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Reconciling Different Views on Responsible Leadership: A Rationality-Based Approach

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Christof Miska, WU Vienna

Christian Hilbe, University of Vienna

Susanne Mayer, WU Vienna

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ABSTRACT

Business leaders are increasingly responsible for the societal and environmental impacts of their actions. Yet conceptual views on responsible leadership differ in their definitions and theoretical foundations. This study attempts to reconcile these diverse views and uncover the phenomenon from a business leader's point of view. Based on rational egoism theory, this article proposes a formal mathematical model of responsible leadership that considers different types of incentives for stakeholder engagement. The analyses reveal that monetary and instrumental incentives are neither sufficient nor necessary for business leaders to consider societal and environmental stakeholder needs. Non-monetary and non-instrumental incentives, such as leaders' values and authenticity, as well as their planning horizons, counterbalance pure monetary and instrumental orientations. The model in this article complements the growing body of research on responsible leadership by reconciling its various conceptual views and providing a foundation for future theory development and testing.

Keywords:

Responsible leadership; rational egoism theory; stakeholder–stockholder dichotomy

INTRODUCTION

Business leaders are increasingly accountable for the stakeholders outside their immediate economic spheres, and their responsibilities extend to their companies' societal and environmental influences (Wade, 2006). According to Carroll and Shabana (2010), these new responsibilities are part of discretionary and ethical domains and represent the broader social contract between society and business. Although business leaders usually have certain degrees of discretion in their actions (Carroll, 1979; Crilly et al., 2008; Maak and Pless, 2006; Treviño et al., 2008; Waldman and Galvin, 2008), their specific responsibilities are not always clearly defined and constantly prompt questions with regard to their legitimacy.

Any business leader's pursuit of responsible leadership includes considerable challenges, pressure, and complexities. In particular, the probable trade-offs between achieving profit maximization and undertaking societal or environmental responsibilities (Henriques and Richardson, 2012) illustrate the inherent difficulties of responsible leadership. An essential question these trade-offs imply has to do with whether responsible leadership can ever be truly responsible (Waldman and Siegel, 2008). On this issue there is a gap in the literature; nurtured by various normative, descriptive, and paradigmatic points of view (Pless and Maak, 2011), extant work is inconclusive in defining the extent and scope of responsible leadership. Waldman (2011) points out the caveats and dangers of these variations risking "confusion and even biases in the pursuit of an understanding of responsible leadership" (p. 77). We aim to address this gap by taking a business leader's point of view and analyzing the various drivers of responsible leadership. With a foundation of rational egoism theory (Peikoff, 1991; Rand, 1964; Smith, 2000), we assume that business leaders opt for strategies that optimally serve their individual objectives. We first review various theoretical and conceptual views on responsible leadership and identify two contrasting perspectives: agent and stakeholder views. Mirroring these

perspectives, we discuss various incentives for stakeholder engagement, which many understand as actions that aim to ‘do good’ (i.e., enhancing societal and environmental welfare for stakeholders) and ‘do no harm’ (i.e., avoiding harmful consequences for stakeholders other than shareholders) (e.g., Crilly et al., 2008; Miska et al., 2013; Stahl et al. , 2013). On this foundation, we propose a formal, rationality-based model of stakeholder engagement that uncovers the decision-making mechanisms of responsible leadership. This rational perspective aims to complement extant literature on responsible leadership by reconciling the various views on this increasingly important phenomenon, as well as to provide a foundation for further theory development and testing.

RESPONSIBLE LEADERSHIP VIEWS

Extant literature does not conclusively define the concept of responsible leadership. Scholars suggest different perspectives that arise from various normative, descriptive, and paradigmatic points of view (Pless and Maak, 2011). These points of view rest on long-standing debates and arguments regarding the responsibilities of business and the varied history of the concept of corporate social responsibility (CSR) (Carroll, 1999). Waldman and Galvin (2008) remark that “responsible leadership is not the same concept in the minds of all” (p. 328). According to Pless and Maak (2011), the field is fluid, and “the tentative answer to the question “What is responsible leadership?” must be “It depends.”” (p. 5). Therefore, it is possible to classify literature on responsible leadership systematically alongside two interrelated dimensions: (1) the degree of stakeholder inclusion and (2) the scope of responsibility. The first dimension defines the degree to which notions of responsible leadership comprise different sets of stakeholders. The second dimension describes the bandwidth of diverse types of responsibilities. This distinction mirrors recent findings from an empirical study by Pless et al. (2012), who, based on interviews with 25 business leaders, found differences in these leaders’ responsible leadership

orientations. The orientations varied along with the breadth of the constituent groups on which they focused, and the degree of accountability toward stakeholders extended beyond shareholders and owners.

By examining extant work alongside the two dimensions of stakeholder inclusion and scope of responsibility, we identify three comprehensive perspectives on responsible leadership: agent, stakeholder, and converging views. The key roles and loci of responsible leadership shift across the two dimensions. They extend from business leaders with agent roles with business owners and predominantly internal organizational loci to business leaders with multiple roles with diverse stakeholders and both internal and external loci. Figure 1 illustrates this continuum.

