics.

CEOs and senior executives do not seem to be celebrated at Holcim, and information about the Schmidheiny clan is not widely disseminated. For example, no mention is made of the Schmidheiny's in the firm's history on the website. However, Thomas Schmidheiny is reputed to be one of the richest men in the world, with investments in many businesses. His successor, current CEO Markus Akermann, was an inside appointment following a role as CEO in Latin America. Similarly, not a great deal of information is available in the media about him as CEO of Holcim.

The group aims for the highest standards of business conduct through adhering to the Swiss Code of Best Practice for Corporate Governance. In addition, the company has its own Holcim Code of Conduct, which it applies worldwide.

Sustainable development

The Holcim Group's vision is to 'provide foundations for society's future'. It also wants 'to be the world's most respected and attractive company in the industry'.¹⁰⁴ The group places sustainable development at the core of its business strategy. This is aimed at ensuring that the company's commitment to achieve its vision is driven across all aspects of the business and in all locations.

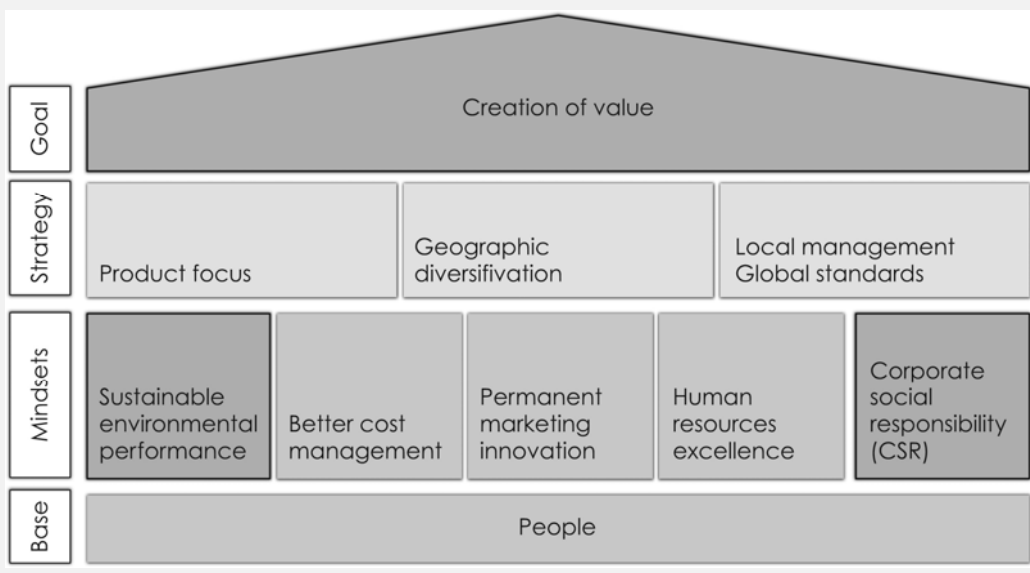
The strategy incorporates the three principles of the 'triple bottom line', namely assessing economic, environmental and social impacts of the business.

This is reinforced through group-wide sustainable development targets. The strategy is represented graphically in Figure 3.7, showing that the paramount objective is creating value. The three strategic pillars—product focus, geographic diversity and local management to global standards—in turn drive value growth and are supported by five mindsets: sustainable environmental performance, better cost management, marketing innovation, human resource excellence and CSR. All this rests on the ‘people’ base, acknowledging that Holcim employees form the most important foundation for creating value.¹⁰⁵

Organisational goals drive the achievement of the strategy, namely:¹⁰⁶

- continually set the highest standards of customer satisfaction in the industry.
- secure the strongest competitive market positions.
- partner with suppliers to deliver value-for-cost procurement for the group and customers.
- be recognised as an employer of first choice.
- empower employees and integrate them fully into the global network.
- selectively grow the group’s worldwide presence.
- demonstrate commitment to sustainable development.
- be acknowledged as a valued and trusted partner in the community.
- be the most recommended stock in the industry.

Figure 3.7 Representation of Holcim’s strategic elements¹⁰⁷



The CEO, other members of the executive team and functional managers comprise the steering group leading Holcim's integrated approach to sustainable development. The steering committee has group-wide responsibility that includes coordinating learning platforms, targets, coordinators and developing and implementing policy within its remit.¹⁰⁸

Suppliers to Holcim are required to complete a self-assessment of compliance with international social accountability standard SA 8000 and environmental standard ISO 14001 as well as conforming to OHS and human rights standards. One of the firm's sustainable development targets was that by the end of 2009 more than 75 per cent of the group companies would be screening suppliers on these criteria. In fact, about 92 per cent of companies in the Holcim Group screened suppliers for OHS compliance in 2009, and more than 80 per cent screened for environmental and labour standards.¹⁰⁹

Sustainable construction and innovation in materials also feature heavily in the Holcim business but as drivers of revenue and opportunity rather than cost. One challenge faced by Holcim is in encouraging customers to demand more sustainable and eco-efficient products when new products often take time to build credibility and win trust. Through the innovation and development of products that contain recycled or co-processed materials, Holcim plans to build competitive advantage as well as promote awareness of sustainable products among stakeholders.¹¹⁰

Economic sustainability

Holcim recognises the indelible link between commercial performance and a commitment to sustainable development. Financial performance is not compromised for sustainable development practices or vice versa; both go hand in hand. The business seeks ways to integrate sustainable development in every area affecting financial performance, including revenue generation, customer satisfaction, supplier relationships, innovation, global development and waste treatment. Many of these provide insights into how Holcim turns problems into opportunities. For example, revenue is generated from creating world-class sustainable buildings; customer satisfaction drives innovation in building materials; and supplier relationships afford strong compliance with Holcim's code of conduct, including avoiding bribery and corruption.

One issue for Holcim is the tension that can exist with thinking globally and acting locally. Holcim recognises the essentially local nature of capital-intensive cement plants producing aggregates such as sand and gravel. Operational and logistical issues associated with transporting goods prohibit operating at a distance. Holcim has embraced this as an opportunity to work closely with the communities in which it operates. As a large employer, supplier and purchaser, Holcim has the capability to generate financial benefits and contribute to the health of a region by creating employment along the value chain as well as by generating income, taxes and additional employment for the region.¹¹¹

Environmental sustainability

Given the high energy demands and carbon dioxide (CO₂) emissions involved in producing cement, Holcim is increasingly challenged to innovate to protect the environment. Holcim is concerned about influencing the future by developing products that require less energy to cool, heat and light. The cement manufacturing process provides room for improvement by reducing the resources and energy used, CO₂ emissions and encouraging use of alternative fuels.

Holcim participates in a range of environmental discussions at various levels. First, Holcim is active in fora such as the World Business Council for Sustainable Development (WBCSD). WBCSD is a CEO-led global association of about 200 companies dealing exclusively with business and sustainable development. Markus Akermann, CEO of Holcim, was a vice chairman of the WBCSD in 2010, whereas Stephan Schmidheiny, philanthropist brother of the former CEO, is honorary chairman.¹¹²

Second, the Holcim Foundation promotes dialogue on sustainable construction among architects, planners, construction engineers and investors throughout the world and leverages Holcim's resources to benefit society. In one instance, this led to a partnership between two organisations to address imminent and future challenges of housing and rural infrastructure in India.¹¹³ In 2009, Holcim spent about 1.4 per cent of net income before taxes (CHF\$36 million) on social projects worldwide, benefitting about three million people.¹¹⁴

Third, Holcim contributes to R&D in many different areas of environmental impact. Group targets in place to reflect its environment impact include the following:¹¹⁵

- minimising and mitigating CO₂ emissions¹¹⁶
- substituting clinker in cement with mineral components¹¹⁷
- monitoring and decreasing atmospheric emissions including NO_x, SO₂ and dust
- use of alternative fuels to decrease fossil fuel use while conserving natural resources
- implementation of effective waste management methods
- environmental impact and compliance analysis.

The seriousness with which the company pursues its environmental goals is demonstrated by its approach to CO₂ emissions. In 2009, earlier than expected, CO₂ emissions per tonne of cement were 20 per cent lower than the reference year of 1990.¹¹⁸ The new target for 2015 is to reduce CO₂ emissions by 25 per cent relative to the 1990 benchmark.

Many other approaches are used to reduce the impact of Holcim's operations on the environment, including the following:¹¹⁹

- optimising transport costs via innovative transport initiatives
- reclaiming concrete from demolition sites for reuse
- cement quarries implementing rehabilitation guides and plans
- assessing environmental and social impact to measure the impact of quarrying activity on biodiversity
- installing closed-loop water cycles and monitoring to improve water use efficiency.

The group is building links to others in the construction materials industry aimed at driving sustainable development across the sector and beyond. An example of this is a collaboration with the World Conservation Union (IUCN). This alliance allows Holcim to focus on ecosystem and biodiversity conservation in its own operations and also to contribute to broader goals in the communities where Holcim employees live and work.¹²⁰ Such alliances play a key role in the company's contribution and commitment to environmental sustainability.

Holcim continues to be recognised as a sustainable enterprise by various indices including the Dow Jones Sustainability Index, where Holcim was the world sector leader in the construction industry between 2005 and 2008. The company is a Sustainable Asset Management Group (SAM) Gold Class member and listed on the FTSE4GOOD sustainability index, thus being acknowledged as a leading company in sustainability worldwide and across sectors. It has achieved awards for its sustainable development from all over the world.

Social sustainability

Holcim's approach to social sustainability starts with a broad-reaching definition of its stakeholders. The 2007 Sustainability Report cites stakeholders as people or institutions who are affected, or might be affected, by Holcim's activities on a local, regional or global level. Stakeholders also include those who can influence activities and in fact everyone who can contribute to Holcim's business success. Key stakeholders include clients, employees, shareholders, suppliers, community, the government and regulators, politicians, media, non-governmental organisations and society at large.¹²¹ The company attempts to manage relationships with the stock exchange, market analysts and external investors very carefully as part of its overall stakeholder management.

The company consults and collaborates widely with its stakeholders, including with local communities regarding the impact of cement manufacturing and its other operations. Topics span activities in community development, economic development, education, environment and health.¹²² The group takes global stakeholder feedback into account in assessing its sustainable development

priorities. Mapping social, environmental and economic issues against global stakeholder views assists the organisation in identifying gaps and prioritising activities.

An area of top priority for Holcim's social sustainability is OH&S. The company's OH&S policy states:

We provide healthy and safe workplaces by striving for zero risk to our employees, contractors and visitors.¹²³

Holcim adopts a systems approach to OH&S management with 19 components represented in its OH&S pyramid.¹²⁴ The company has implemented a broad-ranging approach across every country and every unit. A set of key measures analyses and monitors performance and drives results.

Rigorous assessment provides information on areas where the majority of incidents and accidents occur and helps determine the appropriate response. Responses may include provision of equipment, resources, training, procedures, safety design or other actions. Clear organisational accountabilities are supported by a robust program of training, communication, strict procedural discipline and locally developed policies and action plans. There is zero tolerance for breaches of the five cardinal safety rules, and very stringent consequences follow any breaches under Holcim's long-term vision of 'zero harm to people'. The cardinal rules of safety are implemented globally with a training package including posters, presentations and movies sent out to all group companies. Some decisions are also made at a local level to support specific initiatives. Despite enforcing these systems and measures, in 2009, 28 fatalities marred the company's performance in the area of safety. However, the firm had reached its targets on lost-time injury rates that same year.

