Responsible Leadership by Family Business (M)SMEs; what and why this presents an opportunity post-COVID

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Abstract

Responsible leadership refers to building and sustaining good relationships to foster "common and good purpose" with relational processes with stakeholders. After discussing further what responsible leadership is, this presentation discusses the opportunity that responsible leadership presents for MSMEs in their post COVID recovery efforts.

Keywords: responsible leadership, MSMEs, COVID 19

01. Introduction

This Conference positions at the Centre of its theme that the events of COVID 19 demand a new paradigm shift in a "way that promotes sharing, coordination and cooperation which helps stabilise the global economy and return it to full health" (12th ICME Conference Theme). How business leaders behave lies at the core of this new paradigm shift. In this presentation, I examine the concept of responsible leadership as guiding a path for business leaders towards this new paradigm in their post pandemic considerations when leading their organisations. My focus in this presentation and paper is on micro, and small to medium size businesses (MSME), particularly family business MSME. This is because family firms account for two-thirds of all businesses worldwide (Miroshnychenko et al. 2021) often dominating the MSME sector. This is a similar picture in Sri Lanka. It is estimated that MSMEs account for over 90% of total enterprises, and dominate the non-agricultural sector (Gunawardena, 2020). However, just as COVID 19 caused deep-seated structural and almost permanent disruption to business organizations globally, so too did COVID 19 do the same to business organizations in Sri Lanka with business – importantly - experiencing a 57% revenue decrease during COVID 19 (KPMG-STEP Project 2021).

Following a discussion about the concept of responsible leadership, I discuss why this may be a relevant concept for family business MSMEs before discussing the opportunities that responsible leadership presents for firm performance and sustainability of family business MSMEs. This is mostly a conceptual paper, which however, has research underpinning it that I have conducted with others. It thus presents a work-in-progress concept and I look forward to feedback and discussion from the eminent gathering at this Conference about my ideas.

02. What is Responsible Leadership?

Conceptually, responsible leadership closely aligns with that of stewardship. Motivated by an emotional commitment to the long-run survival and reputation of their family and firm, stewardship theory suggests that family run MSMEs will use their firm's wealth not merely for

the benefit of themselves but for the benefit of all the organization's stakeholders (Shukla et al., 2014). Viewed as emerging from the social embeddedness of a firm in its ecosystem, stewardship theory posits that the relational nature of interactions that family firm MSMEs have with stakeholders builds a unique social capital that can result in both profitable and enduring sustainability of the firm (Le Breton-Miller et al., 2009). This is because these interactions can solicit loyalty to the firm from external stakeholders (such as suppliers and customers) but can also generate pro-organizational behaviours amongst internal stakeholders (ie employees) that enhance firm performance because these foster high levels of commitment and helping behaviours vital to firm performance (Zahra et al., 2008).

Analyses of another closely aligned concept of servant leadership, similarly, finds that this approach is beneficial to firm performance because servant leaders create more satisfied, committed, and engaged followers (Carter & Baghurst 2013). This is because servant leaders provide support, involve followers in decision making, display appropriate ethical behaviour and emphasize that the firm should be "serving" the community in which it is embedded (Reed et al., 2011). How does responsible leadership differ from these?

Perhaps in disentangling this problematic it would be useful to look at what responsible leadership "looks like" in action. An early proponent of the concept Pless (2007) refers to the case of Dame Anita Roddick founder of the *Body Shop* to illustrate the phenomenon. Born into a poor Italian family in 1942 in Littlehampton, UK, Roddick's early family life was dominated by having to work in a MSME – the family's Clifton Café – but also learning the power of recycling and reusing everything from her mother. Although Roddick trained as a teacher, she first opened a restaurant with her husband, Gordon Roddick. The *Body Shop* though – like many MSMEs – emerged from a necessity to look after her two young children and was founded in 1976. Roddick's values and principles about environmental protection through recycling and reusing became the brand image of the *Body Shop*. These continued to lie at the core of the *Body Shop* mission and vison, even when it was publicly listed on the London Stock Exchange in 1991. By the time Roddick stepped back from her official executive duties at the *Body Shop* in 2002, the focus on environmental protection had expanded to include human and animal rights and political activism such as the ban on cosmetics animal testing by the UK government in 1998 (Pless, 2007).