Insert Figure 1 about here

Agent Views

According to agent theory, one or several persons (principals) assign decision-making power to one or several other persons (agents), who then act on their behalf (Jensen and Meckling, 1976; Ross, 1973). From an agent perspective, responsible leadership aligns with Friedman's (Friedman, 1970, 2007; Friedman and Friedman, 2002) doctrine that "the social responsibility of business is to increase its profits" (Friedman, 2007, p. 173). Within the boundaries of societal rules embodied in law and ethical custom, business leaders' primary responsibility is to safeguard economic returns. Waldman and Galvin (2008) suggest three key principles of such economic-based responsible leadership: Business leaders are solely responsible to shareholders, their behavior is strategic and calculable to benefit shareholders, and reward and monitoring systems ensure that they fulfill their economic responsibilities. Low degrees of diverse stakeholder inclusion consequently characterize agent views of responsible leadership

and focus on economic responsibilities. Various critics have found fault with Friedman's thinking. One criticism is that his ideas are logically unsound and lack clarity (McAleer, 2003; Mulligan, 1986). Schaefer (2008) notes that Friedman's economic-focused view exempts shareholders from exercising social responsibility. Nonetheless, Voegtlin et al. (2012) remark that literature on the enhanced responsibility of business leaders, beyond the narrow economic scope, is relatively rare.

Stakeholder Views

Hill and Jones (1992) propose stakeholder–agency theory, a combination of agency theory and stakeholder theory, to explain the characteristics of contractual relationships between a firm and its stakeholders. According to the theory, business leaders reconcile various stakeholders' interests through their actions. Stakeholder–agency theory is conceptually aligned with more contemporary leadership theories. These extend beyond the classical leader–follower dyad within organizations and focus on how business leaders affect the various social systems in which they and their companies are embedded (Komives and Dugan, 2010). Parallel to this idea, stakeholder views on responsible leadership tend to consider broad stakeholder networks through an ethical lens. Maak and Pless's (2006) understanding of responsible leadership as a "social-relational and ethical phenomenon, which occurs in social processes of interaction" (p. 99), is representative of the stakeholder view paradigm. It implies that business leaders attempt to contribute to sustainable societal and environmental developments by taking responsibility for pressing problems such as poverty and global warming. High degrees of diverse stakeholder inclusion consequently characterize stakeholder views of responsible leadership and encompass economic, societal, and environmental responsibilities. Critics tend to accuse them of having a Pollyannaish stance (Waldman and Galvin, 2008)—that is, an overly optimistic pursuit of responsibility at the expense of 'true' responsibility toward business owners.

Converging Views

These perspectives converge between the agent and stakeholder views we have already described. They represent attempts to reconcile business leaders' economic with ethically driven societal and environmental responsibilities. Oftentimes, converging views on responsible leadership follow strategic considerations along the lines of "good ethics is good business" (Schwartz and Carroll, 2003, p. 516). For example, Porter and Kramer (2006) suggest that because business leaders are not responsible for all global problems, they should identify the issues their companies can resolve most effectively and from which they can earn the greatest competitive advantage. In addition, Waldman and Siegel's (2008) argument about what should drive business leaders in the area of CSR converges between the economic perspective and the stakeholder view. They conclude that a combination of instrumental, calculative behavior and business leaders' values and ethical motives is probably best for combining the two perspectives. Converging views on responsible leadership therefore vary in both their degrees of stakeholder inclusion and their scopes of responsibility. They attempt to reconcile the economic and stakeholder views but do so in various ways.

Although agent, stakeholder, and converging views on responsible leadership display the characteristics and differences we have mentioned, they share two key commonalities. First, they assume that responsible leadership complies with legal regulations and law. Second, they assume that business leaders have discretionary choices in meeting their responsibilities (Carroll and Shabana, 2010). These are relatively restricted, as the agent views maintain, or considerably expanded, according to the stakeholder perspectives. Because business leaders' discretionary choices within regulatory boundaries are so important, we next draw on literature about ethical decision making—on which we later build our analyses of the viability of responsible leadership from a business leader's perspective.

DECISION-MAKING MECHANISMS AND THE THEORY OF RATIONAL EGOISM

Sonenshein (2007) classifies several influential studies as 'rationalist approaches', because the underlying theories assume that decision makers cautiously evaluate evidence and apply moral principles in response to ethical issues (e.g., Hunt and Vitell, 1986; Jones, 1991; Treviño, 1986). Although Sonenshein finds these rationalist approaches popular and influential—partly because of the absence of alternative explanations and theories—he points out their limitations. In particular, rationalist approaches tend to ignore uncertainty inherent in organizational settings and in people's intuitive choices and judgment.

Woiceshyn (2011) asserts that several researchers find rational and intuitive components to contribute relatively equally to people's ethical decision making (Reynolds, 2006; Simon, 1987). With a dual processing model, she argues that decision makers responding to ethical dilemmas spiral back and forth between rational and intuitive processing, but the underlying key process consists of integration by essentials. Based on interviews with CEOs, she finds that rational egoism is the moral code they apply when integrating conscious and subconscious processing and pursuing long-term success. The premise of rational egoism implies that maximizing one's own good and self-interest is the primary aim in life, because "Only self-preservation can be an ultimate goal, which serves no end beyond itself." (Peikoff, 1991, p. 211). Although conflicting views exist (e.g., Bowie, 1991), rational egoism does not have a cynical intent, nor does it suggest that a person should realize whatever serves his or her self-interests. Rather, the virtue of rationality implies the "acceptance of reasons as one's only source of knowledge, one's only judge of values and one's only guide to action" (Peikoff, 1991, p. 221). Rational egoism is thus compatible with a common sense view of ethics as guide for living and thriving without harming others (Donaldson and Dunfee, 1994; Woiceshyn, 2011). Whereas rationality is the key virtue of rational egoism, several derivative virtues implicit in rationality

emerge from it: productiveness as creating value by adjustment of nature to humans; honesty as not faking facts in the pursuit of values; justice as assessing persons objectively and granting them what they deserve; independence as the main orientation to reality; integrity as being loyal to rational principles; and pride as achieving one's own moral perfection (Peikoff, 1991; Rand, 1964; Woiceshyn, 2011).

