# Business leadership in a time of responsibility

Looking at the global economy today, we can see that a much greater proportion of the world operates under the philosophy called 'market capitalism,' observes Subi Rangan, Associate Professor of Strategy and Management, and the Shell Fellow in Business and the Environment at INSEAD.

"Compared to ten, and certainly 100 years ago, business today makes a huge set of decisions and is becoming a prime resource allocator."

It's time, says Rangan, that the tens of millions of enterprises in the world be regarded as 'citizens' and be expected to act as such.
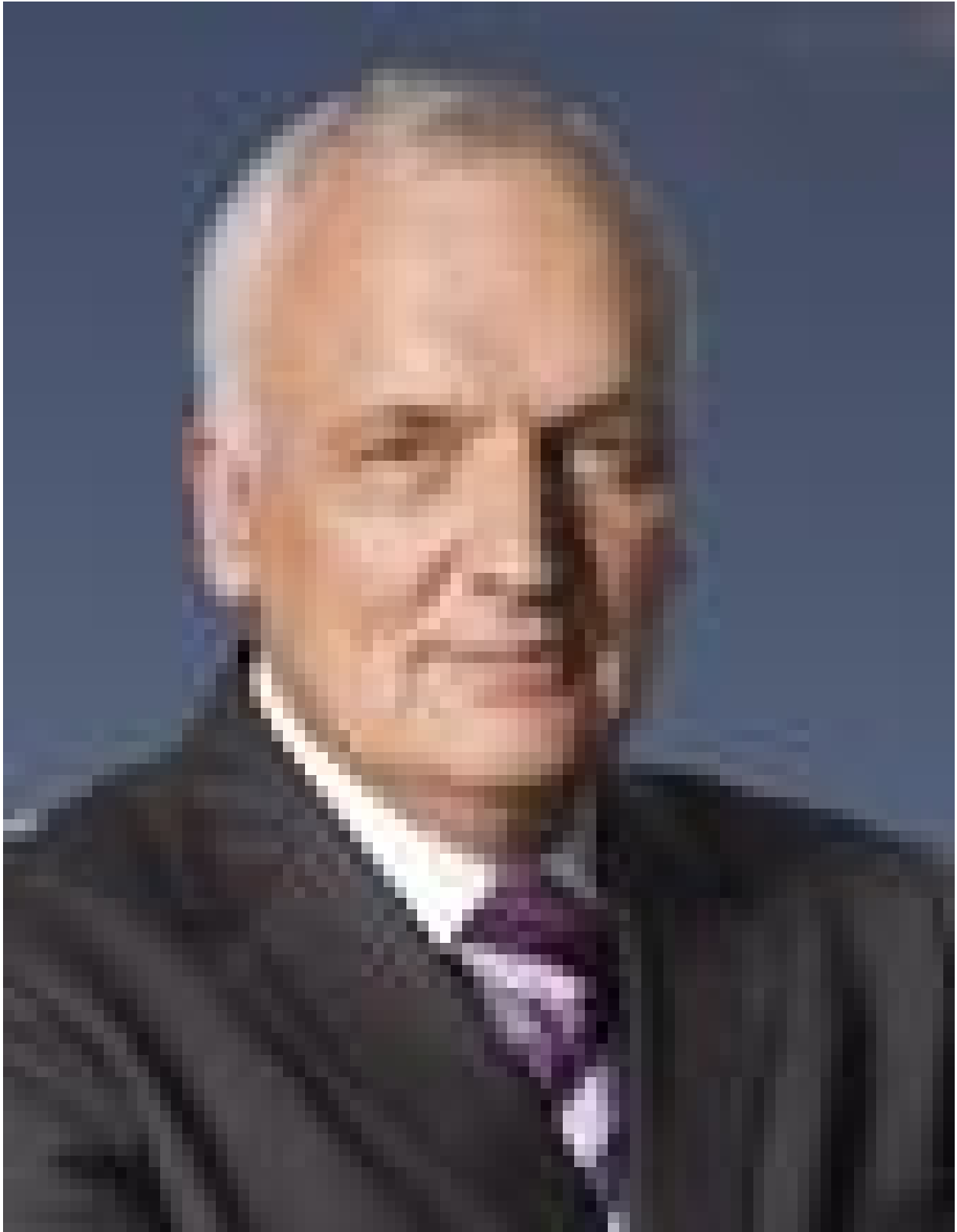
Rangan was speaking at the INSEAD Leadership Summit 2009 held in Fontainebleau in a session on business leadership, moderated by BBC World News presenter **Nik Gowing**.

Performance and a changing world

Traditionally, performance has been defined as sustainable profitable growth (SPG). "If we really do mean 'sustainable', we need to give more substance to that," notes Rangan.
It is time now to give this more substance by taking society into account, according to Rangan. He proposes that businesses consider clarifying the concept to be articulated as to 'societally-legitimate profitable growth.'

Panellist **Nancy McKinstry**, the chairman and CEO of global information and publishing company Wolters Kluwer, points out that many of the qualities which made good leaders ten years ago – "vision, commitment and

adaptability" – are still relevant today.

