CREATING ORGANIZATIONAL SUSTAINABILITY THROUGH AN ALIGNMENT OF STAKEHOLDER VALUES

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Summary

All organizations face the challenge of developing a sustainable strategy that will ensure the growth and survivability of the firm. To meet this challenge, several factors need to be examined. This paper attempts to address the question of organizational sustainability from the perspective of the stakeholder. An alignment of values between the organization and stakeholder is necessary to creating a strategy of sustainability. To highlight this concept, a review of the extant literature was performed and key ideas on leadership-stakeholder value alignment were identified. This discussion formed the basis for future research questions on the topic.

Key Words: Organizational Sustainability, Stakeholders, Values, Leadership

Introduction

Human society has been built around organizations. As the fundamental element of construction, organizations are as diverse as the cultures of the human experience. Within the economic sector, three primary models co-exist. Business, governmental, and non-profit comprise the three organizational types which constitute the private, public, and non-profit sectors.

The three primary models have historically existed in a mutually exclusive environment. Within the last ten years, the boundaries between the private, public, and non-profit sectors have been blurring. Businesses that were focused on profit creation are now shifting resources to the creation of social benefits while non-profit organizations have become more business-like by adopting commercial enterprise strategy and market orientation (Foster & Bradach, 2005).

All businesses face the challenge of developing organizational sustainability. Regardless of the sector in which they are grounded, all enterprises must address both internal and external factors if they are to attain any level of organizational success. Within each sector, the factors are unique, but overlap can exist.

The key to all corporations in the for-profit sector is value maximization (Wallace, 2003). The fundamental basis for this concept is maximizing value for shareholders. A shareholder mentality is moderated and in many instances replaced by the needs of a much broader group; stakeholders

Stakeholders are key constituents for all types of enterprises. Their involvement with organizations has been explored in the concept of stakeholder theory (Freeman, 1984). While stakeholder theory has been important to understanding how they interact with organizations, there exists minimal research to understand their overall impact on organizational performance (Ridley-Duff & Bull, 2011). Stakeholders represent one factor that may be related to organizational success. Additional internal factors also contribute to the sustainability question.

Leaders and leadership styles are important internal factors which exist in any organization. Their impact on organizational sustainability is a key theme in current research (Feyerherm & Breyley-Parker, 2011). Research by Hubbard (2005), and Jackson and Parry (2008) have made the distinction between leaders as people and leadership as a process. This is an important distinction for it will frame a central theme of this paper.

In examining the extant literature, a number of gaps emerge related to the impact of leadership styles and stakeholder involvement in the creation of organizational sustainability in organizations. One element in this gap analysis is the issue of values alignment between leaders and stakeholders and how a convergence in this behavior and belief system can lead to and enhance organizational sustainability.

This paper will examine the question of how the alignment of values between leaders and stakeholders can lead to promoting organizational sustainability. It will begin by developing the concept of organizational sustainability focusing on the impact of both stakeholders and leaders. Theoretical foundations of stakeholder theory will be reviewed to frame the importance of this group in the overall question. The impact of leaders will be studied from the point of view of the leader-stakeholder perspective. Within this discussion, the idea of a values-aligned organization will be examined. The concept of values will be developed through an examination of the extant research and an identification of the potential gaps which can create the foundation for future research efforts.

Literature Review

Organizational Sustainability

All organizations, whether private, public, or non-profit must develop a strategy for ensuring sustainability. Organizational sustainability is a major challenge for all enterprises. For organizational sustainability to be created, they must clearly define how to create it.

The creation of organizational sustainability is a challenge regardless of the business model. In the for-profit sector, sustainability is built around competitive advantage, profit generation, and shareholder wealth creation (Pride & Ferrell, 2006). Sustainability is the primary objective for any organization (Moizer & Tracey, 2010). In the non-profit sector, shareholders are replaced by stakeholders.

Stakeholders are composed of groups who use the services or products of an organization, supporters who provide funding or donations, and in some markets competing organizations (Shoham, Ruvio, Vigoda-Gadot, & Schwabsky, 2006). The multiple stakeholders influence both the services delivered and the overall strategic direction of the organization (Weerawardnea, McDonald, & Mort, 2010). From an organizational perspective, one may consider stakeholders as external and internal factors that influence the success of the organization.

