

Louvain School of Management

Why doesn't a sustainable leader necessarily lead to a sustainable organization?

Mémoire recherche réalisé par
Thomas Couëry

en vue de l'obtention du titre de
Master en ingénieur de gestion, à finalité spécialisée

Promoteur(s)
Thierry Bréchet

Année académique 2017-2018



Acknowledgement

Writing this thesis has been a long and difficult process. I would first like to thank my supervisor, Thierry Bréchet, who helped me structure my thinking and gave me the necessary guidance in times of doubt.

I would also like to express my gratitude to Carolina for the support, encouragement, and kindness she has been providing me with throughout my internship and the thesis writing process.

Table of content

INTRODUCTION.....	1
PART 1 – DEFINITION OF THE CONCEPTS: LEADERSHIP, STAKEHOLDERS, AND SUSTAINABLE ORGANIZATION.....	4
CHAPTER 1 - WHAT LEADERSHIP?	4
1 ABUNDANCE OF DEFINITIONS.....	4
2 DIFFERENT APPROACHES TO LEADERSHIP	5
3 LEADERSHIP MODELS DIRECTED TOWARDS SUSTAINABILITY.....	7
4 WHAT IS A SUSTAINABLE LEADER?.....	9
5 INTERIM CONCLUSION.....	10
6 HIGHLIGHTS.....	10
CHAPTER 2 – WHY CAN STAKEHOLDERS BE AN OBSTACLE?.....	12
1 WHAT ARE STAKEHOLDERS?.....	13
2 WHAT ARE THEIR EXPECTATIONS AND HOW CAN THEY INFLUENCE AN ORGANIZATION’S STRATEGY?	15
3 STAKEHOLDERS SELECTED FOR ANALYSIS.....	18
4 INTERIM CONCLUSION.....	19
5 HIGHLIGHTS.....	19
CHAPTER 3 – WHAT IS A SUSTAINABLE ORGANIZATION?	20
1 WHAT IS SUSTAINABLE DEVELOPMENT?.....	21
2 HOW IS SUSTAINABLE DEVELOPMENT ADDRESSED WITHIN COMPANIES?	24
3 WHAT IS A SUSTAINABLE ORGANIZATION?	28
4 HIGHLIGHTS.....	31
PART 2 – THREE OBSTACLES CREATED BY STAKEHOLDERS AND THEIR ORIGINS.....	32
CHAPTER 4 - SHORT-TERM PROFITABILITY TO SATISFY SHAREHOLDERS.....	32
1 WHERE DOES THE IDEA OF MAXIMIZING PROFITS FOR SHAREHOLDERS COME FROM?	33
2 COULD SHIFTING THE PROBLEM OF EXTERNALITIES TO GOVERNMENTS AND EXPERTS BE A SOLUTION?.....	34
3 IS ANYONE RESPONSIBLE FOR TACKLING EXTERNALITIES AT SOURCE?	35
4 HOW DOES COMPLEXITY EXPLAIN THE UNCLEAR LINK BETWEEN EXTERNALITIES AND AN ORGANIZATION’S ACTIONS?.....	37
5 HOW GLOBALIZATION CREATED COMPLEXITY?	38
6 HIGHLIGHTS.....	41
CHAPTER 5 - DIFFICULTIES TO CONVINC STAKEHOLDERS OF THE SINCERITY OF THE LEADER'S VISION.....	43

1	WHY WOULD STAKEHOLDERS NOT BE CONVINCED OF THE SINCERITY OF A LEADER'S VISION?.....	43
2	WHY DO CHALLENGES ARISE WHEN MEASURING SOCIAL IMPACTS?.....	48
3	HIGHLIGHTS.....	52
	CHAPTER 6 - RESISTANCE TO CHANGE FROM EMPLOYEES	54
1	THE EIGHT-STEP PROCESS FOR LEADING CHANGE (KOTTER, 1996).....	55
2	ANALYSIS OF AN ORGANIZATIONAL CHANGE PROCESS AT BMW	56
3	COMPARISON OF BMW CASE STUDY AND KOTTER'S MODEL TO FIND KEY AREAS WHERE EMPLOYEE RESISTANCE MAY OCCUR.....	58
4	REASONS FOR EMPLOYEE'S RESISTANCE	60
5	HIGHLIGHTS.....	62
	CONCLUSION	64
	BIBLIOGRAPHY.....	68
	APPENDICES.....	76

Introduction

'Well, what should I really do in this world? Solve cars, global warming, and make humans multiplanetary.' This bold statement was made by Elon Musk in his biography (Vance, 2015, p.197). Elon Musk has been known to be a visionary, outrageous for some, disruptive for others. The vision of the future of this uncommon business leader has led to disruptions in the sectors of banking (Paypal), transport and energy (Hyperloop and Tesla), and even the conquest of space (SpaceX). In particular, Tesla's vision is "to accelerate the world's transition to sustainable energy." Musk's quote exemplifies the growing movement of CEOs committed to developing business models that are sustainable or at least establish more sustainable companies. Another example is that of Emmanuel Faber, the CEO of Danone, who said: "One Planet. One Health is a rallying call to everyone to join the Food Revolution. And we aim to make that Revolution a reality for as many people as possible, across the world." (Faber, 2017). Could these visionary pioneers be the sustainable leaders the world urgently needs? Could they build the sustainable organizations of tomorrow? As we will see throughout this report, a leader with such vision, no matter how bold it may be, can sometimes not be enough to create sustainable organizations.

Thus, the research question which will be the focus of this report is as follows: Why doesn't a sustainable leader necessarily lead to a sustainable organization?

By meeting the needs of the present generation without sacrificing the ability of future generations to meet their own, sustainable development has aimed at pursuing economic growth, environmental protection, social inclusion and good governance. However, many actors in the academic, business and institutional world believe that we have not reached such sustainable development and organizations have been considered as being part of this crisis of unsustainability. Thus, to translate these objectives to businesses, Corporate Social Responsibility strategies and initiatives have commonly represented the way sustainability has been addressed by companies. With this view, the firm not only survives and regenerates but also has a positive impact on the economic, social, and environmental systems surrounding it. Business leaders, being the highest-ranked executives, have had

the opportunity to build such sustainable organizations by influencing their companies' vision and translating it into clear objectives and strategies. Although the literature on leadership is filled with an overabundance of disputed definitions, some of these definitions aim at addressing societal needs. As such, different models have been created over the years describing the ideal mindset a leader who wants to create sustainable value should have. Sustainable leadership represents one of these models and its use could help leaders, such as Musk and Faber, achieve their vision and make them play a critical role in building sustainable organizations.

However, a leader's efforts to realize his or her ideals may not always be enough. Indeed, sustainable leaders may face obstacles that prevent their business from being more sustainable. Laughland & Bansal (2011) identified some of these reasons. First, government policies are not always clearly linked to sustainability, making investing in sustainability a possible risky endeavor. Second, too many confusing sustainability indicators exist making it hard to effectively and objectively assess impacts. Third, leading the way to make one's organization sustainable is viewed as risky. Indeed, there could be an overinvestment in a technology that would not give the necessary return on investment and the company could be overtaken by a second-mover who would use the leader's ideas without having to bear the associated costs. These reasons are among the many challenges faced by sustainable leaders.

Nevertheless, it is another challenge that will be addressed in this report: obstacles brought by stakeholders. Indeed, as Freeman (1984) argues, organizational leaders must receive the necessary support from their various stakeholders to ensure the survival of their business. Such stakeholders can be employees, suppliers, customers, communities, governments and so on. Ensuring their support can be the source of various obstacles that sustainable leaders must overcome if they want their vision to become a reality.

To answer our research question, a two-part structure will be used. In part 1, we will define each key concept. Defining these concepts will allow us to point out some key obstacles brought by stakeholders that business leaders are facing when building sustainable organizations. Three of these barriers will be analyzed in the second part of this paper to uncover their origins.

Specifically, the first chapter will focus on the definition of leadership and whether there are models that leaders can use to create sustainable organizations. We will then be able

to define what a sustainable leader is and ask ourselves the following question: why do we still see unsustainable organizations everywhere if such ideal leaders exist? The second chapter will answer this question by presenting why stakeholders can represent an obstacle. To reach this answer and uncover three specific obstacles to analyze, later on, we will first explain what stakeholders and their expectations are, and how they can influence an organization's strategy. In the third chapter, we will get an understanding of what sustainability actually is and see how it can be translated to an organization. This will allow us to define what a sustainable organization actually is.

As said above, the second part of this report will examine three barriers brought by stakeholders to uncover their origins. The fourth chapter will examine the demand for short-term profits from shareholders and from where it has originated. In chapter five, we will explore why stakeholders are not always convinced by the sincerity of the leader's vision. Finally, in chapter six, we examine the main areas where employees might experience resistance to change and where that resistance comes from.

So far, we have presented what will be discussed in this paper. Unfortunately, many interesting topics could not be studied in depth and will therefore not be included in this report. First, only the following stakeholders will be analyzed: shareholders, employees and the stakeholder group that share the leader's vision. Second, we discuss the negative impacts brought by stakeholders, but we keep in mind that some of these impacts could also be positive. Third, we do not question the traditional leadership approach that would make the leader the main decision-maker. Fourth, the investigation led in this paper focused only on large organizations. And last, given the many definitions of sustainable development and CSR, it is clear that our definition of a sustainable organization will only be valid in the context of this report.

Part 1 – Definition of the concepts: leadership, stakeholders, and sustainable organization

The key concepts of our research question will be defined in the first part of this report. This will allow us to understand the obstacles that stakeholders can pose to business leaders when building a sustainable organization.

Chapter 1 - What leadership?

The highest-ranking executives, generally referred to as top management, are responsible for the organization as a whole. The organizations, to which we refer throughout this document, are very large organizations. Top executives provide corporate leadership by translating policy (which has been formulated by the board of directors) into clear objectives and strategies. By demonstrating leadership, they are able to project a shared vision of the future. Decisions made by these leaders affect internal and external stakeholders and they are usually held accountable for the success or failure of the organization (Johnson, Scholes, & Whittington, 2011). This level of management has the opportunity to influence an organization's vision and is therefore the type of leadership we will refer to in this document. Given that the type of leaders an organization has seems crucial in creating sustainable organizations, we will examine in this chapter whether there are models available that leaders can use to achieve this goal.

1 Abundance of definitions

More than 30 years ago, Meindl, Ehrlich, & Dukerich (1985) made the observation in their article "The romance of Leadership" that after many years of research, scholars had failed to produce a compelling and intellectually satisfying definition of Leadership, the term still remained elusive and enigmatic. Two decades later, Jackson (2005) made the same observation, saying that even though leadership was a much-studied field, it was plagued

with an overabundance of contested definitions. More recently, Raelin (2016) emitted the same remark. According to this author, the concept of Leadership has been overused to such an extent that its meaning is not conceptually intact.

2 Different approaches to leadership

Metcalf & Benn (2013) help us understand the multitude ways in which leadership has been conceptualized, categorizing leadership theories into five approaches: trait theories, behavioral theories, situational theories, transactional theories and transformational theories. This categorization is close to the summary of the different approaches Northouse (2010) makes. To have a better understanding of leadership and its evolution throughout the years, Metcalf & Benn's categorization will now be presented.

2.1 Trait theories

Trait theories first emerged in the 1940s and are among the earliest leadership theories. This approach mainly focuses on the personal characteristics of the individual leader such as the physical and personality attributes, the skills and values (Fleenor, 2006). These theories correspond to the usual way famous leaders are described (Louise Metcalf & Benn, 2013). Early scholars argued that leaders vary from non-leaders in a number of different traits, e.g. intelligence, honesty and integrity, ambition and high energy, self-confidence, task-relevant knowledge, the desire to lead, self-monitoring and charisma. However according to Stogdill (1948), traits only account for ten percent of a leader success because of the inconsistent way personality is displayed to followers, since personality is a psychological construct. Metcalf & Benn (2013) believe that this low predictability is the reason why the next step in the study of leadership theory was the analysis of behavioral styles.

2.2 Behavioral theories

Behavioral theories describe how leaders are acting, what behavior they are displaying, and how they interact with others. The Managerial Grid (Blake & Mouton, 1964) is among

the first frameworks that categorized leaders according to their behavior. Blake and Mouton presented nine leadership styles using two behavior parameters, namely “concern for people” and “production concern”. Ekvall & Arvonen (1991) built upon this framework by adding a development-oriented behavior. Metcalf & Benn consider that behavioral theories have been more successful in predicting the reasons behind a leader’s success. Still, because in these theories the environments in which the leaders lead was not considered, a new leadership approach appeared to close this gap: situational leadership theories.

2.3 Situational theories

These theories aim to determine what situational factors are critical to leadership success. The first contingency model was developed by Fiedler (2001). He analyzed the impact of three key factors on leadership success, namely: leader–member relations, task structure and position power. He evaluated how these factors were interacting and thus what actions leaders would take as a result of it and how successful they would be. Hersey & Blanchard (1974) popularized this theory and expanded it into four distinct leadership styles and four phases of development. Keller (2003) developed another situational-based theory with the Path Goal theory. Although situational theories have been widely accepted due to their strong intuitive appeal (Louise Metcalf & Benn, 2013), some authors have criticized the underlying assumptions of these theories, saying that the wide range of potential situations could result in the concept itself being useless.

2.4 Transformational theories

The fundamental difference between transformational theories compared to previous ones is the recognition of the power of inspiration. The first transformational theory was developed by Burns (1978) as an opposition to **transactional leadership theories** where leaders would be defined by their skills and knowledge and by how effectively they would make people work within the status quo. Transformational leadership is defined by Burns as the process in which both, leaders and followers, are helping each other find an intrinsic motivation with the wider view of addressing unmet social needs, transforming thus the status quo. Burns found out that transformational leaders provide

followers with a vision and mission that inspires them. This inspiration gives the followers a renewed identity and encourages them to be creative in the way they alter the status quo and meet their inner needs. The business dictionary defines transformational leadership as a "style of leadership in which the leader identifies the needed change, creates a vision to guide the change through inspiration, and executes the change with the commitment of the members of the group" (BD Dictionary, 2018).

The transformational leaders are seen as 'heroic' and it is suggested that they have a deep effect on their followers, at least in the short term (Burns, 1978). Two drawbacks seem to exist with transformational theories. First, it is mostly used for short bursts, as these leaders are often seen as a threat by their peers and are often undermined by political maneuvers. Second, as with the other theories, transformational leadership does not differentiate types of followers and therefore are treated all the same way by leaders (Metcalf & Benn, 2013).

3 Leadership models directed towards sustainability

Among these traditional leadership theories, only transformational leadership specifically aim at addressing societal needs and is, therefore, the only traditional theory that stopped focusing solely on the organization well-being. By addressing the unmet needs of society, these leaders aim at developing their organizations in a sustainable way by transforming the correlation between their economic growth, the environment and society from negative to positive. What it means to be a sustainable organization will be thoroughly discussed in chapter 3.

More recent leadership models took some inspiration from transformational theories. Such is the case of the models developed by Senge, Smith, Kruschwitz, Laur, & Schley (2008) and (Roberts, 2012). The latter being a framework cited by Tideman, Arts, & Zandee (2013).

3.1 Systems thinker, collaborative and adaptable – Senge (2008)

In *The necessary revolution: Working together to create a sustainable world*, Senge presents three key characteristics that a leader seeking to create sustainable value should possess: Systems thinking, collaborative, adaptable.

- **Systems thinker:** The thinking of leaders who have served as standards in previous decades has been focused on the pieces of the puzzle. Modern leaders must be system thinkers capable of seeing the global relationship between parts of a system, and how those parts work together to build the whole.
- **Collaborative:** Modern leaders need to be capable of thinking in a broader and more inclusive perspective where the objective would be to help business partners flourish, enabling leaders to collaborate across traditional business and social boundaries.
- **Adaptable:** The way problems were solved in yesterday's logic was in a linear way with a careful and disciplined execution of elaborate plans. Modern leaders should be more creative by re-contextualizing problems and come up with solutions that would link their vision to current realities.