The ultimate responsibility for employee health and safety rests with each manager and every employee. Any manager has the power to close a workplace, as do safety inspectors who regularly inspect sites. Over the three years prior to 2007, contractors were involved in twice as many fatal accidents as Holcim employees. Therefore, contractor safety has become a major priority. An example of this occurred when a manager found contractors demolishing part of a site without wearing gloves or masks. Within five minutes, the site was closed down and contractors were not allowed to return until they were working safely. The contractor firm involved has not done any further work with Holcim since that time.¹²⁵ Thus safety and zero harm to people remain strongly top of the collective mind at Holcim.

Human resource sustainability

Human resource practices at Holcim are broad and deep in their application. The strategic pillars of the organisation rest on the foundation of people who give their best on a daily basis and, in turn, Holcim's people are given plenty of attention, support, training, development and opportunity. Employee satisfaction is monitored through an employee engagement survey, which was developed and piloted in seven countries in 2007.¹²⁶

At the very basis of human resource sustainability is the commitment that Holcim will always pay at least the local minimum wage. However, about 90 per cent of group companies pay above this amount.¹²⁷ Diversity is also significant in the group, with 60 nationalities represented in the nearly 2000 top and senior management positions.¹²⁸

Individual development plans are in place for employees. Formal and informal 'dialogue' sessions are used to discuss achievement against objectives and progress on development actions. Succession management is reviewed annually and the process is integrated into the Holcim Board and Compensation Committee meeting cycle.¹²⁹ Programs are in place for identifying talented employees, promoting from within wherever possible and providing succession planning throughout the organisation. One outcome is that internal applicants filled about 80 per cent of senior manager positions, according to the 2009 annual report.

Recruitment and induction are extensive processes, well documented in the *Holcim Human Resources Handbook*. Recruitment involves checking positions against succession and development plans. The induction process may take one to three months to complete. After two weeks on the job, each employee provides feedback as part of a 'Fresh Eyes Report'.¹³⁰ This report aims to capture any valuable observations and feedback a new employee may have.

Developing employees is a well-managed process at Holcim, with the emphasis being on both technical expertise and social skills. Learning is given high priority in employee development, including via leadership programs and management training. Regular training at all levels ensures that employees develop and fulfil their potential in the best possible way. This mainly falls within the ambit of the individual companies. To strengthen know-how and skills, Holcim has developed tools that enable the group to rapidly spread the expertise on hand.

Holcim's values are designed to promote understanding, commitment and drive in all employees to achieve the strategy. The three company values are strength, passion and performance. Strength refers to being a solid partner and is based on the integrity of Holcim's people and its global leadership and competence. The next value, passion, means delivering on promises to each other and stakeholders as well as doing the best for customers. Performance involves embedding dedication, commitment and care into everything staff members do, including in relations with other employees, customers, local communities and the environment.

More than half the global workforce at Holcim is represented by an independent trade union. Group companies report that, on average, a minimum of five weeks' notice is given to employees prior to implementing significant operational changes.¹³¹ During 2008–9, about 6 per cent of the workforce had to be cut. This was done in ways intended to minimise the social impact of this drastic action in accordance with union agreements. Most cuts were made in the economically worst affected markets of Europe and North America.

Questions to consider

1. Can you identify examples of the different levels of leadership at Holcim?
2. Which leadership paradigm(s) are evident in this case?
3. Analyse the nature of the followers Holcim requires using the follower theories.
4. Which leadership theories could apply to Holcim?
5. Does the great man theory apply at any stage?
6. Apply the sustainable leadership pyramid to Holcim. How many of the honeybee elements apply to this company judging by the case study?
7. What are the strengths and weaknesses of this company's leadership?
8. Does the company need to make changes to its sustainable development and if so, what changes would you recommend that it makes?
9. Do examples of authentic, charismatic, narcissistic or level five leadership occur in this case and if so, where?
10. Which sources of power can you identify in the case for different individuals or groups?

Case 8: Taiwan

Tainan Enterprises: Family excellence

Pying-Huan Wang¹³²

Tainan Enterprises Company Limited is a leading garment manufacturer headquartered in Tainan, Taiwan. Founded by Kun-Mao Yang in 1961, the business started with a factory based in Tainan taking Own Equipment Manufacturing (OEM) orders to supply low- to mid-priced apparel for US chain stores. The company diversified its production to include higher-priced casual wear and quickly became a leading supplier of apparel to major US and Japanese brands. It also developed its own highly successful brands for the Chinese and Taiwanese markets.

Given the global nature of the garment industry and to accommodate its customers' needs (primarily tax and quota related), Tainan expanded its manufacturing capabilities beyond Taiwan. It began building a network of factories around the globe: China and Indonesia in 1991, Cambodia in 1998, El Salvador in 2000 and Jordan in 2004. By 2009, Tainan's OEM business generated approximately US\$200 million in annual sales. In 1999, Tainan publicly listed on the Taiwan OTC market before transferring to the main Taiwan Stock Exchange in 2000. The company is among the leading listed garment manufacturers in the world.

After listing, the Yang family continues to keep a substantial ownership interest in the company. As such, Tainan may still be considered a family business, a situation not uncommon in Asia. Only 37 per cent of shares issued by listed Taiwanese companies are available to outside investors; the remaining 63 per cent remain in the hands of the majority shareholders and related parties. Although listed, Tainan values its independence. This is reflected in the company's financial practice of limiting the borrowing to a very low level and keeping plenty of cash in hand on its balance sheet. A strong company like Tainan has more than one ready source of financing available. For example, many commercial banks would like to lend money to them. Thus the company is not dependent exclusively on the capital markets. Further, the company's philosophy is that growth will be pursued in a prudent way, not at a pace to please the market. Being a listed entity, however, Tainan cannot totally disregard the financial markets in its actions because if they became concerned, institutional investors could withdraw their support by selling off their shares.

The family has remained heavily involved in management and has passed the baton to the next generation. The father was chairman until handing over to Tony Yang, the 'elder' of the family. Emely Yang, one the daughters, served as the general manager of Tainan until 2009 before she handed over the reins to Cathy Yang, the youngest daughter. Cathy has been with the company for

more than 15 years. She has served as CFO and is currently the general manager. Importantly, however, management participation by family members is based on merit. Tony, Emely and Cathy are very knowledgeable about the business and are highly regarded by their employees, customers and competitors. However, notwithstanding the strong influence of the family, the company is developing professional managers who have shown potential for senior management roles. This is because the next generation of the family has no interest in running the company. Thus Tainan is moving from being a traditional family business to a business with mixed professional management and family control.

Outsiders to the company regard both Emely and Cathy Yang as having low visibility. This is not unusual in Chinese firms, where leaders tend to keep a low profile. As Confucius stated, *'the superior man acts in a way such that he conceals himself, yet every day gains in stature. The inferior man shows himself and every day loses stature'*. While strategic decisions are made at the board level, management teams and individual workers make their own consensual decisions. This decentralised structure suits the global nature of the garment industry and the need to act quickly at times. Reaching consensus is to achieve harmony, which is one key value in the Chinese philosophies taught by Confucius and Lao Tzu: *'If balance and harmony are reached, heaven and earth will be in place, and all things will grow'*.¹³³ In Taoism, harmony is the product of 'Wu Wei', which means yielding, implying a *'pensive yielding to, or living in harmony with, the natural flow of events'*.¹³⁴

To supply to major US brands, Tainan has to ensure adequate wages and working conditions for its employees at its plants. It also has to comply with local labour regulations. Major customers such as The Gap or The Limited annually inspect the company's plants to ensure that standards are met.

Recognising the importance of innovation, the company spends approximately 3–5 per cent of sales revenue annually on R&D. Tainan has evolved from manufacturing basic garments on a specification basis to providing added value to its customers. Added value comes from after-treatment (e.g. complex embroidery), substitute fabrics, design ideas and complete design specifications (mainly to department store customers). The company has also improved its manufacturing flexibility to supply its customers with a broad range of woven apparel. It has strategically avoided manufacturing narrow, large-volume product offerings for a few dominant retailers. Management believes that this business model is risky because of the high customer concentration and its limited pricing power.

Following the lifting of quotas in 2005, garment manufacturers risked losing orders to Chinese manufacturers. To counter this, Tainan prepared itself by setting up its own R&D and technology facilities in Taiwan in early 2000 and focusing on manufacturing more complex garments. Through its strong merchandising and R&D departments, the company introduces alternative fabric materials to brand designers. It also offers new design ideas to

department store customers who usually do not have dedicated design teams for their own labels.

The company adopts a long-term perspective in many fields. This is consistent with traditional Chinese culture, namely *'being a futurist, the Chinese leader is good at identifying and exploiting business opportunities...he sees the business like an empire that his children will eventually inherit'*.¹³⁵ This includes mutual appreciation of long-term stakeholder relationships that go beyond shareholders' interests. Tainan has a long-term employment tradition and enjoys loyal staff. The company has also been growing with and following its customers wherever required. For instance, major customers such as The Gap and Sumitex have been with Tainan for over 12 years.

Tainan's operating principles as highlighted on the company's website¹³⁶ emphasise four values: treating people well ('treating people truly', 'respecting humanity' and 'working with kindness'), quality, embellishing products and establishing global brands. The priority placed on people has yielded positive results for the company: Tainan's staff retention rate was so high in 2003 that at the annual company dinner that year, the threshold of years to receive the long service award with the company had to be increased from 15 to 20 years to reduce the number of award recipients. This loyalty can be viewed as part of a sense of family belonging that is traditionally associated with Chinese employers.¹³⁷ The company uses monetary rewards to encourage a focus on quality. Up to 10 per cent of the net profit at each factory is allocated to a bonus pool for employees meeting or exceeding the quality target.

In its performance measurements, Tainan does not focus only on hard indicators such as sales targets or profit margins. As Chen summarises it, *'in business, the Chinese assess performance by taking a multifaceted view of a company, not analytic, piece-by-piece assessments and appraisals centred on individuals' achievements'*.¹³⁸ It is widely recognised that Chinese management is 'more relationship or people-oriented as opposed to performance-oriented' and humanism is an important value for a Chinese manager.¹³⁹ Chinese companies put priority on achieving harmony among employees and on employees growing and developing with the business. For instance, Tainan's practice is to bring in a new person only with the existing team's endorsement and to promote from within.

In short, although Taiwan was occupied by the Dutch in 1624 and currently enjoys considerable economic ties with the US, the island has remained very Chinese. Many Taiwanese business practices seem to be drawn from traditional Chinese family, cultures and philosophy.

Questions to consider

1. Which leadership paradigm(s) seem to apply according to this case?
2. What can you discern about followers at Tainan?
3. Are any substitutes for leaders or managers evident in this case? Which ones would you expect to see operating at a manufacturing operation such as Tainan, based on what the case says about the Chinese culture?
4. Which leadership theories can you apply to this case?
5. Do authentic, charismatic, narcissistic or level five leadership occur in this case and if so, where?
6. Which sources of power can you identify in the case for different individuals or groups?
7. Is Tainan leadership more honeybee or locust oriented? Justify your answer using the sustainable leadership pyramid.
8. Are the honeybee elements identified at Tainan attributable to its still being associated with its founding family, being partly privately held and/or to traditional Chinese philosophy? What are the reasons for your choice(s)?
9. Identify as many challenges as possible that this Taiwanese business can expect when it deals with suppliers or customers who practice locust leadership.
10. *'Benevolent paternalism also helps to promote loyalty to the firm and to strengthen organisational solidarity'*. Do you agree with that statement? Can it lead to sustainability or is this an outmoded way of managing people?

Case 9: Thailand

Kasikornbank: Ahead of the field in Thailand

Sooksan Kantabutra¹⁴⁰

If you don't manage (for quarterly gains), your performance is not good... Everyone knows being short-sighted is not good, but everyone is pressured by the system... Those who focus long-term will be fired since you will never get there... Everyone is pressured to take a short-term perspective, despite knowing that doing so can cause a lot of damage. Kasikornbank is trying to find a balance.