From the previous description, one could conclude that the concept of stakeholders could be extended to all types of organizations. Stakeholders are key to organizational sustainability for they impact the overall survival of an enterprise (Ridley-Duff & Bull, 2011). Grey (2005) articulated that organizations need to develop strategies around sustainability that focus on systems that can manage competing stakeholder expectations. While one may assume that stakeholders are the key to overall organizational sustainability, other factors exist which must be addressed.

All organizations are multidimensional and are composed of social, cultural, physical, economic, and political components. Each of these dimensions is continually changing and therefore impact the composition of the organization (Clifton & Amran, 2011). Within this changing environment, organizational sustainability is a process of evolution which is based on new learning and finding the intersection of different needs (Mitleton-Kelly, 2011).

Coule (2008) has developed a model for sustainability based on the intersection of external stakeholder expectations with those of internal stakeholder expectations. Figure 1 highlights the basic relations postulated by Coule and how they meet to form a state of equilibrium.

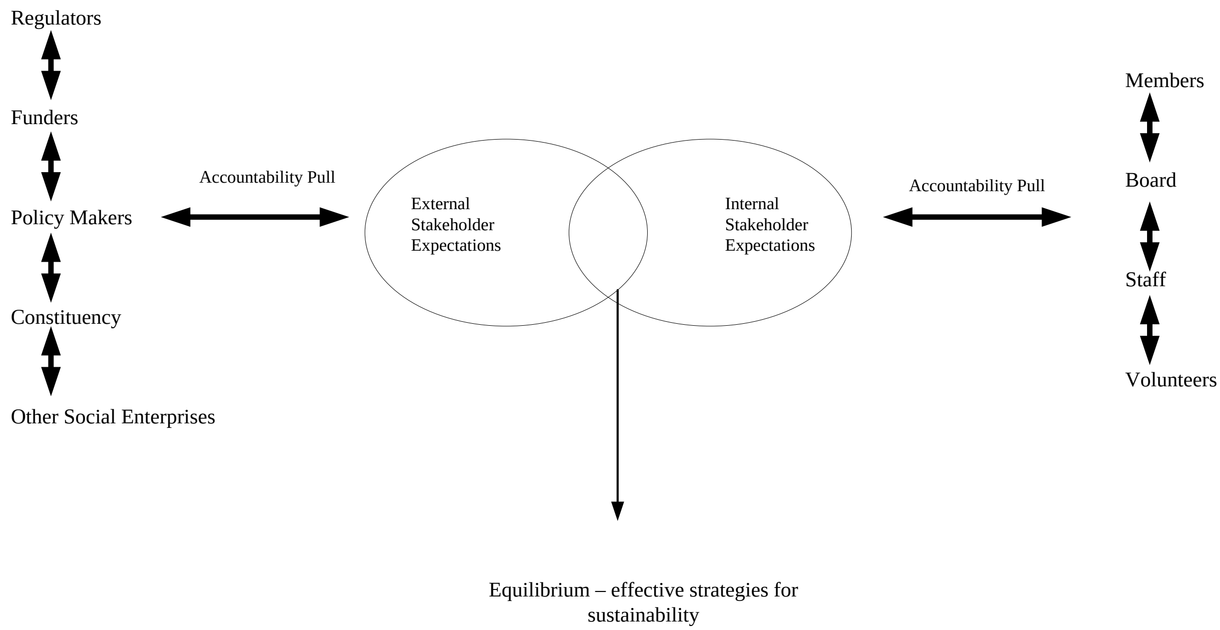

Figure 1. Developing effective strategies for sustainability. Adapted from "Understanding Social Enterprises: Theory & Practice," by R. Ridley-Duff and M. Bull, 2011, p.190, Copyright 2011 by Sage Publications.

While the Coule model was developed for the social enterprise sector, the same basic concepts could be applied to any business type whether they are private, public, or non-profit. Based on this definition, Coule's model has a number of elements which need to be examined.

