Preface

I would like to start this book with a riddle. How is it that a company that, according to conventional wisdom, gets almost everything ‘wrong’ yet is a stellar performer in the allegedly toughest capitalist market in the world, the USA? The company I am referring to is Nordstrom, a nationwide fashion specialty chain of retail stores. Nordstrom breaks all the traditional rules that aspiring managers are taught at the best MBA schools across the USA. Instead of focusing on shareholder value, it invests money in its employees, customers, the environment and the rest of society. Instead of worrying about quarterly returns, it challenges the financial markets by insisting on taking a long-term view. Instead of training its sales staff in standard procedures, it just tells them to do their best. Instead of watching the bottom line, it pays people more than it is obliged to. It focuses on customer service and looking after its employees. In other words, instead of running a tight ship, Nordstrom embraces concepts like fun, family and virtue.

If this sounds like a recipe for disaster to you, then how do you explain the fact that, in over 100 years of operation, the company became one of the most successful and admired in the USA? For example, in 2004, *Fortune Magazine* cited Nordstrom for the sixth consecutive year as one of the 100 Best Companies to Work For in the USA. All this may seem hard to explain. Perhaps this is why an outside CEO appointed to the company in 1997 got it wrong by doing things right. He shifted the primary focus to shareholder value. The result was a decline in the company’s performance. This time the ‘right’ answers produced the wrong results.

Predictably, the analysts were not impressed when the family took charge again. This also went against conventional wisdom. Instead of downsizing and re-engineering, the family went back to the values that had made the company great in the first place. Three years later the company was given a clean bill of health again.

This raises the question of how a company that seemingly gets it so wrong on its approach, gets it so right on results? Is it just a freakish one-off case or are there lessons to be learned? This book is about the kinds of leadership processes that made Nordstrom a success. However, our starting point is Europe, where a group of companies follows the ‘Rhineland model’.

Since 1999, I have researched over 30 European organizations headquartered in Germany and Switzerland, usually meeting senior management and other employees on several occasions. During the visits, employees kept mentioning that these organizations are ‘special’ places. This made me curious. A growing concern for how organizations in the Anglo/US world of Australia, the UK and the USA are faring made me look at these European enterprises more closely.

I found that these European businesses generally operate quite differently from typical public companies in Australia and the USA. In fact, they often operate in exactly opposite ways to the companies I was used to. Although each organization is unique, there was an underlying pattern. These enterprises are ‘special’ because of their leadership practices and philosophies. *Leadership for Sustainable Futures* reveals this pattern, giving the practicing manager concrete examples of how to lead organizations in a more sustainable way.

What does sustainability mean? To many it suggests being environmentally friendly and certainly this is part of sustainability. But the concept goes way beyond being ‘green’. It refers to the very survival of a business, and this includes the survival of the community in which it operates.

In reflecting on the differences between Anglo/US and European patterns of leadership, I was led back to the fundamentally different assumptions of the European model of capitalism compared with those of Anglo/US capitalism. This focus affects how organizations are led. Developments in Anglo/US capitalism since the 1980s have focused managers’ attention essentially on the short-term maximization of shareholder value and the self-interest of each firm.

By contrast, I found a strong emphasis on the interdependence of a business and the society in which it operates in the Rhineland approach. These managers believe that the long-term sustainability of the organization depends on fostering positive relationships inside, as well as with the outside world and environment. In achieving this, leadership involves long-term thinking and employment; valuing people; developing managers from within; loyalty; team-based top management; innovation in products, services and processes; concern for the interests of multiple stakeholders; social responsibility; and environmental friendliness.

In this book I want to share my first-hand lessons from successful European enterprises, using concrete examples to bring the ideas within reach of both practicing managers and researchers. In investigating the organizations I visited in Germany and Switzerland further, I identified 19 elements that distinguish European and Anglo/US leadership.

To my initial surprise, I found that, on the whole, family-run businesses seem to follow European leadership principles. The principles also operate

elsewhere, as examples from Scandinavia and South Africa show. The biggest surprise of all is that some leading US corporations, such as Colgate Palmolive, Continental Airlines, IBM, Marriott and Nordstrom, also closely follow Rhineland leadership principles. The good news in this is that location and the prevailing business culture do not prevent managers from adopting sustainable leadership practices – it is a matter of choosing to do so.

I also consulted the management literature. There I found many calls and ideas for leading sustainable organizations along the principles that I had uncovered in the European companies. Eminent management thinkers are urging business leaders to become more people-focused, innovative, ethical, long-term in their thinking and planning, and to provide for the interests of a broad range of stakeholders, including the environment and future generations.

This book develops and expands on some of these ideas. It challenges current ways of doing business under the Anglo/US approach. This is not new, but people who already recognize the problem are often left searching for answers. What can be done differently? How can a business be led in more sustainable ways? *Leadership for Sustainable Futures* addresses these questions by showing what 28 successful organizations from a variety of industries and based in different countries are doing. Many of them are turning conventional wisdom on its head.

The real challenge in writing a book like this is to have it read by the skeptics. Not much is gained by preaching to the converted. In trying to engage the skeptics, it is tempting to water down the message to make it more palatable. Early drafts of the manuscript were far more equivocal about the relative merits of different leadership approaches than the final book is. However, this is not the result of early attempts at ingratiation giving way to honesty. No, the more research I did, the more convincing the merits of the European approach to leading organizations became.

Having worked with managers on sustainable leadership over several years, there is probably not a ‘yes ... but’ objection that I have not been confronted with. I try to address those concerns throughout this book. Skeptics who are willing to challenge their dearly held prejudices with an open mind are encouraged to read on. At the very least, readers will see an alternative to the prevailing Anglo/US approach and understand how, in practice, it can lead to sustainable organizations.

