

# SUSTAINABLE CORPORATE GOVERNANCE – SILENCE IS GOLDEN

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**Abstract:** Due to current economic and political changes the demands on managers are increasing rapidly. Thus leadership is more important than ever. Therefore this paper will focus on value based leadership which can function as an appropriate leadership concept in order to face current challenges and to meet the requirements of several stakeholders. In this context newest research insights will be considered which show that a change in leadership is necessary due to the fact that there is a great discrepancy between theory and practice in terms of desirable and actual organizational values. On the basis of these insights a concept of silent leadership will be provided. It will be shown that especially today a new kind of leadership is necessary which can enhance the engagement of employees and consequently the value of companies in general. However this requires an incremental change in leadership towards a silent and sensemaking manner.

**Keywords:** silent leadership, value-based leadership, sensemaking, sustainability, sustainable corporate governance

## 1. INTRODUCTION

The current political and economic situation shows dramatically that the only constant is change. Reasons for the actual change are fugitive flows, elections against the success model Europe or terror attacks [1]. Of course these changes provoke also change in the economy and therefore the demands on managers in politics and business are increasing. In this context values are getting more important [1]. Consequently value-oriented corporate governance as well as value-based leadership are crucial issues for managers who are faced with the challenge to fulfill both, requirements of their stakeholders like shareholders, suppliers, employees or customers as well as of changing circumstances.

## 2. VALUE-BASED LEADERSHIP

Culture and values become the major source of continuity and coherence, of renewal and sustainability especially in the face of turbulence, uncertainty and change [2]. Hereby value based leadership holds a number of promises companies and their leaders dream of such as lesser need for control and supervision, motivated and self-managing employees, team bonding, socially responsible and environmental friendly work practices, reputation of reliability, honesty and fairness or a better performance of employees [3]. Consequently value-driven organizations are more successful because they generate higher earnings caused in higher levels of employee engagement, higher retention rates and lower rates of absenteeism [4]. The reason is that if employees feel cared for, they willingly bring their creativity and choose to devote to their work above the normal amount that is required for them to fulfill their duties on work. So what is value-oriented or value based leadership? In the following elements of value-based leadership will be concretized.

Core values are timeless guiding principles which are important due to the fact that they underlie and reflect an organization's mission [3]. For that reason they can guide behavior of employees directly and indirectly and they manifest the identity of a community, whether it is a team or a company. Accordingly values describe in one word what is important to individuals and companies [4]. Moreover they are universal caused in the reason that they transcend contexts like departmental barriers. Behaviors, which are the outward manifestation of values, are context dependent. This is important to know in order to create appropriate corporate circumstances which can support desired values.

Values can be positive or limiting [5]. Positive values support people to connect with others and to contribute positive effects to society. In contrast limiting values such as bureaucracy and status-seeking may enable aims in the short-term, but in the long-term they are counterproductive due to the fact that they affect people's relationships and undermine any positive contributions. Limiting values such as performance and workload lead to isolation, separation and failure. Consequently without considering social aspects the concentration on only these values leads to overload and burnouts and indeed the number of burnouts in companies increased extremely connected with bad consequences for people and companies as well [6].

Value based leadership is the attention paid to aligning an organization's values, mission and vision including its strategy, performance management, rewards, processes and system [3]. Value based leadership is about cultivating a purposeful consistency in companies by using considerable values. Hereby leaders should take the

role of institution-builders who define common values which can bond different people [2]. Leaders determine the corporate culture. Thus, cultural transformation begins with the personal transformation of the leaders due to the fact that organizations don't transform, but people do. Successful leaders pursue purpose with passion, solid values and self-discipline. They lead with heart focusing on establishing long-term relationships with employees, suppliers as well as customers and they empower employees to create more value for all stakeholders [7].

### 3. LATEST EMPIRICAL INSIGHTS

A current external value study focused on the question which values managers regard as most important in the context of the management of employees and leadership in general [1]. Moreover desirable individual and company values were investigated. The results provide important insights concerning value based leadership as well as for the general management of companies and employees. Indeed the requirements in terms of leadership and underlying values are moving due to an increased sensitivity for value questions in the economy and society. Managers as leaders of companies should consider these insights and the resulting new concept of leadership provided in the following in order to be well prepared for the upcoming challenges in companies enforced by circumstances which increase people's uncertainty dramatically.