In the Coule model, stakeholder expectations are divided into two groups: external and internal. External stakeholders, while they will vary based on the industry and business model, are considered a very important part of the overall discussion. Equally important is the group of internal stakeholders. Depending on the type of business model, one may argue that the internal stakeholder group would be more important than the external, while in another model, the power distribution would be reversed. For the purposes of developing a global idea of organizational sustainability, Coule (2008) concludes one should treat both groups in an equal manner.

The intersection of external and internal stakeholder expectations is an area of interest. One may argue the region could be a space of agreement or conflict, but Coule (2008) identifies it as an area of equilibrium. Within this space are the strategies and actions which lead to sustainability. From this diagram emerges a question on the importance of leadership and its impact on the concept of equilibrium. "To successfully make sustainability an organizational reality, leadership must put forth bold visions while engaging their organization in different, deeper conversations about the purpose and responsibility of business" (Amodeo & Cox, 2010, p. 412). This perspective lends an insight into the actions occurring at the intersection of internal and external stakeholder expectations. This is the space where leaders and stakeholders meet to create the frameworks for an organization's overall sustainability strategy.

To understand the creation of sustainability through the interaction of leadership and stakeholder responses, both areas will need to be explored more fully. An understanding of the theoretical motivations will establish a foundation for identifying interactions for future study.

Stakeholder Perspective

Theoretical Concepts

The seminal work on stakeholder theory is grounded in a concept proposed by Freeman in 1984. The original idea of stakeholder theory as postulated by Freeman articulated that a business is responsible for the well-being of its stakeholders. To achieve this objective, leaders of the organization should manage in a manner which addresses the interest of this key group (Freeman, 1984).

While this concept created the basis for stakeholder value, the work by Tanpong, Li, and Johns (2010) identified that managing stakeholder relationships can create a competitive advantage for firms. A competitive advantage, based on stakeholder involvement, is a valuable resource for a firm due to the difficulty for competitors to duplicate (Galbreath, 2006; Hillman & Keim, 2001). The exact benefit derived from stakeholder involvement was identified by Margolis and Walsh (2007) who established a link between corporate social performance (CSP) and financial performance of the firm. Orlitzky, Schmidt and Rynes (2003) supported the findings, but found a smaller degree of positive significance between CSP and year-over-year financial performance.

The concept of stakeholder theory leads to an examination of how stakeholders actually create value for a firm. The next question is what attracts stakeholders to engage with a firm to create value? Tanpong et al. (2010) identified the concept of the norm of reciprocity as a key theoretical foundation for examining what leads to stakeholder engagement within an organization.

The norm of reciprocity is composed of two parts. The first is that people should help those that have helped them while the second is people should not injure those who have helped them (Gouldner, 1960). Reciprocity is a pattern of relationships based on exchanges. In part it implies a practical and moral component which leads to establishing commitments based on trust and mutual interest.

The work by Lawrence (2002) used the idea of reciprocity as a starting point for examining stakeholder engagement. The four key drivers he identified were cultural affinity, recognition of mutual legitimacy dedicated to building trust, a common goal set, and a capacity to act. The driver associated with legitimacy is the one concept which has been found to be important to establishing stakeholder engagement (Lawrence, 2002). Mozier and Tracey (2010) highlighted the need for organizations to build and maintain legitimacy with stakeholders if they are to create sustainability. In subsequent work, legitimacy has been found to be one of the elements necessary to meet the needs of stakeholders (Dart, 2004).

To gain a thorough understanding of stakeholder engagement and legitimacy, one must dissect the idea to see if different types of legitimacy exist and how they influence stakeholder behavior. Suchman (1995) identified three types of legitimacy which work to enhance the impact and involvement of stakeholders. Pragmatic legitimacy is based on the premise "if we get anything out of this, then we consider it legitimate" (Suchman, 1995, p. 576). Moral legitimacy frames the question from the perspective of whether an activity of an organization is proper with respect to external norms. The third idea, cognitive legitimacy, is based on stakeholder beliefs that the organization will always fulfill their expectations.

