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Dysfunctional Leadership – Management in the CSR-case

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Abstract: Regarding CSR, most business is likely to focus on win-win solutions, neglecting interactions in complex system. Trade-offs are often not identified or considered. This may lead to unexpected side effects of actions in the future. The aim of this article is to identify the most important contradictions / trade-offs in CSR management as well as management practices to deal with these trade-offs.

Keywords: CSR, trade-offs, dysfunctional management
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1. Introduction

Although Corporate Social Responsibility (CSR) is an important element in many business operations, the focus on easy measurable outcomes such as profits lead management to focus on the low-hanging fruits, looking only for win-win opportunities. Win-win opportunities fit into linear thinking, neglecting different interactions in complex systems. A challenge is to identify contradictions and trade-offs in the different goals of CSR, and analyze them from a process and system perspective. Although this leads to an increase in complexity, i.e., an increase

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in managerial transaction costs, this should not be used as an argument against CSR management or management for sustainability. When only focusing on easy solutions which may be profitable in the short run, satisfying stakeholder demand, the business may face "unexpected side effects" of their actions in the medium and long run, which could be expected when applying process-based management and a system approach (see Sterman, 2000). In order to support process-based management for CSR, a diagnosis should be made whether leadership fails to define procedures to balance trade-offs while keeping the organization alive. If this is the case, the management can be described as dysfunctional. The aim of this article is to identify the most important contradictions / trade-offs in CSR management as well as management practices to deal with these trade-offs. This will be the basis for future empirical research carried out by the authors.

2. Contradictions / trade-offs in CSR

The increasing opaqueness in business due to increased co-operation, inter-connections, sourcing and outsourcing strategies and co-operation within clusters enlarges problems with information and conflicting interests / priorities. In order to deal with conflicting rationalities and decision premises, routines and procedures are needed that allow for "managing" contradictions in order to make a real contribution to sustainability. The following contradictions and opportunities for the management of conflicts / trade-offs can be identified (Kugler / Olbert-Bock, 2011: 22):

1. Short-term vs. long term. Cashflow in the very short term and profit on a yearly basis are relevant for the short-term survival of a company. Long-term, more indirect and uncertain costs and benefits, which are a feature of many sustainability issues, are hardly considered (Platje 2011). This is related to the difficulty people have with complex and non-linear issues. Furthermore, certain benefits provide utility, while uncertain future benefits in the future may need a sacrifice at the moment. As Kahneman and Tversky (see Kahneman 2011) show, a loss of, say, 100 euro hurts probably twice as much as a gain of 100 euro brings pleasure. As the effect on utility or happiness rather depends on the change in income or profit, the level of income or profit is less relevant. As a consequence, it is a question whether a company with higher profits is really more likely

to sacrifice something in the short run for long term sustainability goals than companies with a small profit.

2. Efficiency as a key business management calculus and win-win rhetoric. The primacy of economic and behavioural efficiency leads to a focus of win-win solutions, where cost reduction should go in pair with sustainability measures. This leads to a pressure to externalize problematic issues, for example, passing on costs of eliminating negative social or environmental impacts on third parties (suppliers, society, ecosystems). This requires a redefinition of efficiency, as it is defined by the measure of efficiency itself. As Donna Meadows (1998) argues, we measure what is important, and measurement makes an issue important. Identification of priorities of management and strong stakeholders influencing the management is relevant here, as a change in these priorities also may lead to a change in the measure of efficiency from short-term economic goals to long-term CSR issues. A question is whether priorities established by the management support CSR and sustainability, or do they legitimize and strengthen conventional business practices.
3. Rebound effects. A reduction in, e.g., energy intensity per product can lead to an increase in total energy use due to increased production. An issue is whether management and the most important stakeholders recognize in this context the need for process-based management and a system approach. Furthermore, efficiency improvements may lead to unobserved development of weaknesses, or fragilities (Taleb 2012) in the company. A problem is that all future effects of an activity cannot be predicted. If we would have all information, we already would have carried out such an activity at an earlier stage. A simple example is when an increase in energy efficiency in one or the other way leads to dissatisfaction of employees. This may in one or the other way reduce their commitment, and have unforeseen impact.
4. Innovative capacity and change management vs. stability and efficiency in the context of increasing global competition.
5. Responsibility in an increasingly complex value-creation chain. This is related to the importance of informational problems and behavioral aspects in the context of understanding of the fact that linear solutions are less applicable, and system approaches towards CSR may create opportunities for going beyond simple win-win solutions. A

question is how to reduce the increasing informational problems and contradicting management priorities in the value-creating chain.

Theories from behavioral economics (e.g., Kahneman 2011) and new institutional economics (e.g., Furubotn and Richter 1997) can be used for analyzing these issues. The increasing problems with uncertainty and information accompanied by increasing opaqueness of property rights structures bring up the question to what extent existing norms, standards and working rules can be applied and incentives for opportunistic behavior strengthen. Relevant in this context is the identification of the amount of information stakeholders possess on long-term, indirect and uncertain elements of CSR, as well as the distribution of this information strengthening or reducing problems of asymmetric information. In the process of change in management procedures, the increasing complexity of value chains in combination with the complexity of CSR may lead to substituting the real CSR issue with simpler visions and the development of heuristic devices which go beyond win-win situations, but do not necessarily support sustainability.

3. Concluding remarks – options for dealing with trade-offs

In the context of the theoretical context presented above, the following options for "dealing" with contradictions / trade-offs can be identified:

a. Ignore conflicts, and evade constructive conflicts, leading to management dysfunctionality. The increasing complexity in value chains may aggravate destructive conflicts, disorientation, persistent conflict and organizational rigidity, which is not able to solve complex and contradictory problems.
b. Deny conflicts by blurred verbal formulation (e.g., mission statements or policies) - which creates room for interpretation, but the contradictions remain and manifest themselves at the operational level manifest. This is related with the perceived definition of CSR by the management.

The challenge of management for CSR is either to reduce stress and dissonance, and establish process-based management procedures for CSR. Otherwise, the management should admit that contradictions cannot be overcome, and recognize the inherent tension by inconsistencies / disharmonies, which paradoxically may increase the complexity of internal decisions. The following possibilities of managing trade-offs need to be elaborated (Müller-Christ, 2007: 149, Müller-Christ et al., 2005, Neuberger, 2000): sequencing, segmenting / hybridizing and balancing. For future empirical research, which will be based on interviews with the CEO of a medium sized manufacturing companies, focus will be on the question, how the CEO, who is aware of the necessity and the potential of CSR to improve management, and deals with the following goal conflicts:

- Short term vs. long term goals, especially under pressure of increasing complexity and temporality.
- Linear or "spatial" (Hernes 2014) vs. process-oriented management models.
- Sustainability-oriented measures vs. paradigm of economic growth.
- Shallow win-win solutions vs. a deeper understanding of the complexity of value-creation chains.

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Streszczenie:

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