3.2 Roberts (2012)

Roberts (2012) argue that transformational leaders should display the following characteristics to be successful in today's environment:

- **Holistic thinker:** These leaders do not compartmentalize but see the big picture.
- **Systems thinker:** These leaders know how to make connections between the parts of a firm allowing them to be innovative.
- **Humanistic thinker:** Such leaders can relate to the teams or employees they manage by connecting at the heart level.
- **Social optimist:** They can overcome cynicism by envisioning a solution that would solve today's global problems.
- **Authentic filtering capabilities:** Finally, they can discern the motivations of others to respond appropriately.

4 What is a sustainable leader?

As pointed out earlier, the literature on leadership is vast and can appear sometimes cluttered while not providing sufficiently precise definitions of the term making it somewhat elusive and enigmatic. It is less the case about sustainable leadership which suffers from the opposite problem. While the literature on administration, management, and leadership is vast, there was and there is still a lack of information in the area of sustainable leadership (Ahmad, 2006). More authors have been discussing sustainable leadership (Bendell, Sutherland, & Little, 2017; Hargreaves & Fink, 2003; L. Metcalf & Benn, 2012; Šimanskienė & Župerkienė, 2014; Tideman et al., 2013). However, no common definition of the concept seems to emerge. On the contrary, discussions around sustainable leadership generally reflect a two-sided view.

There is, usually, a recognition that sustainable leadership should account for and reflect the growing complexity the world is facing if such leaders want to succeed in building sustainable organizations, namely: constantly changing, uncertain and unpredictable, nonlinear, self-organizing, and existing as interconnected webs of relationships (Louise Metcalf & Benn, 2013). The debate lies in how these complex challenges should be tackled. Some authors argue that tackling these complex challenges requires collaborative models of leadership instead of a more traditional approach that would put the leader as the main decision maker. They go as far as stating that the dominant paradigm of leadership is partly responsible for the unsustainability the world is currently facing (Bendell et al., 2017). However, other authors do not question the individualist dimension of a more traditional leadership and present sustainable leaders as individuals with extraordinary abilities (Metcalf & Benn, 2013).

Musk and Faber's examples were used in the introduction to illustrate leaders who aim to build sustainable organizations. With the first view we have given above, the two leaders may not be considered sustainable leaders whereas they could be with the second view. Therefore, and to recognize the ongoing debate about what sustainable leadership really is, we will step back from that term and use a broader view of leadership. For the remainder of the paper, we will consider a sustainable leader to be a leader who has the vision to build the sustainable organization that we will define in chapter 3.

Nonetheless, the different definitions of sustainable leadership and the models presented that have been inspired by transformational leadership indicate that there are many

models of leadership that focus on sustainability. Leaders therefore have the opportunity to learn from these models if their vision is to build a sustainable organization.

5 Interim conclusion

It seems that ideal leaders for achieving sustainable organizations do exist, or at least tools and models have been developed to help them achieve this vision. Then why do we still see unsustainable organizations everywhere? An initial answer might be that leaders are not the only constituents of organizations. According to the stakeholder theory, organizations have a responsibility to all parties involved in its activities, such as employees, suppliers, customers, communities, governments and so on (Freeman, 1984). Building a sustainable organization and meeting the demands of these stakeholders could be two conflicting objectives. Responding to these requests could therefore become an obstacle. Even if the leader's vision was clear and represented the state of mind we previously covered, he would still have to meet the demands of some key stakeholders and will not be completely free to act as he wishes. This is the topic we will explore in Chapter 2.

6 Highlights

- Top management is the level of leadership we refer to throughout the paper as it is the level of management that has the opportunity to influence an organization's vision.
- The literature on leadership is filled with an overabundance of disputed definitions. Among these definitions, transformational leadership is the most influential leadership theory of recent decades that aims at addressing societal needs.
- Different models took inspiration from this theory to provide frameworks that describe the mindset leaders who wants to create sustainable value should have.

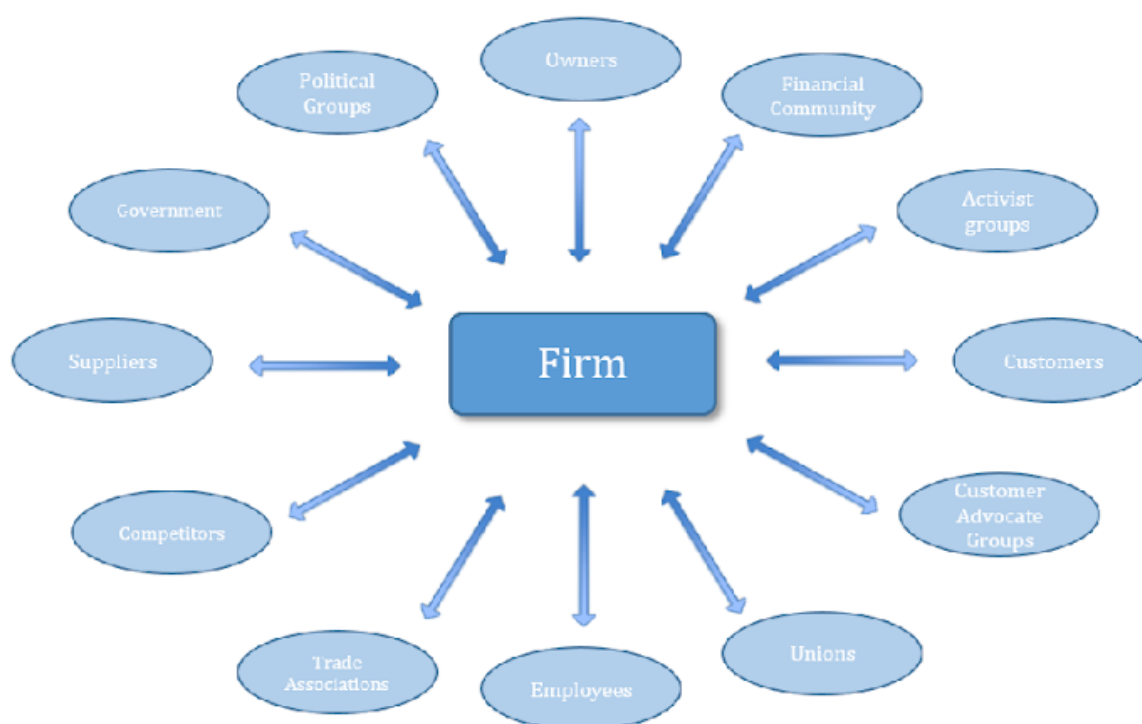
- This is the case of sustainable leadership. However, no common definition of the concept seems to emerge. Instead, there is an ongoing debate about whether sustainable leadership should be someone with incredible skills or a collaborative effort.

- Therefore, and to recognize the ongoing debate about what sustainable leadership really is, we will step back from that term and use a broader view of leadership. For the remainder of the paper, we will consider a sustainable leader to be a leader who has the vision to build the sustainable organization we will define in chapter 3.

Chapter 2 – Why can stakeholders be an obstacle?

In order to ensure the survival of the firm, Freeman (1984) argues that leaders of organizations must receive the necessary support from the different stakeholders of the company. To do so, they need to understand the needs and concerns of these various groups. However, the number of stakeholders whose needs need to be met can quickly become important and complex as shown in figure 1. Freeman's stakeholder theory confirms the intuition we had at the end of chapter 1: leaders need to consider the different stakeholders' expectations to guarantee their organization's survival. Consequently, some of the questions that this chapter will aim to answer are: who are these stakeholders? Are there some that matter more than others, key ones, and for what reasons? How do these stakeholders judge the company? What are their expectations? If some key stakeholders and the organization's leader have opposite expectations, how can this situation be managed?

Figure 1 – Stakeholder Map of a Very Large Organization



Adapted from Freeman (1984)

1 What are stakeholders?

1.1 Shareholder theory

The traditional view regarding the responsibility businesses have was maximizing profits to increase the returns on investments of shareholders (Friedman, 1970). With this view, every agent acting on a market, whether as individuals or by extension as an organization, have their own best interests at heart, and would therefore not always act in the best interests of other entities (Jensen & Meckling, 1976). In this context, organizations should only care for one group in their environment: the shareholders.

Building on Friedman's assumption that the sole responsibility of businesses was to maximize the profits, Jensen and Meckling published in 1976 the "Theory of the firm: Managerial behavior, agency costs and ownership structure". It became one of the most quoted economic articles for the next decades. This was an era where businesses, people and governments could not yet comprehend the overall impact that their behavior was having on the planet due to some factors which will be developed in chapter 4.

However, with the rise of environmental and social impacts, social expectations changed over the years, stockholders stopped being the only constituent group in a firm's environment. The stakeholder theory was consequently developed to consider the needs and concerns of these various groups.

1.2 Stakeholder theory

Stakeholder theory makes the case that the owners of the company are only one of the many parties the company has a responsibility towards. According to this theory, organizations have a responsibility to all the parties involved in its activities, such as employees, suppliers, customers, communities, governments and so on. These groups have a claim, a "stake" in both, the activities and the decisions of an organization (Freeman, 1984).

Freeman explains that the term stakeholder is a play of the word 'stockholder' and its utilization first occurred at the Stanford Research Institute in 1963. It was used as a concept to distinguish shareholders from any other group or individual that would be

necessary to ensure the survival of the firm. Indeed, these different groups need to be identified, as understanding their needs and concerns will mean granting their support to the leader of the company and ensuring the firm's survival (Chen & Roberts, 2010).

The different stakeholders are affected at various degrees by the actions of the organization, and it is therefore the responsibility of the organization to constantly develop strategies that balance conflicting stakeholder expectations (Donaldson & Preston, 1995). Freeman (1984) explicitly recognizes that these various stakeholder groups, both internal and external, have different expectations, with sometimes conflicting demands. Although, these groups have an unequal power and capacity to impact an organization's actions (Barnett, 2007), Freeman (1984) stresses the importance of meeting the demands of as many groups of stakeholders as possible.

However, Roberts (1992) do not agree with this point of view. Organizations should not try to satisfy the demands of the maximum amount of stakeholder groups, but rather focus their efforts on the key ones. These key groups are those that are the most powerful, and thus have the largest influence over a firm's actions. The stakeholder mapping technique that will be presented in the following section help leaders find out who these key stakeholders are.

1.3 External and internal stakeholders

Before exploring who these key stakeholders could be, let's first have a look at what the broad categories of stakeholders in a traditional firm's environment are. (Johnson et al., 2011) categorize the external stakeholders into four groups, depending on the nature of their relationship with the organization.

- *Economic stakeholders* include suppliers, competitors, distributors and shareholders.
- *Political stakeholders*, e.g. public authorities, regulators or government agencies. They influence the context in which the strategy is deployed.
- *Technology stakeholders*, such as key customers, standardization agencies or patent holders. They influence the diffusion of new technologies and the adoption of new standards.

- *Societal stakeholders*, those who are affected by what the organization does - for example, people living near a plant - or even society at large.

Johnson et al., (2011) describe also the existence of internal stakeholders within the organization, for example having different functions, geographical locations or levels of management. An individual may belong to more than one group, and these groups could potentially position themselves differently depending on the strategy being considered. The authors add that external stakeholders generally seek to influence the organization's strategy by making use of their links with internal stakeholders. One example is when customers put pressure on salespeople to assert their interests within the company.

2 What are their expectations and how can they influence an organization's strategy?

After having identified the different stakeholder groups an organization must comply with, we will now analyze how firms can understand their different and sometimes conflicting demands using the Legitimacy theory.

2.1 Legitimacy theory

Chen & Roberts (2010) describe the existence of a "social contract" that exists between organizations and society. Organizations try to legitimize their actions by engaging in peripheral activities that allow them to get the approval of the different stakeholder groups and this way ensuring their existence. This means that if a company perpetuates an action that seems going against what these groups are expecting, this company will suffer de-legitimization that can take different forms such as ostracism, anti-consumerism or even the use of force (Deegan, Rankin, & Tobin, 2002). This reinforces our conclusion that leaders cannot unilaterally set up the destiny of the organization and that he must consider the stakeholder's demands.

Chen & Roberts (2010) describe three types of legitimacy: pragmatic, moral and cognitive legitimacy. Pragmatic legitimacy rests on the self-interested calculations of the stakeholders and is close to the interpretation that can be made of the agency theory. This legitimacy means that some stakeholder groups may see an action or behavior as being

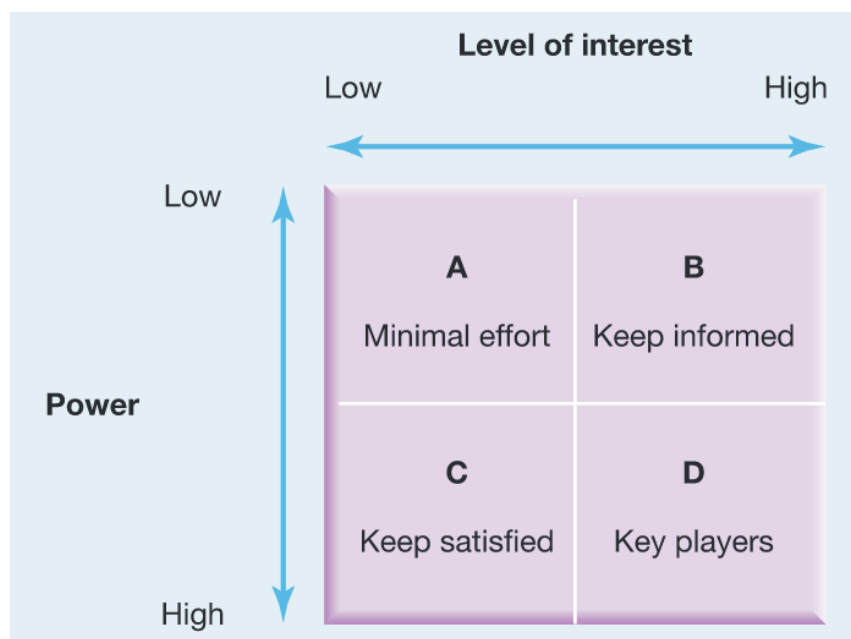
positive as long as it benefits them, for example, tax avoidance can be seen as good by some stakeholders and bad by others. Moral legitimacy is based on the evaluation of what the “right thing to do” is (Chen & Roberts, 2010, p.9), rather than whether the activity itself would benefit the stakeholder or not. Lastly, cognitive legitimacy is based on cognition. A company would be seen as cognitively legitimate if its actions follow already existing patterns of what other organizations had previously done with similar stakeholders.

The three conceptions of legitimacy vary according to the norms of values used by stakeholders to confer legitimacy (Chen & Roberts, 2010), it is hence complex to have an exact idea of what the demands of the different stakeholder groups are. But in order to ensure the survival of the firm, leaders do need to understand the stakeholder’s needs and challenges. As said earlier, some stakeholder key groups have more influence on the firm than others, it is therefore important to identify them and deal with them knowing their bargaining power and interests.

2.2 Stakeholder’s expectations and key players

To understand the influence of different stakeholders, it is useful to map them. Various frameworks exist for such purpose. Mitchell, Agle, & Wood, (1997) offer a categorization of stakeholders according to the power of influence, the legitimacy of each stakeholder's connection with the organization and the urgency of the stakeholder's demand on the firm. Another technique to map the stakeholders is the Mendelow's Power-interest grid (Johnson et al., 2011), it is this framework that will be presented here.