Suchman's legitimacy levels identify a number of key concepts. If organizations do not produce outcomes of perceived value for stakeholders, their pragmatic legitimacy is questioned. The idea of a cognitive legitimacy causes stakeholders to view the firm as an entity of last resort or one that will always address their needs. The moral claim of legitimacy is perhaps the strongest and most compelling. It explains the emergence of a social benefit in firms, while at the same time creating a sense for its future (Suchman, 1995).

While most of the work on moral legitimacy has occurred within the last 20 years, one can examine the writings of Plato to find similar comparisons. Plato's *Republic* addresses the need for moral legitimacy if the city is to engage all who are bound to creating a successful future. Plato further expands the idea to encompass the idea of values and how the city's leaders need to be the keepers of this key element (Plato, 1906/1935).

Plato's idea of leadership and moral focus is highlighted in the work of Maak and Pless (2006). They highlight the need for a firm to act responsibly to all stakeholders if they are to achieve long term success. The basis of their argument is the involvement of leaders in creating a concept of responsible leadership. Groves and LaRocca (2011) expanded the idea to include a discussion on values and ethics. Their focus is on the creation of a values-based relationship between stakeholder and leadership which ties together the needs of both groups.

All firms need to develop organizational sustainability. Stakeholder involvement is critical to the development of a sustainable model. Stakeholder engagement is predicated on the idea of legitimacy. Legitimacy can have a number of traits, but moral legitimacy is the strongest driver. To achieve a degree of moral legitimacy, firms must consider creating values-based relationships. To understand how leaders and leadership traits can positively impact the creation of value-based relationships we must examine what are values and what are their various elements. To continue the discussion, one needs to focus on the impact of leaders and specifically the styles which can lead to developing a values alignment with stakeholders.

Leadership Perspective

What is leadership and what defines a leader? Bass (2008) states that leadership is one of the most widely studied constructs in the field of management. The writings of Plato identify a leader as a weaver whose main task was to weave together different kinds of people into the fabric of society (Plato, 1906/1935). The fabric of society forms social relationships that require management or as Balkundi and Kilduff (2005) argue, leadership.

According to Smircich and Morgan (1982), leadership has two main components. It is values-based and it is related to the societal norms of the organization of which it is a part. The interdependent relationship of an organization to a leader and to a style of leadership is very important. A leader's judgment affects the culture of an organization while the cultural components of the organization influence a leader's decisions (Hitt, Ireland, Simon, & Trahms, 2011). To this point, the terms leader and leadership have been used somewhat interchangeably. It is important to note the work of Hubbard (2005) along with Jackson and Parry (2008) made the distinction between leaders as people and leadership as a process. With this clarifying definition in place, one can move forward to identify leader traits and leadership styles that impact stakeholder engagement.

Leader-Stakeholder Interface

How leaders interact with stakeholders is in an era of transition. Leaders are moving to rely on nonhierarchical relationships (Schneider, 2002). This transition directly addresses how leaders interact with stakeholders. Groves and LaRocca (2011) highlighted effective leaders are moving toward cooperative stakeholder relationships.

A refocusing of leadership efforts to address stakeholders is being viewed as critical to developing long-term business success (Maak & Pless, 2006). A number of studies highlight the practical implications of how cooperative stakeholder relationships can facilitate positive outcomes for organizations (Groves & LaRocca, 2011; Windsor, 2010). The attention to the world of the stakeholder creates a stakeholder society based on a system of balances. Leadership in this new society is a balance between "external pressures of conflicting interests and demands of stakeholders and internal tension of being a consistent person that leads with integrity" (Maak & Pless, 2006, p. 101).

To achieve this balance, leaders must build enduring and mutually beneficial relationships with all relevant stakeholders. They must be able to determine and assess a stakeholder's ability to influence and affect the overall performance of the organization so as to develop a working balance (Schneider, 2002). The search for balance leads to the conclusion that leaders must be sensitive to the world in which they operate (Wheeler & Sillanpaa, 1997). This sensitivity is achieved through engaging stakeholders in an active dialogue designed to understand their needs and interests. A process of reflection is used to assess these needs and to align them with the needs of the organization (Mittleton-Kelly, 2011). In the end, stakeholder relationships should be a priority for a leader. To achieve this ability of building bridges to stakeholders, it is necessary to identify the key traits and style that align leaders with stakeholders (Maak, 2007).