Kasikornbank CEO, Bantphoon Lamsam

Kasikornbank Public Company Limited (KBank) was established in 1945, with registered capital of 5 million baht and 21 employees. At that time, the bank was called TFB, but it changed its name in 2003.

Since its inception, KBank has grown healthily. As of 31 March 2010, with registered capital of about 30.5 billion baht, KBank had total assets of 1422 billion baht, deposits of 1008 billion baht and 962 billion baht in loans. The bank operates 784 branches across the country (275 Bangkok metropolitan branches and 509 upcountry branches). KBank has seven overseas offices, including branches in Los Angeles, Hong Kong, the Cayman Islands and Shenzhen; and representative offices in Beijing, Shanghai and Kunming. The bank's international offices facilitate trade and financial service transactions between Thailand and partners worldwide. During its existence, the bank has striven to develop and offer financial product initiatives as well as excellent service.

KBank has received many awards. For example, for demonstrating its capacity to survive the 1997 Asian economic crisis by raising capital, attracting good deposits and developing a strong branch network, KBank won the 'Best Bank in Thailand' award in 1998 from leading economic and financial magazine *Euromoney*. The following year, KBank was voted 'Best Bank in Thailand' by *Global Finance* magazine. In 2005, *Euromoney* named KBank the best bank in Asia based on a survey of financial analysts, for its outstanding strategies and for having the most transparency in business operations in Thailand. KBank was also selected to be among the 'Asian Fab 50 in 2008' by *Forbes Asia* magazine. In 2010, KBank was included among *Global Finance's* 'Best Trade Finance Providers in Thailand' for the third consecutive year.

KBank's principal activities are carried out through three divisions. First, the Corporate Business Group oversees customers. The group's main products include loans, trade finance, cash management services, foreign exchange, corporate finance and securities services. Second, the Retail Business Group is responsible for supervising relationships with retail businesses and individual customers. It also manages related sales channels and provides services to customers through a direct sales team, a call centre and electronic channels.

Products include retail business loans, consumer loans and credit cards. Third, the Treasury Group manages assets and liabilities, including trading securities, foreign exchange matters and derivatives.

KBank has always performed at the top of its sector. The bank has delivered strong financial performance and shown that it can endure difficult economic and social situations, such as those following the 1997 Asian financial crisis.

As Banthoon Lamsam, Kasikornbank CEO, explained:

The economic crisis proved that anyone could go bankrupt, regardless of size. If you reach a stage where you cannot make a U-turn, you just cannot make a U-turn. KBank was almost there. Since at one point, you were so damaged that you could not stop bleeding...bleeding to death. For some (banks), they were dead. For the others, they were almost dead until they were injected with 'blood'. Therefore, the lesson from the crisis is that no one is so big that they will never collapse. They can (collapse), even if they are big. This is the key problem of how to be sufficient.

KBank was far from dead. In 2000, KBank was one of only three banks in Thailand that reported profits. At that time, other Thai banks were still reporting losses following the Asian economic crisis. KBank has continuously reported impressive increases in profit since 2003 to the present (2010). In 2007, KBank reported a net profit of 15 billion baht, the third highest among all banks in Thailand. This is also an impressive increase of 9.81 per cent since 2006, especially compared with the overall decrease of 44.55 per cent in average net profit across all banks in Thailand. Other evidence that KBank weathered the Asian crisis is the bank's reported profit of 2.01 per cent of total assets in 2006, an impressive achievement given that a return on assets (ROA) of more than 1 per cent indicates that a firm is managing assets effectively.

Although KBank's return on equity (ROE) dropped sharply in 1998 and 1999 due to the 1997 Asian economic crisis, it picked up in 2000 following an increase in equity. KBank reported a return of 35.47 per cent of total equity in 2003, the highest in ten years, and another return at a rate of 16.43 per cent of total equity in 2006. A high ROE suggests that the bank managed to deliver a good return to shareholders. In general, ROE should not fall below 15 per cent.¹⁴¹ Both ROA and ROE figures in 2006 were the highest among all banks listed on the Thai Stock Exchange.¹⁴²

By 2009, KBank had successfully survived the global financial crisis. Its total assets increased from 2008 by nearly 54.5 billion baht or 4.18 per cent. With its home loan products expanded well above the industry average, the bank still had the largest market share of small- or medium-sized enterprise (SME) loans (27 per cent) in Thailand. It continued to increase its fee-based revenues by 15.2 per cent from 2008.

In addition to its financial success, KBank has maintained a leadership position in its relevant markets. How has it done this? For a start, KBank has continuously focused on developing its people because it considers human resources an organisational asset that needs investing in. Each year, KBank

allocates approximately 30 per cent of its total expenses to human resources development.¹⁴³ For example, KBank was the first Thai bank to create a school for international trade. The program helps staff gain knowledge within eight months that would otherwise have taken five years. Given its heavy investment in people, KBank never lays off people, as was evident even during the 1997 Asian economic and 2008–9 global financial crises.

Pennueng Chaiyachit, director of employee relations, explained KBank's position on laying off employees:

During the (1997 Asian economic) crisis, a newspaper reported that KBank would lay off 5,000 employees. After reading it, everyone wondered whether I would be one of those 5,000. Everyone was shocked. Everyone stopped working... I went to see Mr Banthoon immediately and asked what we could do. Mr Banthoon said he never had a lay-off policy. I suggested that he go on our internal TV within an hour to talk about it. He agreed. I then communicated to employees nationwide that Mr Banthoon would speak about layoffs. Everyone was then very attentive and watched the TV. Mr Banthoon assured everyone that KBank would not lay off even a single employee....

KBank maintains friendly relationships with its employees' union, on the assumption that the bank and its union coexist for mutual benefit. KBank usually prevents problems from arising by dealing with staff concerns upfront.

Sathinee Sriratanapong, head of the strategic HR group, spoke about the relationship of the bank and its union:

Yes, we have a good relationship, although sometimes we may have some challenges in changing things that affect groups of staff. But it is good that we can prepare before the change, and this allows us to take a variety of perspectives. Then, we negotiate how we can deal with issues before they become problems...we must live peacefully...to create benefits for all. The KBank union has been with us for a long time. It's strong....

KBank invests in managing employee knowledge as part of the company's culture. The bank takes the view that everyone, including the CEO, needs to continuously learn because business issues and problems are becoming increasingly complex. This is particularly so regarding customer behaviour, advances in technology and operating in an unstable political context. Everyone must keep on learning throughout his or her lifetime. The bank offers courses that take many forms, including in-house learning, self-study, e-learning and scholarships to study overseas. Each employee is expected to participate in several learning programs per year.

Innovation

Knowledge and innovation at KBank reflect both radical and incremental innovations. For example, in 2006 the bank launched a new credit card merchant promotion program. The innovative merchant-driven promotions were geared to get vendors excited about the bank's credit cards, which were expected to drive higher acceptance and usage of the cards. The new program

was part of a strategy to modernise the bank's card business, giving it a competitive edge against competitors. Loan approval processing time was reduced from 30 days to 3 days. KBank also innovates in its marketing, developing new initiatives such as a comprehensive business database for clients' use, home loan services and online services. Clearly, many innovations come from employees.

Surachai Pataracharoensin, the deputy director of cash and payment operations, spoke about these innovations:

Oh there is another proud story. In 2006, we developed a new system called 'Cash Administration on the Web'. Yes, it works on the web. We used a web-based, web application. Later, this system also won a Breakthrough award from the bank. It is a system that takes in cash requests. It's our work scope to provide cash for ATM machines at branches. In the past, this was done manually...therefore we could not monitor the transactions. This new system is quite successful.

Innovation at KBank also embraces CSR activities interwoven with business activities. Social contributions are not planned or managed in any way to benefit the bank, nor are they intended to enhance profitability in the short or long terms. Social activities are engaged in because they are the right thing to do.

Kasikornbank CEO Bantoon Lamsam said about CSR:

To me, corporate social contribution has no relationship with profitability, although many western textbooks would say otherwise. You're talking to a Thai person here. I contribute simply because I want to do it and am in a position to do it.

KBank president Dr Prasarn Trairatvorakul added:

We emphasise the importance of professional ethics here. CSR is an example. We formulate important policies (based on CSR). Credit policy is one example. We have a policy that we won't support any business that would harm society. We also regularly communicate our professional ethics with our staff. This is because the banking business can influence society significantly. We want to make sure that our business will not harm society in any way. If possible, we also want to raise the standard of our profession... We do what we can.

One of KBank's CSR initiatives is to help Thai SMEs, which often lack the capacity to innovate. KBank's program called 'Good Innovation...No Interest' is intended to help motivate managers of Thai SMEs to innovate in products or cost reduction and so compete better. The bank also offers regular training programs for its SME loan customers. At least six groups of 2000 SME owners have attended. Another innovative program provides advice and R&D investment to SME clients. Furthermore, KBank also works with the development agency, Kenan Institute Asia, to provide consulting services on management and development issues to small business owners at a low fee.

On average, ten SME owners ask for advice each month.

KBank also innovates in its CSR activities. For example, it has developed a system that enables benefactors from all over the country to donate money to a temple in a provincial area through a number of channels, with no service fees. The bank also plans to expand this service to all philanthropic organisations, in the hope of seeing a better society. Veerachai Amornrat, senior director of financial services management, stated:

...it will help Thai people all over the country who want to make merit...to donate money. They can do so more easily without paying any transfer fee. So every baht being donated will be 100 percent allocated to helping less privileged and needy people.

KBank has always adopted a long-term perspective. Among other things, KBank initiated a reengineering program in 1995, well before the 1997 Asian economic crisis. Included in the reengineering program was its credit pricing, the first such initiative in the country. After the 1997 crisis, KBank announced eight strategic programs aimed at making the bank more responsive to the dynamic changes in financial markets. These included centralised back office reconfiguration, credit transformation, fee-based business development, customer relationship management, IT infrastructure development, value-based management, human resource management development and e-business development.

The bank invested substantially in overhauling its core banking system in 2003. This followed a ten-billion-baht outsourcing deal with IBM in 2002. Under the agreement, IBM would manage the bank's information systems engineering, IT infrastructure and information system-processing functions until 2013. The bank would continue to be responsible for IT strategy and architecture, security and strategic projects.¹⁴⁴ An interesting part of this deal was that KBank staff could choose whether to stay with KBank or to transfer to IBM but remain employed by KBank. IBM offered about 270 KBank members employment with roles and compensation comparable to their current employment.

KBank executive vice president Apichai Bunyakiat said:

We're very pleased for our employees who will be joining IBM, the world's technology leader. This move will broaden their career path and offer more growth opportunities to further their development as IT professionals. For those who choose to stay with TFB [the former name of KBank], they will help us build new capabilities based on this partnership with IBM to support the bank's future growth.

Songtham Phianpatanawit, general manager of IBM Thailand, added:

We welcome this transfer of talent from TFB into IBM. These employees will bring fresh insights and local business expertise into IBM's portfolio of technology services offerings. They will help us maintain a level of continuity for TFB's customers as the bank accelerates its pace of innovation and transformation.

KBank also prepared itself for foreign competition. Citibank and Standard Chartered Bank were gearing up to take advantage of World Trade Organisation liberalisation in 2003. To start with, KBank created a 'hip' new image. It invested in 'e-girls' – eight leggy women who promoted the bank's electronic products, phone banking and cash cards. Since the campaign began, new accounts have grown by 100,000 a month. To expand its roster of corporate clients, the bank also launched an online service that offers everything from cash management to foreign-exchange trading.