Figure 2 – Stakeholder mapping: the power-interest grid



Johnson, Scholes & Whittington (2011, p.182)

This mapping identifies the expectations and power of each group, which makes it possible to establish political priorities, i.e. to know which demands should be met first. The level of interest corresponds to the degree to which the stakeholder would want to impress its expectations on the firm's objectives, and the different strategies the company will put in place. The level of power describes whether the stakeholders have the ability/power to do so (Johnson et al., 2011). With these two dimensions, the power/interest grid distributes the different stakeholders according to the power they are likely to impress and the interest, whether negative or positive, they have in a given strategy. Those in the "A" quadrant would receive minimal effort as their power is not important, and they do not show an important interest to the organization. The only responsibility of the company, in this case, would be to minimize the impact they have on them. Quadrant "B" includes those who show a high level of interest but do not have an equivalent power. The strategy to adopt with such stakeholders is to keep them informed, as they could become key partners by influencing other more powerful stakeholders. The next category, quadrant "C", includes more powerful players who must be satisfied. They seem passive at first sight, but when disaster strikes, they can disrupt the adoption of a strategy and can have a terrible impact on the organization. Finally, the last quadrant "D"

includes the key players. Their reactions must be of major concern when formulating and evaluating new strategies. According to Johnson et al., key players usually include the main shareholders, but also certain influential individuals or institutions (e.g. the founder in a family business, the regulatory authority for a public body).

2.3 Communicating and compromising with key stakeholder

The Legitimacy theory teaches us that the way stakeholders perceive the organization can be somewhat subjective depending on the norms of values they use. Therefore, according to Freeman (1984), the key to successful interaction with stakeholders requires a willingness to communicate and compromise with them. Freeman considers that this communication must be multilateral and instead of unilateral (environmental disclosures would be unilateral). With this willingness to communicate, leaders are provided with the opportunity to show the overlapping interests their organization has with key stakeholders. With such opportunity, leaders are able to have a clear understanding of what needs to be given up to get stakeholder support.

3 Stakeholders selected for analysis

The stakeholders that have been selected for further analysis in the second part of this report are: shareholders, the cluster of stakeholders that shares the leader's vision and employees. First, as shown in this chapter, the early view of the responsibility of businesses was to maximize profits to increase the returns on the investments the shareholders receive (Friedman, 1970). This demand can sometimes be in direct opposition to the implementation of the strategy put in place by the leader as we will see in chapter 4 and therefore meeting this demand can be obstacle. Second, business leaders can have trouble communicating their vision credibly, and can be sometimes met with skepticism and disbelief. As ensuring the support of stakeholders is essential to ensuring the survival of the firm, communicating their vision in a credible manner is key. Third, building a sustainable organization can lead to changing many processes in a company and, as a result, may lead employees to resist that change. These are the three key obstacles that we will be analyzing in the second part of this report.

4 Interim conclusion

Chapter 2 confirmed that while a leader may have a clear vision of the strategy he wants the organization to follow, he is not entirely free to act as he wishes. Indeed, the organization as a whole must comply with the requirements of, at least, some key stakeholders to ensure its survival. The second part of this paper will describe some of these demands and explain why they can be an obstacle for a leader when creating a sustainable organization. However, we will continue first with the last chapter of this first part. We will define how leadership and stakeholders work together to create a sustainable organization, and what we mean by sustainability.

5 Highlights

- Friedman's early view of corporate responsibility made shareholders the only group a company should really care about.
- Stakeholder theory was then developed to show that a company's responsibility was to all parties involved in their activities, such as political groups, customers, employees and so on.
- To ensure the survival of the firm, demands from key stakeholders should be met. Otherwise, companies could suffer from de-legitimization and its negative consequences
- Stakeholders can therefore represent an obstacle that leaders must face when building a sustainable organization as meeting stakeholders' demands makes them not entirely free to act as they wish.
- The stakeholders that have been selected for further analysis in the second part of this report are: shareholders, employees and the cluster of stakeholders that shares the leader's vision.

Chapter 3 – What is a sustainable organization?

Few organizations and business leaders would deny the unintended consequences of the dramatic development the world has faced over the past century. To face these consequences, organizations have been implementing new policies to, if not, operate fully sustainably, at least reduce their environmental and social impacts (Doppelt, 2017). Some CEOs have given public support to the idea of a company that not only focuses its energy on its bottom line but also on having a positive contribution to society. Larry Fink, the CEO of BlackRock, an American global investment management corporation, is an example of such behavior. In his annual letter to CEOs, he stated the following:

“To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers and the communities in which they operate.” (Fink, 2018)

To understand what a sustainable organization is, we must first clarify the concept of sustainable development and then explain its link with businesses. Indeed, much has been said about sustainability both in the academic and the business world leading to a rather broad and unspecific discussion of the topic (Ebner & Baumgartner, 2006). Therefore, in this section, a clarification of the concept will be made by presenting how it emerged, its different features, how it is applied to businesses and finally how organizations have been traditionally linked to sustainable development by presenting the concept of Corporate Social Responsibility. Then we will conclude by presenting the defining parameters of a sustainable organization. However, given the many definitions of sustainable development and CSR, it is clear that our definition of a sustainable organization will only be valid in the context of this report.

1 What is sustainable development?

In this paper, the term 'sustainability' will sometimes be used as shorthand for the term 'sustainable development'. Indeed, given that the difference in terminologies is so subtle, there will be an indiscriminate use of both terms throughout this paper.

1.1 Development of the concept of sustainable development

Throughout the years, concerns have progressively grown regarding the impact Humanity has had, and continues to have, on our planet and society. Environmental degradation, social inequality, and resource over-consumption, among other concerns, have been a source of preoccupation for numerous authors.

The first reading that depicted these impacts was "Our plundered planet" (Osborn, 1949). In this book, the author warned the reader about the effect of mankind on Earth's surface, making specific reference to the use of artificial fertilizers versus organic matter. Other studies followed. In 1962, Rachel Carson published 'Silent Spring' with the aim of alerting the general public about the environmental and human dangers that came with the indiscriminate use of pesticides. Meadows, Meadows, & Randers published in 1972, "The limits to growth". After having fed their global computer model with data coming from five different factors (population increase, agricultural production, non-renewable resource depletion, industrial output, and pollution generation), the authors came up with two conclusions. Firstly, without changing the rate of our growth, the limits to growth will be reached within the next one hundred years, inducing a sudden decline in population and industrial capacity. Secondly, it is possible to modify this trend by redesigning the state of global equilibrium.

It is around these years that the first institutional environmental initiatives were launched, such as the International Union for the Conservation of Nature and Natural Resources (IUCN, 1956), The United Nations Environment Programme (UNEP, 1972) and the World Conservation Strategy (1980). It is in the latest document that a theoretically positive relationship was shown to exist between economic development and conservation.

The idea of sustainable development first emerged in 1987 in the Brundtland report with the following definition, “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, (World Commission on Environment and Development, 1987, p. 247) sustainable development became more mainstream. Ebner & Baumgartner (2006) explain that two ideas can be derived from this definition. First, the idea of meeting the needs of the population. Indeed, with this view, sustainable development requires that all human beings must meet their basic needs including the world’s poorest. The second idea is that the current use of technologies and the way society is organized have a negative impact on the limited resources that are present on the planet and therefore compromise the ability to answer the current needs of the population and of future generations. Consequently, sustainable development implies a synchronization between the size and growth of the population and the productive potential of the planet. According to this definition, resource exploitation, technological development, and institutional change must be consistent with the current and future needs of the population.

1.2 Sustainable development led by global institutions

There has been much effort over the last decades to deepen the understanding of sustainable development as a concept and in a practical sense. At a global level, the sustainable development concept and its associated goals have been refined and more clearly defined over time during international conferences such as the United Nations Conference on Environment and Development at Rio de Janeiro (UNCED) (1992) and the World Summit on Sustainable Development in Johannesburg (2002). More recently, in 2015, the United Nations adopted the 2030 Agenda for Sustainable Development. This agenda is a collection of seventeen global goals called the Sustainable Development Goals (SDGs). The SDGs builds on the Millennium Development Goals and their aim is to achieve what the millennium goals could not: the realization of human rights for all, the achievement of gender equality and the empowerment of all women and girls to name a few. The overall goal of the SDG’s is to stimulate action over the next decade in areas where the UN considers to be of critical importance for humanity and the planet.

1.3 Primary objectives of sustainable development

Three primary objectives can be derived from the Brundtland report's definition of Sustainable Development: economic growth, environmental protection and social inclusion (Uren, Parkin, & Sommer, 2003). These three objectives have often been illustrated with the overlapping circles of a Venn diagram (See figure 3). The economic circle represents the economic growth and the improvement of material life conditions. The environmental circle refers to the conservation of biodiversity, preservation of natural resources and energetics. And finally, the social circle is for satisfying needs in the areas of healthcare, education, housing, job needs and intergenerational equity. According to this diagram, true sustainability only occurs when the environmental, economic and social factors are balanced. This means that if only one or two out of the three pillars are achieved, sustainable development is not reached.

Figure 3 – Objectives of sustainable development with a Venn diagram



Steinbrink (2018)

Elkington (1997) transposed these three objectives in a managerial context and introduced the term of Triple Bottom Line. In his book, "Cannibal with forks", the author questions the sustainability of capitalism in its current form and promotes a new responsible approach to businesses that would take in consideration environmental, social and economic dimensions in decision-making. The triple bottom line (TBL) is an

integrated approach of sustainable development combining the three dimensions. In opposition to traditional management thinking that had only focuses on the survival and the regeneration of the organization itself, TBL brings a new dimension of prosperity. With this view, the firm not only survives and regenerates but also has a positive impact on the economic, social, and environmental systems surrounding it.

A fourth element is usually added to the first three: governance. It consists of the participation of all actors (citizens, companies, associations, elected representatives, etc.) in the decision-making process and is essential to enable the implementation of policies and actions related to sustainable development. The objective of governance is to reach decisions acceptable to the majority, as far as possible. (Sachs, 2015). In the context of this report, governance illustrates the need for leaders to gain their stakeholders' support to ensure the firm survival and be truly sustainable.

2 How is sustainable development addressed within companies?

The Corporate Social Responsibility (CSR) framework appeared before the term sustainable development was coined. Indeed, Bowen (1953) defined CSR as “an obligation to pursue policies to make decisions and to follow lines of action which are compatible with the objectives and values of society” (Ebner & Baumgartner, 2006, p. 2).

Since then, many definitions of CSR have been made over the years. Ebner & Baumgartner conducted a study in 2006 to find out how the terms sustainable development and CSR were used in the literature, to see for example if they were used synonymously. The authors discovered five trends. In the first trend, some authors used the definition of sustainable development from the Brundtland report without mentioning CSR. The second trend concerns authors that used the stakeholder approach to define CSR. In the third category, the authors used sustainable development as a basis of CSR, CSR being considered as the corporate level of sustainable development. In the fourth trend, CSR and sustainable development were used synonymously. And finally, the final trend concerns articles that could not be classified.

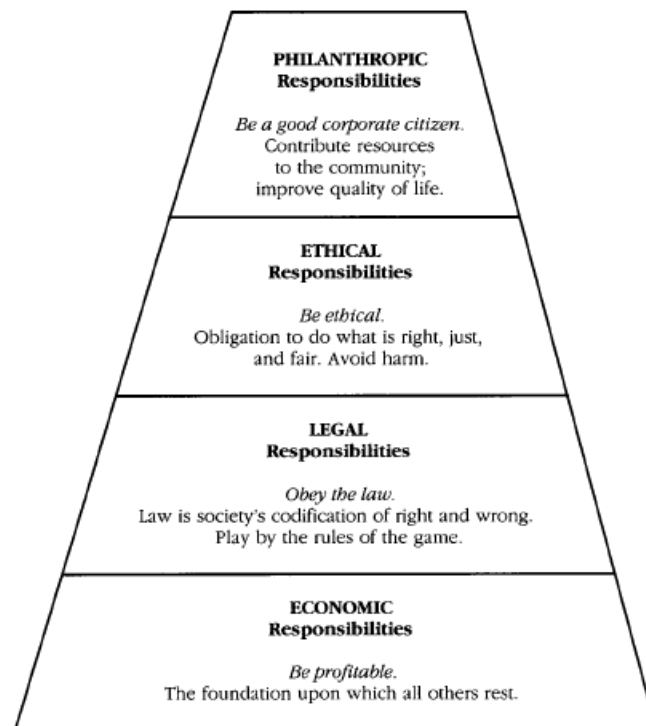
2.1 CSR discusses sustainable development on a corporate level

As shown by Ebner & Baumgartner, a large variety of opinions exist regarding what CSR is, and its relationship with Sustainable Development is. Therefore, we choose to define CSR as the fourth trend: CSR is the corporate level of sustainable development. Indeed, as (DesJardins, 1998) pointed out, sustainable development is a rather broad concept that is used by governments and individuals but not specifically focused on companies. In this definition, CSR discusses sustainable development on a corporate level to meet the needs of the organizations' stakeholders and the environment (Ebner & Baumgartner, 2006). CSR therefore embodies the strategies that a business leader traditionally puts in place to make its organization sustainable. The sustainable organization could therefore be a firm that has developed a consistent CSR strategy that meets the needs and concerns of the stakeholders we have identified in chapter 2. Indeed, the first step for a firm to be sustainable would be to ensure its survival and as we showed it in the previous chapter, meeting the demands of at least the key stakeholders is crucial to achieving such purpose. Carroll's pyramid of responsibility shows how corporations can take into account these different demands.

2.2 The Pyramid of Corporate Social Responsibility

Carroll (1991) describes a CSR firm as one that strives to make a profit, obeying the law, being ethical, and being a good corporate citizen. He defines four types of responsibilities for CSR firms, and he argues that these responsibilities might be depicted as a pyramid (See figure 4). This framework was developed to provide a clear view of the entire spectrum of an organization's responsibilities: economic, legal, ethical, and philanthropic.

Figure 4 – The Pyramid of Corporate Social Responsibility



Carroll (1991, p.42)

- *Economic responsibilities* - According to Carroll (1991), companies exist to provide products and services to meet consumer demands. In this perspective, the role of companies is mainly economic: to satisfy consumers by offering them the products and services they need and to generate profit to ensure the continuity of the company's activity, to make investments and pay its suppliers and employees.
- *Legal responsibilities* - Legal responsibility forms the second part of CSR in Carroll's (1991) model. Legal responsibility means that companies need to operate in accordance with the law. Although on an upper layer, they are considered as coexisting with the economic responsibilities to form the fundamental precepts of a free enterprise.
- *Ethical responsibilities* - According to Carroll (1991), these responsibilities force companies to do what is seen as good and fair even though they are not technically required to do so. These are the actions that stakeholders expect a company to take even if it is not required to do so by law.

- *Philanthropic responsibilities* - At the top of Carroll's pyramid (1991), we find the fourth level of social responsibility: philanthropic responsibilities. Philanthropy is a doctrine that is primarily concerned with the good of humanity and where individuals improve the situation of other individuals without expecting retribution or reward.

Carroll & Shabana (2010) argue that the economic and legal responsibilities are 'required', the ethical responsibilities are 'expected', and the philanthropic responsibilities are 'desired'. This understanding of a firm's responsibilities follows the conclusion we made in chapter 2, i.e. to ensure their survival, organizations must first and foremost meet the demands of the key stakeholders without whom they would not survive. With Carroll's framework in mind, shareholders and the financial community appear to be those towards whom the firm has economic responsibilities. Along with these economic responsibilities comes the legal responsibilities which could be claimed by most of the stakeholders we have identified such as customers, competitors or employees. Regarding the ethical responsibilities, we can argue that if the key stakeholders identified in chapter 2 were to have such claims, the company would need to meet these demands. Indeed, if the firm was to not meet these demands, it could suffer from de-legitimization, and its negative consequences. Finally, the philanthropic responsibilities are desired but not compulsory according to Carroll. It is mainly with these last claims that some authors such as Clinton & Whisnant (2014) and Visser (2005, 2008, 2011) seem to disagree with. According to these authors, as the environmental and social negative impacts have not seemed to decrease with the implementation of CSR initiatives, they argue that a new model should be developed.