The theory of rational egoism is compatible with the agent, stakeholder, and converging views on responsible leadership. Although these perspectives differ in their degrees of stakeholder inclusion and their scopes of responsibility, the theory's emphasis on rationality as the primary decision-making guidepost is appropriate for all three to explain the viability of responsible leadership from a business leader's point of view. In the common sense view of ethics, the theory is compatible with the 'do good' and 'do no harm' (Crilly et al., 2008; Miska et al., 2013; Stahl et al., 2013) dimensions of stakeholder engagement. It therefore provides an integrative framework applicable to the various views on responsible leadership. We thus discuss the foundations for applying the theory to responsible leadership.

INCENTIVES FOR STAKEHOLDER ENGAGEMENT

The virtue of rationality involves recognizing and accepting reasons as the only foundation of knowledge and as the only guidance for judgments and actions (Peikoff, 1991). The different views on responsible leadership provide a variety of reasons for stakeholder engagement. Depending on the underlying perspective of responsible leadership and the implied degree of stakeholder inclusion and scopes of responsibility, business leaders may or may not consider these reasons relevant. We therefore label these reasons 'incentives', referring to their discretionary nature (Carroll and Shabana, 2010). Based on our literature review, we suggest two broad categories of such incentives: (1) monetary and instrumental incentives and (2) non-monetary and non-instrumental incentives. Both categories mirror the two views at the ends of

the continuum we describe: agent views and stakeholder views. Although monetary and instrumental incentives for stakeholder engagement directly or indirectly contribute to a company's economic returns, non-monetary and non-instrumental incentives correspond to the ethical foundations of the stakeholder views and, in addition to economic goals, target societal and environmental responsibilities. Because a full list of incentives is beyond the scope of this article, we limit ourselves to discussing a handful of illustrations to demonstrate the viability of the two-type categorization.

Monetary and Instrumental Incentives

The incentives for stakeholder engagement to directly or indirectly increase or maintain a company's economic gains are distinctive in this category. Examples include strategic considerations, anticipated negative costs and sanctions in case of irresponsible leadership, and societal expectations.

Strategic considerations. Several authors (e.g., Burke and Logsdon, 1996; Schaltegger and Wagner, 2006; Weber, 2008) identify the strategic benefits of CSR: Responsible leadership can benefit a company's reputation positively, help attract and retain talent more easily, or justify premium prices for products (Waldman and Siegel, 2008). Although it is difficult for business leaders to assess the exact monetary value of their stakeholder engagement, this engagement might increase a company's economic gains and incentivize related behavior. In this regard, Barnett (2007) remarks that even if not all socially responsible activities maximize profits, some will. Porter and Kramer (2006) systematically guide business leaders to pursue strategies that leverage the benefits of responsible leadership to their companies' competitive advantage.

Anticipated negative costs and sanctions. A plethora of evidence suggests that irresponsible leadership (i.e., business leaders who intentionally or unintentionally harm stakeholders) can result in negative effects for entire companies (e.g., Bansal and Candola, 2004;

Detert et al., 2007). The costs and consequences of such irresponsible leadership include alienated customers and suppliers, damaged corporate reputations, and a need for surveillance mechanisms (Cialdini et al., 2004; Waldman & Galvin, 2008). Although such anticipated negative costs may not be tangible and are likely incalculable, the magnitude and consequences can be enormous. More generally, Devinney (2009) considers the principle of social sanctions to be a central concept of corporations' socially responsible actions. Although it may be difficult for business leaders to specify the costs of irresponsible leadership, the possibility that societal sanctions could affect a company's profits may incentivize stakeholder engagement. Campbell (2007), from an institutional perspective, claims that industry self-regulations are frequently a result of anticipating intervention by the state or else from governmental regulations that are insufficient to protect the industry from itself. Business leaders who anticipate stringent regulatory environments or increased involvement from the outside, and probably higher monetary burdens, likely perceive a need for stakeholder engagement.

Societal expectations. General attitudes and resulting regulations are not the only ways in which society demands responsible leadership. Shareholders are increasingly concerned about the effects of leadership on companies' economic conditions. A growing proportion of mainstream institutional investors, who are members of important ownership groups of listed companies in many developed economies, are adopting socially responsible investment practices (Sparkes and Cowton, 2004). Guay et al. (2004) assert that non-governmental organization (NGO) shareholder activism directly challenges corporate boards, because it can point out inadequate leadership actions. Such movements and societal activism therefore may lead to severe consequences for business leaders and their companies, which could incentivize stakeholder engagement.