She says that if these can be instilled in "all of the managers within our organisations," then companies will be able to satisfy both society's needs and those of their shareholders.

For **Jim Hagemann Snabe**, an executive board member at software giant SAP, entrepreneurs and businesses need to find ways to not just make money but also be sustainable in their chosen markets. Acting responsibly is important, he says, because it has an impact on not just how "your customers look at you – it's about how your employees look at you."

He told INSEAD Knowledge that his views on business leadership had changed during a visit to India and realised that businesses need to play a responsible role and try to improve the quality of life in the communities they serve.

"Without being religious about it," as he puts it, Snabe went back to SAP to see how he could leverage the software firm's customer base to benefit others.
SAP carried out a lengthy investigation into its CO_2 emissions and made a commitment to reduce these significantly.

Snabe says SAP now had a "new purpose beyond selling software" and effectively "became a company helping the world become a better place." The effect on employees, he says, was unbelievable. It meant being able to "give customers an interesting offering" while at the same time winning, to some extent, "the hearts of employees".

"It's very simple: do the right thing. It's how you act. If you act, people will act. If your people are empowered and have the right values, they will act." He adds that while the general qualities required for good leadership may not have changed in the last decade, the world is now a very different place. "The world is so transparent today … If you, as a company, have goals which are too short-sighted, that will be extremely visible in a world where everyone is totally connected and this information is spread in a nanosecond around the world."

Snabe's Damascene trip to India had been organised by INSEAD and Leaders' Quest, a social enterprise. The founder and managing partner of Leaders' Quest, **Lindsay Levin**, who also took part in the Summit, says it is important for businesses to understand what she calls the "new realities of life."

Levin believes we need more people in positions of leadership who are "deeply connected" to humanity and to life all around them – and take a keen interest in issues such as climate change.

"I think the idea of seeing corporate social responsibility as an 'extra' is a big error," she told INSEAD Knowledge, adding that companies should be looking to see how they could contribute to "human betterment."

"We need people in positions of leadership who are deeply rooted in what we feel as human beings," she says. Leaders need to be visionary, have courage and be willing to experience failure, she adds.

Rules and regulation

SAP's Snabe believes productivity is being stifled by too many rules. And the only escape is for business leadership to behave in a different way. It's very simple, he says: businesses get regulated because they misbehave.

"Either they behave and you are very free on your rules, or they don't behave and you (bring in) really strong rules. At the end of the day we are killing productivity."

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Claude Brunet, chief operating officer at AXA and an INSEAD alumnus (MBA'87), pointed out: "You can have all the rules in the world but there is no substitute for management responsibility."

"You need to have people with strong personal values, who live them, even in a difficult environment," he told INSEAD Knowledge. "Regulation will never replace individual responsibility."
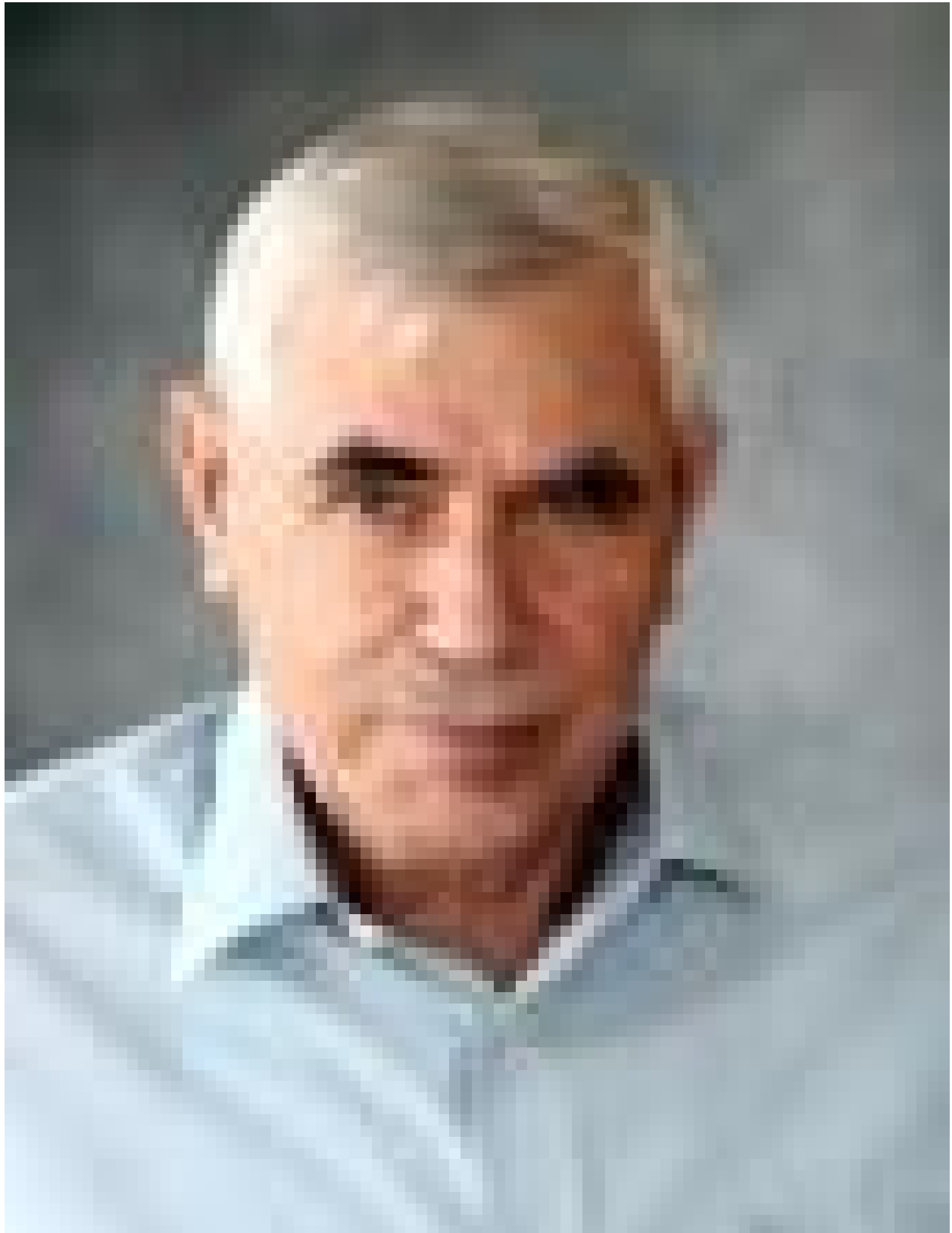
Yossi Rosen, the chairman of Israeli-company Oil Refineries, went one step further. He believes that control should take the form of ethical behaviour rather than regulation, adding that regulation has failed in the past.