2.3 CSR has not lived up to the expectations

Carroll's definition of CSR has been the most durable and widely cited in the literature (Crane, Matten, & Moon, 2004), but it is increasingly being contested. Other authors try to look at CSR with new lenses to find better alternatives. Such is the case of Visser (2005), who challenges the accuracy and relevance of Carroll's Pyramid, which he believes, may not be the best model for understanding CSR in general. He goes further by stating that

CSR has failed, as the net impact on society and the environment has been negative (Visser, 2011). According to the author, three aspects of the original CSR has blocked the exploitation of its full potential. Firstly, its peripheral nature, CSR is not integrated across the business. Secondly, its incremental nature, the extent and urgency of the problems that we are facing today are not being matched by the solutions CSR brings. And lastly, its uneconomic nature, businesses do not often have the economic incentive to pursue CSR strategies. In fact, Carroll & Shabana (2010) agree with this realization by arguing that CSR initiatives do not always benefit businesses. First, these initiatives might not always be rewarded by the market. Then, the assumed positive connection between CSR projects and financial performance is questionable is questionable. Particularly, it also can be hard for small and medium enterprises (SMEs) to understand the broader picture in which CSR initiatives take place, and therefore see what the value for their business is. Lastly, the legal environment does not support companies enough to implement the CSR practices that would be needed to compete with the failures of the market.

3 What is a sustainable organization?

3.1 The concept of externality

As Ebner & Baumgartner (2006) said, CSR discusses sustainable development on a corporate level to meet the needs of the organizations' stakeholders and the environment. The CSR model as presented by Carroll (1991) with the pyramid of Corporate Responsibility has been able to partly answer the first prerequisite of sustainable development, meeting the needs of the key stakeholders to ensure its survival.

However, as Visser (2006) explained, CSR has failed to meet the second requirement of sustainable development, i.e. avoiding social and environmental impacts. To have a clear understanding of what we mean by social and environmental impacts, the concept of externality and structural injustice will now be presented.

In economics, an externality or spillover effect takes place when the production or consumption of an economic agent - an enterprise or an individual - generates a positive or negative impact on the well-being of other economic agents without there being a transaction or a financial counterpart (Mankiw & Taylor, 2011). The idea of externality was formalized by Pigou in the *Economics of Welfare* originally published in 1920. An

example of these effects would be a plant discharging its waste into a nearby river creating negative externalities for farmers and local residents. Crop production is falling due to poor water quality and people are prone to disease. In the end, this represents a cost for the company that is not assumed by the person in charge. A distinction is made between the private cost (the cost assumed by the private agent for its production) and the social cost (the cost assumed by the community). In the case of a negative externality, the social cost is higher than the private cost. These externalities are the social and environmental impacts that we refer to in this paper. An organization that deems itself sustainable will not produce negative externalities or will internalize its costs so that society does not have to pay for them.

3.2 The concept of structural injustice

Another way to look at negative externalities is the concept of *structural injustice* developed by Young, (2006). To explain her concept, the author gives the example of sweatshops. As stated in the paper, a large number of labor-intensive clothing, footwear, and other small consumer goods are produced in rather small production facilities in developing countries. These manufacturing centers often involve hundreds of separate enterprises. According to the same paper, of the goods purchased in the United States in 2000, 85% of shoes and 50% of clothing were imported.

The working condition in such facilities are not all similar but many of them share the following characteristics according to the author. Most of the workers are women, with many of them being as young as thirteen or fourteen. Harassment and sexual aggression are common as these females are treated in a dominant and abusive manner by their bosses. They are usually working ten to sixteen hours with peaks reaching to all nightery if necessary. There are few sanitary breaks and few occasions to rest during working hours. A worker that is unable to work (sickness, maternity leave etc.) is usually dismissed. The most elementary health and safety norms are often violated. (Plants too hot, no ventilation, inadequate lighting, no firefighting equipment, blocked exits, poor access to drinkable water etc.). Workers in such facilities often have no freedom to complain and if they try to organize themselves to do so, they are usually threatened, fired, blacklisted, beaten and even killed. According to the author, it is the structure of the

apparel industry that allows such working conditions to exist. Big retailers rarely possess such sweatshops. It is the intricate production and distribution chain with tens of thousands of distinct contractors transporting clothing made in one place to the outlets in which people buy them. According to Young, the creation of sweatshops is a structural injustice that is taking place because of complex social processes. Such injustice exists when social processes put large categories of persons under a systematic threat. Structural injustice occurs because many individuals and institutions acting in pursuit of their goals and interests, within given institutional rules and accepted norms.

The question of whether the organization that sells these clothing should be held liable is not the subject of this chapter, but this theme will be addressed in Chapter 4. What is important to note from this section is that an organization that participates in social processes that create working conditions experienced by workers in sweatshops, as described by Young, would not be considered sustainable in this paper because of the social impact.

3.3 What is a sustainable organization?

To sum up this chapter and use what we have developed so far, we define a sustainable organization as one that respects the definition made by Elkington with the triple bottom line and add the concept of good governance.

First, the sustainable organization does not have social impacts. The social consequences of the company's activity for all its stakeholders (People) is at least neutral. Then, it doesn't have environmental impacts. There is a compatibility between the company's activity and the production of environmental impacts (Planet). These impacts can be viewed as negative externalities which are impacts without financial consideration of a company's actions on the well-being of a third party. To be sustainable within the context of this paper, an organization will not produce negative externalities or will internalize its costs so that society does not have to pay for them.

Thirdly, this organization has a profit that allows it to survive and thrive. The last element, good governance, enables the participation of all stakeholders in the decision-making process of the firm's strategy. This last element refers to chapter 2 where the leader must

ensure its organization's survival by meeting the different needs and concerns of its key stakeholders.

4 Highlights

- In 1987, a common definition of sustainable development emerged in the Brundtland report: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, (World Commission on Environment and Development, 1987, p. 247).
- Three primary objectives have been derived from this definition: economic growth, environmental protection and social inclusion.
- A good governance is usually the fourth element added to define sustainable development and illustrates the need to have the participation of all the actors in the decision-making process of a sustainability strategy.
- CSR is the corporate level on which sustainable development is discussed. However, CSR has been criticized by some authors for not living up to the expectations as the net impact on society and the environment has been negative.
- Such impacts have been defined as negative externalities when they are not compensated by a financial counterpart.
- A sustainable organization is therefore defined in this report as follows: a company that does not have social and environmental impacts or at least compensates them by internalizing their costs, that is profitable and finally, that has a good governance. The last element refers to chapter 2 where we stated that leaders must meet the needs of the key stakeholders to ensure the firm's survival.

Part 2 - Three obstacles created by stakeholders and their origins

Three obstacles created by stakeholders that a business leader might face when building a sustainable organization will be addressed in this second part. A study of their possible origins will be carried out.

Chapter 4 - Short-term profitability to satisfy shareholders

As presented in the introduction, Elon Musk has made some bold statements describing the audacious vision he has for the future. While the vision of this uncommon business leader is clear, he needs the support of various stakeholders to achieve his dreams, in particular shareholders. Vance (2015) explains this well in his book. In 2008, reports coming in from Tesla and SpaceX were catastrophic. Musk had funded Tesla and SpaceX five years prior to that and had put in the adventure more than \$200 million. However, at this point of time, the two companies had used all this cash and Musk was running out of money. Musk turned to his investors to ask them to fund another round of investment to avoid Tesla's bankruptcy. His existing investors agreed to do so, but no new investors showed up leaving Musk with \$20 million to find. Musk finally poured \$12 million in, and the investment companies put up the rest saving Tesla from bankruptcy.

This example embodies the needs and concerns his shareholders had. While most of them would agree with Musk's vision, they were not all thrilled by the idea of blindly following him and put more money on the table. However, if it was not for them, Tesla wouldn't be alive today. The reluctance these shareholders had illustrates the first constraint visionary leaders have when building a sustainable future, or more simply put, in our case, creating the sustainable organization we defined in chapter 3. The short-term profit that is usually asked when investing in a company or project was simply not here. Furthermore, many outsiders believed that Musk's companies were doomed to fail, making investing at this moment a high-risk endeavor with the clear possibility to not see the money again.

The need for short-term profitability to satisfy shareholders represents the first obstacle that will be discussed in this second part of the paper. The question that needs to be asked is therefore: Why do shareholders prefer short-term profits over the long-term benefits the leader's vision could bring to the company and society?

When justifying the role of businesses, Milton Friedman's view on the subject is often used (Friedman, 1970). Indeed, he famously said that in a free society, "there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970, p.6). To understand how short-term profits have become the norm in conducting businesses, we will first analyze Friedman's argumentation before discussing some limits that could arise with such mindset.

1 Where does the idea of maximizing profits for shareholders come from?

As it was explained in chapter 2, the traditional view of the responsibility of businesses was to maximize profits to increase the returns on the investments the shareholders receive (Friedman, 1970). To directly quote the article he wrote for the New York Times Magazine in 1970, "That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of society" (Friedman, 1970, p.2). Friedman posits that corporate executives should not exercise social responsibility and this is mainly for five reasons (Friedman, 1970).

First, if a corporate executive decides to spend money on a strategy that does not maximize the shareholder's profit, he imposes a tax on the shareholders and therefore decides for him how to use the money, which Friedman deems unfair. He argues that if the shareholders want to spend this money on other projects, they should decide for themselves.

Second, exercising social responsibility is undemocratic. Indeed, Friedman argues that it is the role of governments to impose taxes and use those taxes for projects that have social

value. Over the years, governments have been established to act in accordance with public wishes and use taxes to meet those wishes. He calls this argument “taxation without representation” (Friedman, 1970, p.3). Furthermore, he says that the leader performing these social initiatives would be invested with the powers of a legislator, executive and jurist. These powers wouldn’t be counterbalanced which is again undemocratic.

Then, Friedman argues that performing these activities is a violation of trust given that the only reason the leader was chosen in the first place was to serve the interests of the owner of the company. If the leader imposes the taxes that we described in the first point for social purpose, this justification disappears, and the leader becomes a public servant.

The fourth argument is Friedman's claim that these initiatives are futile because executives would lose shareholder support as soon as they impose taxes on the shareholder.

Finally, Friedman adds that a leader is not an expert, so there is no reason why he should be able to anticipate the consequences of a socially responsible strategy. Friedman argues that responsibility for social actions should be transferred to experts, and that business leaders are not such experts; therefore, they should not assume this responsibility. This means that, whatever the consequences of a company’s activities, it is not the responsibility of the company to deal with them, as long as they respect the law.

2 Could shifting the problem of externalities to governments and experts be a solution?

To summarize the key points that interest us in Friedman's vision, if a business leader were to implement initiatives that, in our case, would transform the organization into a sustainable organization, the executive would use the shareholders' money. Friedman believes that this amounts to imposing a tax and, therefore, the entrepreneur would decide for the shareholders how to use their money, which Friedman considers unfair. From this argument, he added that a business leader is probably an expert in managing a business, not in setting up social initiatives and, therefore, not in creating a sustainable business, it is simply not his expertise. Therefore, business leaders should leave the task of imposing such taxes to governments and let them decide how to use these expenditures to solve problems such as pollution.

The problem with this mindset is that governments have not been able yet to implement effective policies that would prevent negative corporate impacts on society, at least not for now. Indeed, some economists would agree about the implementation of a tax by governments to offset these externalities (Mankiw & Taylor, 2011), it would provide market participants with an incentive to take into account the external effects of their actions.

If the leader does not put in place a strategy that would make the organization sustainable, negative externalities could arise such as an involuntary participation in the structural injustice we developed in the previous chapter. Putting the responsibility on governments to solve negative consequences businesses have on society is what Peter Senge calls “solving the symptoms” (Senge et al., 2008). Senge believes that this attitude is the source of a deeper issue, embodied by the idea that challenges such as negative externalities are the problems of others. As Visser presented, CSR initiatives have a marginal impact and would agree with Senge that business leaders would shift the burden if they thought only of experts or governments to solve their problems.

3 Is anyone responsible for tackling externalities at source?

Shifting solving negative externalities to governments raises the question of responsibility. Who has the responsibility to solve problems such as pollution or the creation of sweatshops?

In the case of a plant discharging its waste into a nearby river creating negative externalities for farmers and local residents that we developed in the previous chapter, the responsibility is easily discernable. However, in other cases, the responsibility is more diffuse, and it would be hard to point out a single responsible actor. For example, according to the Intergovernmental Panel on Climate Change (IPCC, 2014), it is the increase in human-made greenhouse gas emissions, since the pre-industrial era, that has resulted in climate change. The responsibility of this negative externality cannot be restricted to a single actor, and the link between an emission due to a company’s activity and the negative overall impact is not always clear, at least for the organization. Therefore, is it the role of the company to change its processes to avoid this negative impact?

The same can be said about structural injustices, such as sweatshops. The creation of these working conditions comes from the structure of the apparel industry. The intricate production and distribution chain that is composed by tens or thousands of distinct contractors transporting clothing made in one place to the outlets where people buy them, results in the creation of such sweatshops.

Again, the link between externalities and the actions of the company are not always clear. Then, how can we assign the responsibility of such impacts to businesses?

3.1 The liability model to assign fault

The most common model that aims at assigning guilt or fault for a harm is the liability model (Young, 2006). Under this model, the responsibility for a negative impact such as an externality is assigned to an agent if the link between its actions and the overall result can be proven. Furthermore, there is liability only if the causal link is proven not to be voluntary or that the agent can prove that he was excusably ignorant that his actions would lead to such results. However, where actions were voluntary and knowingly undertaken, agents should be blamed for the negative outcomes.

With this model in mind, an argument can be made that the responsibility of the organization towards externalities would be engaged if the causal link was easily discernible. As maximizing profits often leads to the implementation of strategies that do not consider the creation of externalities, the responsibility of shareholders could also be engaged, according to the liability model. However, if this link or the one between an organization and the creation of externalities cannot be proven, (according to the liability model), the responsibility of the organization could not be engaged. Shareholders would then be right to maximize their profits, as the company they invest in is not responsible for such externalities.

The interesting question would now be to ask why the link between an organization's actions and externalities is not always clear? Indeed, if this causal link could be proven, it would not be possible for authors such as Friedman to say that the only responsibility of businesses is to comply with the demands of its shareholders, or for Freeman to say that philanthropic responsibilities are desired but not compulsory. If the causal link was clear,

according to the liability model, the organization's responsibility to solve these externalities would be engaged.

An answer to this question could be found by analyzing the concept of complex adaptive systems (CAS). These systems are represented by networks of relationships that are independent, interdependent and layered (Holland, 1995). Their study helps to understand how global trends are emerging and how some actions that do not seem interrelated are in fact interdependent and produce negative impacts such as the creation of sweatshops or climate change. Such networks make it difficult for individuals to see what Senge calls the "whole picture". (Senge et al., 2008, p.23).

4 How does complexity explain the unclear link between externalities and an organization's actions?

4.1 Externalities can be the result of complex systems

Complexity theory found its inspiration in quantum mechanics and in the advancement of computational power. The latter allowed the simulation and analysis of entire societies that were comprised of thousands of interconnected and interacted parts (Griffiths, 2005). Complex systems are represented by "very large populations of independent, interacting, self-interested agents, where global behavior cannot be explained by any one set of components, and there is no means of top down organization or control" (Sawyer, 2005). Examples of such complex systems are present on many levels of analysis, colonies of ants, beehives, entire ecosystems, the weather, or even political parties and the stock market.

Porter & Córdoba (2009) describe the three defining characteristics that are present in complex systems: self-organization, emergence and bottom up change. Self-organization represents the way every agent in a system interact and arrange themselves independently with no obvious global management or design. The second characteristic, emergence, suggests that the multitude of micro interactions in the system results in a progressive coevolution and evolution of the different agents and lead to a collective shift in global behavior. According to the third characteristic, bottom-up change, as the system is uncontrollable and unpredictable from above, the bottom-up change processes are what matters.

4.2 How humans solve complex problems?

Complex systems therefore come with the problem of understanding rationally these processes in order for agents to make rational decisions. Indeed, according to Mankiw & Taylor (2011), individuals face trade-offs when making decisions. To obtain something, the individual must give up other things. To make this decision, it is necessary to compare the costs and benefits associated with each decision. However, in many cases, it is not easy to determine the cost of these actions. Furthermore, with the presence of complex systems, there is simply too much information to be analyzed and therefore a rational decision is not possible if individuals try to analyze all the data and make sense of it.