Non-Monetary and Non-Instrumental Incentives

Examples of this category represent incentives for stakeholder engagement that go beyond economic responsibilities and target societal and environmental goals. Such incentives have a strong ethical foundation and are directly linked to individual business leaders. Examples include business leaders' values and authenticity, sense of care and duty to help, and personal corporate citizenship.

Values and authenticity. Whetstone (2001) argues that business leaders might have several reasons for their actions, including personal values, such that "moral reasons can include … the belief that so acting is characteristic of the kind of person one wants to be" (p. 102). Leadership scholars frequently link leaders' values to authenticity. Freeman and Auster (2011) propose that the concept of authenticity means acting on the basis of not only one's perceived values but equally "one's history, relationships with others, and aspirations" (p. 15). This extended idea of authenticity implies that past experiences, current values, and future aspirations shape business leaders. This idea further suggests that acting authentically involves reflecting on one's past and values critically and adjusting behaviors according to future aspirations. For business leaders, such alterations may lead to reflections that contradict monetary and instrumental aspirations in favor of societal and environmental ones.

Sense of care and duty of assistance. Maak and Pless (2009) describe a sense of care and duty of assistance as two important elements of responsible leadership. The first element refers to a sense of care for others' basic needs. It builds on the concept of empathy for people within as well as outside of companies. The second element refers to the obligation to care for those in need and to create basic, reasonable conditions (Rawls, 2001). Both elements represent characteristics of business leaders and may support behavior beyond monetary or instrumental considerations.

Personal corporate citizenship. Grit (2004) describes the concept of personal corporate citizenship, in which people rather than organizations and structures drive corporate citizenship. This citizenship appeals to attitudes and actions of business leaders instead of institutions that authoritatively provide moral guidelines. The 'democratization' of values involves business leaders continually developing their own moral frameworks and guidelines. Consequently, business leaders reach beyond their traditional roles and make choices to help improve society and the environment.

Table 1 summarizes monetary and instrumental incentives and non-monetary and non-instrumental incentives for stakeholder engagement. We analyze the relevance of these incentive types for business leaders and how they make stakeholder engagement reasonable from a leader's perspective—that is, how incentives follow the principles of the theory of rational egoism. To this end, we propose a streamlined mathematical model and describe how the various incentives for stakeholder engagement affect business leaders' decisions.

Insert Table 1 about here

A FORMAL MODEL OF RESPONSIBLE LEADERSHIP

Mathematical models and economic-oriented analyses allow decision makers to incorporate logical considerations and rational deliberation. Although Hermalin (1998) observes that such approaches have not charted leadership research, scholars agree that formal analyses are useful at the firm level (e.g., Husted and de Jesus Salazar, 2006; Jones, 1995; McWilliams and Siegel, 2001). We believe that such a formal, rationality-based analysis at the individual level is equally useful for two reasons. First, it allows incorporating business leaders' deliberations and considerations in accordance with the theory of rational egoism. Second, it is capable of

reflecting how the two types of incentives for stakeholder engagement interact. We first describe a basic model of responsible leadership, which we then extend by including the two types of incentives for stakeholder engagement. We refine this model and incorporate considerations related to business leaders' time and planning horizons.

Basic Model of Responsible Leadership

To derive the business leader's objective function, we assume that it is possible to measure the extent to which a business leader considers stakeholder demands with a single variable S, which is presumed to be equal to or larger than zero, $S \geq 0$. This variable S represents a business leader's stakeholder engagement, and we interpret high values of S as an indicator of strong consideration for stakeholders. The assumption that a business leader's stakeholder engagement is measureable with a single variable represents a simplification, because most companies interact with various stakeholders who may have competing interests. However, this study does not aim to investigate which stakeholders' interests receive primary consideration; rather, we are interested in the conditions that are generally favorable for stakeholder engagement.

A business leader's stakeholder engagement S is not an independent variable because it (directly or indirectly) affects the company's current and future profits. We account for this dependence by modeling the company's present value of profits π as a function of the leader's stakeholder engagement: $\pi = \pi(S)$, which means that a company's profits are related to a business leader's stakeholder engagement. With respect to this relationship, it is possible to distinguish two cases: If profits increase with stakeholder engagement, profit maximization and stakeholder engagement align perfectly. Mathematically, this case may be identified by examining the slope – or the first derivative – of the profit function, which will then be positive:

$\pi'(S) > 0$. Under such conditions, a marginal increase in stakeholder engagement is profitable. A practical example of this condition is Better World Books, a triple-bottom-line company that aims to harness the value of books and fund literacy initiatives around the world (Better World Books, 2013). This business model helps the company differentiate and survive in the highly competitive industry of online booksellers. Thus, Better World Books' triple-bottom-line approach implies that stakeholder engagement complements economic objectives. Alternatively, there may be a trade-off between profit maximization and societal and environmental engagement, such that a marginal increase in stakeholder engagement comes at the expense of profits. Formally, this means that the respective profit function has a negative slope, $\pi'(S) < 0$. In such a case, it appears – at least at first glance – unlikely that a business leader will realize stakeholder engagement, because doing so would lead to economic losses. For example, Shell's leaders have not taken into consideration either the local Ogoni people or the environmental impacts when the company started operating in the Niger Delta (Boele et al., 2001). Shell probably ignored societal and environmental concerns in favor of profits.