Uncertainty and change are considered and managed at KBank, as seen from many of the activities described above. Risks managed at KBank include credit risk, market risk, liquidity risk and operational risk. The bank tries to foresee the future and invest in preparing for it. Clearly, KBank does not aim to maximise short-term profitability alone. Instead, it considers relevant factors thoroughly to manage uncertainty and change, as demonstrated by one of its loan approvals described by Kasikornbank president Dr Prasarn Trairatvorakul:

We were approached by a large company to offer a loan together with another, larger bank. In total, this loan was 30,000 million baht. That meant we would get 15,000 million baht. While the other bank decided to give us 15,000 million baht of the loan, we thought very hard. What if there is a problem in the future? 15,000 million baht is such a big amount. If anything happened, it could hurt the financial status of our bank. In the end, we only lent 3000 million baht. The remaining 12,000 million baht we give to smaller banks. This meant that although our net credit amount would increase by only 3000 million baht, as opposed to 15,000 million baht, our risk was managed... At the same time, we would work harder to find other loan customers. If we worked hard enough, we would turnover no less than 15,000 million baht. However, we would have a better composition, better structure.

KBank diversifies its products to manage risk and to deliver a holistic service to its customers. Under the KExcellence program, KBank has created six subsidiary companies comprising KBank, KFactoring, KAsset, KResearch, KLeasing and KSecurities. Moreover, the bank has expanded into China, partnering with a Chinese medium-size bank. There, KBank focuses on three groups of customers: Chinese customers who do business in Thailand, Thai customers who do business in China and Chinese SME customers.

Risk management at KBank also covers risks associated with customers. Given the rapidly changing economy and fluctuating exchange rates, KBank has

introduced a new set of contract services to its customers so that they too could manage risks. Risk management for customers also covers risks associated with interest rates, since both domestic and overseas interest rates fluctuate highly. These new services help KBank manage its own risks because the bank can grow its own revenue through increased service fees. In the past, most of the bank's revenue had just come from interest on loans.

Ethical behaviour is central to a banking business that takes care of and manages people's money and other assets. KBank therefore recruits employees who are not only capable and intelligent but also ethical. This is to ensure client confidence. Corporate governance has been applied and practised continuously from the top management level to the line staff level.

Kasikornbank president Dr Prasarn Trairatvorakul said:

Since banking business involves many people, top managers want to have a good internal system to help...transparency. If we don't use it, we will be seriously disadvantaged. For example, we have over 600 branches. We deposit a lot of people's money. We offer them deposit and withdrawal services. We have produced a lot of financial documents...contracts. If we didn't adhere to ethics, integrity, and transparency...it would cause us a lot of problems. Confidence is the obvious one. Confidence from shareholders, customers, and government agencies. Once they questioned our ethics, integrity, and transparency, there would be adverse chain effects for us. Shareholders would ask why we would not give out information. This isn't right. We must focus on transparency in our financial reports. We must disclose any information that would help build confidence.

During the 1997 Asian economic crisis, KBank demonstrated its good governance and long-term perspective. With an ailing Thai economy and increasing foreign competition, growth was again under threat. Nonperforming loans could rise again industry-wide, and margins were in for a squeeze because Thailand's new central bank was urging lenders to raise deposit rates, while leaving lending rates unchanged. What KBank could do then was limited. It was a good bank in a bad environment. KBank was a victim of its own virtue. Its share price trailed those of other bank stocks because investors were buying the shares of other banks. They were hoping that the government would absorb the other banks' bad loans into a national asset-management corporation that Prime Minister Thaksin Shinawatra's cabinet hoped to establish. KBank did not stand to benefit from this initiative, because it had spun off its bad assets 20 months earlier. What KBank did was to introduce an emerging model of corporate governance long before any other banks did.

Questions to consider

1. Which leadership paradigm(s) are evident from the KBank case apply Bergsteiner's matrix to identify leadership at different levels.
2. Use the follower theories to analyse bank employees.
3. Apply as many leadership theories as you can to KBank.
4. Are there any substitutes for leaders or managers? Which ones?
5. Which sources of power can you identify in the case for different individuals or groups?
6. Use the sustainable leadership pyramid to analyse KBank. How many elements are evident from the case?
7. Are there any sustainable leadership criteria missing that might jeopardise the long-term future of the business? Which one(s)?
8. Use top echelon theory to create some advice to senior management. For example, how diverse is top management?
9. In which of the bank's actions or parts of its culture can you see evidence of Thai culture?

Case 10: Thailand

Sa Paper Preservation House: Sustainability leads the way

Sooksan Kantabutra¹⁴⁵

We focus on customers who enjoy natural manufacturing processes and products.

Fongkam Lapinta, CEO

Sa is paper handmade from the fibre of mulberry trees. The woody stems of the mulberry trees are dried to produce paper. Then the stems are soaked and pulverised into a mush in a mill. Colour is added and the mix is placed in tubs where it is suspended in water. By drawing a fine mesh grill through the tub, sediment accumulates on the grill in thin sheets. In drying, the sediment coagulates to form the sheets of paper. These are then sold or fashioned into souvenirs and other products, ranging from notebooks, bags, flowers, photo albums, telephone books, cards, boxes, lamps, wrapping paper to animal sculptures. *Sa* paper businesses are located in Thailand and elsewhere in Asia, particularly in countries with a labour-intensive economy such as Laos, Myanmar and China. Competition is therefore intense. Major international markets for the products are the US, Canada, Germany, Sweden, Australia, Japan, Korea and Taiwan.

Surviving in this industry is no easy task. Starting does not require much capital, margins are high, the production process is not complicated and in general does not require highly skilled people. Therefore, a *sa* business is easy to set up. This creates an industry with many existing competitors and a continuous stream of new ones coming into the industry. A further challenge comes from the nature of the products themselves. Generally, *sa* products are dispensable and easy to imitate with a wide variety of substitutes. *Sa* products are typically of poor quality being made with non-lasting colours.

Typical issues encountered by *sa* paper businesses in Thailand are inconsistent quality of products, relatively high costs compared with those in China and lack of innovation. Success in the *sa* paper business is a function of keeping material costs low, developing the skills of the workforce and evolving innovative products. Since most *sa* products are exported, businesses in this industry have to comply with laws and regulations governing child labour, environmental issues and rising quality standards. This case describes one Thai *sa* paper manufacturer.

Sa Paper Preservation House

Sa Paper Preservation House (SPPH) has operated in a community in Chiangmai, Thailand, for around 40 years. Fongkam Lapinta manages the business, assisted by her husband and children. Starting from a small household business with three family members, the business has gradually expanded. Now it employs around 500 people who live in the community and

has exported 80 per cent of its products throughout the world for more than 25 years. SPPH products are handmade and high quality as evidenced by its many awards for product excellence. As an employee stated:

In this community, there are many producers, but they produce products with a low quality. Therefore, they don't have that many customers. We don't have the problem of local competition here. We simply continue to work on the products to catch up with the trend.

From very small beginnings, Lapinta's traditional paper business has become a leader in the *sa* paper industry in Thailand. Expanding slowly but surely, the business has survived a number of economic and social crises, including the 1997 Asian economic crisis and the global financial crisis. SPPH has prospered despite small beginnings, intense competition and many obstacles.

The manager of SPPH places a great deal of emphasis on keeping her staff happy. She treats her employees as if they were family members. Even in the face of increased demand, staff would never be replaced with machines or other technologies because employees are viewed as a competitive weapon in this industry. The company trains its staff in work-related skills and more importantly in moral and ethical principles. Lapinta's philosophy stresses happiness among her staff believing that a happy staff is key to producing innovative products and in turn that creating happy staff means investing in them. Unhappy employees are less creative, Lapinta believes, and this could negatively impact those products that require creativity. As part of keeping staff happy, employees are offered interest-free loans and are encouraged to participate in daily savings schemes. Furthermore, the company pays the wages as they fall due, which is not always the case among its competitors. Moreover, the company also realises that its employees form part of a wider community comprising their husbands, wives and children. If these husbands, wives and children do not have a good quality of life, SPPH staff will also be unhappy. Therefore, the company focuses on hiring people from the community and allows employees to work at home to be with their families if they prefer.

Knowledge and innovation at SPPH are remarkable, leading to both radical and incremental innovations. The company has innovated not only in its products but also in its organisational processes to overcome barriers such as shortages of supply and trade laws and regulations. For example, *sa* production depends heavily on nature. After some chemical dyes resulted in sickness among the workforce, the company innovated to replace chemicals with natural products. For example, whitening chemicals were replaced by ash. Natural colour formulas were developed by using a variety of bark, leaves, fruits and flowers. This has helped the company to be able to export its products to Europe and other parts of the world where environmental laws and regulations are strictly enforced. The company insists on using natural colour formulas although natural colours are not as bright and fresh-looking as chemical colours. As Lapinta said:

Sometimes foreign customers come to ask why the products are not really white, but yellow-shaded white. I simply tell them that if you want them really white, then we don't have them available here. We only produce genuine, natural products.

In terms of products, the company has the ability to adapt to customer requirements. SPPH has a wide range of unique products, ranging from intensive care unit gowns to elephant sculptures. Most of the products were designed to take advantage of *sa's* dispensability. The ability to innovate in its products has helped the company to keep ahead of the competition. In 2004, SPPH introduced a remarkable number of 1000 new *sa* products into the market.

The company also innovates in its organisational processes. For example, using local materials and wisdom, the company devised a new nylon tissue screener and a drying frame for use in its production. Productivity thus increased through innovations developed within the company.

Lapinta has always thought long term. She has regulated the pace of expansion by the availability of capital, labour and natural resources. Growth has come from inside, as opposed to a surge of market demand. At one point, the supply of natural mulberry started to become a problem. In the end, the company decided to pay villagers in the hills to grow mulberry trees in plantations to solve the materials shortage. As the business took off successfully, banks came to offer her loans, but the company refused. Like many privately owned businesses, SPPH has never operated on credit or outside equity, although it uses bank services for financial transactions. If there was any surplus, it was stored in a fund to guard against risk. Only when funds accumulated beyond a certain cushion did the company invest in expansion. The pace of growth was determined by the availability of raw materials and the capacity of its own accumulated capital. Sometimes orders had to be turned away because the natural manufacturing process required supplies of time and sunlight that were not flexible. Lapinta said:

We focus on customers who enjoy natural manufacturing process and products. If they don't like this, we don't take their purchase order. Someone came to say, I want to place an order with you for two hundred thousand baht to be delivered within a month. I didn't accept it, because it would be too rushed. If it rains, we will not have the sunlight to dry the paper. Therefore, we don't produce a lot in the rainy season. We make what we can.

The company's ultimate focus is not on maximising profits but to ensure that employees and other stakeholders are happy. The company also shows great respect for nature, which is the foundation of the business. For example, SPPH is the only company in its community to manage wastewater to ensure there is no pollution of rivers. The company devised a simple but effective system of managing wastewater. With no strict enforcement of laws from the local government, other similar businesses in the local community release wastewater into the broader environment, creating unpleasant smells

throughout the entire community. On the other hand, SPPH contributes to the community because its resulting wastewater not only causes no smells or other pollution but is recycled to become good enough for raising fish. To conserve materials because mulberry trees are increasingly difficult to find, the company devised a simple machine to recycle tiny pieces of *sa* papers from the production process. Later a local technical institute helped the company generate heat by recycling gas released as a by-product of the production process.

In addition to employees, suppliers, the environment and its local community, SPPH pays attention to a wide range of stakeholders including customers, suppliers, educational institutes and future generations. The company treats suppliers, who are usually from nearby communities, well. Suppliers always get priority along with employees when it comes to bill payment. Many times, SPPH has paid suppliers more than they asked for, demonstrating the company's genuine concern for its suppliers. Although it can rightfully pay lower rates, SPPH does not want to exploit the underprivileged mulberry leaf collectors. Lapinta justified this by saying:

My suppliers are the less privileged hilltribers who spend a whole night in the mountain to collect mulberry trees. In a trip, they only collect a few kilos of mulberry trees, which could be priced for only a few bahts. I feel sorry for them so I increase the price for them.