Metcalf & Benn (2012) discusses how humans solve complex problems. They consider this task as being complex in itself and cite Funke's (2010) work on "complex cognition" (Metcalf & Benn, 2010, p.4) to explain how it is done. This concept argues that solving complex problems includes more than thinking rationally about the problem since emotions and motivations are included in the process. According to Senge (2010), hearing continuously about new global problems such as climate change, new wars, poverty, water shortages and many others can be overwhelming both cognitively and emotionally, individuals will tend to "turn off" (Senge et al., 2008, p.23). A solution has been to focus on part of the picture and not the big picture as Friedman's way to deal with externalities has shown, if we don't understand a problem because we are not the experts, then it is not our problem and the burden must be shifted to experts to solve it.

5 How globalization created complexity?

According to Goldin & Mariathasan (2014), the origin of complex systems we see in today's world is due to globalization. Therefore, this phenomenon is indirectly the cause for the externalities we experience today. Globalization has made us, humans, more linked and connected than ever before. These connections are more complex, numerous, and are taking an increasingly important place in our daily lives. These links come with opportunities, but also with risks, and the externalities we have presented have shown their possible scope and impacts.

The acceleration that globalization experienced in the 90's due to rapid technological, political and ideal changes had for consequence a growing global connectivity, both among humans and objects, and resulted in the creation of these complex connections.

5.1 Origin of Globalization and the growing connectivity

Goldin & Mariathan (2014, p27) describe globalization as “the process driven by and resulting in an increasing cross-border flows of goods, services, money, people, information, technology, and culture.”) The growing connection among people and objects has for origin two phenomena according to Goldin & Mariathan (2014). First, innovation and technological progress and secondly, political and ideal changes.

5.1.1 Innovation/technological progress

We are living in unprecedented times; technological changes have occurred in the last centuries at a rate human history has never experienced before. Human progress is accelerating thanks to what the futurist Kurzweil (2004) calls the human history's Law of Accelerating Returns. According to the author, technological change is exponential and not linear, meaning that the technological progress we will be experiencing in the 21st century will not happen at the same rate it did for the 20th century, but at a much faster pace.

These technological changes are happening in the context of an ongoing process called the Industrial Revolution (Li, Hou, & Wu, 2017). The first manifestation of this revolution occurred at the end of the 18th century when the invention of a technology allowing mechanical production to be performed on the basis of water and steam was invented. This has allowed the shift from a predominantly agrarian and artisanal society to a commercial and industrial society. Then, at the beginning of the 20th century, mass production powered by electricity allowed the Second Industrial Revolution to take place. The Third Industrial Revolution, also known as the computer revolution, began with the invention of the Internet, the microprocessor and the desktop computer which allowed the digital automation of production. According to Li, Hou, & Wu (2017), the fourth industrial revolution is now taking place and is manifesting itself in all aspects of society,

be it technology, production, consumption or business. It is in this context, that possible disruptive technologies such as artificial intelligence and machine learning, big data and cloud computing, autonomous car, 3D printing and neurotechnology among others are being developed.

As of now, the fourth revolution being still in its infancy, we are mainly experiencing the impacts of the third industrial revolution, the computer revolution, particularly with the progress in computer power and information technologies (Goldin & Mariathan, 2014). Today, these technologies have entered our daily lives and changed the way we act, work, travel and interact with one another. The scope and impact of new information technologies can be exemplified by the growing access and use of the internet in every part of the world. Recent European studies have shown that the average European citizen spends about 25.9 hours in a week online. The studies indicate that these hours are not in the majority spent in front of a computer screen during office hours but rather spent checking mail and discussing on smartphones, watching videos on tablets, engaging with friends or strangers on online gaming or just following the latest news on social media. In another study conducted in the USA for the Kaiser Family Foundation, Rideout, Roberts, & Foehr (2010) found an important increase of the time spent by small children, aged from 8 to 18 years old between 1999 and 2009 in consuming media summing up to a daily 7 hours. New generations such as late Millennials and Generation Zers are often described as digital natives referencing the work of Prensky (2001). This term implies that these new generations were born in a world where digital technology was readily available everywhere and that these children have no memory of a world without the internet or digital technology. These technological changes have a global reach and do not only impact Europe and the United States where those studies were performed. The Cisco Mobile VNI Forecast, 2016-2021 estimates that there will be more than 2 mobile devices per person by 2021 – 12 billion mobile connected devices for 5.5 billion individuals. The study shows that the growth of mobile internet connection is at its peak in the poorest part of the world. This growing access to technology enables those with a relatively poor physical infrastructure to access information and education (Goldin & Mariathan, 2014).

5.1.2 Political and ideal changes

As said before, Goldin & Mariathan (2014) believe that, along with technological progress and innovation, the defining parameter of globalization and the increasing connectivity is the political and ideal changes that occurred in the 90's. According to the authors, the fall of the Berlin wall and the end of the cold war that accompanied the collapse of the Soviet Union played a key role. It allowed the western world to normalize its relations with China and its population of 1.3 billion inhabitants. Authoritarian regimes in South America, Asia, Africa and Eastern Europe saw their end and have been replaced by more democratic regimes that were less opposed to global trade, finance and ideas.

To sum up, the tempo of globalization steeply increased in the last three decades thanks to the coincidence of international political and economic events, and technological changes. The end of the Soviet Union allowed the integration of China and many other autarkic countries into the world community. Coupled with the rise of international economic players symbolizing the technological revolution, Amazon (in 1994), eBay (in 1995), Google (in 1998), and Facebook (2004), these 3 parameters created a perfect breeding ground for globalization to accelerate and connectivity to increase in proportion never seen before.

6 Highlights

- The idea of maximizing profits comes from Friedman's view of the responsibility of a business and can sometimes be in direct opposition to the vision of building a sustainable organization.
- Friedman considers that using shareholder's money for another purpose than maximizing their profits is unfair as it would be the same as imposing a tax. Consequently, it is the role of governments to impose these taxes and use experts to solve the negative externalities we have presented in chapter 3.
- The link between externalities and the company's actions are not always clear so it is difficult to assign guilt to organizations.

- Complex systems can explain these unclear links. Such systems are represented by very large populations of independent, interacting, self-interested agents, where global behavior cannot be explained by any one set of components. Complex systems help to understand how global trends are emerging and how some actions that do not seem interrelated are interdependent and produce negative impacts.

- The creation of complex systems could be the result of the increasing globalization the world has faced over the past three decades due to the coincidence of international political, economic and technological events.

Chapter 5 - Difficulties to convince stakeholders of the sincerity of the leader's vision

As we saw in Chapter 2, to ensure an organization's survival, leaders must respond to sometimes conflicting demands from their stakeholders. Some, like shareholders, will demand a return on their investment, while other stakeholders will share the leader's vision, but will only support it if they believe in the leader's sincerity in building a sustainable organization. To be convinced, some key elements will have to be communicated to these stakeholders when sharing the leader's vision. As Freeman (1984) said, the key to successful interaction with stakeholders requires a willingness to communicate and compromise with them. Consequently, we will discuss in this chapter the second obstacle business leaders are faced with when building sustainable organizations: it can be difficult to convince stakeholders of the sincerity of the leader's vision.

1 Why would stakeholders not be convinced of the sincerity of a leader's vision?

Some stakeholders share the leader's vision or at least could be interested in partnering with an organization that does not produce negative externalities. These stakeholders can be represented by customers who buy the company's products for their sustainable characteristics, but also by suppliers who want to be associated with the positive image the organization displays. Therefore, convincing these stakeholders of the veracity of the leader's vision is essential to gaining their support. The leader will need to provide evidence that the strategy developed to achieve the vision is working.

1.1 Sustainability reports to communicate with these stakeholders

Communicating the results of the strategy and the initiatives that are put in place by the leader can be done through the use of sustainability reports. These reports found their first application in the 1970's when social reports were occasionally added to financial reports (Hahn & Kühnen, 2013). Then during the 1990's, and with the development of

voluntary standard-setting by the Global Reporting Initiative (GRI), environmental and social matters started to be integrated into joint reports. A sustainability report generally consists of communicating an environmental or socio-environmental assessment of its direct or indirect, immediate or deferred impacts of an organization on society and environment. This assessment takes the form of reports (quarterly, annual, etc.) incorporating global evaluations of the different impacts the organizations have (Global Reporting, 2018). These reports can therefore be used along with the financial reports to convince key stakeholders that their demands are met. In our case, the stakeholders interested in the fact that the organization will have no externalities would find the proof they were seeking in these reports.

1.2 Stakeholders can mistrust leaders who talk about sustainability in sustainability reports

However, there is often a mistrust of leaders talking about sustainability. Tata & Prasad (2015) observed that the image of CSR perceived by internal and external stakeholders through communication is more an image of the desired CSR than an accurate representation. Cho, Laine, Roberts, & Rodrigue (2015) go further, by stating that there is a low chance that sustainability reports will reveal the true and complete reality of what's being done inside the companies, as the currently prevailing societal and institutional context is severely limited by organized hypocrisy. The authors define organized hypocrisy as the attempt to explain the difference between how an organization talks, act and takes decisions. Organized hypocrisy is also the understanding of how these discrepancies allow organizations to be flexible in the way they manage the differences between stakeholder demands. To illustrate these differences, Ylönen & Laine (2015) present their findings after developing a qualitative case study of the tax planning arrangements of one multinational company. Their conclusion is that business-led voluntary tax disclosures published by business entities tend to focus more on impression management than on providing any transparent account of activities.

This concept of organized hypocrisy shows the mistrust that manifests itself when leaders talk about sustainability. In Chapter 3, we introduced a quote from BlackRock CEO, Larry Fink, in which he explains his vision of a sustainable organization. However, despite his desire to do well as illustrated by this quote, leaders are often not trusted. Young

generations especially feel that business leaders' priorities are not aligned to their own (Deloitte, 2018). Deloitte's survey shows a 'dramatic', negative shift in how millennials (born between January 1983 and December 1994) perceive businesses' motivations and ethics. This survey points out that while millennials consider, like Larry Fink, that organizations should take into consideration both the interests of their stakeholders and their bottom line. In their experience companies prioritize profits above all other considerations such as employee's wellbeing and their environmental and social impacts.

This concept of organized hypocrisy can also be linked to the notion of Greenwashing. Greenwashing refers to the intentional or unintentional deception of a consumer or a stakeholder having an interest in a corporate sustainable action about a company's environmental actions (Laszlo, Christensen, Fogel, Wagner, & Whitehouse, 2010). Characteristically, it induces misleading marketing claims or the promotion of certain environmental advantages while ignoring other damage caused to the environment. As a result, customers and various stakeholders would be really distrustful of sustainable campaigns that they would consider to be a marketing tool.

These examples show that while the vision of the leader can be clear, challenges emerged when trying to convince the different stakeholders of the sincerity of such strategies. If the stakeholders interested in the sustainability aspect of the leader's vision are not convinced, the leader won't be able to apply his strategy. It is therefore crucial to understand why these different stakeholders are sometimes not convinced.

1.3 Analysis of two sustainability reports

To understand why stakeholders would sometimes mistrust a leader's vision, we will analyze the sustainability reports emitted by Airbus in 2016 and SAAB in 2017 to see how these companies present their negative externalities and how they deal with them.

1.3.1 Airbus

Airbus is a European multinational corporation that designs, manufactures, and sells civil and military aeronautical products worldwide such as the world's largest passenger airliner, the Airbus A380 (Airbus, 2017). In 2014, their Defense and space division

accounts for 21% of their revenues with the production of tankers, transport and mission aircrafts.

Thomas Enders, Chief Executive Officer of Airbus since 2012, presented his vision for Airbus and the aviation sector in a lecture that he named “EU Vision 2050 – The time is now” (Knörzer & Szodruch, 2012). Enders said, “If we want to drive future technology, to protect the future of our planet and to develop the future talent that we need (...) the time to invest in the success of Vision 2050 is now” (Knörzer & Szodruch, 2012, p. 25). Vision 2050 aims to meet the expected growth in air transport in a sustainable manner by 2050 and beyond, and represent Enders vision to make Airbus, if not completely, at least more sustainable.

An entire part of Airbus sustainability report (2016) is focused on environmental performance where a comparison of their KPIs from 2015 and 2016 is made (Airbus, 2017). However, no mention is made of what an increase or decrease really means. Nevertheless, Airbus’ environmental strategy is extensively displayed in the report with two main parts being eco-efficiency and innovation. Another part of the report presents the GRI Index which they use to see to what extent each indicator is considered. References are made to other documents for each indicator. However, it is really broad. For example, the indicator G4-14 references their registration document, but with no specific pages to look at. Furthermore, some of the links are expired. In their report, they present the conclusion of an independent review performed by Ernst & Young of a selection of Airbus’ environmental and social performance indicators making them look more trustworthy. However, as no explanation is given for each indicator, or statement saying which one is relevant, no conclusion can be drawn to explain whether or not Airbus’ sustainability strategy is having the positive impacts stakeholders are interested in.

1.3.2 SAAB report

Saab Group is a Swedish aerospace and defense company manufacturing products ranging from military and civilian aircraft to missiles (Saab, 2017).

Håkan Buskhe, Saab’s CEO made the following statement in their 2017 sustainability report: « As a business with a long-term perspective, we will always make sustainable

choices and act in accordance with the company's values, code of conduct, regulations and processes (...). Sustainable and responsible business is essential to remain profitable» (Saab, 2017, p.6)

The reading of Saab's sustainability report reveals that a relatively precise and systematic approach is used to portray how the company deals with its environmental impacts. It focuses on three areas: reducing climate impact, phasing out hazardous chemicals and investing in sustainable innovations. Furthermore, extensive information is given to display their actions regarding eco-efficiency and eco-innovation, such as the development of biofuel that has been tested on one of their aircrafts. In the opening statement of the report (Saab, 2017), hints are given about the moral dilemma that SAAB faces due to the nature of its activities. They defend their position by saying that acting responsibly in everything they do is a priority. In practice, they have developed a program with the end goal of having zero corruption, making them a reliable partner to work with. Furthermore, an entire section of the report is dedicated to explaining why defense material exports are a great responsibility, and what is put in the company to ensure compliance with the laws and regulations governing export controls.

1.3.3 Conclusion of the analysis of the reports

The reading of these two reports makes clear that concerns about environmental impacts are important for these companies as they dedicate, for the most part, an important section of their report to this subject. However, vague statements are often used to describe these impacts, leaving it unclear for the stakeholders reading the reports to know if the organization really believes itself as being part of the problem or not. Furthermore, no remarks were made about the inherent eco-unfriendliness of the products sold and developed by the companies. Nevertheless, both reports contained strategies to reduce environmental impacts, making the CEO's vision more credible at least on an environmental stance.

GRI framework is often used by companies to communicate their impacts on issues such as climate change, human rights and corruption (Global Reporting, 2018). This is indeed the case here, however, the use of such framework seems sometimes out of place. No precise explanations is given concerning the conclusion drawn from filling out the

different categories of the framework, references were sometimes missing or linked to a document with no details about where to find the information. In other instance, KPIs assessing environmental performances were used, but as for the GRI framework, they could seem out of place, being lost among many other KPIs belonging to other categories. This lack of care in drawing conclusions from the different KPIs and GRI framework could explain why stakeholders would feel that an “organized hypocrisy” (Cho et al., 2015) is occurring when reading the papers. As these two companies may have, intentionally or not, avoid giving concrete details to explain the exact situation regarding their environmental impacts, it could be an explanation for why some stakeholders would not believe the leader’s vision.

Nevertheless, it is clear when reading these reports, that an emphasis is put on environmental impacts and less on social ones. Therefore, it is understandable that stakeholders who have in mind the definition of sustainable development being comprised with the environmental as well as the social sphere, would be skeptical of the leader’s discourse. Indeed, sustainability does not only consist of environmental impacts, but also of social impacts. It would be interesting to understand why social impacts are less represented in these reports, and this will be the subject we will be investigating now.