Pless (2007) subsequently suggests that Roddick's story highlights that responsible leadership requires taking over accountability for responsibility in multiple areas such as ecological, political, and social matters that engage multiple stakeholders. Thus, like stewardship and servant leadership, responsible leadership is also grounded in a responsiveness to stakeholder interests. However, unlike stewardship and servant leadership, responsible leadership seeks to attain this through a values-based and ethically driven relationship with stakeholders that is *grounded in an awareness and consideration about the consequences of actions on others* (Voegtlin, Patzer and Scherer 2012: 4). Roddick's story shows how this behaviour reflects and goes beyond corporate social responsibility (CSR) to social responsibility. Roddick says (Pless 2007: 445-6):

> We (Anita and Gordon) both knew that the simple pursuit of ever-increasing profits was not going to be enough. We frankly were not that interested in money. However, we did recognize that a function of profits was to create jobs and provide security and prosperity for our employees. That was fine, but then what? We accepted that it was our **inherent responsibility** to motivate and involve our staff and franchise holders, to try and make the

working week a pleasure instead of a living death. How could we do that? In all kinds of ways: by education, by stretching their abilities and their imaginations, and by involving them in issues of greater significance than selling a pot of skin cream.

That is, CSR "reflects the social imperatives and the social consequences of business success" (Matten & Moon, 2008: 405). However, the pursuit of CSR by organizations is most often guided by requirements within the institutional setting – legislation, regulation and various codes that influence organizational practice (eg accounting standards).

In distinction, the pursuit of responsible leadership is not just by leveraging this "knowledge pathway" (of legislation, regulation etc), but by engaging a psychological pathway which can be at several levels: the micro or individual level, team, organizational and finally societal level (Doh & Quigley 2014). In other words, responsible leadership exhorts business leaders to accept that their social responsibility is not as Friedman (2000) suggests maximising profits while being compliant with the "rules", and even not as CSR (Matten & Moore, 2008) suggests to be responsive to the interests of multiple stakeholders linked to the firm; but, instead as Roddick shows, to *assume* that they have an intrinsic social responsibility for the *well-being* of those stakeholders. Importantly, responsible leadership not only has the aim of improving the firm's performance by motivating "others" (eg employees to exhibit organizational citizenship behaviour) but in also creating social change for organisations (Pless 2007: 438). Again, it is Roddick (Pless 2007: 446-7) who sums this up when saying:

We believed that it was possible to shift from a value system of ever-increasing profits to one in which core values were concerned with human and social issues and were founded on feminine values like love and care and continuing to say that Leaders in the business world should aspire to be true planetary citizens. They have global responsibilities since their decisions affect not just the world of business, but world problems of poverty, national security, and the environment.

In summary, responsible leadership begets a relational approach by leaders – as exemplified by Roddick – with others. Thus, whilst maintaining "responsibility" for the wealth creation of the business on behalf of owners/shareholders, a responsible leader is a "moral person" who behaves as a "servant, steward, architect" of their organisation (Maak & Pless, 2006). Responsible leaders are "driven by a desire to serve others......an inclination to support others, specifically stakeholders, and to care for their interests and needs" (Pless 2007: 450). However, responsible leaders create social change – in attitudes, values and in their organizational footprint. How does this concept align with family business MSMEs?

03. Responsible Leadership by Family MSMEs

In a bibliometric analysis of research on social responsibility of SMEs, Guillén et al (2021) identify stakeholder pressure, owners, organizational commitment and business and family ethics as the top four out of eight drivers that influence the implementation and development of MSME social responsibility. Indeed, this centrality of stakeholder interests to the operations of family business MSMEs has led to a dominance of analyses using stewardship theory (Davis et al., 2010), and servant leadership (Thomas et al., 2015). While useful, given the unique influence of family in the business in the family business model undoubtedly, family firm

operations are not merely influenced by stakeholder interests, but arguably the interests of its principal stakeholder – the family itself.