Of particular note is the company's relationship with its customers. SPPH has maintained an ethical, long-term relationship with its customers, who in turn play a significant role in helping the company to expand internationally. When the company began to export, it experienced difficulties at first because of language barriers, but its own foreign customers helped. One foreign customer even gave the company its English name, Preservation House. In the initial stage of exporting, foreign customers assisted in fine tuning the export process and connecting the company with new customers in other countries. Customers are also a significant source of innovative ideas for the products, a key to the company's long-term success.

Realising that it is part of a local community in which most people make *sa* paper products for a living, SPPH welcomes people who want to visit and learn how to make the products. Lapinta believes that her business cannot thrive in a community where people do not enjoy a good quality of life. Therefore, it is her company's responsibility to help develop other *sa* paper makers in the community. The company also acts as a learning centre for people who are interested in learning about making *sa* products.

Moreover, the company works with various educational institutions, including those whose students take internships with the company. Not only do interns learn about the business, they are also taught to be ethical, while being paid a minimum wage. This activity demonstrates the company's genuine concern for developing future generations, along with its concern for preserving the environment.

Throughout, Lapinta conducts her business by a strict ethical code. She believes that any underhand practice would ultimately be bad for the business. Her belief has become a core company value. With customers, the company ensures that the products meet every specific detail, even though the details may not be easily noticed. For example, if a book is promised to contain 100 pages, staff will count every single book to ensure the 100 pages before exporting to clients. Sometimes, clients come up with their own product designs for the company to produce. These designs are kept strictly confidential to prevent the clients' competitors from seeing them. Child labour is prohibited in the company where all wages must be fair and working conditions worthy of human beings

Questions to consider

1. Which leadership paradigm(s) operate in this small business?
2. Use the four follower theories to identify which kinds of followers the business has.
3. Can you identify any substitutes for leaders or managers at SPPH?
4. Which leadership theories apply to this case?
5. Do authentic, charismatic, narcissistic or level five leadership occur in this case and if so, where?
6. Which sources of power can you identify in the case for different individuals or groups?
7. Viewing the case through the sustainable leadership pyramid, do you think SPPH is a honeybee or locust organisation? Why?
8. What would you change in SPPH's leadership and why?
9. Do you think SPPH leadership is too idealistic to survive in the harsh reality of the global business world?
10. Do you see any influences from the Thai culture operating in this business?

Case 11: UK

BT Group: Telecommunications giant

Roger Woodend¹⁴⁶

At BT, there is real passion to apply communications to help create a better, more sustainable world.

BT Chairman Sir Michael Rake, 2007¹⁴⁷

British Telecommunications Group Limited (BT) is one of the largest telecommunications and IT service providers in the world. It is the world's oldest communications company, being directly descended from the Electric Telegraph Company that was founded in 1846. In 1984, after privatisation by the Thatcher government, BT became a publicly listed company. Its shares have been traded on the London Stock Exchange ever since.

Operating in over 173 countries, BT Group PLC is the holding company for four separately managed businesses. They are BT Retail, BT Wholesale, BT Global Services and Openreach. BT Group's R&D, IT and network operations arms support all four businesses.

Each business has a core market. BT Retail provides telephones, mobiles, internet access and web-based services to residential and business customers. This division has about 18,000 staff members and 20 million customers, including about 1 million businesses. BT Wholesale manages the UK's core communications network, providing network services and solutions to UK communications providers, mobile operators and internet service providers. It designs, plans, installs and maintains the physical communications infrastructure. BT Global Services, with around 37,000 people, supports large organisations operating in the modern rapidly converging digital networked economy. Over 60 per cent of Fortune Global 500 companies and over 65 per cent of FTSE 100 companies were BT customers in 2008. Finally, the Openreach business looks after access to the network linking homes and businesses to the networks of the UK's communications providers. Its aim is to give all service providers transparent and equal access to the nationwide BT network.

Strategy

The company's strategy has been to maintain its traditional businesses while aggressively growing new products and services. According to the 2008 annual report, this was to be done via long-term relationships with customers, putting customers at the heart of the business and increasing the company's focus on providing global, real-time and open platforms. In the 2010 annual report, senior management also referred to increasing efficiency and reducing costs.

Central to BT's strategy is creating long-term, mutually rewarding relationships with its customers, something that the company believes will deliver profitable revenue streams. In 2010, BT improved its internal scores for

measuring customer service by 10.5 per cent over the previous year, compared with a 9 per cent improvement on its 2008 score and 17 per cent on 2009.¹⁴⁸ These cumulative measures indicate that progress is being made.

In 2008, the company grew new wave revenue by 9 per cent. Long-term relationships with customers were evident in the fact that about 80 per cent of the major contracts managed by BT Global Services were for five or more years. Furthermore, 80 per cent of new products were already using common capabilities, and the rollout of the next generation of broadband services began in April 2008.

The company has demonstrated that it is prepared to make substantial long-term investments. For example, BT's 21st Century Network project is the largest and most radical transformational infrastructure in the history of world telecoms. The company is investing £10 billion in the project, which will see the entire UK telecommunications infrastructure overhauled and upgraded.¹⁴⁹

BT has a strong reputation and a widely recognised brand, which it seeks to develop, protect and manage in various ways. For example, recent annual reports stress the importance of managing social, ethical and environmental issues in a way that grows shareholder value, builds the brand and helps BT and its customers become more sustainable. Successes such as achieving top ranking in the telecommunications sector nine years running on the Dow Jones Sustainability Index further enhance the company's reputation. BT was displaced from the top position in 2010 by Telefonica but has maintained its top level gold status. The company also reaffirmed its Platinum Banding for companies scoring over 95 per cent on Business in the Community's Corporate Responsibility Index.

Financially, the company is more challenged. BT was profitable for some years after privatisation. However, by 2001 it had accumulated a debt of £30 billion, largely due to the costs associated with third generation mobile licences and international joint ventures. In 2001, the company changed its name to the BT Group, having sold off its O₂ mobile phone business and Yell directory business, undertaken Europe's largest ever rights issue (raising £5.9 billion), disposed of non-core businesses and assets and separated from joint venture partner, AT&T. Today's BT emerged from this radical restructuring and has since acquired various businesses worldwide.

BT returned to profitability, paying shareholders a 15.8 per cent dividend in 2008. Between 2008 and 2010, turnover fluctuated around £21,000 million after some difficult years post the global financial crisis.

People at BT

In 2010, BT employed around 98,000 people worldwide of whom nearly 80,000 are employed in the UK.¹⁵⁰ BT employees are encouraged to achieve their goals and targets by using their skills and initiative. The company recruits at all levels of experience, from school leavers to established professionals with sought-after skills. Employee skills cover many areas ranging from telephone

sales and support to service engineering, business management and technical specialisations.

The company is well recognised in the UK for its strong focus on people. BT is committed to the company-wide long-term development of all its employees.¹⁵¹ This starts with the recruitment of 16- to 18-year-old school dropouts to its modern apprentice and graduate schemes and enables all employees to acquire new capabilities.

BT has invested £44 million in training and developing its network engineers, and by the end of 2008 they claimed to have trained up to 18,000 engineers in specialist techniques that support the company's code of practice. Developing people is also strong in the non-engineering side of the company, where it is aimed at helping people acquire job-related skills and take advantage of future career opportunities. Employees have their own career development action plan when they join the company and access to coaching, networking, mentoring, knowledge-sharing and 'buddy' programs to help and guide them.

In return, employees are committed to the company. The company-wide program known as Our Place to Work incorporates an employee engagement index covering ten themes. The results from the annual survey are turned into action plans that are often used to make decisions. The 2008 survey attracted a 72 per cent response rate (over 74,000 responses), generating around 5000 feedback reports for managers and their teams across the business and helping to encourage teamwork.¹⁵² On a five-point scale, employee engagement was 3.58 in 2010, remaining steady throughout some challenging economic conditions.¹⁵³

Since privatisation, BT has not experienced any major industrial action although it came close to having its first strike in 2010 that was averted through a pay raise. Labour relations tend to be very cooperative, and unlike its competitors such as Cable and Wireless, BT recognises trade unions.¹⁵⁴ The company holds regular meetings with representatives to ensure that employee views are considered in key areas, for example, in the introduction of a new pay and reward framework in 2007.¹⁵⁵ In making appointments to the trustee board for the BT Pension Scheme in the same year, five of nine appointments were made with trade union agreement, including the appointment of the chairman of the trustees.¹⁵⁶

Employees are provided with a secure, customer-focused environment within which to develop their skills without the fears of forced redundancy common to the telecommunications industry. In its history, BT has never made any permanent staff redundant, relying on voluntary redundancies when reducing staffing becomes necessary. This is quite remarkable given the challenges of dealing with excess people since the company was privatised and the subsequent and inevitable increase in competition in the turbulent, dynamic telecommunications industry. The company suffered in the aftermath of the dot-com crash in 2001, yet there were no forced redundancies. In 2002, when BT and AT&T decided to abandon their global joint venture, Concert, and cut

their losses, all BT employees who had voluntarily transferred to the venture (effectively resigning from BT) were reinstated at BT. There was no adverse effect on these employees' service and pension benefits. This contrasts with AT&T, where many employees were made redundant when the venture broke up. When BT reduced staffing levels after the global financial crisis in 2009, about 5000 people were retrained and given new roles in the company, while others were seconded to another organisation.¹⁵⁷

Succession planning is apparent at all levels. A recent example is the succession of Ian Livingston as CEO in April 2008. Livingston joined BT as the group finance director in 2002. He became BT's youngest ever CEO at 43 years old and was the board's unanimous choice as successor to Ben Verwaayen.¹⁵⁸ His appointment was heralded as a 'succession plan well received in the City'.¹⁵⁹ It is noteworthy that BT has only had three CEOs preceding Livingston in the 24 years since privatisation. In his time as BT Group CEO, Ben Verwaayen acted in the mould of a speaker for the executive team rather than as a self-centred, heroic CEO. How Livingston will operate remains to be seen, but he was a protégé of Verwaayen with whom he worked closely. When Verwaayen arrived at BT, the company was deeply troubled with huge debts and an uncertain future. Following the financial crash in 2008, Livingston faced similarly challenging times.

Share options form a large percentage of board members' annual remuneration and supplement the salaries of senior management. The focus is on long-term incentives, and share options are subject to a three-year performance period. BT promotes share ownership throughout the organisation, and all permanent employees can take advantage of the company's two share option programs.

Organisation

In the fast-moving telecommunications industry, it is often said that the only thing that is constant is change, and this has certainly been true for BT. However, BT has evolved in an incremental and evolutionary way. Verwaayen's impact as leader of the top team has been significant, and on news of his departure, one London-based journalist commented that '*BT is certainly not the debt-laden, old-fashioned fixed-line phone company that he took charge of in February 2002*'.¹⁶⁰

Verwaayen and his top team devised a new, clear vision for BT. This vision is captured in corporate values that are articulated on every employee's identity card. The values were promoted in every office and technical centre worldwide, including the value of teamwork. In the 2007 employee survey, 78 per cent of respondents agreed with the statement '*the actions of the people in my team reflect the organisation's values*'.¹⁶¹ One of BT's core values is '*we work as one team*'. The industry in which BT operates is heavily dependent on teamwork and the company aims to enable all BT people to deliver great customer service through teamwork.¹⁶²

The focus on customer service has been reinforced since Livingston became CEO. Five values now guide how to get things done in BT, aimed especially at

providing a consistent customer experience:¹⁶³

- trustworthy: we do what we say we will
- helpful: we work as one team
- inspiring: we create new possibilities
- straightforward: we make things clear
- heart: we believe in what we do.