2 Why do challenges arise when measuring social impacts?

Social impacts are often measured in organizations that have inherently a social purpose, as we have been able to realize while reading different reports on the subject (Agence Phare, 2017; Avise, Fonda, & Labo de l’ESS, 2017; Rexel fondation, 2017). However, the sustainable organization we have described in chapter 3, is one that does not produce environmental nor social externalities. Therefore, being able to measure social externalities that are either positive or negative seems necessary if the leader is to convince its stakeholders of the sincerity of his vision. It is why we will analyze the content of these reports to discuss what limits arise when organizations try to measure their social impacts.

The Rexel fondation (2017) defines social impacts as the set of positive or negative changes, expected or unexpected, that are lasting and are generated by the activities. To measure these impacts, the foundation outlines four distinctive generic steps:

- First, an assumption must be made that a particular activity has an impact of a certain nature on certain stakeholders.
- Then indicators must be set to measure these impacts.
- Next, a collection and analysis of the quantitative and qualitative data collected must be made.
- And finally, a conclusion must be made to explain if the initial hypothesis was verified.

The foundation also highlights the fact that many methodologies exist to measure social impacts. The Agence Phare (2017) made a summary of the main social impact assessment methods that exist today (Table 1).

Table 1 – Main social impact assessment methods

Type of method		Main characteristics
Quantitative	Indicator-based approach	Analysis of effects based on indicators formalized by administrations or developed internally. The definition of the indicators is often accompanied by the completion of questionnaires.
	Monetized approaches	Analysis of the impact chain with stakeholders and attempts to monetize the changes observed.
	Comparative approaches	Statistical analysis of the effects from a comparison between a control group not affected by a device and a test sample affected by the device, in order to isolate the effects attributable to the project.
	Approach by the avoided costs	Calculating the difference between the money invested and the costs avoided for funders (usually public).
Qualitative	Interviews (individual or group)	Comprehensive approach to understand the actors' representations and their perceptions of the effects of actions.

Source: Adapted from Agence Phare (2017).

We can see in table 1, that two main types of methods exist today to measure social impacts: quantitative and qualitative methods. According to the Agence Phare, the

avored ones are often quantitative methods. Indeed these methods are often seen as being more efficient and more easily communicated to the stakeholders. However, Avise et al. (2017) consider that qualitative methods are more adapted to capture the complexity of social impacts. But still, qualitative methods are perceived as being less scientifically reliable and more complex to be set up.

Nevertheless, the Agence Phare (2017) identifies two major challenges with both methods when organizations implement social impact assessment. Their study shows that even though a leader wants to assess its social impacts, that wouldn't necessarily mean that the process would go flawlessly. These challenges are technical challenges on the one hand and organizational challenges on the other.

2.1 Technical challenges

Social impact assessment approaches are often regarded as technical and difficult to implement. Indeed, at any of the steps defined by the Rexel Foundation that we have shown above, the organization faces challenges. The difficulties especially arise when deciding which indicators will be used to evaluate the social impact, when collecting data, when analyzing them, and finally when evaluating the results (Agence Phare, 2017).

2.1.1 Prioritizing the impacts to be evaluated and define indicators

As written above, the first step towards measuring an organization's social impact is to make an assumption on what the impact is, and what effect it is having on which stakeholder. According to the Agence Phare (2017), organizations will already find it difficult to simplify their impact in this way. Indeed, as explained in chapter 4, we live in a complex world where every action is connected to many repercussions, which makes it difficult to link an action to one final impact. The first technical challenge can therefore be summarized by the identification of the key social impacts the organization wants to evaluate. Furthermore, the impacts chosen should be prioritized in order to avoid choosing ones that would be too hard to evaluate. Indeed, the evaluation of some impacts could turn out to be ambitious and extremely hard. Avise et al. (2017) also points out that

a limit would arise further down the road if the stakeholders targeted by the impact chosen were not involved enough in defining the indicators.

2.1.2 Collecting data

The third step enunciated by the Rexel foundation comes as well with challenges. First, collecting data could imply involving the employees in the implementation of the study and the creation of new processes to gather the data. This slight change of processes could be accompanied with high resistance. This topic will be further investigated in the next section as an organizational challenge. Second, collecting data is an activity that can be really demanding in resources, time and people, and therefore can overlap with the organization's activities. Trade-offs would have to be made, and they could become a source of tension.

2.1.3 Analyzing data and evaluating the results

The Agence Phare emphasizes that the analysis phase should produce data that is easily understandable and usable by all the stakeholders. A clear message should be able to come out from the analysis and communicated to the stakeholders. Furthermore, Avise et al. (2017) insist that the communication must be specially adapted to the stakeholder that is targeted by the impact chosen in the first step. Indeed, it could be counterproductive to develop such an evaluation if the stakeholders were not able to assess the validity of the results.

2.2 Organizational challenges

The Agence Phare (2017) points out that conducting a social impact assessment can lead to overwork for employees. In addition, some processes within the organization could be adapted to facilitate data collection and analysis, hence the need to educate teams, especially when they play an active role in data collection. These changes could cause the organization to experience resistance. Indeed, not all of the internal stakeholders are convinced of the relevance of these changes. The study goes further by

stating that some employees could feel that putting in place mechanisms to collect data would be a way of controlling and monitoring their actions.

Overall, the evaluation of social impacts is characterized by two major challenges, technical and organizational. These challenges most often result from an underestimation of the skills and resources required to implement an evaluation approach and by the underestimation of the resistance to change from internal stakeholders. The second challenge is not restricted to the assessment of social impacts. If a leader truly wants to make his organization sustainable, he will most likely have to alter many processes of the organization. In this section, we talked about collecting data and this seemingly inoffensive action would already encounter much resistance if we follow the conclusion of the Agence Phare's study.

3 Highlights

- Some stakeholders share the leader's vision, or at least may be interested in partnering with an organization, that does not produce negative externalities. These stakeholders will only support the leader if they believe in his sincerity.
- There is often mistrust of leaders who talk about sustainability. Such discourse is often believed to be greenwashing. One might also think that it hides an organized hypocrisy where there would be a difference between the way an organization speaks and acts.
- Organizations often communicate the results of their CSR initiatives through sustainability reports. Stakeholders could find the evidence they are looking for in these reports.
- The analysis of Airbus and Saab sustainability report revealed an emphasis on disclosing and explaining environmental impacts, but not on social impacts.

- Indeed, social impact assessment approaches are often regarded as technical and difficult to implement. These challenges most often result from an underestimation of the skills and resources required to implement an evaluation approach and by the underestimation of the resistance to change from internal stakeholders.

Chapter 6 - Resistance to change from employees

We concluded chapter 5 by stating that implementing new processes in an organization could create resistance from internal stakeholders such as employees. Indeed, we discovered that applying new processes to gather data allowing the evaluation of the social impacts of an organization could lead to this resistance. Such resistance can take several forms: persistent reduction in productivity, increase in the number of resignations and transfer requests, chronic disputes, hostility, strikes or slowdowns (Lawrence, 2000). Transforming a company into a sustainable organization will imply the change of many processes. Therefore, resistance to change is the third obstacle business leaders would face when building a sustainable organization and will be the topic explored in this chapter.

Seventy percent of large-scale, complex change projects do not achieve their objectives. (Bucy, Finlayson, Kelly, & Moye, 2016). This figure shows the importance of knowing how to carry out change processes in organizations and that a leader's vision is simply not enough to implement the changes he wants to see in his organization. Resistance to change is not a new topic, Machiavelli, an Italian philosopher, was already speaking about change in his works published in the sixteenth century. In their paper, "Choosing strategies for change" Kotter & Schlesinger (2008) cite him: "it must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things".

Many theorists have created frameworks that should help to understand and effectively manage change processes. One of the most widely cited in the literature is the eight-step process for leading change (Kotter, 1998). The characteristics of this model are close to the definition of transformational leadership we have used in chapter 1. Indeed, transformational leadership has been defined as a "style of leadership in which the leader identifies the needed change, creates a vision to guide the change through inspiration, and executes the change with the commitment of the members of the group" (BD Dictionary, 2018). Some stages of Kotter's model (that will be presented in the next section) appear to be quite similar to this definition of transformational leadership. The ideal leader for achieving sustainable organizations could be represented by leaders who use this style of

leadership and it is why we find it relevant to use Kotter's model to analyze a change process. Specifically, it is this framework will be used to analyze a case study on organizational change that took place at BMW. From this analysis, some key points of resistance will be highlighted and the reasons for their appearance will be studied.

1 The Eight-Step Process for Leading Change (Kotter, 1996)

In 1996, John Kotter developed a methodology in which he presented the success factors of a transformation strategy to leaders and organizations. This method is called the Eight-Step Process for Leading Change (Kotter, 1996) and has been one of the most widely cited models of change in the literature. Kotter's method includes, as its name suggests, eight phases.

First, a sense of urgency must be created through an aspirational statement that will help the organization members see the need for change. The speeches made by Musk, Fink or Enders that we have been quoting throughout this report are examples of such statements. However, according to Kotter's model, an aspirational speech is not enough to ensure the change to take place in the organization, this is only one step and it must be followed by others.

In the second step, a guiding coalition of members from the organization must be formed to lead, organize and communicate the activities brought about by the change. The third and fourth steps indicate that a vision must be created and communicated to clearly indicate to different stakeholders which aspects of the future will be different from the past situation and to show how this future can become a reality by communicating the different initiatives put in place.

Then, the need to empower others to act on the vision arises with the fifth step. By rallying a large number of people, the likelihood of large-scale change will increase. The next step is to create and present quick wins that will keep stakeholders motivated and persistent in implementing change. The penultimate step is to build on change. Each success is an opportunity to build on what has worked well and see what can be improved. Institutionalizing change is the key aspect of the eighth and final stage. By ensuring that change is visible in all aspects of the organization, new behaviors will be strong enough to replace old habits.

In summary, Kotter's Eight-Step Process for Leading Change is composed of the following phases:

- Create a sense of urgency
- Build a guiding coalition
- Generate a vision
- Communicate the initiatives created thanks to the vision
- Empower others to act on the vision
- Present quick wins
- Build on change
- Institutionalizing the change

The description of the eight steps of Kotter's model allows us to point out some key areas that could encounter resistance from employees. To help us do so, we will analyze a case study of change at BMW and compare it to Kotter's model.

2 Analysis of an organizational change process at BMW

2.1 BMW case study

An interview was conducted with a large-scale agent of change working for a company whose name we will keep secret to preserve anonymity, as requested by the interviewee (the interview can be found in Annex 1). The interviewed specialist's main task is to support large companies going through an agile transformation and in this particular interview, the example of BMW was used.

The change that was implemented at BMW did not have for overall goal to build the sustainable organization we defined in chapter 3. However, the insights we have been able to capture from this case study clearly reveal some key challenges that large organizations are facing when implementing change. Therefore, as building a sustainable organization will come with its share of changes and resulting challenges, we believe that using this case study to find out what are some key areas experiencing resistance from employees is adequate.

The interview was conducted with the aim to understand some challenges faced by large organizations in implementing change, with the specific topic of implementing change at

a German car manufacturer, namely BMW. In this section, the focus will therefore be on the BMW's case study analysis as a practical example of an organizational change in the context of John Kotter's eight-step process. But first, we will discuss the main information that were extracted from this interview before analyzing it through Kotter's model.

2.2 Interview results

The aim of the transformation led at BMW by our interviewee was to create more flexible team structures with an overall goal of remaining competitive in an ever-changing car industry. Indeed, the car industry is currently experiencing the disruptive trend of autonomous driving and adapting to this mega-trend is an obligation for automotive companies if they are to survive. Noticing that the car manufacturer was not going to reach their product targets with their current working model, the interviewee was hired to educate employees on all levels about agile methodology. Doing so, he facilitated workshops, meetings and coached teams and individuals. As for today, the change concerns more than 700 employees who are currently trained and educated to shift to the new working model.

An integration of top-down and bottom-up approach has been used to implement this new working model. Indeed, according to the interviewee, ownership of change only increases if employees can participate in its creation. This is why he made sure the vision was created by the teams themselves during workshops, where they actively engaged in the development process. Through a regular feedback system, all employees were continuously involved in the project, as stated by the interviewee. However, decisions still remain within the top management. Due to an early participation of employees, the interviewee believes it is the reason why resistance has been low, employees considering the change as their own.

The feedback mechanism cited above has led to a continuous learning loop which has helped the team to slowly adapt to the changes. As the interviewee states, the risk to only strive for an overall big change is too high, hence several milestones support the slow adoption. To close, the interviewee highlighted the need to understand the reason for change and its advantages in order to institutionalize it.

3 Comparison of BMW case study and Kotter's model to find key areas where employee resistance may occur

Similarities and differences appear when comparing the BMW case study and Kotter's model.

3.1 A sense of urgency needed to be set up by someone with legitimacy

In both cases, a sense of urgency is clearly used to help the organization members see the need for change. The model doesn't specify who should be creating this sense of urgency, but as Kotter recommends producing an aspirational statement to communicate the importance of acting immediately, a leader or at least an individual having a high position in the company seems more capable of doing so. However, the one initiating this process was a single project manager and not the leader of the organization. Indeed, this manager realized the urgency to change the organization's processes due to high competition and market pressure. Nevertheless, as this manager soon realized the limitations of his own position to transform the processes on a bigger scale, the commitment of the top-management group became necessary and he reached out to get them on board.

Eight months after the actual initiation, the top-management joined the change process and formed a change coalition together with the project manager and the interviewee. It is only when the organization leadership was on board that true change seemed to happen. Based on this experience, we can conclude that at this first stage, leaders of the organization seem to be the ones needed to create the sense of urgency. Indeed, lower ranked employees seem not to have on their own the power to convince the rest of the organization to change.

3.2 Vision not set up by the employees could be a problem

The second insight that was gained through the analysis of BMW's case study and Kotter's model is the question of the vision. Kotter's model talks about this key aspect of a change processes in the third and fourth step. According to the model, the vision should be created by a guiding coalition made of members of the organization. This is confirmed in our case study, as, according to the interviewee, resistance to change appears when

employees are not involved in the creation of the vision. In BMW's case, it was a group of people made of various employees within the organization that was articulating it. Although it was the top-management guiding the change, the main driver to formulate the vision was indeed the employee team. The agent of change argued that this was a key aspect to ensure that employees were committed to the change and its outcomes and allowed the success of the implementation of the overall new strategy.

Furthermore, when turning to the fifth step of Kotter's change process, which is to empower others to act on the vision - the interviewee clearly points out that it is really important to allow organizational members from the different hierarchical layers of the company to participate in the change process to make the change a success.

3.3 There is a need to keep employees continuously involved

To keep employees involved, both the Kotter's model and the interviewee argue that the process and the vision must be continuously adjusted. Indeed, according to the change expert, acting on the vision also means that the goals and targets need to be adjusted from time to time as the knowledge about what is attainable increases during the process. By adjusting some aspects through the feedback loop, the interviewee guides the organization towards achieving milestones on the path towards the final goal. This is as well the case for the sixth step of the model which emphasizes that only striving for the big final outcome is often risky, and on the contrary advocates for presenting quick wins to employees to keep them engaged in the change process.

The last step in Kotter's framework (1996) is to finally institutionalize the change into daily work processes within the company. As mentioned in the interview, the interviewed specialist stays with the company after implementing the change to train the different members to work according to the changes made to organizational processes. Indeed, he stated that he would not leave the company if he wasn't sure there were enough employees who could drive the change by themselves.

4 Reasons for employee's resistance

The analysis of the change process that took place at BMW using Kotter's framework allows us to outline three key elements that would lead employees to resist change. First, the statement of aspiration made to create a sense of urgency was not made by someone with enough credibility for the employees. Second, employees are not included in the creation of the vision. Finally, employees are not continuously engaged in the change process. The question raised is why do these three elements lead employees to resist change? This will be the topic investigated in this section.