In the context of the external empirical study, individual values were first determined [1]. Afterwards managers were asked which values are regarded as relevant to the success of the company. Finally, the discrepancy between claim and reality was raised. In this context the research found out that concerning individual core values responsibility and trust are the most important values [1]. Overall, 32.3% of the executives identified responsibility as the most important value, followed by confidence with 31.3%. In this context the core value responsibility can be concretized as readiness or obligation to advocate for anything and to bear the consequences thereof. Responsibility includes the willingness to place self-interests behind the overall interest. In contrast to that trust as the second important value can be concretized as behavior that gives the opposite security; Trust contains the subjective conviction of the correctness or truth of actions and insights. Moreover it contains the ability to allow others (e.g. stakeholders such as employees, suppliers, partners) scope. Concerning desirable corporate values central findings were that HR-orientation - including focusing on cohesion, value estimation and personal development of employees - is mentioned as the most important value in corporate context even before efficiency or productivity [1]. But value-based leadership that enables acting accordingly to individual values and that supports desirable company values enforces a particular kind of leaders. Appropriate managers identify themselves rather as servants or motivator than as goal setter or self-interested person. And in fact central findings of the study attest that managers identify themselves as 'motivator' and 'servant' [1].

### 4. SUSTAINABILITY AS BASIS CONCEPT

As mentioned before value-based leadership focusing on economic and social aspects should pay attention to individual values and desirable corporate values. With reference to desirable corporate values HR-orientation including the focus on cohesion, value estimation and personal development of employees was mentioned as the most important value in corporate context even before productivity or efficiency [1]. Concerning individual core values responsibility and trust were identified as the most important values. An appropriate concept which could link requirements concerning individual as well as corporate values is the concept of sustainability. Although this concept is well known nevertheless it was never regarded in this context due to the fact that the empirical study just occurred.

The concept of sustainability focuses on responsibility, the desirable individual core value mentioned before. Responsibility in this context includes the obligation to advocate for economic, environmental as well as social aspects. In this context companies would bear the consequences of their business activities not only concerning themselves but also in regard to their suppliers, their products and their employees. Such a kind of responsibility requires trust. Trust in relation to the suppliers, the company leaders and employees who should act accordingly to existing formal and informal values even without direct control but due to existing agreements concerning core values including the subjective conviction of the correctness or truth of actions and insights. Moreover the concept of sustainability connects these individual core values like trust and responsibility with the desirable corporate value HR-orientation. This is caused in the reason that responsibility focuses especially on social aspects which affect first of all the employees of a firm. So HR-orientation is the basis for responsibility concerning social aspects in relation to stuff but also for building trust between employees and executives because no one will trust you if you don't take care about his or her needs. It can be summarized that there exists a strong link between desirable individual and corporate values and the concept of sustainability. In addition sustainability can be regarded as the basis concept for supporting individual core

values like responsibility and trust as well as company values like HR-orientation. Due to the fact that the concept of sustainability is well known it is extremely surprising that even in big companies there exist a large gap between desirable and actual values especially with regard to the centrality of HR-orientation. While 41% of the respondents confirmed that HR-orientation should be the central value in companies, only 21% of the respondents indicated that the corporate culture in their firm is primarily characterized by such an orientation [1]. Thus the external study detected a great discrepancy between desired and actual values which is shown in the following figure.

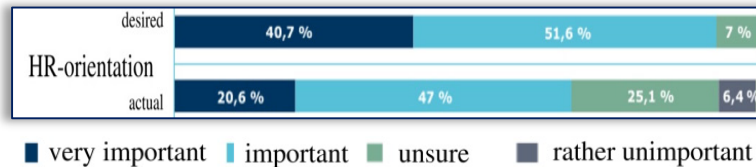


Figure 1 – Gap between actual and desired actual values in companies [1]

The question is how to explain this gap. The concept of sustainability is already well known. Moreover the concept of sustainability seems already to be part of all big firms at least with reference to websites and sustainability reports. But unfortunately the truth is that sustainability and relating values are not really part of daily business as the current study attest. As mentioned before managers take the role of institution-builders who define common values and purposes [2]. Therefore they are able to determine the corporate culture. As a consequence this discrepancy shows the need for a more contemporary kind of leadership including appropriate circumstances in order to support sustainability and respective individual and corporate values not only theoretical on websites but moreover in daily business. Therefore it is extremely important that value-oriented leadership based on the concept of sustainability is not only understood as a good slogan as part of the mission statement on the websites of companies in order to improve the image. Consequently it is time for a new kind of leadership. Value-oriented leadership based on sustainability should not only exist in theory but also in practice. An appropriate leadership concept supports companies to act accordingly to the concept of sustainability and it also takes into consideration individual [trust, responsibility] and desirable corporate values like especially HR-orientation. In the following such a concept of leadership will be presented.