BT was one of the first FTSE 100 companies in the UK to have a publicly available Ethics Performance Measure (EPM) . In 2002, one of its largest global competitors, WorldCom, collapsed. WorldCom executives were found guilty of falsifying billions of dollars in what amounted to one of the largest bankruptcies in US corporate history. BT takes a firm stand against unethical behaviour, having dismissed 120 people for unethical conduct in 2007 alone.¹⁶⁴ BT's written statement of business practice is available in several languages to all employees, agents and contractors. The company recognises the negative effect of unethical practices on its supply chain. It assesses the risk of unethical and corrupt practices before replying to tenders and investing in new countries and includes human rights questions in its due diligence process for acquisitions. Suppliers are also required to pursue ethical practices.

The company has been ISO 14001 certified for environmental management since 1999 in the UK and is extending this accreditation throughout the business worldwide. The international quality accreditation ISO 9001 has operated in the UK and much of the rest of the BT world since 1994.

Priorities for BT's CSR activities are climate change, social inclusion and sustainable economic growth. CSR has board level support and one of BT's goals is to invest a minimum of 1 per cent of its underlying pre-tax profits back into society. In the 2010 financial year, this translated to £26.4 million in time, cash and in-kind contributions. Independent quality evaluations scored BT's efforts in its social investment program at 95 per cent in 2010, compared with 91 per cent in 2009.¹⁶⁵ Improvements in program management and better alignment with the company's corporate responsibility goals contributed to the enhanced scores.

BT invests in international projects for disadvantaged children in Brazil, China and South Africa. BT aims to help even more people get online in the UK via specific digital inclusion activities. In 2008, the target was set to reduce the number of digitally excluded people in the UK by 10 per cent in three years. BT's *Age and Disability Action* team works to raise awareness within the company of the importance of inclusive design in its services.¹⁶⁶

The company is proud of its achievements in its volunteering program, introduced in 2009. Through the program, each employee can volunteer up to three days of work time at a charity of their own choosing. Within its first year, employees contributed more than 28,000 days to various social enterprises, such as schools, youth groups, organisations for elderly or disadvantaged people and environmental programs.¹⁶⁷

The company's publicly available environmental policy recognises that its day-to-day operations affect the environment in a number of ways.¹⁶⁸ BT sets ambitious targets. For example, in April 2007, the company set a goal to reduce its carbon dioxide emissions to 80 per cent below 1996 levels by 2020.¹⁶⁹ The company was well on the way in 2010, having reduced its global carbon intensity by 54 per cent compared with 1996 and having engaged more than 7000 employees in carbon reduction activities.¹⁷⁰ The company empowers many of its employees to use communications technology to work from home. This initiative saves 12 million litres of fuel annually, resulting in 54,000 tonnes less CO₂. A £250 million project will see wind turbines installed on or adjacent to BT-owned land assets. In January 2007, BT extended its green energy contracts until 2010, saving carbon equivalent to the electricity consumption of over 300,000 households.

Former CEO Ben Verwaayen chaired the Confederation of British Industry's (CBI) climate change task force. In November 2007, he made a plea to members:

*We have to involve our employees and must report transparently our own carbon footprints. This is not just a challenge, it is also the chance to become leaders in a new low carbon economy.*¹⁷¹

BT has been recognised as a world leader in business response to climate change, winning in 2007 the Business in the Community's prestigious Company of the Year Award for its positive impact on society.¹⁷²

BT employees are regularly consulted, and the intranet site has a section dedicated to staff recommendations. Feedback is presented monthly to HR and operational managers. The CEOs of each of the business divisions hold regular online chats for all employees to air their opinions. General managers throughout the company hold quarterly reviews in which employees provide feedback to management about improvements.

Although the transition from state-owned monopoly to private enterprise was challenging, BT has undergone a major shift in culture since then. It now has a relentless focus on customer satisfaction. Once purely technology-led, the company strives to become service-led, with the customer at the heart of everything BT does.

Knowledge sharing is increasingly important at BT. Knowledge workers are highly educated and creative, which means that they seek creativity and autonomy and require high discretion in their work environment.¹⁷³ BT encourages the creation and management of knowledge in the form of company social events, collaborative online spaces and chat events, wikis and blogs and sharing best practice across divisions. BT maintains the largest intranet in Europe, with over seven million pages and nearly 200,000 users.¹⁷⁴ The intranet aims to make people more efficient, effective and empowered.

BT augments its internal knowledge base by participation in industry bodies and collaborating with academics at universities. Does this pay off? BT's head

of university research says that knowledge sharing is reflected in the innovation pipeline, time to market and time needed to fix customer problems.¹⁷⁵ All of these are clearly key business factors. The company also claims that working with business schools enables it to recruit and develop 'T shaped people'. These are people who are deep problem solvers in their own area of expertise, but who can also get on with and understand specialists from many other disciplines.

In 2010, BT invested £1177 million in research and development (R&D).¹⁷⁶ The Adastral Research and Development Park is one of the jewels in BT's crown and is its most important UK facility. Being the largest telecommunications research park in the world, Adastral is home to more than 4000 highly skilled employees and researchers. It leads the company's strategy in R&D and contributes significantly to BT's ability to innovate.

BT shares its innovations in an 'open innovation' process. Instead of keeping its innovations to itself, the company provides public access to them. The expectation is that something even greater will emerge as outside licensees turn innovations into products or develop them further. In addition, licensing provides a revenue stream. Open innovation also assists small businesses that may not have the means to engage in research and development. In these and other ways, the company ensures that its innovative solutions benefit both society and its own long-term development.

Challenges

BT faces considerable challenges over the coming years, in addition to those resulting from tumultuous global financial markets and the following austerity measures in the UK. Its share price has plummeted to its lowest level since privatisation, fuelled by a profit warning and need for top-up payments to the pension scheme. Revenues dropped 2 per cent in 2010. Furthermore, the growth engine for many years, the UK broadband market, is rapidly approaching maturity and the global financial crisis is likely to see consumers reduce their spending on broadband and related services. BT also has challenges in its Global Services division, which failed to live up to profit expectations, prompting fears from investors that the firm may not be able to meet future dividend expectations. The Global Services division was restructured and a new senior management team appointed at the end of 2009. BT faces considerable competition, particularly in the fixed-net business. The company is facing another challenge on top of opening its traditional business to competition. This challenge comes from a requirement of the British government for BT to serve customers throughout the UK, even in areas where it is not economic to do so. This is not required of other communications providers and this distortion of competition poses additional challenges for BT.

Questions to consider

1. Which leadership paradigms can you see operating at BT?
2. Which activities can you identify at different levels of leadership at BT? (Use Bergsteiner's matrix.)
3. What kinds of followers are appropriate for BT? Use the follower theories.
4. Identify the substitutes for leaders and managers operating in the company.
5. Which leadership theories apply to BT as described in the case?
6. Do authentic, charismatic, narcissistic or level five leadership occur in this case, and if so, where?
7. Apply the sustainable leadership pyramid to BT. How many of the sustainable honeybee practices can you identify?
8. What does BT do to encourage each of the performance outcomes identified in the sustainable leadership pyramid?
9. Which sustainable practices could BT improve upon, judging by the case?
10. How well do you think BT will be able to meet its challenges?

Case 12: US

Wal-Mart Stores: Can a leopard change its spots?

Gayle C Avery¹⁷⁷

Wal-Mart can take a leadership role, get out in front of the future, and make a difference that is good for our business and the world.

Lee Scott, January, 2008, then president and CEO of Wal-Mart¹⁷⁸

Wal-Mart Stores Inc. is America's largest discount retailer. Today this major corporation presents an interesting paradox: on the one hand it receives many accolades and awards for excellence and fairness, and on the other hand it had become hated by many stakeholders in the early 21st century. The company had alienated many employees and other stakeholders. More recently, Wal-Mart appears to be completely reinventing itself under the clarion call of former CEO Lee Scott. What is happening? Can such a large enterprise really change direction?

Early days were positive

Starting with his first discount store in small town Rogers, Arkansas, in 1960, founder Sam Walton built an empire that rose to become America's largest company at the beginning of the 21st century. The idea behind the stores came about when Sam Walton noted that rural areas in the US were underserved with the well-priced goods found in the more populated areas. He was a pioneer in employing new technologies that could help manage and control these stores, such as electronic inventory control and reporting systems. Walton's systems created savings and speed in delivery and distribution of goods to and from the warehouses, contained costs and enabled him to keep close control over store performance and management.¹⁷⁹ Wal-Mart became famous for the low-cost model that many customers loved.

After Wal-Mart Stores Inc. was officially incorporated in 1969, the 1970s marked the beginning of significant growth for the company. Wal-Mart stock first traded as a publicly held company in the early 1970s. Its first distribution centre was opened in 1971 and the company created the Wal-Mart home office in Bentonville, Arkansas. At that time, Wal-Mart employed 1500 associates across 38 stores, with sales of \$44.2 million. From there, the chain grew both nationally and internationally to operate 8400 Wal-Mart stores and Sam's Club locations in 14 markets by 2008.

Change of baton

During the first three decades, the company had had only two CEOs: Sam Walton and David Glass. In 2000, H Lee Scott Jr was appointed as the third CEO of Wal-Mart Stores Inc. He continued to lead the company until February 2009 when Mike Duke succeeded Scott as president and CEO. Although his departure surprised some commentators, Scott continues on as chairman of the

executive committee of the board. At the time of the handover, Rob Walton, chairman of the Wal-Mart board of directors, praised Lee Scott for having made an extraordinary contribution to Wal-Mart during his nearly 30 years of service as an associate and as president and CEO for nine years. As Walton put it, *'Lee has led Wal-Mart with humility and grace, and has been a worthy successor to his predecessors...'*

New president and CEO Mike Duke is also a long-serving associate. Duke brought broad domestic and international experience within the company to the top job. He had previously led Wal-Mart's logistics division, US operations and international operations. According to Rob Walton:

[Mike Duke] *understands retail and appreciates the complex global environment in which we operate. He is committed to the culture of Wal-Mart, its mission, and to our associates and customers. He has built strong teams wherever he has led.*

Culture

Wal-Mart traces much of its present culture back to founder Sam Walton, whose three basic beliefs or values underpin the culture. As described on the company website¹⁸⁰, these are the following:

1. *Respect for the individual:* We're hardworking, ordinary people who've teamed up to accomplish extraordinary things. While our backgrounds and personal beliefs are very different, we never take each other for granted. We encourage those around us to express their thoughts and ideas. We treat each other with dignity. This is the most basic way we show respect. Respect is the focus for building relationships. It helps serve the communities in which we live, and build a business committed to excellence.
2. *Service to our customers:* Our customers are the reason we're in business, so we should treat them that way. We offer quality merchandise at the lowest prices, and we do it with the best customer service possible. We look for every opportunity where we can exceed our customers' expectations. That's when we're at our very best. Related to this belief in service is the '10-foot rule', which Sam Walton allegedly practiced all his life. During his many store visits, Sam Walton encouraged associates to take this pledge with him: *'I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him'*.
3. *Striving for excellence:* We're proud of our accomplishments but never satisfied. We constantly reach further to bring new ideas and goals to life. We model ourselves after Sam Walton, who was never satisfied until prices were as low as they could be. Or that a product's quality was as high as customers deserved and expected. We always ask: Is this the best I can do? This demonstrates the passion we have for our business, for our customers and for our communities. Related to this is Wal-Mart's open-door policy. At Wal-Mart, management believes open

communication is critical to understanding and meeting associates' and customers' needs. Through an open-door policy, associates are free to share suggestions, ideas, and voice concerns – whether it concerns help with a problem, guidance or direction, or simply getting an answer to a question.