Kotter & Schlesinger (2008) argue that most organizational changes encounter human resistance as our discussion on implementing social impact assessment and the BMW's case study has confirmed. These authors give the four most common reasons employees resist change: It is a refusal to lose something of value, a lack of understanding of what change represents and what its consequences will be, a belief that change makes no sense for the organization and ultimately a low tolerance for change.

4.1 Self-interest

One of the primary explanations why individuals resist organizational change is that they expect to lose something of value as a direct consequence. In these cases, as employees would focus on their own interests and not those of the organization as a whole, resistance would often arise (Kotter & Schlesinger, 2008). This argument can be put in perspective with the agency theory developed by Jensen & Meckling (1976). As explained in chapter 2, this theory claims that every agent acting on a market, whether as individuals or by extension as an organization, has their own best interests at heart and therefore will not always act in the best interests of other entities. To ensure their best interests are satisfied, political behaviors could sometimes be used (Kotter & Schlesinger, 2008). Although intriguing individuals sometimes engage in power battles, most of the time people who do are those who see their potential loss due to change as an unfair infringement of their implicit, or psychological, contract with the organization.

4.2 Misunderstanding and lack of trust

People are also resistant to change when they fail to understand its implications and perceive that it could be far costlier than what they could gain. Such cases frequently occur when there is a lack of trust between the person initiating the change and the employees. This problem was raised in the previous chapter where the lack of trust among external and internal stakeholders led to the belief that a sustainable enterprise discourse would only be an organized hypocrisy. Employees, even if they were to agree with the leader's vision, would not trust him and would think it was doing what we defined in the previous chapter as greenwashing. Not many organizations can be labeled as having a high degree of trust between employees and leaders therefore misunderstandings often appear when change is instituted (Kotter & Schlesinger, 2008).

4.3 Different assessment

The third factor why people are resisting organizational change, according to Kotter & Schlesinger (2008) is that they have a different evaluation of the situation than people who are initiating change. These individuals view the costs of change as higher than what the benefits would be, not only for themselves, but also for the whole organization. Leaders who are in the process of change are frequently assuming that they are in possession of all the required information to understand all the details of their organization. They also often assume that each employee that will be affected by the change are in possession of similar factual information. However, both assumptions might not always be true. In each of these cases, the two groups have different information and therefore different assessments of the situation, which can lead to resistance. Moreover, by assuming that the leader is in possession of all the information could lead to losing some valuable information that are in the possession of the employees. Thinking that each resistance has as for origin a lack of knowledge of the organization or just a selfish desire to protect its own interests could lead to the loss of this information that could have been beneficial to the company.

4.4 Low tolerance for change

The fourth reason people resist change according to Kotter & Schlesinger (2008) is the low tolerance for change. This low tolerance could have for origin many possibilities.

First, employees might fear they will not be able to adapt. Changing processes in the organization might call for a need for new skills and behavior for the employees. Even if they would intellectually understand the need for change and its implications, they might be simply not ready emotionally to make the transition.

Second, individuals could resist the change even though it would be considered as having a good impact on them. Such would be the case with a person receiving a lot more responsibilities with the organizational change and as a result, would see his wage increase. Indeed, this person could feel unease about the new responsibilities and would not be willing to abandon his current situation. Same would go with an organizational change leading to the creation of a more sustainable business. If the individual were sharing the same vision, it may still resist the change if he doesn't feel capable of adapting his behavior or skills. Actually, the perspective of a new job could lead to the loss of some satisfactory relationships or perks the individual had and that he cared for. This is where the level of tolerance is important, if the level is low, the individual will not be willing to accept the change and will therefore resist it no matter the apparent good it could bring him. The third reason would be that individuals want to save face. Accepting change might mean that they need to question their beliefs and accept that some of them were wrong. And the last one could be that accepting change would be to go against peer pressure.

5 Highlights

- Resistance from employees might arise from employees when changing processes to build a sustainable organization. Such resistance can take several forms: persistent reduction in productivity or increase in the number of resignations and transfer requests.
- Based on Kotter's eight-step process for leading change and BMW's analysis of a change process, we identified three practices that appear to lead to resistance

to change: the vision not articulated by employees, the sense of urgency established by an employee without sufficient legitimacy, and the lack of sustained effort to retain employees involved in the change process.

- Employees resist change for four main reasons: a refusal to lose something of value, a lack of understanding of what change means and its consequences, a belief that change makes no sense to the organization and, ultimately, a low tolerance for change.

Conclusion

According to Laughland & Bansal, “being a leader means sticking your head above the parapet: it exposes you to criticism internally and externally.» (2011, p.4). This quote represents well the staggering amount of challenges that business leaders face when fighting for their ideas and in the context of this report, when building a sustainable organization.

In this report, leadership is considered to be the level of senior management that has the opportunity to influence an organization's vision. By establishing clear goals and strategies, leaders are able to project this shared vision for the future. Today, an increasing number of leadership frameworks describing the mindset of leaders who want to create sustainable value are being developed. These models can be used as tools by business leaders to help them develop more sustainable organizations, with the distinctive example of sustainable leadership. However, no common definition of this particular concept seems to emerge. Therefore, and to recognize the ongoing debate about what sustainable leadership really is, we have used a broader vision of leadership throughout the document and have considered that a sustainable leader is a leader who has the vision to build a sustainable organization. Sustainable organizations are businesses that do not have social and environmental impacts, or that at least compensate them by internalizing their costs, that are profitable and finally that have a good governance, meaning that they take into account the needs of their key stakeholders. With this in mind, it seems that ideal leaders for achieving sustainable organizations do exist, then why do we still see unsustainable organizations everywhere?

As the quote by Laughland & Bansal portrayed it, leaders are exposing themselves when fighting for their ideas. If those ideas are unconventional and lead to changing the status quo, criticisms can get even harsher and opposition can arise. Specifically, obstacles brought by stakeholders is the answer we give to our research question: *Why doesn't a sustainable leader necessarily lead to a sustainable organization?* Indeed, business leaders are not free to act as they wish, since they must comply with the sometimes-conflicting demands of their stakeholders. Failure to recognize and respond to these demands could restrict a leader's vision of becoming a reality, or even more, could lead to the complete

collapse of the business. However, recognizing that leaders are not the only constituents of organizations and, therefore, consider also the requirements of their stakeholders, can ensure the survival of their businesses and help them successfully implement strategies to build the sustainable organization they envisioned.

The main contribution of this paper is to have pointed out some key obstacles brought by stakeholders that business leaders are facing when building sustainable organizations. Three of these barriers were analyzed in the second part of this paper to uncover their origins.

The first obstacle business leaders are faced with is the short-term maximization of profits that shareholders could ask for. This demand can sometimes be in direct opposition to the implementation of the strategy put in place by the leader, and the long-term benefits that it could bring to the company and society. We have discovered that this demand for profit maximization could be linked to the increasing globalization the world has faced over the past three decades. Indeed, the coincidence of international political, economic and technological events created the perfect breeding ground for globalization to accelerate and connectivity to increase in a scale never seen before. These connections are more complex, numerous, and are taking an increasingly important place in our daily lives. They have created complex systems that have blurred the link between an organization's actions and its impacts. Since the causal link between these two elements is unclear, and under the liability model that seeks to attribute guilt or fault for harm, it is difficult to incriminate organizations for their impacts or force them to resolve them. This has led authors such as Friedman to legitimize profit maximization for corporations as their sole responsibility. Indeed, Friedman considers that business leaders are not experts at solving environmental and social impacts, and therefore this burden should be shifted to governments and experts. Using shareholder's money for other purposes than maximizing their profits would be, according to Friedman, the same as imposing a tax which is the role of governments, not of a business leader.

The second obstacle we analyzed was the difficulty to convince stakeholders of the sincerity of the leader's vision. Indeed, business leaders can have trouble communicating their vision credibly, and can be sometimes met with skepticism and disbelief. As ensuring the support of stakeholders is essential to ensuring the survival of the firm, communicating their vision in a credible manner is key. We discovered in this paper that

one issue lied in the way social impacts were communicated. Indeed, it has been found that an emphasis was put on disclosure of environmental impacts but less on social ones. As social impacts are part of the definition of sustainable development, it is understandable that stakeholders who would have in mind this definition would be skeptical of the leader's discourse. However, there are reasons why these social impacts are less communicated. Social impacts can be very difficult to measure, and the approaches used to assess them are often regarded as technical and difficult to implement. The technical difficulties especially arise when deciding which indicators will be used to evaluate the social impact, when collecting data, analyzing, and evaluating it. Organizational challenges also appear when measuring social impacts as changing processes to facilitate data collection and analysis can lead to employee resistance to change.

The third and final barrier we analyzed in this report is employee resistance to change. Indeed, transforming a business into a sustainable organization involves changing many processes and, as a result, may lead employees to resist that change. Employees resist change for four main reasons: a refusal to lose something of value, a lack of understanding of what change means and its consequences, a belief that change makes no sense to the organization and, ultimately, a low tolerance for change. These four elements led to the creation of areas of resistance in the implementation of change process. First, change seemed to not take place unless a sense of urgency was put in place by someone with sufficient legitimacy, as lower-level employees alone do not seem to have the power to convince the rest of the organization. Second, if employees were not involved in the process of implementing the vision, there seemed to be resistance. And last, change seemed to fail without a continuous effort to keep employees involved in the change.

The research has several limitations. We do not discuss more than three obstacles that have been brought by shareholders. Secondly, only negative impacts were analyzed, although some impacts brought by stakeholders could also be beneficial for the organization. Furthermore, we do not question the traditional leadership approach that would make the leader the main decision-maker. Finally, the research was restricted to the analysis of barriers in large organizations.

In this context, the following topics would deserve further study and could be the subject of other thesis: Could the dominant leadership paradigm be partly responsible for the

unsustainability the world is currently facing? What are some of the barriers faced by leaders other than stakeholders and where do they come from? How do stakeholders help business leaders build sustainable organizations?

Bibliography

- Agence Phare. (2017). *L'expérience de l'évaluation d'impact social: Pratiques et représentations dans les structures d'utilité sociale*.
- Ahmad, I. B. (2006). Andy Hargreaves and Dean Fink, Sustainable Leadership. *Journal of Educational Change*, 7(1-2), 109-111. <https://doi.org/10.1007/s10833-006-0023-2>
- Airbus. (2017). Airbus 2016 Annual Report. Retrieved July 20, 2011, from <https://www.airbus.com/content/dam/events/annual-general-meeting/airbus-rar-2016-en-02.pdf>
- Avise, Fonda, & Labo de l'ESS. (2017). *Rapport 1, la mesure d'impact social: caractéristiques, avantages et limites des démarches existantes*.
- Barnett, M. (2007). Stakeholder influence capacity and the variability of financial returns to corporate social responsibility. *Academy of Management Review*, 32(3), 794-816.
- BD Dictionary. (2018). Transformational leadership. Retrieved July 2, 1BC, from <http://www.businessdictionary.com/definition/transformational-leadership.html>
- Bendell, J., Sutherland, N., & Little, R. (2017). Beyond unsustainable leadership: critical social theory for sustainable leadership. *Sustainability Accounting, Management and Policy Journal*, 8(4), 418-444. <https://doi.org/10.1108/SAMPJ-08-2016-0048>
- Blake, R., & Mouton, J. (1964). *The managerial grid: The key to leadership excellence*. Gulf Publishing Company. Houston.
- Bowen, H. R. (1953). Social responsibilities of the businessman. *Social Responsibilities of the Businessman*. <https://doi.org/10.2307/j.ctt20q1w8f>
- Bucy, M., Finlayson, A., Kelly, G., & Moye, C. (2016). The 'how' of transformation. Retrieved November 17, 2017, from <https://www.mckinsey.com/industries/retail/our-insights/the-how-of-transformation>
- Burns, J. M. (1978). *Leadership*. Harper & Row. New York.
- Carroll, A. B. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral

- Management of Organizational Stakeholders. *Business Horizons*, 34, 39–48.
<https://doi.org/10.1177/0312896211432941>
- Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. *International Journal of Management Reviews*. <https://doi.org/10.1111/j.1468-2370.2009.00275.x>
- Carson, R. (1962). *Silent Spring*. Houghton Mifflin Harcourt. New York.
[https://doi.org/10.1016/0160-9327\(88\)90109-3](https://doi.org/10.1016/0160-9327(88)90109-3)
- Chen, J. C., & Roberts, R. W. (2010). Toward a More Coherent Understanding of the Organization-Society Relationship: A Theoretical Consideration for Social and Environmental Accounting Research. *Journal of Business Ethics*, 97(4), 651–665.
<https://doi.org/10.1007/s10551-010-0531-0>
- Cho, C. H., Laine, M., Roberts, R. W., & Rodrigue, M. (2015). Organized hypocrisy, organizational façades, and sustainability reporting. *Accounting, Organizations and Society*, 40, 78–94. <https://doi.org/10.1016/j.aos.2014.12.003>
- Clinton, L; Whisnant, R. (2014). Model behavior, 20 Business Model Innovations for sustainability. Retrieved from http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&dopt=Citation&list_uids=10744536
- Crane, A., Matten, D., & Moon, J. (2004). Stakeholders as citizens? Rethinking rights, participation, and democracy. In *Journal of Business Ethics*.
<https://doi.org/10.1023/B:BUSI.0000039403.96150.b6>
- Deegan, C., Rankin, M., & Tobin, J. (2002). An examination of the corporate social and environmental disclosures of BHP from 1983-1997: A test of legitimacy theory. *Accounting, Auditing & Accountability Journal*, 15(3), 312–343.
- Deloitte. (2018). The Deloitte Millennial Survey. Retrieved from <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html>
- DesJardins, J. (1998). Corporate Environmental Responsibility. *Journal of Business Ethics*, 17(8), 825–838.

- Donaldson, T., & Preston, L. (1995). Stakeholder Theory: concepts, evidence, corporations and its implications. *The Academy of Management*, 20(1), 65–91. <https://doi.org/10.2307/258887>
- Doppelt, B. (2017). *Leading change toward sustainability: A change-management guide for business, government and civil society*. Routledge.
- Ebner, D., & Baumgartner, R. J. (2006). The relationship between Sustainable Development and Corporate Social Responsibility. *Corporate Responsibility Research Conference 2006*, (September), 17. <https://doi.org/10.1177/2158244017712027>
- Ekvall, G., & Arvonen, J. (1991). Change-centered leadership: An extension of the two-dimensional model. *Scandinavian Journal of Management*, 7(1), 17–26. [https://doi.org/10.1016/0956-5221\(91\)90024-U](https://doi.org/10.1016/0956-5221(91)90024-U)
- Elkington, J. (1997). Cannibals with forks. *Cannibals with Forks: The Triple Bottom Line of 21st Century* *The Triple Bottom Line of 21st Century*, (April), 1–16. <https://doi.org/http://doi.wiley.com/10.1002/tqem.3310080106>
- Fiedler, K. (2001). Affective states trigger processes of assimilation and accommodation. In *Theories of mood and cognition: A user's guidebook* (pp. 85–98). Mahwah: Lawrence Erlbaum.
- Fink, L. (2018). Larry Fink's Annual Letter to CEOs: A Sense of Purpose.
- Fleenor, J. W. (2006). Trait Approach to Leadership. In *Encyclopedia of Industrial and Organizational Psychology* (Vol. 59, pp. 830–832). SAGE Publications.
- Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Pitman. Boston. <https://doi.org/10.2139/ssrn.263511>
- Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits.
- Global Reporting. (2018). About GRI. Retrieved May 26, 2018, from <https://www.globalreporting.org/information/about-gri/Pages/default.aspx>
- Goldin, I., & Mariathasan, M. (2014). *The Butterfly Defect: How Globalization Creates Systemic Risks and What to Do about It*. Princeton University Press. <https://doi.org/10.1093/jeg/lbu043>

- Grant, A., & Sonnentag, S. (2010). Doing good buffers against feeling bad: Prosocial impact compensates for negative task and self-evaluations. *Organizational Behavior and Human Decision Processes*, 111(1), 13–22.
- Griffiths, D. (2005). Introduction to Quantum Mechanics, Solutions Manual. *Quantum*.
<https://doi.org/10.1038/155772b0>
- Hahn, R., & Kühnen, M. (2013). Determinants of sustainability reporting: a review of results, trends, theory, and opportunities in an expanding field of research. *Journal of Cleaner Production*, 59, 5–21.
- Hargreaves, A., & Fink, D. (2003). The Seven Principles of Sustainable Leadership. *Educational Leadership*, 61(December), 8. Retrieved from http://www.marylandpublicschools.org/NR/rdonlyres/F7D49A8D-E9D0-4C49-9DE6-3A878BC9F1F4/18748/seven_principles.pdf
- Hersey, P., & Blanchard, K. H. (1974). So You Want To Know Your Leadership Style? *Training & Development Journal*. <https://doi.org/Article>
- Jackson, B. (2005). The Enduring Romance of Leadership Studies. *Journal of Management Studies*, 42(6), 1311–1324. <https://doi.org/10.1111/j.1467-6486.2005.00544.x>
- Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Johnson, G., Scholes, K., & Whittington, R. (2011). *Exploring Corporate Strategy: Text and Cases* (9th ed.). Lancaster: Financial Times Prentice Hall.
- Keller, T. (2003). Parental images as a guide to leadership sensemaking: An attachment perspective on implicit leadership theories. *Leadership Quarterly*. [https://doi.org/10.1016/S1048-9843\(03\)00007-9](https://doi.org/10.1016/S1048-9843(03)00007-9)
- Knörzer, D., & Szodruch, J. (2012). Innovation for Sustainable Aviation in a Global Environment. In *Proceedings of the Sixth European Aeronautics Days*. IOS Press.
- Kotter, J. . (1996). *Leading change*. Harvard Business Press.
- Kotter, J. P., & Schlesinger, L. . (2008). Choosing Strategies for Change. *Harvard Business Review*, 130–139.

