Responsible Leadership and Innovation

R. Edward Freeman
University Professor
The Darden School
University of Virginia
freemane@darden.virginia.edu
We Need a Revolution in Business

- Unprecedented change.
- Old models, frameworks, and theories don’t work very well.
- Continuous cycle of crisis, over response, crisis.
  - Lockheed, FCPA, Oil for Food
  - Enron, Sarbox
  - Mortgage meltdown
  - Nothing new here.
Responsible Leadership and Responsible Business

- The Current Story of Business is Broken.
  - Public Trust in Business is at an all time low.
  - Public Trust and Brand Trust
- Business as a Deeply Human Institution.
- Business as Responsible to Stakeholders, at least customers, suppliers, employees, communities and financiers.
The Crisis is our Story about Business: The Standard Story

1. Business is primarily about making money and profits.
2. The only constituency that really matters are shareholders.
3. We live in a world of limitless physical resources, so we don’t need to pay attention to our impact on the environment.
4. Capitalism works because people are completely self-interested, and will only act for others if they have the proper incentives.
5. Given the opportunity, business people will cheat or cut corners.
6. Business works because people are competitive and greedy, and as if by an invisible hand: the greatest good emerges.

Read the papers, listen to the news, talk to your children’s teachers and friends. You’ll hear this story.
Towards a New Story About Business

1. Business is primarily about purpose...money and profits follow.
2. Any business creates (or sometimes destroys) value for shareholders, as well as customers, employees, suppliers, and communities. Building and leading a business involve getting these interests going in the same direction.
3. We need to take into account the total performance of a business, including its impact on the society and environment in which it operates.
4. Capitalism works because we are complex creatures with many needs and wants, and we can cooperate to create value for each other. Sometimes we act for selfish reasons and sometimes for “other-regarding” interests. Incentives are important, but so are values.
5. Most people tell the truth and keep their promises, and act responsibly most of the time. And, we need to expect that behavior.
6. Business and capitalism are the greatest system of social cooperation and value creation, ever invented. Competition is important in a free society, since it ensures options. But, the engine of capitalism is value creation.

Let’s tell this story and expect it of businesspeople, and make it come true.
Elements of the New Story

- Lots of the elements of the old story plus…
- Corporate Responsibility
- Sustainability
- Ethics and Ethical Leadership
- “Social Entrepreneurship”
- Increased role for Civil Society
The Four Forces of Responsible Capitalism

- *Value Creation for Stakeholders
- *Corporate Stakeholder Responsibility and Responsible Stakeholders
- *Sustainable Value Creation
- *Ethical Value Creation
The Fuel of Responsible Capitalism: Innovation and Entrepreneurship

- Green Business is just the beginning.
- The Value Creation mindset requires thinking about innovation, design, and creativity.
- Each of the four forces of Responsible Capitalism requires innovation, design thinking and creativity.
- We have to be able to tap into the substantial parts of our minds that we have ignored for too long.
Business is a Deeply Human Phenomenon

- What does it mean to be a fully complex human being?
- How do complex human beings create value and trade with each other and what is the meaning of such activity?
Levinson’s Thought Experiment

What Animal Is Between the Carrot and the Stick?
A New Thought Experiment

- Imagine a picture of a well-managed, well-led business. What is in the center of the page?
Stanley Milgram’s Obedience Experiments

Experimenter

Teacher (Subject)

Learner (Actor)

**Shock Machine**

Slight Shock ... xxx
15v 30v... 450v
What % of people go all the way?
What percentage of people, in your organization, would go all the way?
Stanley Milgram’s Obedience Experiments

Experimenter  Teacher (Subject)  Learner (Actor)

65  50  90+  <5

Shock Machine

Slight Shock ...  xxx
15v  30v...  450v
10 Principles of Responsible Leadership

Responsible Leaders…

1. Articulate and embody the purpose and values of the organization.
2. Focus on organizational success rather than on personal ego.
3. Find the best people and develop them.
4. Create a conversation about ethics, values, and the creation of value for stakeholders that is alive.
Responsible Leaders...

5. Create mechanisms of dissent.
6. Take a charitable understanding of others’ values.
7. Make tough calls while being imaginative.
8. Know the limits of the values and ethical principles they live.
Responsible Leaders...

9. Always try to learn what makes people tick.

10. Connect the basic value proposition to stakeholder support and societal legitimacy.
Becoming a Responsible Leader

1. What are my most important values and principles?
2. Does my calendar, how I spend my time and attention, reflect these values?
3. What would my subordinates and peers say my values are?
4. What mechanisms and processes have I designed to be sure that the people who work for me can push back against my authority?
5. What could this organization do or ask me to do that would cause me to resign for ethical reasons?
6. What do I want to accomplish with my leadership?
7. What do I want people to say about my leadership when I am gone?
8. Can I go home at the end of the day and tell my children (or a loved one) about my leadership, and use my day’s work to teach them to be responsible leaders?
Developing Responsible Leaders

- The Experience of Purpose
- The Experience of Difference
- The Role of the Creative Arts
- Leading Values Conversations
- Promoting Challenge
So What?

- Executive Education Through the Creative Arts
  - Fiction and Creative Writing
  - Making Music
  - Theater