Extended Model

Because of such potential divergences between profit maximization and societal and environmental stakeholder engagement, we need to extend our model and include the two types of incentives for stakeholder engagement: monetary/instrumental and non-monetary/non-instrumental incentives. We assume monetary and instrumental incentives to be proportional to the company's profit function, $\pi(S)$. In contrast, non-monetary and non-instrumental incentives are independent of potential economic effects. Business leaders likely weight the two types of incentives for stakeholder engagement differently—which responsible leadership theory reflects. Thus, we assume that we can express the relative strength of non-monetary and non-instrumental

incentives with a parameter α, grounded in the business leader's individual, person-related, and ethical considerations. In the simplest case, we may therefore model the business leader's overall objective function ($u(S)$) as follows:

$$u(S) = (1 - \alpha)\pi(S) + \alpha S. \quad (1)$$

If the business leader's decisions are affected only by monetary and instrumental considerations, then $\alpha = 0$. Then, the business leader's sole aim is to maximize profits, $u(S) = \pi(S)$. In contrast, a business leader who is also driven by non-monetary and non-instrumental incentives can be modeled by assuming that $\alpha > 0$, such that not only the company's profits but also the company's stakeholder engagement are considered. A prominent example of the latter kind of leader is The Body Shop founder Anita Roddick, who decided to dump the principles of shareholder value and adopt a business model of social responsibility (Pless, 2007). In her view, "The business of business should not be about money, it should be about responsibility. It should be about public good, not private greed." (Roddick, 2000, p. 3).

The business leader's objective function in Equation (1) allows us to derive a condition for the emergence of stakeholder engagement. When we calculate the first derivative of the business leader's objective function to identify its maximum, we find that a business leader opts for positive stakeholder engagement ($S > 0$) if

$$\pi'(0) > \frac{-\alpha}{1-\alpha}. \quad (2)$$

In this equation, the term $\pi'(0)$ denotes the marginal change in profits if stakeholder engagement increases starting from zero, $S = 0$. When stakeholder engagement implies a trade-off with profits, and thus $\pi'(0) < 0$, the inequality in Equation (2) gives an upper bound for the profit loss that a business leader is willing to accept to demonstrate positive stakeholder engagement. Based on this model, we derive four propositions:

i) *Purely profit-maximizing business leaders will care about a good relationship with the company's stakeholders only if stakeholder engagement is a means to increase profits.*

If a business leader is driven purely by monetary and instrumental incentives—which the agent view of responsible leadership implies—the strength of non-monetary and non-instrumental incentives (α) and, therefore the right-hand side of Equation (2), equals zero. Thus, the condition in Equation (2) is fulfilled only if $\pi^{'}(S) > 0$, implying that stakeholder engagement must positively correlate with the company's profits. Nestlé Group's chair and former CEO Peter Brabeck-Letmathe provides an example of such a profit-maximizing perspective. In an interview, he expressed concerns about altruistic giving: "I'm personally very much against corporate philanthropy. You shouldn't do good with money which doesn't belong to you." (Mulier and Bogner, 2010).

ii) *When business leaders are also driven by non-monetary and non-instrumental incentives, they consider stakeholders' interests even if profits are at stake.*

If a business leader is swayed by non-monetary and non-instrumental incentives, which formally means that $\alpha > 0$, there might be positive stakeholder engagement even if the consequences for the company's profits are negative, $\pi^{'}(S) < 0$. However, in this case the negative effects on the company's profits must not exceed the business leader's personal limit, because meeting the condition in Equation (2) is essential.

iii) *The higher the trade-off between stakeholder engagement driven by non-monetary and non-instrumental incentives and the company's economic performance, the more unlikely it will be for business leaders to opt for positive stakeholder engagement.*

If positive stakeholder engagement leads to drastic economic losses (meaning that $\pi^{'}(0)$ is

strongly negative), then Equation (2) is more difficult to satisfy, and the business leader likely ignores stakeholders' interests.

iv) *In contrast, business leaders motivated mostly by non-monetary and non-instrumental incentives are willing to make substantial economic sacrifices to maximize their objective functions.*

As Equation (2) shows, the more non-monetary and non-instrumental incentives sway a business leader (that is, the higher the leader's α), the more willing this business leader will be to accept potential negative economic consequences. This situation is particularly clear in the case of small companies whose owners, obeying social norms, accept considerably lower payments from their acquaintances. In extreme cases, such practices even may result in the bankruptcy of the company.

Refined Model

In the extended model, we relied on a simplification of the business leader's monetary and instrumental incentives, such that they were proportional to the present value of the company's profits. However, because the present value of the company's future profits is typically unknown, it is more realistic to suppose that the business leader's monetary and instrumental incentives are highly correlated with current profits, whereas future profits play a minor role for the business leader's objective function. We therefore refine the extended model and split the present value of the company's profits ($\pi(S)$) into two parts: $\pi_C(S)$ denotes the current profit, and $\pi_F(S)$ denotes the present value of the future profits. That is, we write the present value of profits as a sum of current profits and future profits: $\pi(S) = \pi_C(S) + \pi_F(S)$. Moreover, we introduce a parameter δ that indicates the business leader's planning horizon; a value of δ close to zero represents a business leader with a short planning horizon, whereas a value of δ close to one implies that a