Servant leadership¹⁸¹ is a stated part of the Wal-Mart culture. Echoing Sam Walton's leadership philosophy, leaders are out on the floor with their associates. Whether in a Wal-Mart store, Sam's Club, the distribution centre, the home office or any another facility around the world, teams can expect their managers to be there, serving right alongside them. *'It's what makes us great. It's what makes us a team'*, the company website proclaims. As the business grows and the pace of modern life quickens, Sam Walton's philosophy of teamwork has become even more valued at Wal-Mart:

Our ability to work together affects the quality of service our customers receive. To give the very best service to our customers, and to each other, we rely on guidelines that made our culture great.

The company also takes Sam's Walton 'sundown rule' seriously. This rule basically says *'why put off until tomorrow what you can do today?'* Observing the sundown rule is very simple. Whether it is a request from a store across the country or a call from an associate down the hall, *'we do our very best to give our customers, and each other, same-day service'*. This is one of the many ways the company provides superior customer service:

When we show a sense of urgency, we show people we know their time is valuable. We care about their needs, and we want to help them quickly. When we observe the Sundown Rule with other associates, it shows we respect each other. And we're proud to be part of a team working together to get things done.

Both loved and hated

The company has received many awards and much positive recognition over the years as well as many negative headlines and law suits. Starting with the positive, the company received many awards for diversity and multiculturalism. Using 2008 as an example, *Working Mother Magazine* acknowledged Wal-Mart Stores as being among the Top Companies for Multicultural Women. That year, the *National Association of Female Executives* and *Woman Engineer Magazine* acclaimed the company for fostering women executives and engineers respectively. Wal-Mart was named Corporate Partner of the Year by the *National Association of Women Business Owners* and was among the Best Green Companies, according to *Working Mother Media*. Also in 2008, businesspeople ranked Wal-Mart Stores among the top 20 of *Fortune's* World's Most Admired Companies.

Financially, the company performs well relative to its competitors, keeping investors happy. In the bumper fiscal year ending in January 2008, the company's two million associates increased net sales by 8.6 per cent, to US\$375

billion. Profits were up about 13 per cent from the previous year, as was operating income. At the same time, most competitors were experiencing declines in revenue. Again, in 2010 profits surged 7 per cent to US\$14.3 billion, while profits at most other Fortune 500 companies fell. *Fortune Magazine*, which placed Wal-Mart Stores at the top of its Fortune 500 list of companies, attributed this to:

*attracting bargain-hungry customers from competitors with remodeled stores and inexpensive private-label goods, offering everything from frozen pizza to patio furniture in one stop. A single trip also meant less spending on gas.*¹⁸²

The company was in a very strong position financially to deliver on its mission, namely to save its 176 million consumers money so that they can live better.

However, all the accolades and financial success are puzzling given that business was not always going smoothly for this company, especially among key stakeholder groups. Employees, customers, unions, local communities and other groups had been taking action against Wal-Mart for years. By 2005, Wal-Mart was in deep trouble—the subject of hate blogs, class action suits and claims about poor labour practices and exploiting employees, criticism for placing burdens on the communities in which it operated and on social welfare programs, as well as showing disrespect for the environment and many suppliers.

Wal-Mart was described as being anti-union, an unfair competitor and attempting to bend the law unfairly to its advantage.¹⁸³ Workers became commodities supplying just-in-time labour. Schedules were built around the needs of the stores and not of the humans working in them. Wal-Mart hired ‘units of labour’ on a large scale in quantities that it could vary at will.¹⁸⁴ They were ‘peak-time associates’. This company was also not worried about exploitation and near-slavery conditions of its suppliers’ employees in many third-world countries, as long as the price was right.

It is paradoxical that one of the world’s most acclaimed companies should be in such trouble with its stakeholders. How could the company’s strong financial performance be sustained considering how angry many stakeholders were with Wal-Mart? Were the record years of 2008 and 2010 simply the result of the poor economic times following the global financial crisis, when large numbers of customers had shifted from higher-priced retailers to low-cost Wal-Mart?

Changes

Are there two different Wal-Marts? The principled company set up by Sam Walton and the hated, evil corporate giant of the early 2000s? What was going on? And what did the company do about it? In a now-famous speech in 2005¹⁸⁵, the then CEO and president Lee Scott vowed to change the company’s ways and turn over a new leaf. Was this just lip-service? By January 2008, this change was well under way, as Scott reported to Wal-Mart employees:

...27 months ago today, I spoke with you about leadership in the 21st century. I discussed a range of issues where we could lead and set specific goals to guide our progress.

With the environment, we said that our goals are to be supplied 100 percent by renewable energy, to create zero waste, and to sell products that sustain our resources and our environment. We also pledged to become more engaged with working conditions in factories, to work for more affordable and accessible health care for associates and customers, and to reflect to an even greater extent the diverse needs and nature of the communities we serve.

... The result: Our customers rewarded us with a 2.4 percent store sales increase in the US as our competitors were having decreases. Internationally, they rewarded us with an 18.2 percent increase in net sales... We have helped our customers live better in so many ways. By reducing our prices on hundreds of common prescriptions to \$4, we saved our customers in the US, Mexico, Puerto Rico, and Brazil more than \$850 million. Here in the US, you sold 145 million compact fluorescent light bulbs. You saved our customers \$4 billion over the life of those bulbs. And in the process, you eliminated the need for three coal-fired power plants.

...it is important for all of us to understand that there are a number of issues facing the world that will profoundly affect our lives and our company. I am talking to you about issues like international trade, climate change, water shortages, social and economic inequities, infrastructure and foreign oil.

...in the years ahead, we might not be able do everything that everyone wants us to do. But we will do things that need to be done and that you and your company can do. Wal-Mart can take a leadership role, get out in front of the future, and make a difference that is good for our business and the world.

Lee Scott then boasted that 93 per cent of Wal-Mart associates have health benefits compared with only 82 per cent of US workers generally. Wal-Mart intends to use its knowhow to improve the US health care system overall, making it more affordable and accessible to more people. Wal-Mart intends to lead the way in collaborating with other employers and health care providers to reduce the cost of prescriptions using e-prescribing.

Wal-Mart will also tackle the rising cost of energy now that US families spend an estimated 17 per cent of their income on energy. Wal-Mart wants to extend its mission of saving shoppers money to saving them energy costs. It will do this by making sure that the products it sells are energy efficient. By partnering with suppliers to reduce prices on energy-efficient appliances, Wal-Mart plans to help customers make better purchasing decisions and so reduce waste. This retailer is even looking at the possibility of getting involved in energy-efficient automobiles and the renewable energy sector. According to Lee Scott, manufacturers could reduce the amount of energy they use by 20 per cent.

The supply chain is a focus: ethical suppliers are important to the new Wal-Mart. Suppliers that cheat on the environment, regulations and treatment of their people will cheat on the quality of product they supply to Wal-Mart, the

former CEO claimed. Suppliers that are ethical and responsible in how they do business are much more likely to care about quality and, in doing so, care about the customers in stores. Customers want products that are made in a way that is consistent with their own personal values.

Starting with its private brands, the retailer now requires suppliers to show that their factories meet specific environmental, social and quality standards. Certification and compliance form part of supplier agreements. If a supplier fails to improve and fix the problem, Wal-Mart will stop working with that supplier. Amazingly, the CEO stated:

Wal-Mart would favor – and in some cases even pay more – for suppliers that meet our standards and share our commitment to quality and sustainability. Paying more in the short term for quality will mean paying less in the long term as a company. Higher quality products will mean better value, fewer problems, fewer returns, and greater trust with our customers. Saving people money is a commitment to our customers throughout the life of the product.

Finally, Scott made clear that Wal-Mart people are regarded as the heart of the business. They are the ones who will make the changes happen. It appears that they did.

Epilogue

What else happened? For a good while, the company was busy cleaning up its past. According to an article on the Dow Jones newswires published on 9 December 2008, Wal-Mart Stores Inc. had agreed to pay up to US\$54.3 million to settle a class-action lawsuit in Minnesota over wages and hours. Filed in 2002, the suit was based on a claim that employees were forced to work without pay so that Wal-Mart could reach its financial and productivity targets. About 100,000 current and former casual employees who worked for the company between September 1998 and November 2008 filed the class action.

Furthermore, the company took steps to prevent such practices in the future. The Wal-Mart statement of ethics, modified in 2008, covers a wide range of ethical topics in 34 pages. On page 13, Wal-Mart explicitly states:

It is a violation of law and Wal-Mart policy for you to work without compensation or for a supervisor (hourly or salaried) to request that you work without compensation. You should never perform any work for Wal-Mart without compensation.

Under the firm's Ethical Standards Program, the company seeks to source ethically through a socially responsible program. The program exists to strengthen the implementation of positive labour and environmental practices in factories, to bring opportunities for a better life in the countries where merchandise for sale by Wal-Mart is sourced and to verify factory compliance with the company's Standards for Suppliers (code of conduct): *We are committed to working with our suppliers and other stakeholders to accomplish these*

objectives and to address challenges with sustainable solutions'. Some employees have received awards for courage in speaking out against unethical practices.

The March 2010 fact sheet issued by the company shows that Wal-Mart is trying to become more sustainable in various ways.¹⁸⁶ Others seem to agree as the company was ranked first among retailers in *Fortune* magazine's 2010 Most Admired Companies.

In addition to setting ambitious environmental, ethical and social goals, Wal-Mart is redressing specific problems from its past. For example, the majority of associates now work full time and promotion occurs from within. Nearly 75 per cent of store managers began as hourly associates. The company claims to offer good jobs with competitive pay and benefits, plus performance-based bonuses for some associates. Even casual employees receive financial incentives, including bonuses, profit sharing and contributions to their pension funds plus discounts on merchandise and contributions to the associate stock purchase plan.

One reason that the company gave for its superior performance during the global financial crisis is that it acted on Sam Walton's principle of giving customers what they want. But this record achievement was reached while Wal-Mart also made much-needed progress on employee, societal and environmental issues. By 2008, Wal-Mart had become a much more environmentally-responsible company through its 'Sustainability 360' program and its claims that concern about Earth's future is discussed in every corner of the Wal-Mart globe.

Not only had Wal-Mart become more environmentally and socially responsible by 2008, it became more focused on its employees. According to the 2008 annual report (p. 3), the then CEO and president Lee Scott wrote:

[Wal-Mart] associates deserve to succeed as far as their hard work and skills can take them. In the past year, we have continued to provide real opportunity in the workplace around the world.

A broader stakeholder concern was also evident in the 2008 Wal-Mart annual report. For example, Lee Scott attributed the firm's record financial performance to employees' commitment during the company's period of transformation. He linked this commitment in turn to serving shareholders, customers and the communities in which Wal-Mart operates. And this was just the start, according to Scott.

Questions to consider

1. Which leadership paradigms can you identify at Wal-Mart during different stages of its existence: the Sam Walton era, the 'bad' days and the reborn Wal-Mart?
2. Which is the appropriate leadership paradigm for a large retailer like Wal-Mart Stores? Why?
3. Apply the various follower theories to the case.
4. What kinds of substitutes for leaders and managers can you identify at Wal-Mart?
5. Which leadership theories apply to Wal-Mart at different stages of its existence?
6. Do authentic, charismatic, narcissistic or level five leadership occur in this case, and if so, where?
7. Apply the sustainable leadership pyramid to the Sam Walton era, the 'bad' days and the reborn Wal-Mart. What are the differences in honeybee and locust practices?
8. In which specific areas of sustainable leadership has Wal-Mart attempted to change its behaviours under Lee Scott?
9. What would it mean for US society if Wal-Mart fails to transform itself into a sustainable organisation?
10. This case highlights a paradox between the high rankings and recognition given to this company as well as its financial success, as opposed to the anger of many stakeholder groups. Is this discrepancy sustainable?