## 5. THE CONCEPT OF SILENT LEADERSHIP

The focus lies often only on the change of an organizations vision, mission and values in order to change the culture itself. And indeed this is important for changing the culture of a company and for anchoring desired respective values. Nevertheless it is not enough in order to change values in daily business towards the desirable individual and corporate values mentioned before. This is caused in the reason that individual values are not considered in such proposals; it is all about corporate values. But if the only focus is on the organization level people need to be realistic. Employees won't accept values only because they are written down somewhere. Therefore they should pay attention to the leaders if they want to embed the desirable values due to the fact that culture is nothing without human beings. Leaders must be institution-builders who imbue the organization with meaning that inspires today and endures tomorrow [2]. They have to find the common purpose and establish universal values that unite highly diverse people while still permitting individual identities to be expressed and enhanced [3]. Important values like responsibility, trust and HR-orientation were already identified. Leaders are the crucial part that connects corporate and individual values. Leaders show if the mentioned values exist only in theory and on the websites like in the most organizations or if values are really part of daily business. That means that values are really valuable in that sense that people and especially employees can trust them and can demand them. Such a requirement concerning leadership includes responsibility in terms of people especially the own employees. Consequently such a leadership implies HR-orientation otherwise it wouldn't function.

The concept of silent leadership contains all these important aspects. Silent leadership in the meaning of the author is based on the stakeholder approach focusing on employees and the increasing requirements concerning value-oriented leadership like HR-orientation, trust and responsibility. Silent leadership uses both, the head and the heart. It is easy to say but hard to implement especially for managers who think they knew everything better than their employees although they are not so closed to operational activities like staff. Silent leadership can be characterized by the following elements:

- » Listening: Listen to people, especially your employees. Pay attention to their needs, ideas and wishes.
- » Be open for new ideas, especially by your employees and appreciate efforts of them openly.
- » Take care of people: Don't surrender or exploit your employees, not because of protecting human resources but because of respecting human beings.

» Responsibility and honesty: Be authentic, be yourself and over all be honest. This means that you trust your employees like you want them to trust you.

Surely, especially listening and paying attention to employee's needs, ideas and wishes might be difficult for some managers due to the fact that they think they should supervise people in order to avert mistakes. But the truth is, people don't like being supervised; better to say they hate it, because it is interpreted as some kind of distrust and to be honest, it is. Moreover the best manager can't supervise all processes and people in a way that could be good for a firm. Thus managers must change their traditional way of thinking. They should be no supervisors. Contemporary leaders are even no coaches in the first place any more. They are just learners who should listen to their employees, e.g. to get new ideas what is also another crucial component of silent leadership. In this context they have to be open for new ideas of their employees of course. Otherwise listen to them wouldn't make sense. Moreover employees will only give honest response and ideas, if they trust their leaders. Beside that leaders will only accept their ideas if they trust their employees, too. But trust will be earned, especially by taking care of employees as humans not only as human resources. That is a significant difference. Thus it's like in every kind of relationship, you get what you give. So take care of your employees and be honest. If you are not, people will recognize that within a second and they will lose the trust in you and the company, because every managers stand for the company in which he or her works. This is the silent part of leadership.

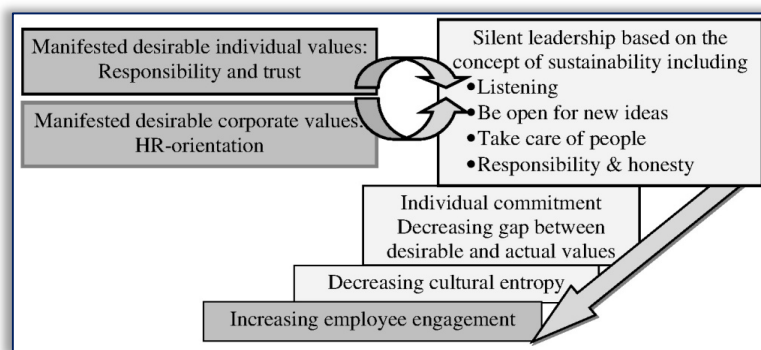


Figure 2 – Effects of silent leadership [own figure]