leader is interested in the long-term effect of his or her actions on profits. For both cases, we may modify the business leader's objective function in Equation 1 as follows:

$$u(S) = (1-\alpha)(\pi_C(S) + \delta\pi_F(S)) + \alpha S. \quad (3)$$

According to this refined objective function, the business leader still aims to keep a balance between monetary and instrumental and between non-monetary and non-instrumental incentives. However, the leader's monetary and instrumental incentives might be linked more to current profits, a case which can be modeled by considering a leader with a short planning horizon, such that $\delta < 1$. In most applications, it seems plausible to assume that the immediate profit consequences of stakeholder engagement are negative, $\pi'_C(S) < 0$, whereas stakeholder engagement might hold positive returns in the future,: $\pi'_F(S) \geq 0$. Under the modified objective function, the sufficient condition for the emergence of stakeholder engagement becomes:

$$\pi'_C(0) + \delta\pi'_F(0) > \frac{-\alpha}{1-\alpha}. \quad (4)$$

Equation (4) thus states that the business leader demonstrates positive stakeholder engagement if the economic consequences, as evaluated by the business leader ($\pi'_C(0) + \delta\pi'_F(0)$), do not fall below the threshold $\frac{-\alpha}{1-\alpha}$. This condition allows us to extend our previous conclusions, as follows:

v) *Business leaders with a short-term planning horizon and without non-monetary and non-instrumental incentives for stakeholder engagement show no stakeholder engagement at all.* A leader with a short-term planning horizon ($\delta = 0$) who is swayed only by monetary and instrumental incentives (i.e., the strength of non-monetary and non-instrumental incentives α is 0) will only consider the immediate profit consequences of stakeholder engagement, which are likely to be negative: $\pi'_C(0) < 0$. Thus, the condition in Equation (4) cannot be met. This situation holds true even if stakeholder engagement is beneficial for shareholders—that is, even if stakeholder engagement leads to higher long-term profits: $\pi'_C(0) + \pi'_F(0) > 0$. In

such a case, it may be in the shareholders' interest to extend the business leader's monetary and instrumental incentives for stakeholder engagement, for example, by adjusting the business leader's compensation structures. Supporting this conclusion, Mahoney and Thorn (2006) observe that contingent compensations—such as stock options or bonuses—are essential factors in business leaders' compensation structures to stimulate corporations' responsible behaviors.

vi) In general, business leaders will show the more stakeholder engagement, the more they are interested in the long-run development of the company.

The longer the business leader's planning horizon δ, the more likely it becomes that future benefits of stakeholder engagement will compensate for immediate profit losses. More than a century ago, Werner von Siemens, the founder of Siemens which today has become a multinational electronics and engineering conglomerate, provided an exemplary statement reflecting this long-term consideration. He maintained that his company accomplish responsibilities to employees, society, and the environment: "I won't sell the future of my company for a short-term profit." (Siemens, 2013).

vii) *Business leaders who own the company they direct are more likely to demonstrate stakeholder engagement.*

All other things being equal, business leaders who own the company they direct are more likely to take on a long-term perspective than are non-owning leaders. That is, such business leaders will have a longer planning horizon δ and naturally demonstrate stakeholder engagement. Furthermore, the reputation of a business leader who owns the company is often closely related to company reputation.

Table 2 summarizes the results of these analyses. It displays stakeholder engagement as a function of the business leader's planning horizon and incentives. As the overview indicates,

stakeholder engagement may be above or below the profit-maximizing level. In general, the longer the business leader's planning horizon, and the more non-monetary and non-instrumental incentives apply, the more stakeholder engagement business leaders demonstrate. It is important to note that though these conclusions derive from a mathematical model, using differential calculus, we do not presume that business leaders actively perform all these calculations. Instead, as evolutionary game theory suggests, learning and decision processes can result in rational behaviors even in the absence of calculative reasoning (e.g., Fudenberg and Levine, 1998).

Insert Table 2 about here

MODEL LIMITATIONS AND FURTHER RESEARCH

Although our analyses yielded several conclusions about conditions under which responsible leadership based on the two types of incentives for stakeholder engagement may be reasonable from a business leader's perspective, we offer some caveats. First, the theory of rational egoism provides a foundation to reconcile the various views of responsible leadership. However, the assumptions implied by the virtue of rationality do not account for the cases of leadership action in which irrational or intuitive considerations are ultimately decisive. Despite empirical evidence that suggests that the virtue of rationality is applied by business leaders in their pursuit of success (Woiceshyn, 2011), this idea opens up questions about situations and contexts in which business leaders are not guided by rationality principles or in which contextual influences may dominate business leaders' decision making. Further research on responsible leadership may find valuable opportunities to investigate these questions.

The role of context and its influence on responsible leadership point to the second limitation. The broad categorizations into monetary and instrumental, as well as non-monetary

and non-instrumental, incentives for stakeholder engagement are useful to model business leaders' rational considerations systematically, in light of the different conceptual views on responsible leadership. However, the simplifications inherent in this classification neither account for the entire complexity incorporated in leadership action, which generally goes beyond the single person and extends to some form of followership, nor represent the full context dependency usually incorporated in ethical reasoning processes. For example, most rationalist approaches to ethical decision making, as Sonenshein (2007) reviews, assume that situational or contextual factors influence people's reasoning. Several of these influences, such as cultural factors, are not necessarily classifiable according to the two types of incentives for stakeholder engagement. Finally, our portrayal of a single person conducting business is reductionist, because teams usually direct businesses. Although team decision making is likely more complex, we expect that it is possible to apply the foundations of our model to the team context and to multiple decision makers. Further research might even benefit from adopting a mathematical, formal methodology to investigate such team-related factors.