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Appendix

This appendix contains blank versions of the frameworks for use in analysing different aspects of leadership. The following nine tools are contained in this Appendix:

- identifying leadership paradigms
- Bergsteiner's leadership matrix
- theories and approaches
- linking followership theories and approaches to leadership paradigms
- Kellerman's follower typology
- sources of power
- substitutes for leadership and management
- sustainable leadership criteria
- sustainable leadership pyramid.

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Table Appendix 1 Identifying leadership paradigms using eight distinguishing criteria (see Table 2.1, page 12 for further explanation)

| Leadership features | Classical paradigm | Transactional paradigm | Visionary paradigm | Organic paradigm |
|---|--|--|--|--|
| 1. Role of leaders and followers | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: |
| 2. Sources of leadership power | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: |
| 3. Main drivers for paradigm | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: |
| 4. Role of vision | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments: |

| | | | | |
|--|---|---|---|---|
| <p>5. Follower compliance and/or commitment</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> |
| <p>6. Decision-making</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> |
| <p>7. Trust in others</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> |
| <p>8. Extent of follower power</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> | <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Mixed Comments:</p> |

Table Appendix 2 Bergsteiner’s levels and leadership paradigms matrix (discussed on pages 14-18).

| Levels of leadership | | Leadership paradigms | | | |
|--|---|----------------------|--------------------|-----------|---------|
| | | Classical | Trans- actional | Visionary | Organic |
| Societal level: prevailing culture | | | | | |
| Macro-organisational level: organisational or divisional systems, processes, traits, life cycle, size, economic models, strategy | | | | | |
| Meso-organisation al levels: classes of people | Executive team (i.e. upper echelon characteristics) | | | | |
| | Other leaders (i.e. middle managers’ characteristics) | | | | |
| | Follower (characteristics) | | | | |
| Micro-organisational level: specific behaviours, attitudes, traits of individuals, dyads and small groups | | | | | |

Table Appendix 3 Theories and approaches (see page 2 18-24 for descriptions of theories)

| Theory | Does the theory offer insights into the case? | If so, what is the evidence? |
|-------------------------------------|--|-------------------------------------|
| 1. Behaviours | | |
| 2. Great men | | |
| 3. Traits | | |
| 4. Charisma | | |
| 5. Authentic | | |
| 6. Level 5 | | |
| 7. Narcissistic | | |
| 8. LMX | | |
| 9. Socio-cognitive | | |
| 10. Fiedler's model | | |
| 11. House's path-goal theory | | |
| 12. Top echelon | | |
| 13. Learning and teaching | | |
| 14. Situational | | |
| 15. Organisational culture | | |

Table Appendix 4 Linking followership theories and approaches to leadership paradigms (see Table 2.5, page 29 for a summary of these approaches)

| Theory | Do followers fit to the chosen paradigm? (Provide reasons for fit or mis-fit.) |
|--|---|
| 1. Avery– Bergsteiner follower types | Yes/no/partly |
| 2. Kellerman types | Yes/no/partly |
| 3. Howell and Shamir’s reasons for visionary followership | Yes/no/partly |
| 4. Need for supervision | Yes/no/partly |

Table Appendix 5 Kellerman's follower typology (see Table 2.4, page 28 for details)

| Follower type | Description | Apparent in case? | Comments |
|---------------------|--|-------------------|----------|
| Isolates | <ul style="list-style-type: none"> ▪ completely detached from leaders and the organisation ▪ barely aware of what is going on around them ▪ care little for their leaders ▪ not particularly responsive to their leaders. | | |
| Bystanders | <ul style="list-style-type: none"> ▪ disengaged from their leaders, groups and the organisation ▪ observe but do not participate ▪ deliberately stand on the sidelines ▪ offer little resistance or active support. | | |
| Participants | <ul style="list-style-type: none"> ▪ engaged in some ways ▪ try to make an impact ▪ may clearly support or oppose their leaders and organisations ▪ will invest some of their own time and energy in what they believe in. | | |
| Activists | <ul style="list-style-type: none"> ▪ work hard either for or against their leaders ▪ are eager, energetic and engaged when supportive | | |

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| | | | |
|-----------------|---|--|--|
| | <ul style="list-style-type: none">▪ feel strongly about their leaders and organisations and act accordingly▪ are heavily invested in people and processes. | | |
| Diehards | <ul style="list-style-type: none">▪ are rare▪ all-consuming dedication to someone or something they believe in▪ willing to endanger their own health and wellbeing for the cause▪ can be a strong asset or a dangerous liability to their leaders because of their extreme dedication. | | |

Table Appendix 6 Sources of power (descriptions are on page 30)

| Sources of power | Strong | | Medium | | Low | | Absent | |
|---------------------------------|--------|---|--------|---|-----|---|--------|---|
| | A | B | A | B | A | B | A | B |
| 1. Legitimate or position power | | | | | | | | |
| 2. Expertise power | | | | | | | | |
| 3. Information power | | | | | | | | |
| 4. Reward power | | | | | | | | |
| 5. Coercive power | | | | | | | | |
| 6. Referent power | | | | | | | | |
| 7. Ownership power | | | | | | | | |
| 8. Opportunity power | | | | | | | | |
| 9. Relationship power | | | | | | | | |
| 10. Networks and coalitions | | | | | | | | |

Legend:

Group/person A=

Group/person B=

Table Appendix 7 Substitutes for leaders and managers (see pages 30-32 for further information)

| Substitutes | Strongly evident | Somewhat evident | Not evident |
|--|-------------------------|-------------------------|--------------------|
| 1. Clear vision | | | |
| 2. Shared values | | | |
| 3. Specified goals | | | |
| 4. Access to information about progress | | | |
| 5. Feedback mechanisms | | | |
| 6. Self-managing workforce | | | |
| 7. Professional codes of conduct | | | |
| 8. Widespread skills training for staff | | | |
| 9. Closely knit work teams | | | |
| 10. Specified rules or procedures | | | |
| 11. Computer or other systems for managing work processes | | | |
| 12. Handbooks or written guidelines | | | |
| 13. Peer support or pressure | | | |
| 14. Strong cultural norms | | | |
| 15. Other | | | |
| 16. Other | | | |

Table Appendix 8 Sustainable leadership criteria (elements are described in Table 2.7, pages 36-37)

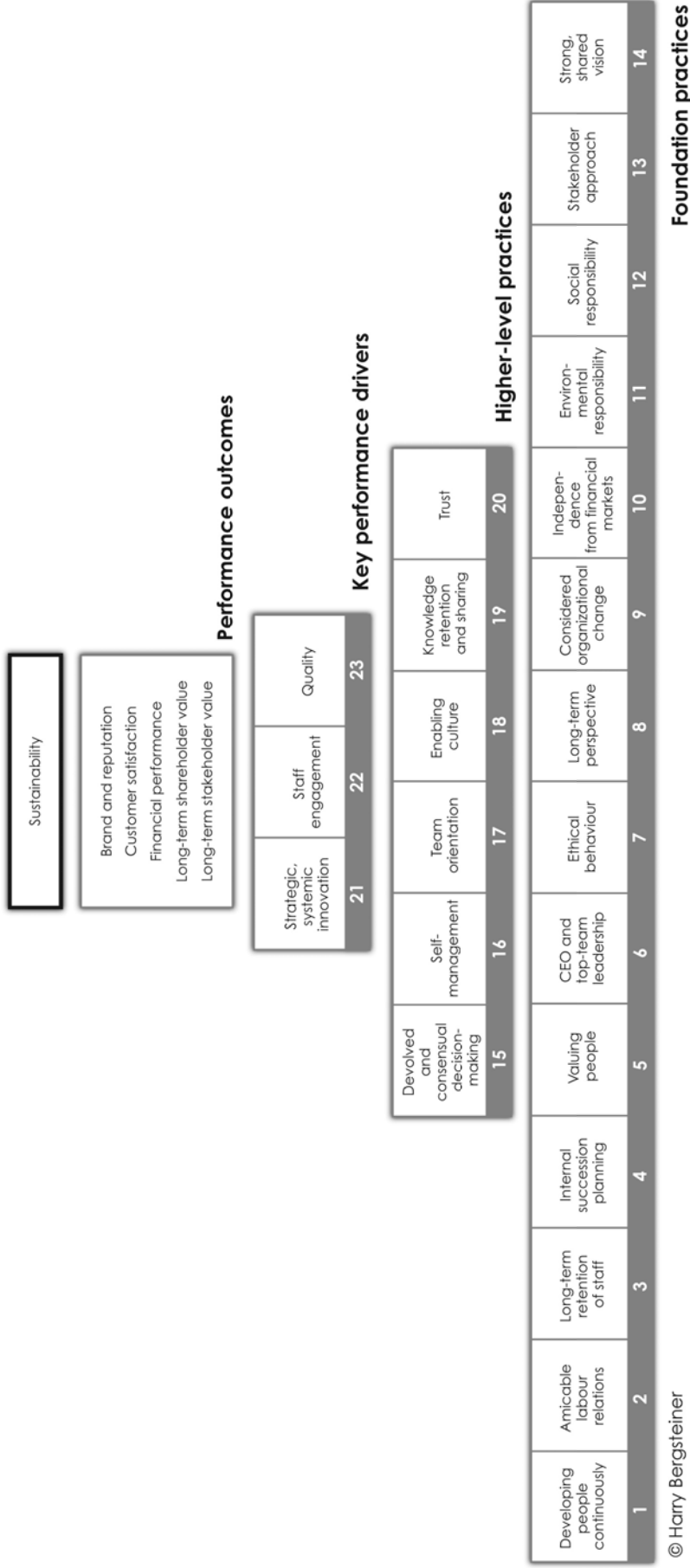
| Sustainable elements | Honeybee philosophy | Case evidence |
|---|---|---------------|
| Foundation practices | | |
| 1. Developing people | Develops everyone continuously | |
| 2. Labour relations | Seeks cooperation | |
| 3. Retaining staff | Values long tenure at all levels | |
| 4. Succession planning | Promotes from within wherever possible | |
| 5. Valuing staff | Concerned about employees' welfare | |
| 6. CEO and top team | CEO works as top team member or speaker | |
| 7. Ethical behaviour | 'Doing the right thing' is an explicit core value | |
| 8. Long- or short-term perspective | Prefers the long term over the short term | |
| 9. Organisational change | Change is an evolving and considered process | |

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| | | |
|--|--|--|
| 10. Financial markets orientation | Seeks maximum independence from others | |
| 11. Responsibility for environment | Protects the environment | |
| 12. Corporate social responsibility (CSR) | Values people and the community | |
| 13. Stakeholders | Everyone matters | |
| 14. Vision's role in the business | Shared view of future is essential, vision is a strategic tool | |
| Higher-level practices | | |
| 15. Decision-making | Consensual and devolved | |
| 16. Self-management | Staff are mostly self-managing | |
| 17. Team orientation | Teams are extensive and empowered | |
| 18. Culture | An enabling, widely shared culture | |
| 19. Knowledge sharing and retention | Spreads throughout the organisation | |

| | | |
|--------------------------------|---|--|
| 20. Trust | High trust through relationships and goodwill | |
| Key performance drivers | | |
| 21. Innovation | Strong, systemic, strategic innovation evident at all levels | |
| 22. Staff engagement | Values emotionally committed staff and the resulting commitment | |
| 23. Quality | Embedded in the culture | |

Figure Appendix 9 Sustainable leadership pyramid (see pages 37–39 for further details)



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