- Kurzweil, R. (2004). The law of accelerating returns. In Springer (Ed.), *Alan Turing: Life and legacy of a great thinker*. (pp. 381–416). Berlin.
- Laszlo, C., Christensen, K., Fogel, D., Wagner, G., & Whitehouse, P. (2010). The Business of Sustainability. *Berkshire Encyclopedia of Sustainability*, 2.
- Laughland, P., & Bansal, T. (2011). The top ten reasons why businesses aren't more sustainable. *Ivey Business Journal*, 75(1), 1–14.
- Lawrence, P. R. (2000). How to deal with resistance to change. *Journal of Occupational and Environmental Medicine*, 12(5), 191. <https://doi.org/10.1097/00043764-197005000-00027>
- Lev, B., Petrovits, C., & Radhakrishnan, S. (2010). Is doing good good for you? How corporate charitable contributions enhance revenue growth. *Strategic Management Journal*, 31(2), 182–200. <https://doi.org/10.1002/smj>
- Li, G., Hou, Y., & Wu, A. (2017). Fourth Industrial Revolution: technological drivers, impacts and coping methods. *Chinese Geographical Science*, 27(4), 626–637. <https://doi.org/10.1007/s11769-017-0890-x>
- Mankiw, G., & Taylor, P. (2011). *Principes de l'économie* (2nd ed.). De Boeck.
- Meadows, D., Meadows, D., & Randers, J. (1972). The Limits to Growth. *The Club of Rome*, 211. <https://doi.org/10.1111/j.1752-1688.1972.tb05230.x>
- Meindl, J., Ehrlich, S., & Dukerich, J. (1985). The Romance of Leadership. *Administrative Science Quarterly*, 30(1), 78–102. <https://doi.org/10.1111/j.1523-536X.1982.tb01615.x>
- Metcalf, L., & Benn, S. (2012). The Corporation is Ailing Social Technology: Creating a “Fit for Purpose” Design for Sustainability. *Journal of Business Ethics*, 111(2), 195–210. <https://doi.org/10.1007/s10551-012-1201-1>
- Metcalf, L., & Benn, S. (2013). Leadership for Sustainability: An Evolution of Leadership Ability. *Journal of Business Ethics*, 112(3), 369–384. <https://doi.org/10.1007/s10551-012-1278-6>
- Mitchell, R., Agle, B., & Wood, D. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of*

- Management Review*, 22(4), 853–886.
- Northouse, P. G. (2010). Leadership: theory and practice. In *Leadership theory and practice* (Vol. 24, p. p.99-110, 219-270, 383-430).
- Orlitzky, M., Schmidt, F., & Rynes, S. (2003). Corporate social and financial performance: A meta-analysis. *Organizational Studies*, 24(3), 403–441.
- Osborn, F. (1949). *Our plundered planet*. London: Faber and Faber Ltd.
- Pigou, A. (2001). *The Economics of Welfare*. New York: Routledge.
- Porter, T., & Córdoba, J. (2009). Three Views of Systems Theories and their Implications for Sustainability Education -- Porter and Córdoba 33 (3): 323 -- Journal of Management Education. *Journal of Management Education*, 33(3), 323–347.
- Prensky, M. (2001). Digital Natives, Digital Immigrants. *On the Horizon*, 9(5), 1–6. <https://doi.org/10.1108/10748120110424816>
- Raelin, J. A. (2016). Imagine there are no leaders: Reframing leadership as collaborative agency. *Leadership*, 12(2), 131–158. <https://doi.org/10.1177/1742715014558076>
- Rexel fondation. (2017). *Guide de la mesure d'impact social*.
- Rideout, V. J., Roberts, D. F., & Foehr, U. G. (2010). *Generation M: Media in the lives of 8-18 year olds*. The Kaiser Family Foundation. <https://doi.org/10.1073/pnas.0703993104>
- Roberts, M. (2012). Transformational Leadership. Retrieved April 14, 2018, from www.worldviewthinking.com
- Roberts, R. (1992). Determinants of corporate social responsibility disclosure: An application of stakeholder theory. *Accounting, Organizations and Society*, 17(6), 595–612.
- Saab. (2017). Saab Annual and Sustainability Report. Retrieved from <https://saabgroup.com/investor-relations/short/annual-report-2017/>
- Sachs, J. (2015). *The age of sustainable development*. Columbia University Press.
- Senge, P., Smith, B., Kruschwitz, N., Laur, J., & Schley, S. (2008). *The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World*. Crown Business. <https://doi.org/10.1108/sd.2009.05625hae.001>

- Šimanskienė, L., & Župerkienė, E. (2014). Sustainable Leadership : The New Challenge for Organizations. *Forum Scientiae Oeconomia*, 2(1), 81–93. Retrieved from <http://www.wsb.edu.pl/container/FORUM SCIENTIAE/forum 2014 nr 1/forum-2014-1-art.6.pdf>
- Steinbrink, L. (2018). What is Sustainable Development, and Why is it So Important? Retrieved May 13, 2018, from <http://hlmssustainability.com/sustainable-development-important/>
- Stogdill, R. (1948). Personal factors associated with leadership; a survey of the literature. *Journal of Psychology*, 35–71.
- Tata, J., & Prasad, S. (2015). Tata, J., & Prasad, S. (2015). CSR communication: An impression management perspective. , 132(4), 765-778. *Journal of Business Ethics*, 132(4), 765–778.
- Tideman, S. G., Arts, M. C., & Zandee, D. P. (2013). Sustainable Leadership: Towards a Workable Definition. *Journal of Corporate Citizenship*, 2013(49), 17–33. <https://doi.org/10.9774/GLEAF.4700.2013.ma.00004>
- United Nations. (2015). Transforming our world: the 2030 Agenda for Sustainable Development. *General Assembly 70 Session*, 16301(October), 1–35. <https://doi.org/10.1007/s13398-014-0173-7.2>
- Uren, S., Parkin, S., & Sommer, F. (2003). Sustainable development: understanding the concept and practical challenge. *Proceedings of the ICE - Engineering Sustainability*, 156(1), 19–26. <https://doi.org/10.1680/ensu.2003.156.3.169>
- Vance, A. (2015). *Elon Musk: Tesla, SpaceX, and the Quest for a Fantastic Future*. Virgin Books.
- Visser, W. (2005). Revisiting Carroll's CSR pyramid. *Corporate Citizenship in Developing Countries*, 29–56.
- Visser, W. (2008). CSR 2.0, The New Era of Corporate Sustainability and Responsibility By. *CSR International Inspiration Series*, (1), 1–2.
- Visser, W. (2011). The Age of Responsibility : CSR 2 . 0 and the New DNA of business. *Journal of Business Systems, Governance and Ethics*, 5(3), 7–22.

<https://doi.org/10.15209/jbsge.v5i3.185>

World Commission on Environment and Development. (1987). *Report of the World Commission on Environment and Development: Our Common Future (The Brundtland Report)*. UN documents. <https://doi.org/10.1080/07488008808408783>

Ylönen, M., & Laine, M. (2015). For logistical reasons only? A case study of tax planning and corporate social responsibility reporting. *Critical Perspectives on Accounting*, 33, 5–23. <https://doi.org/10.1016/j.cpa.2014.12.001>

Young, I. M. (2006). Responsibility and global justice: A social connection model. *Philosophy and Social Policy*, 23(01), 102–130. <https://doi.org/10.1017/S0265052506060043>

Appendices

Appendix 1: Interview guide: Change initiative at BMW

An interview was conducted with a large-scale agent of change whose name we will keep secret to preserve anonymity, as requested by the interviewee. The interviewed specialist's main task is to support large companies going through an agile transformation and in this particular interview, the example of BMW was used. The interview was conducted with the aim to understand some challenges faced by large organizations in implementing change, with the specific topic of implementing change at a German car manufacturer, namely BMW. The interview was carried out on the 2nd of November 2017 via Skype for a group report at the Jönköping International Business School for the class Organizing an Leading change.

General questions:

1. What are your tasks and what exactly are you doing in your job?
2. Can you describe the specific project and what was your part in it?
3. What is your role during a change process?

Specific: Change situation

1. What was the reason for the change?
2. Who initiated the change?
3. How did the workforce react to the idea of change? What were your observations? What struggles and what support did you receive?
4. Who creates and articulates the vision and how?
5. What can be possible obstacles/challenges when trying to implement changes? How are you dealing with these challenges as they are actually internal?
6. Which approach did you use? Bottom up or top down change? And why?
7. According to Kotter, there are 8 steps a company needs to go through when implementing a transitional change. Do you agree with these steps? To what

extent is this realistic? (or is it a dynamic process where they occur at the same time and they overlap?)

8. Who guides, communicates and coordinates the activities of the change?

Your role in the change process

1. Do the people accept you as a change leader?
2. What is the advantage of hiring you than having an internal change team?
3. Are you only striving for the overall big change or do you strive for milestones?
4. How do you initiate change?
5. How do you enable others to work with and on the vision?
6. At what point do you leave the company? Do you have a follow-up?
7. How do you make sure the change lasts if you are not in the company anymore?
8. Do you pursue your own values when initiating the change?

Appendix 2: Interview transcript

What are your tasks and what exactly are you doing in your job? Job description.

I'm a Certified Large-Scale Scrum (LeSS) Trainer, agile coach and do management counseling. I'm helping organizations to succeed with their digital business transformation. Most of them need to become more flexible in their competitive markets. Mainly software development related organizations in IT and product development like Nokia Siemens Networks, Audi, BMW, Adidas, DATEV, EDEKA Allianz...

Can you describe the specific project and what was your part in it?

Agile Transition in the automotive industry, product group of 700 people which is responsible to deliver the autonomous driving for this manufacturer. I started there in August 2016 with a very small engagement, personal coaching of one project manager. First top-management workshop on Large-Scale organizational Design was on 28th of April 2017. Since this date, I coach the organization nearly 5 days a week. I worked with two teams. Management team responsible for the organizations design and a mixed team of managers and employees to develop the working model. Some people were part of both teams. With involvement of HR, FO (responsible for org. design) and members of the works council from the beginning. Education of first employees and managers end of Jul, beginning of August 2017, first group of people (50) started working in the new model at mid of August. At 1st of October about 250 people moved to the new location. All 700 employees are now organized in the new organizational design. Currently, we train and educate all people so that they are prepared to switch into the new working model.

Specific change situation? What was the reason for the change?

The product group realizes that they will not reach their product targets with the current working model. Autonomous driving is one of the future key success factors for car manufacturing. This problem is not complicated, it's complex and therefore different from earlier problems solved in the past. This manufacturer is not seen as the leading company in the field of autonomous driving. The market is very competitive, and some new players appeared who are setting new benchmarks.

What was your role during the change?

My role is to educate employees on all levels in agile methodologies and especially in large-Scale Scrum. Facilitating workshops and meetings, coaching teams and individuals.

Who initiated the change?

Originally, the one project manager, but after some time top-manager joined and supported the idea of the change. After the first management workshop, the Business Unit Leader (head of these 700 employees) drove this change.

Who is communicating the vision? And how? Who is creating the vision?

Business Unit Leader, in several all-hands meetings. The vision was created by the two transition teams.

What can be possible obstacles/challenges when trying to implement changes? How are you dealing with these challenges as they are actually internal?

Resistance of managers and employees. We invest a lot to make them understand why the change is needed and involve them in developing the change.

Do the people accept you as a change leader?

Yes.

According to Kotter there are 8 steps a company needs to go through when implementing a transitional change. Can you confirm these steps? Do you think a change process can be divided in such steps or is it a dynamic process where they occur at the same time and they overlap?

Yes, with small exception, we do not focus on quick wins. Yes, there are overlaps.

What is the advantage of hiring you than having an internal change team?

Internal people do not have the same experiences in changing a traditional organization towards agility/flexibility.

Are you only striving for the overall big change or do you strive for milestones?

A flip at once is in such dimensions very risky, so we do smaller steps with feedback loops to adopt the change continuously according to our learning.

How do you initiate the change?

Official information about the upcoming change of all affected employees on regular bases. Involving all employees via feedback mechanism.

How do you enable others to work with and on the vision?

Educating everyone, before creating the vision and initial change.

At what point do you leave the company? Do you have a follow-up?

I'm not leaving for at least one and a half year. I'm going to leave if there are enough internal people who can drive the change by themselves.

In your opinion, should companies also implement changes when they are successful?

Depends on the outlook of the company, being successful doesn't mean that you will be successful in the future! BMW is one of the most successful car manufacturers, but if they miss the electricity of their engines and the autonomous driving, they won't be successful in the future. This is valid for all companies which are facing disruptive changes in their market. Through the current digitalization of many industries and business areas, nearly all companies have this situation.

People usually don't like change; how can they be convinced that the company needs the change? Is there a recipe to convince the employees and get their support? What happens to people who resist the change?

Create a sense of urgency at company level, but on individual level as well! Once they've understood this a buy in of employees is much easier. There will be always people who resists to the death. We use voluntary for participation in changes, others are free to find other positions in the company or outside the company.

How did the workforce react to the idea of change? What were your observations? What struggles and what support did you receive?

Main feedback was very positive, only a few raises their doubts. By involving some employees very early and informing all employees frequently and gathering their feedback and of course react on their feedback, people start considering the change as their own business. They own the change instead of renting it.

What kind of approach did you use? Bottom up or top down change? And why?

Huge changes are only possible in top-down and bottom-up! So we used both. Ownership only grows if employees can participate in creating the change. But only top management can decide to close sites, merge business units and departments, providing budgets...

Who guides, communicates and coordinates the activities of the change?

Coordinating was done in the orga-team. Communication to employees was always done by the top management, or with strong support of the top-management by the orga-team and coaching team together.

How do you make sure the change lasts if you are not in the company anymore?

Since we focus on owning the ideas for the change there is no huge risks that the organization will fall back in old habits. Do not forget these people created the change by themselves.

When looking at the model, does your way of doing change follows strictly these steps or does it on a different order?

Not strictly, and it differs from organization to organization. In complex systems there are not best practices, only good once and you have to prove each of them before applying it.