DISCUSSION AND IMPLICATIONS

We aim to contribute to extant research on responsible leadership by explaining stakeholder engagement characterized by 'do good' and 'do no harm' (e.g., Crilly et al., 2008; Miska et al., 2013; Stahl et al., 2013) leadership actions. Based on the differentiation between monetary and instrumental incentives that target economic gains and non-monetary and non-instrumental incentives that direct societal and environmental ends, we analyze how these two types become relevant from a business leader's point of view. Our mathematical model of responsible leadership provides various examples based on rational considerations and explains several of the underlying decision-making mechanisms. We can describe the many facets of responsible leadership in a nuanced way and in view of its various theoretical and conceptual

views. We intend to show that it is possible to reconcile these facets and that future theory development may benefit by going beyond the classical stakeholder–stockholder dichotomy. This observation might be important especially in view of current economic developments, globalization, and increased business interconnectedness. The phenomenon of responsible leadership is becoming increasingly complex and spans economies in various stages of development, different institutional environments, and diverse cultures. Arguably, the phenomenon as such is unlikely to reflect a clear understanding of its normative foundations, and rational egoism theory to some degree provides such a basis for our analyses. Yet given the growing complexity of the phenomenon and multiple contexts in which it is becoming relevant, approaches such as inductive normative methods (Margolis and Walsh, 2003), as recently applied by Pless et al. (2012), may be more constructive than singular imperative stances. A more lucid understanding of business leaders' views on responsible leadership and their underlying rationales could enrich research in the field. In this respect, our analyses represent a first approach to systematically mapping several of the various avenues that business leaders might follow.

The specific findings of our analyses provide several implications. We show that a positive relationship between stakeholder engagement and future profits is neither necessary nor sufficient for business leaders, in view of stakeholder engagement. It is not necessary because business leaders' non-monetary and non-instrumental incentives, such as their values and authenticity, sense of care and duty to help, or personal corporate citizenship, may compensate for negative economic consequences, provided these consequences do not exceed certain individual monetary boundaries. A positive impact of stakeholder engagement on future profits is also insufficient for business leaders to demonstrate stakeholder engagement. This situation occurs because leaders may have a shorter-term planning horizon than their companies'

shareholders, in which case the business leaders would not anticipate (or internalize) future monetary benefits of responsible leadership. As a consequence, it paradoxically may be in the shareholders' or business owners' interest to provide additional monetary incentives to shift business leaders' interests toward long-term perspectives. This implication to some degree appears to contradict both the agent views on responsible leadership, which emphasize business owners' profit maximization principles, and the stakeholder views, which appeal to the personal, ethical qualities of business leaders.

From a policy perspective, our analyses have several implications: If endogenous incentives for business leaders to take all stakeholders into account are too low—such as when business leaders have short-term planning horizons—it may be in the public authority's (and the neglected stakeholders') interest to establish additional incentives. These exogenous stimuli could range from legal regulations (e.g., laws, prescriptions) to economic rewards (e.g., subsidies, grants) and might also include threats of sanctions (e.g., calls to boycott). Such regulations, though, could limit business leaders' room to maneuver and affect those with longer-term planning horizons, as the process of reconciling monetary and instrumental, as well as non-monetary and non-instrumental, incentives gets restricted from the outside. Consequently, limiting business leaders' discretionary choices from the outside is likely to result in reduced opportunities for them to actively engage in 'do good' and 'do no harm' behaviors.

Because we have found that a positive effect of stakeholder engagement on a company's profits is neither necessary nor sufficient for business leaders' stakeholder engagement, the question arises about whether assessing managerial performance should still rely mostly on monetary measures. Several studies dispute this notion. For example, Székely and Knirsch (2005) suggest that measuring the extent to which corporate performance increases in response to implementation of CSR initiatives may be a way to strengthen linkages between financial and

CSR performance, a link that turns out to be ambiguous but that receives empirical verification (e.g., Cochran and Wood, 1984; Godfrey et al., 2009; Schreck, 2011). The converging views of responsible leadership, and particularly those that build on 'doing well by doing good', are in line with this notion. In other words, our analyses imply that leadership performance should increasingly be assessed beyond pure monetary measures and instead be complemented with assessments that mirror the extended responsibilities of business leaders.

Finally, our findings show that responsible leadership does not necessarily incorporate straightforward trade-offs between economic performance and societal and environmental targets, as the agent views may suggest. This corresponds to similar notions in the literature such as Freeman et al.'s (2007) observation that "a business that constantly trades off the interests of one group for another is doomed for trouble and failure" (p. 10). Similarly, Kolstad (2007) argues that there are times when corporations should stray from profit maximization to pursue goals important to society and ultimately themselves. It is these varying instances that make responsible leadership an ambiguous concept that is difficult to grasp, and they also trigger the various conceptual views of the phenomenon. Our rationality-based approach represents one attempt to systematically delineate several of these instances to provide a lucid and nuanced perspective on the many facets of responsible leadership.