Traits and Styles

To be able to identify a key style or styles that would predispose a leader to be stakeholder focused, it is necessary to first examine the global set of traits inherent in all leaders. This global view can then be focused to identify those traits which lead to a values-centered orientation.

All leaders regardless of the organization function in complex environments of competing demands. A key trait of leaders who operate in an environment of paradoxes is the ability to juxtapose contradictory elements. To effectively achieve this goal, a leader must have complex emotional and cognitive capabilities. They must possess a keen set of problem solving skills coupled with the ability to quickly identify competing points of view. Added to the aforementioned traits is the quality of mindfulness coupled with the ability to avoid defensive behaviors (Smith, Lewis, & Tushman, 2010). The work of Schneider (2002) identified a similar linkage to cognitive, emotional, and behavioral abilities as being essential for leaders to cope with complex environments.

To begin to focus on value-centered traits, one can examine the work of Ciulla (2006). This research effort identified three traits key to a values-centered orientation. Ciulla found leadership takes place in relationships that are grounded in ethics. The second tenant is leadership is based on values derived from the ethical orientation of the leader and society. The final trait is to build ethically sound relationships toward all stakeholders. These findings relate to the original concepts identified by Smircich and Morgen (1982) that all leadership is values based.

Efforts to identify effective styles related to stakeholder engagement have resulted in the identification of two styles. Adaptive leadership is a style that is required in response to situations where no clear expertise or no single person has credibility. In the case of stakeholder theory, this style of leadership can arise when organizational legitimacy is lacking (Feyerherm & Breyley-Parker, 2011). From the standpoint of a values-based construct, adaptive leadership provides minimal insight.

The second potential style is transformational leadership. From a purely theoretical perspective, transformational leadership motivates followers by raising their level of awareness about the importance of designated outcomes and by transforming follower's personal values to support the collective vision of the organization (Bass & Bass, 2008; Coule, 2008; Groves & LaRocca, 2011; Maak & Pless, 2006). Can this single construct of leadership align a values-centered approach to engaging stakeholders in an organization with the end result being sustainability? Pless (2007) argues that transformational leadership aims to examine and understand the dynamic process between leaders and stakeholders that leads to responsible behavior and action for social change. The conclusion is the creation of leaders and stakeholders who are connected through a shared sense of meaning and purpose. While the comments by Pless offer a promising direction, the current body of literature lacks consistent evidence to support the conclusion in part due to a lack of empirical research (Groves & LaRocca, 2011).

Values Alignment

All organizations must develop a strategy for sustainability. To achieve this objective, the involvement of stakeholders is a required element. To understand this concept, one must identify the factors that aid in engaging stakeholders with an organization. The role of the leader and the style is critical to developing an environment in which stakeholders wish to participate. While traits, needs, and importance of creating a values-aligned organization are key, a need exists to examine what are values and how are they manifested within organizations.

When one asks the question, "What are values?" numerous answers are offered. Values are both multidimensional and multidisciplinary in nature. On a personal level, Meglino and Ravlin (1998) offer a value as a person's internalized belief about how he or she should behave. Feather (2003) viewed values as a set of beliefs that describe a desirable way of behaving. Both of these definitions look at values on a personal level. While values exist on a personal level, they can also be assumed to guide behavior when placed in the context of other situational factors (McShane & Glinow, 2001).

Situational factors lead to a further refinement of the definition of values. Furst, Cable and Edwards (2001) refine the situational question to state values are either espoused or enacted. Espoused values are what people say whereas enacted values are based upon what people do. Both lead to the classic definition of values.

Rokeach (1973) offered the seminal definition of values as an "enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state" (p. 167). By offering this definition, Rokeach identifies values as having both a personal and social component. From an organizational sustainability perspective, how does this align with the idea of leadership, as a personal effort, and stakeholder involvement, as a social framework? To understand this question, one must examine the hierarchical nature of values.