"I believe that overregulation is going to kill the business. You can't run a business under daily regulation," he says.

Rosen points out that it's too easy for leaders to be pre-occupied with the current 'blame culture'. Instead, he cautions that responsible leaders should look to find the 'right way' between the long term and the short term.

He says it's essential for any CEO to insist on finding some time every day just to reflect quietly on whether they really are making the best possible decisions.

Rosen, who served as president and CEO of the Israel Corporation until June 2007 and as a director in its subsidiaries, points out that while CEOs have the support of their boards, they ultimately operate alone.

Levin of Leaders' Quest concurs: "If it's just about rules, we do not need leaders. The point about leadership is that you can't just follow a set of rules."

INSEAD's Rangan introduced a note of caution. In general, he observed, human beings are not good at detecting weak signals.

"People do not act on weak signals," he told INSEAD Knowledge. "They act on strong signals.

But this is where, he maintains, corporate culture can play an important role."If we don't have systems – it's not enough to have the mindset and willingness – we need some systems too and that's also where leadership comes in, and that's where the culture of the organisation comes in."

Rangan points out that business leaders are not only rational agents, processing information, but that they are "people who have values and who cannot always wait to obtain more information."

They will make decisions despite "ambiguity" and that, he says, "requires judgement."

Timeframe challenges: long term vs short term

Rangan says the dilemma facing organisations is that the consequences of many decisions made by executives, who may only be in a position of power for a few years, will likely become evident well after those making the decisions have left the company.

The two are clearly not synchronised and while plans can be scrutinised and evaluated once a quarter or once a year, their consequences may have an impact decades later.

He told INSEAD Knowledge that he sees a potential contradiction between innovating for the long term and being "judicious and cautious" about the company's performance and cashflow in the short term.

"There will be some reflection," he says, "and at this point, people are threatened by the cost of sanctions. So if they err, it will be on the side of being conservative."

AXA executive Brunet says businesses have to be 'flexible and nimble' in the short term. "But unless you know where you are going, it's very difficult to manoeuvre in the current environment."

As for McKinstry of Wolters Kluwer, she feels that, given the current volatility, it is "essential to have a few things that you are working on that are very long term and that you are really committed to, based on your gut feel of what is right and based on the strategy of the company, because there are going to be so many pressures to get you to move (away from) those longer-term commitments."

In an interview with INSEAD Knowledge on the sidelines of the Summit, McKinstry elaborated further: "We need a vision because we have to be willing to say these (specific) investments are going to be critical to the company 50 years from now" when the current management is no longer around.

That said, she says, there needs to be some balance between a company's short-term commitments, which may at present mean survival, and its investment plans for the future.

In short, companies need to plan for the longer-term but at the same time be more flexible and nimble. This will require additional scenario planning, she says, with companies acknowledging that it's difficult to predict future outcomes. Firms will also have to increase their level of communication, she says.

Leaders as boundary spanners

In closing, Professor Rangan observes that, in a time of responsibility, business leaders must recognise and act on their role as boundary spanners.

The three boundaries he alludes to are business society boundary, the short-versus long-term temporal boundary, and the proximate versus global spatial boundary.

Leadership in a time of responsibility, he concludes, is about acting in courageous and creative ways to reconcile demands related to these three boundaries.

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