However, this influence remained a "silent witness" to family firm operations insofar that – whilst always lurking in the background – it was not until the seminal exposition by Gomez-Mejia et al (2007) of the influence of the concept of socioemotional wealth (SEW) on family firm decision making that scholarship about family firms began to investigate more deeply how the family influences firm performance and sustainability arguing that these outcomes entail more than generation of financial wealth but also consideration of non- financial wealth that emerges from the family itself. The later work of Berrone et al (2012) in identifying the FIBER dimensions gave substance to understanding "what" constituted the influence of the non-financial wealth of the family on firm performance and sustainability. These are: how (F) family control and influence affects decision-making that impacts upon firm performance and sustainability; how (I) family members' identification with the firm influences the levels and nature of firm engagement with stakeholders; how (B) binding social ties with stakeholders that provide the collective benefits and reciprocal bonds that affect performance and sustainability; the (E) emotional attachment of family members which endows the objectified "firm" into a subjective reality; and, finally (R) renewal of family bonds through dynastic succession, which reflects the commitment to keeping the firm "in the family', notwithstanding some of the exigencies of the external context.

Acknowledgement of this "intangible" in family firm performance and sustainability influenced an "emotional turn" in family business scholarship to understand how the emotions of the family now influence the operations of the business (see Brundin & Hartel, 2014) This movement propelled a further trend: this time, urging scholars to embrace a micro foundational lens to explain macro-level phenomena in terms of the "actions and interactions of lower-level entities" (De Massis et al., 2018) – namely the family itself, and even more so, the family business leader. Thus, although concepts such as stewardship, and servant leadership are undoubtedly useful in conceptualising and explaining MSME social responsibility – it is now accepted that we need more micro-level conceptualisations to really understand "why" or how – as in the case of Anita Roddick – the "moralities" of family leaders influence the operations of family business.

When viewed from this perspective, the concept of "responsible leadership" becomes a front runner to draw on to explain this phenomenon. As Anita Roddick shows, responsible leadership is not just about the art of building and sustaining good relationships with all stakeholders (Maak and Pless 2006) to achieve sustainable value creation for organisations (Pless 2007), responsible leadership is also influenced by a leader's meta-cognitive understanding of morality – not only what is right or wrong, but a judgement of what is right or wrong "for the betterment of their followers, organizations and society" (Meliou et al., 2021: 521). Thus, while acknowledging that responsible leadership is a multi-level concept (Doh & Quigley 2014), ultimately, *exercising* responsible leadership draws on a micro-level leader's meta-cognitive understanding which leads to in-built belief about what *should* be done rather than what *can* be done when faced with a problematic.

Family business is replete with accounts of leaders making decisions that seemingly make no sense, but when analysed, are grounded in this meta-cognitive understanding or in- built belief about what *should* be done rather than what *can* be done. Prior to our acceptance of the significance of SEW or the influence of the non-financial wealth of the family (Gomez- Meijia et al, 2007; Berrone et al, 2012) and the accompanying investigations about emotions

(Brundon & Hartle, 2012; Labaki, 2020) on family firm performance and sustainability, scholarship often regarded these decisions as *irresponsible*. Today, however there are analyses arguing we need to view these as responsible – to the business, family and the other multiple stakeholders. Moreover, research shows that it is because decision-making by family leaders veers towards this axis that social responsibility in family business MSMEs is more than wealth creation, or compliance with a framework of institutional regulations but to multiple stakeholders, most notably the stakeholder of the family itself. Paying due attention to these interests enhance the possibility of the firm's performance and sustainability. Anita Roddick's *Body Shop* is one illustration of "proof" of this concept (Pless, 2007); the case of the repurchase of Champagne Taittinger by Pierre-Emmanuel Taittinger in 2006 is another (Barredy & Caspersz, 2022).

04. The Opportunity of Responsible Leadership

In 2006 Pierre-Emmanuel Taittinger and his family repurchased *Champagne Taittinger* after selling this company as part of the *Taittinger Group* (*Champagne + Société du Louvre*) to the US private equity firm Starwood in 2005. In describing his decision to repurchase the business, Pierre says (as quoted in Barredy & Caspersz, 2022).

> ....it was much too expensive. I paid 150 million euros more. But when you love (something) you do not count the cost (of it).