Hierarchy of Values

The idea of values forms a construct that is hierarchical in nature. Agle and Caldwell (1999) offered the first understanding of this structure. Their work identified five interdependent levels of values. Their research identified values being aligned along individual, organizational, institutional, societal, and global groups. Within these five groups, they found interconnections between the various levels. Other researchers found similar groupings with the exception of institutional. This element was further refined to be an identification of group values (Maierhofer, Rafferty, & Kabanoff, 2003). To understand how values contribute to creating organizational sustainability within the context of a leadership-stakeholder exchange, one must first understand the value alignment at the individual, group, and organizational level.

The individual value grouping is the foundation for the overall hierarchy of values. An individual's values can be influenced at many points in their development. At the time of entry into an organization, a firm can influence the work values that individuals develop and the degree to which new members endorse the firm (Agle & Caldwell, 1999). Once an individual is part of an organization, values are important for they influence behavior in an ongoing and consistent fashion. This is extremely important as individuals face periods of change within an organization.

Boxx, Odom, and Dunn (1991) examined the congruence between an individual's perception of their organization's values and their ideal preference regarding these values. This examination was done to assess how the alignment of an individual's values might influence their reaction to and a willingness to participate in change. They found a high correlation between individual's whose values aligned with their organization and their willingness to support periods of change.

The next level of values alignment is at the group level. Groups should not be confused with the organization as a whole. Groups exist within organizations and serve to create identities which are both unique, but closer to individual value alignments than may be found throughout an organization (Feather, 2003). In establishing groups, an identity is created that forms a shared reality where values become a part of the group (Groves & LaRocca, 2011). Once group values are established, an internal resistant to changing the values due to external pressures develops. Group values have been shown to change throughout the life span of the group, but these changes are initiated from within the group (Maierhofer et al., 2003).

While we know how and why groups establish values, little research exists on the influence of group values on organizational outcomes. Jehn, Chadwick, and Thachter (1997) examined how group value content influenced group outcomes. The limitations to their study made it impossible to generalize their findings to a wider population. In a subsequent study, Jehn, Northcroft, and Neale (1999) examined value convergence within groups. Like the earlier study by Jehn, the results of this study could not be extended to the organization as a whole.

As we move from individual to group values, the impact on organizational performance and outcomes becomes diluted. At the organization level, the linkage becomes even more indiscernible. Jung and Avolio (2000) posit that values congruence describes the shared values between leaders and their respective followers within an organization's culture. While their claim appears to be sound, research on values congruence at the organization level is very limited. Work by Rosseau (1990, 2006) identified that when an individual's values fit the organizational value system, they are more satisfied and display a greater commitment to the organization. The missing part of the equation continues to remain the research linking organizational values and indicators of performance success (Groves & LaRocca, 2011).

The Open Questions?

What can we conclude as we examine the question of creating organizational sustainability through an alignment of leader and stakeholder values? The extant literature offers a premise that for an organization to create a sustainable strategy there must be an alignment between leadership and stakeholders. The work by Coule (2008) demonstrates a focus on both internal and external stakeholder groups. To build these key relationships, leaders must display certain traits and styles that cause stakeholders to become engaged. The key element to the style development is values.

In examining the question of values, one can segment them into three key areas: individual, group, and organizational. The existing research highlights how values are formed and their importance in causing individuals to become engaged. At this point, a series of questions begin to emerge.

The existing literature is vague on exactly how an alignment of values with those of an organization leads to operational success. Groves and LaRocca (2011) make a compelling argument based on a number of key points from their study. They identify that no empirical research exists to support the linkage between leader values, leadership style, follower value congruence, and outcomes. They further posit that the field is lacking in empirical studies that examine values as a key driver in organizational processes.

The literature review presented in this paper highlights a number of gaps. The gaps are further supported by the work of other researchers who also identify similar, yet different opportunities. To move forward, the author offers the concept map in Figure 2 as a potential for future research agendas.