Abbreviations

S business leader's stakeholder engagement

π present value of the company's profits

α relative strength of non-monetary and non-instrumental incentives

$\pi_C(S)$ company's current profits

$\pi_F(S)$ present value of the company's future profits

$\boldsymbol{\delta}$ business leader's planning horizon

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FIGURE 1

Overview of Perspectives on Responsible Leadership

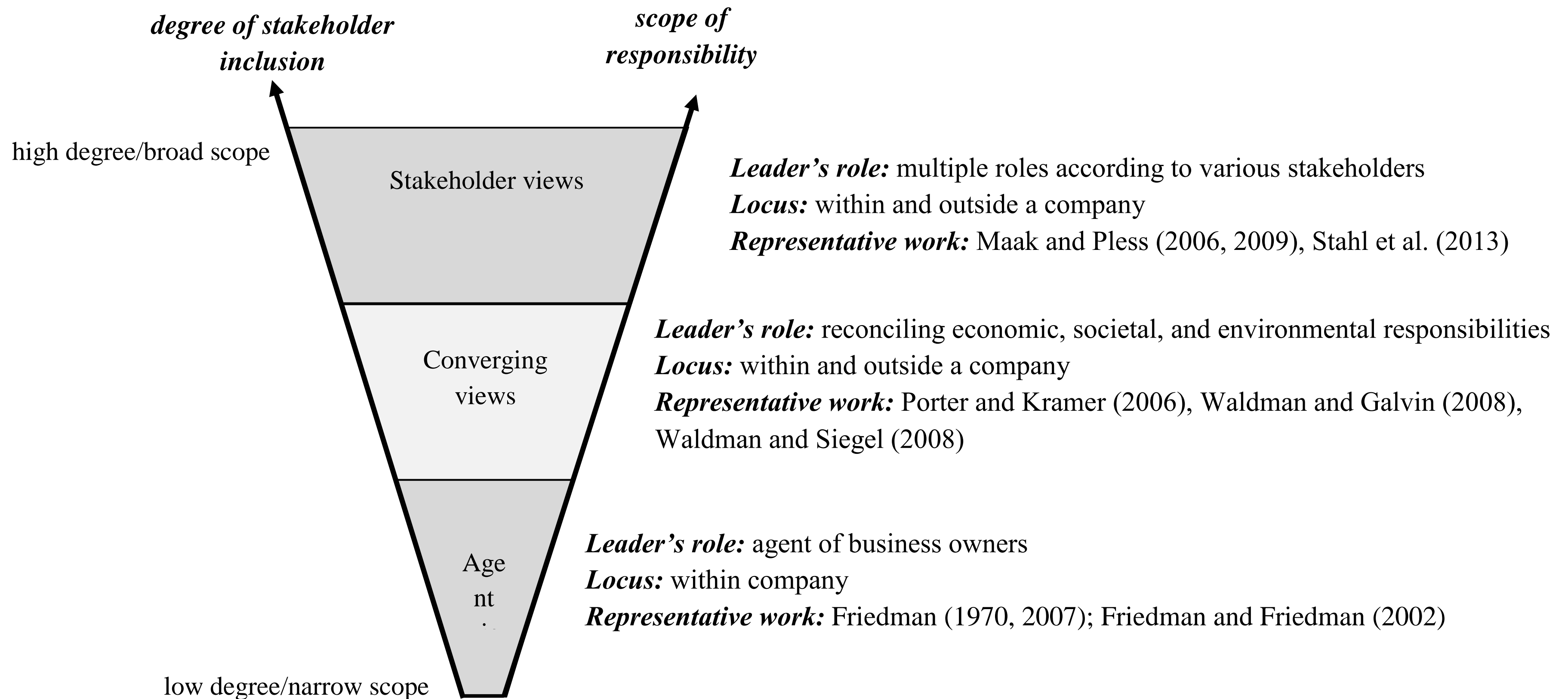

TABLE 1

Types of Incentives for Responsible Leadership and Business Leaders' Stakeholder Engagement

Category	**Monetary and instrumental incentives**	**Non-monetary and non-instrumental incentives**
Description	Incentives for stakeholder engagement with the purpose of directly or indirectly increasing or maintaining a company's economic gains	Incentives for stakeholder engagement that go beyond economic responsibilities and target societal and environmental goals
Examples	• Strategic considerations • Anticipated negative costs and sanctions in case of irresponsible leadership • Societal expectations	• People's values and authenticity • Sense of care and duty of assistance • Personal corporate citizenship

TABLE 2

Stakeholder Engagement as a Function of Leaders' Monetary/Instrumental and Non-Monetary/Non-Instrumental Incentives

		Business leader's planning horizon	
		Short-term perspective ($\delta = 0$)	**Long-term perspective** ($\delta = 1$)
Business leader's incentives	**Monetary and instrumental incentives only** ($\alpha = 0$)	A business leader realizes a level of stakeholder engagement that is below the profit-maximizing level	A business leader realizes exactly the level of stakeholder engagement that maximizes the company's profits
	Monetary and instrumental as well as non-monetary and non-instrumental incentives ($\alpha > 0$)	A business leader's level of stakeholder engagement can be above or below the profit-maximizing level	A business leader realizes a level of stakeholder engagement that goes beyond the profit-maximizing level