The decision to sell the business was made by Pierre-Emmanuel's uncle and father following a long period of irreconcilable conflict between them, which dated back to when their father – Pierre – established the business. Pierre-Emmanuel's affective relationship (arguably explicable using the FIBER dimensions, Berrone et al, 2012) with the business was illustrated when Pierre-Emmanuel lamented that "*The sale was not worthy of our story*" (as quoted in Barredy & Caspersz, 2022). In saying this Pierre-Emmanuel was referring to the status of the family in France's society which was not only grounded in the financial wealth derived from their multiple business interests, but also because of the family's reputational (or non-financial) status in French society. Pierre's father Jean Taittinger had been actively involved in French political matters, first as the Mayor of Geux, then MP for Marne and Mayor of Reims and finally Secretary of State for the Budget between 1971-1973. The publicly known tussle between Jean and his brother about the business had caused Pierre-Emmanuel and his siblings' immeasurable grief, but it also forged a commitment to retaining the business in the family. Thus, even in negotiating the sale of the family financial interests to the Starwood Group, Pierre-Emmanuel's sister Ann-Claire who negotiated the sale as the Taittinger Group CEO, deliberately chose a company that did not have interests in the Champagne industry – so that they could buy it back when it became available (Barredy & Caspersz, 2022).

The commitment to both performance and sustainability of the business remains evident even today. While acknowledging the deleterious effects of COVID on the business, the next generation of Taittinger in the business, Pierre-Emmanuel's daughter Vitale says (Underdown, 2022):

> It has been a tough year with COVID but also a great opportunity to transition. Today I feel very calm and honoured by the trust of people working with us," she says. "Its about working together. Today in Champagne (meaning Taittinger Champagne), we have that.

05. Post Covid and Responsible Leadership

The period of COVID 19 will be recalled as one when the notion of "disruption" was at its zenith – disruption not only in business organizations, but economies and, of course, society. Sri Lanka has seen its fair share of all of these. Emerging from this swirling mass of issues however have been calls for leaders to behave more responsibly – towards their society and economies. At the micro level of business leaders, this responsibility has never been more significant. This is because the recovery of economies and societies in inextricably linked to the recovery of their business. Post COVID analyses especially recognise the crucial role that MSMEs must play in forging this forward path (OECD, 2021). Therefore, how MSME business leaders craft the path to recovery will be crucial in realising the possibility of creating a new paradigm shift in a "way that promotes sharing, coordination and cooperation which helps stabilise the global economy and return it to full health" (12th ICME Conference Theme). Will they adopt a responsible leadership approach?

In exploratory research conducted with colleagues that explored the concept of responsible leadership in family business MSMEs during COVID 19 (Caspersz et al., 2021) we found that although there is evidence that the sample organizations we studied implemented economic strategies to stem the decline of their business during the crisis, over time, their recovery strategies extended beyond these to utilize sources of affective wealth that were both internal and external to the firm in their strategic response to COVID-19. We subsequently argue that the behaviour of some of these leaders reflects the tenets of responsible leadership. That is, whilst working to "secure the core" of their business their responses reflected a response to the plight of their stakeholders during COVID 19 that was not solely inspired by financial wealth considerations but also by non-financial wealth considerations aimed at "securing the core" of well-being of stakeholders. For example, BRD says (Caspersz et al, 2021):

> *Our supply line is within our industry, we're all family businesses. Even though our major foam supplier is owned by an Indian family, which we know very well. We've been there for each other in times of good and bad. And supported each other, even though they're Indian, but it's run by Australians. Our fabric mill, it's Australian. Made in Australia, it's a German family* (BRD).

While another of our cases - DTMLD - similarly says about suppliers (Caspersz et al., 2021)

> *We will look after them first and foremost. We will always put what they need first and we will use the resources in our business to secure their supply chains* (DTMLD).

In interrogating this data further, it became clear that – similar to Pierre-Emmanuel (Barredy & Caspersz, 2022) – while the financial cost may be "too much", decision-making by family leaders is ultimately "impelled" to veer towards the axis that social responsibility is more than wealth creation, or compliance with a framework of institutional regulations but to multiple stakeholders including the family itself.

In conclusion, reminiscent of Marx's axiom that "all that is solid melts into air" COVID 19 dramatically and indelibly changed the parameters by which business organizations such as MSMEs will operate post COVID 19. Business leaders lie at the core of the success of whether organizations will successfully negotiate these parameters to realize firm performance and

sustainability. Given the experience of COVID 19, the call for "responsibility" by these actors heralds the possibility that "responsible leadership" may be a approach to leadership for business leaders. Only time will tell whether this will be embraced.

Acknowledgement

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