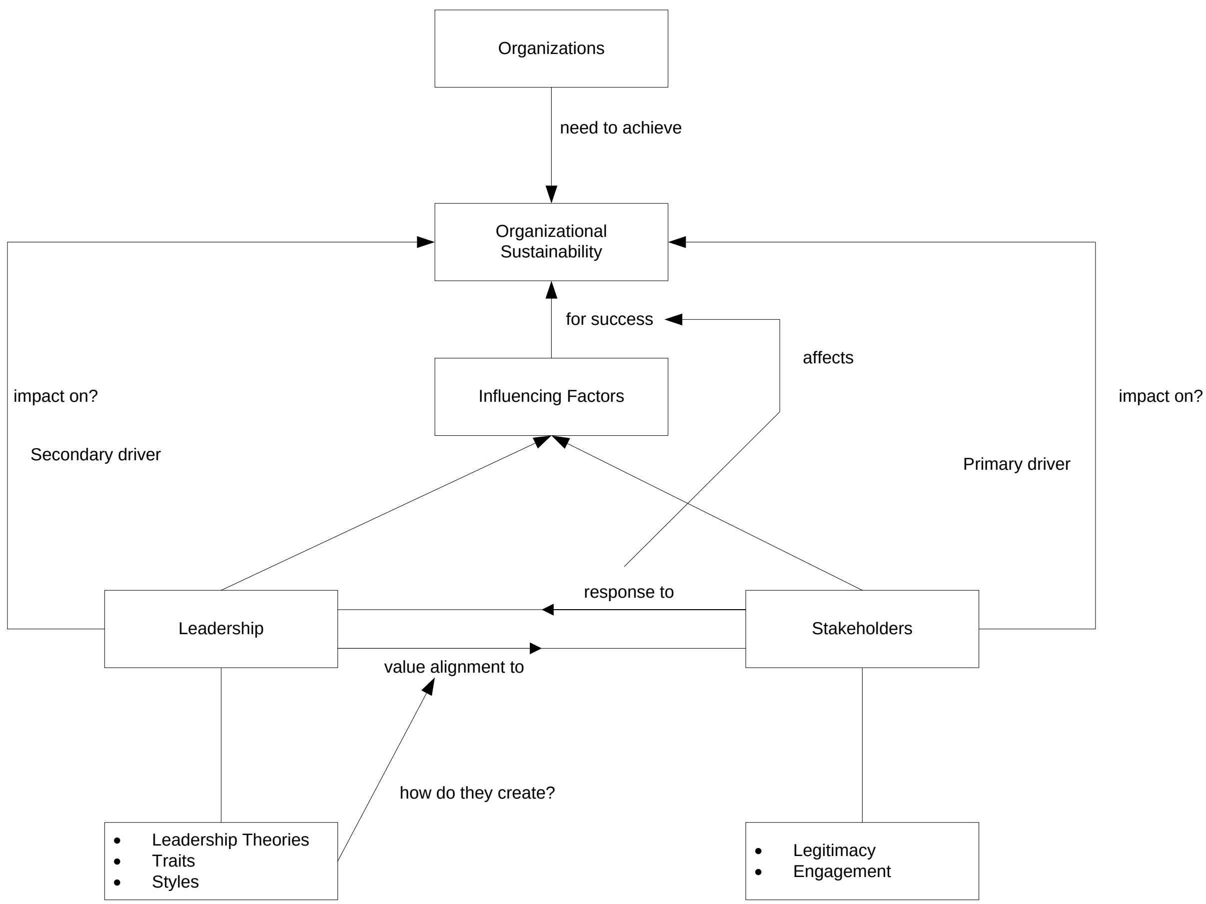

Figure 2. How do stakeholder responses to leadership styles affect organizational sustainability? Miklovich, 2011.

While the focus of this paper is centered on the value alignment between leadership and stakeholders, the map highlights the overall context of the research agenda. Further refinement of key areas is required, but based on the review of the existing literature; a number of gaps may be addressed with future opportunities presented.

Human society has been built around organizations. As the fundamental element of construction, organizations are as diverse as the cultures of the human experience. To understand how to create successful, sustainable organizations, an examination of values alignment between leaders and stakeholders is not only necessary, but warranted, given the lack of empirical research.

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