I realize that many managers are under pressure from various sources, including the financial markets, investors and shareholders, to follow the Anglo/US shareholder value approach to leading an organization. However, this approach is flawed and contains the seeds of its own destruction, as I show later. This is not the leadership for creating sustainable enterprises.

Some managers will say that they are just doing what business schools taught them to do. While this may be true, it is no excuse for keeping on

doing the wrong thing. Even academics are criticizing their colleagues. Thus Professor Dexter Dunphy from the University of Technology, Sydney supports the search for alternatives because ‘business as we practice it and teach it is unsustainable. We cannot continue to conduct business as usual’.¹ Professor Henry Mintzberg from Canada’s McGill University strongly criticizes how managers are educated in typical MBA programs, and the dehumanizing consequences of their actions on organizations and society.² Mintzberg and his colleagues are also very concerned about the sustainability of Anglo/US business leadership.³

Even those managers without an altruistic bone in their body can surely be motivated by considerations of self-interest. Immediate self-interest lies in making what many argue is an imperiled system survive. This might be for no other reason than to maximize their own stock options (especially now that option plans are focusing more on the long-term performance of an enterprise), or because, to maintain their value in the job market, managers need to demonstrate success. Increasingly this will refer to long-term success. This alone should make people interested in leadership for the long term.

Another objection often raised is that European companies do not perform well for shareholders. However, this is dispelled by both research findings and many of the case studies in this book that are about public companies that follow sustainable leadership principles *and* produce a generous return for shareholders. As for maximizing shareholder value, even the wealthiest shareholders are affected by environmental catastrophe. Even the most profitable companies suffer from skyrocketing fuel prices. Even CEOs are susceptible to cancer from air pollution. At the basest level, firms cannot sell as many of their products and services to people devastated by climatic and social disasters, or to poorly paid and unemployed workers.

Many voices are echoing calls for Anglo/US corporations to act more in the interests of the broader society.⁴ Those who dismiss these voices are dismissing not only the Rhineland model’s example, but also evidence of growing numbers of residents in the USA (41 per cent), Canada (50 per cent) and the UK (51 per cent) favoring laws requiring corporate social responsibility – even at the perceived risk of higher prices and fewer jobs.⁵ In the UK and the USA, corporate social responsibility is now strongly on the governments’ agenda, as it has been for some time in South Africa. This increases the pressure on leadership to move in the direction of fairness for all stakeholders, as the Europeans espouse.

Misconceptions abound about the relative success of the European and Anglo/US economies. A detailed analysis by Will Hutton⁶ concludes that the Europeans are in fact, outperforming the USA when all factors are taken into account. Related to this misconception is the idea that European labor laws

prevent companies from adjusting their workforce. The companies I studied certainly prefer to avoid downsizing their highly skilled workforce, but, if it needs to be done, it can be done. It is just a matter of how well the affected employees are supported during the process. This is the right way to treat human beings in any case. Some people object to taking a collaborative approach in working with unions. However, in Europe, once unions accept the need for change, they can assist in getting acceptance from the rest of the workforce.

Then there are objections that environmental initiatives cost money and take away from shareholders. A number of the companies featured in this book show that this is a myth, and that they actually save money and avoid future damage claims by being proactive in protecting the environment. A major objection often raised is that Europeans only engage in sustainable leadership practices because they have to, through legal or other regulations. European managers tell me that not only is protecting the environment the right thing to do, but their employees would get upset if their employer were not environment-friendly and did not care for the community. Similarly, European employers have good business reasons for other practices.

As a final example, many Anglo/US managers assure me that it is impossible for a modern firm to be innovative and employ people for a long time, particularly retaining the CEO for a long time, as European enterprises generally do. Yet innovation is at the core of the European companies I studied. They place great store on getting ideas and contributions from all over the organization. These enterprises do not wait for innovation to be driven from the top down. They develop systems for capturing, evaluating and, where appropriate, rewarding stakeholder suggestions. This generates large amounts of money for the firm and the person behind the idea.

Clearly, no one leadership model is a universal panacea. Globalization and other forces are challenging the European and Anglo/US models. Initially it looked as if adjustment in both directions was going to occur, with the possibility of the Anglo/US model prevailing. This no longer looks likely. Not only have corporate failures tarnished the shareholder value model, but an increasing demand for sustainable leadership is driving business – willingly or unwillingly – towards leadership principles reflected in the European model. Perhaps it is better to be a willing leader than an unwilling follower.

Being asked to accept that alternative business models may perform as well as, if not better than, the one we are familiar with is admittedly challenging. For many, the first hurdle lies in even becoming aware that other management practices and philosophies exist, and accepting that they can be effective and sustainable. Second, people tend to interpret new experiences and ideas through their existing frameworks. I have led many groups of managers on visits to companies practicing the Rhineland model. Initially the

visitors often respond with denial. People are unable or unwilling to 'see' the difference. For example, one manager lamented how much of a handicap it must be to have to take account of the local community in conducting business: he could not envisage that this also brings advantages to the enterprise. Others were amazed to see their belief in the need for continual growth challenged, or the idea embraced that shareholders could be patient and take a long-term view.

Therefore, even if you have heard it all before, even if you feel that your way is the best and needs no modification, I suggest you take a close look at the case studies, and the principles I have extracted from them. The results will surprise you.

Readers who keep an open mind will be rewarded with practical examples showing how managers lead their organizations towards greater sustainability. This might inspire some to move closer to sustainable leadership practices by adapting some of these examples to their own circumstances. Please come with me on this journey. Your shareholders could thank you for it.

Gayle C. Avery