## 6. APPROPRIATE CIRCUMSTANCES: INTERNAL SENSEMAKING

Appropriate circumstances should support the concept of Silent Leadership. Therefore companies should establish circumstances that allow managers to act accordingly to their individual core values named trust and responsibility and desirable corporate values like HR-orientation. These circumstances can be provided by internal Sensemaking which transfers sustainability-oriented objectives and values into the organizational knowledge base and anchors them there [8]. This includes first of all an appropriate modification of the corporate vision, which creates an orientation framework for anchoring values like responsibility [8]. The corporate vision functions as starting point for institutionalizing sustainability-oriented values and norms [9]. Values construct the basis of organizational actions and the expectations regarding individual behaviours, because they define which behaviours are accepted and which are right from an organizational point of view [10]. Confirmed behaviours manifest underlying values as an action-imperative. As a consequence sustainable behaviour is rewarded and the opposite will increasingly be rejected by employees. That such a process can happen, the support of the leaders as well as the top management is crucial. If they won't act accordingly no employee will pay attention to demanded values of course. Furthermore operational modifications should take place [8]. An appropriate modification of concrete working contexts pays attention to responsibility concerning social aspects especially focusing on employees and HR-orientation as the most desirable company value. In that context appropriate working conditions include fair wages, appropriate working hours or occupational safety. Furthermore sustainability-oriented leadership also requires measures for personnel development and salutogenetic work design. These measures avoid mental exertions because psychological overloading leads to psychosomatic stress, which would contradict not only the desired values but also economic (absenteeism) and social aims of sustainability.

## 7. EFFECTS OF SILENT LEADERSHIP

Value-driven organizations are more successful than others especially due to the performance of their employees [11]. This is caused in the reason that employees feel cared for and they really are. Therefore they are willing to bring their creativity, ideas and discretionary energy to their work place. In this context the concept of silent leadership can support value-driven organizations in order to establish their values not only on paper but in practice. Thus Silent Leadership can close the discrepancy between desirable and actual individual as

well as organizational values. This is important due to the fact that such a gap leads to decreasing cultural entropy which is a reflection of the degree of disorder within an organization. It can also be seen as a measure of tension, resulting frustration, and conflicts in companies. And, last but not least, there is also the energy that fall victim to unproductive labor. Consequently cultural entropy represents the degree of dysfunction in an organization which is correlated with the employee engagement: high entropy leads to low engagement and low entropy results in high engagement [5]. In this context fear-based behaviors of managers can be identified as the main source of cultural entropy in companies because they engage in dysfunctional behaviors such as control, blame or internal competition. As a result cultural entropy increases and employee engagement decreases. In return when leaders act accordingly to the concept of silent leadership including focusing and celebrating desirable individual and corporate values like responsibility and trust they feel responsible for their employees which results in HR-orientation. If so, they focus on satisfying the needs of their employees as an important stakeholder group. Then cultural entropy decreases and employee engagement, profitability and performance increase extremely [5] [figure 3].

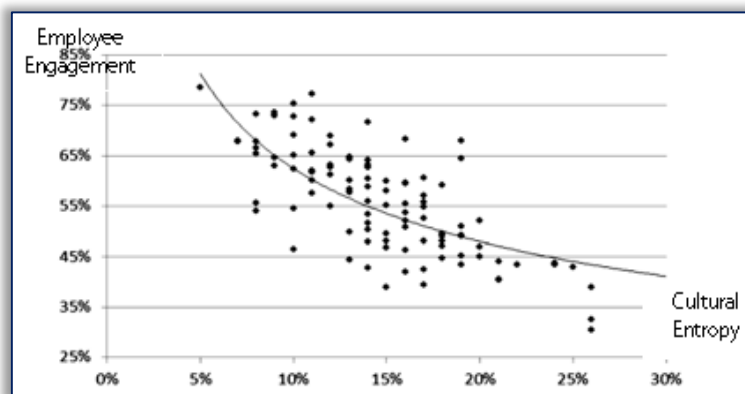


Figure 3 – Relationship between cultural entropy and employee engagement [5]

## 8. CONCLUSION

Culture and values become the major source of continuity especially in the face of turbulence, uncertainty and change [2]. In this context sustainability is a concept which provides the basis for appropriate values. The concept of sustainability is already well-known but unfortunately newest research insights attest that there is still a great discrepancy between desirable and actual individual and organizational values. This discrepancy leads to increasing culture entropy due to the ignorance of social aims of the concept of sustainability especially HR-orientation. Increasing culture entropy results in decreasing engagement of employees and negative effects mentioned before. Therefore a new kind of leadership is needed that really pays attention to important values like trust, responsibility and HR-orientation. Silent leadership fulfills these requirements. It uses both, the head and the heart. Hereby silent leadership includes elements such as listening, openness for new ideas, taking care of employees as well as emphasizing responsibility and honesty. Certainly for many managers it is hard to act accordingly because the concept is in contrast to traditional assumptions which understand leadership as only leading people in the sense saying them what to do. But that kind of view is outdated already. Therefore it is time for a new kind of leadership. In this context Silent Leadership can support value-driven companies facing changing circumstances and increasing stakeholder requirements in order to establish the well-known proclaimed sustainable values not only in theory but also in practice.

### Note

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