

# Humanistic Leadership, Organizational Culture and Corporate Citizenship Behaviour

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## **Abstract**

*Leadership plays a significant role in shaping an organization's culture. A new type of organization is emerging that aims at not only earning profit through its business, but also at contributing to the benefit and well being of the members of the society. These organizations are led by a new type of leader who is called a humanistic leader (Prasad, 2011). This paper looks at the importance of humanistic leadership style in shaping this new type of organization. We also look at these organizations using the lens of established frameworks such as the Corporate Social Responsibility pyramid developed by Buchholtz & Carroll. These organizations look at the well-being of all stakeholders including owners, vendors, customers, employees and other shareholders. These organizations behave like responsible corporate citizens and new emerging research suggests that these organizations are being rewarded by their customers, as well as the shareholders. This development will in turn create a new model of business which is based on win-win strategy for all the stakeholders of an organization. Many of these new class of leaders display higher order needs such as self-transcendence and self-actualization in the Maslow's schema of needs arranged in a hierarchical pyramid. This paper suggests that the research in the areas of individual motivation of leaders can be merged with research in the area of leadership and organizational culture to help understand this new emerging trend.*

## **Introduction**

Entrepreneurship involves many things like risk taking, identifying business opportunities as well as leadership in the face of an uncertain business environment. Leadership makes sure that the organization moves in the right direction; the vision and mission are shared clearly with the employees, and the resources are utilized effectively to attain more positivity and profitability (Farkas & Wetlaufer, 1996). A good leader is aware of the organization's strengths and weaknesses, and also understands the relevant elements of the environment and how they affect the company's prospects. He steers the course of the organization in order to help it perform and grow most effectively.

There are many leadership styles depending on the personality of the leader, and the culture of the organization is influenced significantly by this

leadership style (Hambrick & Mason, 1984). What the leaders say and the way they act establishes norms that influence everyone lower down in the hierarchy. Different leaders employ different leadership styles. Leaders with a command and control style formulate ideas on their own and dictate actions to their employees. Collaborative leaders come up with ideas with the assistance of employees from all levels of the organization, leveraging employees' creativity to boost company performance. Facilitative leaders delegate almost all productive tasks to subordinates, and focus on providing their employees with everything they need to excel in their jobs. Business owners' leadership styles are extremely important in crafting company culture (Schein, 1995).

There are also other leadership styles followed in different organizations like Autocratic, Bureaucratic, Coaching style, Participative style and Servant leadership style. Autocratic leadership

style refers to the high control over the employees by the leader, and dictating strict rules and regulations, whereas laissez faire style implies low control. Participative leadership style is one which lies between the two, where a moderate control is followed. Bureaucratic leadership style is the one which demands obedience to the system and makes an argument that in large groups such as the multinational corporations and government agencies, formal authority should be the most primary type of influence used. The leaders who teach, train as well as lead come under coaching style, and this is very highly valued as such leaders groom the stakeholders' knowledge and skill

(Robbins et al., 2009).

Ohio State University and the University of Michigan conducted a study in 1950s to determine whether leaders should be more task or people (relationship) oriented. The research discovered that there is no one best style. Leaders should adjust their leadership styles according to the situations as well as to the group being led. Based on the aforementioned studies, Blake and Mouton developed a managerial grid based on two behavioral dimensions, concern for people and concern for results.

**Fig 1: Managerial Grid**



(Source: Blake and McCaense, 1991)

### Critiques on Various Leadership Styles

Many weaknesses and limitations have been pointed out in most of the traditional leadership models. The traditional and transactional leadership styles focussing on efficiency and smooth fulfillment of tasks are no longer celebrated as the best forms of leadership in organizations. Great leaders are expected to move out of their comfort zone, be more transparent to the situations and have a macro as well as micro view on the problems and challenges that they face.

Several studies have shown that leadership styles have a strong relationship with the organizational

culture which in turn affects performance. For example, in their seminal study of the role of leadership in organizational success in UK, Ogbonna & Harris (2000) found that the relationship between leadership style and performance is mediated by the nature of organizational culture. This paper provides empirical evidence of the links between various types of organizational culture, leadership styles and organizational performance.

In the book "Delivering Happiness" by Zappos CEO Tony Hsieh (2010), the importance of culture and how it affects the growth of the organization is mentioned. He tells how a non-traditional

corporate culture built around certain chosen values is a powerful tool to achieve organizational success and increase overall level of employees' happiness and satisfaction too in the process. This happens because such a culture helps the employees to recognize what is important in the organization. Clarity about the values helps them to achieve clarity about the accepted mode of action as well as find meaning through their work.

Organizational culture refers to the unique, social and psychological environment that prevails in an organization. It is the collective beliefs, values and principles followed by a community and evolved through the history, market, technology, and product from the company. Ravasi and Schultz (2006) mentioned that organizational culture is a set of shared assumptions that guide what happens in organizations by defining appropriate behavior for various situations. As mentioned earlier, organizational culture is influenced greatly by the leadership or the management style of the top management of the organization.

“Maverick” by Ricardo Semler (2001) is a very popular business book written by a very successful business leader. It details the case study of Semco, a very successful manufacturing company from Brazil that has flourished under the very unusual and revolutionary leadership style of its leader who has authored this book. This book explains about a leadership style where employees are given freedom to take responsibility for the various business decisions to an unusual degree. The company has inverted the normal corporate hierarchical pyramid. In this company, the managers have to gain the trust and support of the subordinates in order to continue functioning as managers. Employees set their own salaries in Semco; there are very few rules, formalities and rituals inside the organization; almost all the internal walls have been physically removed to ensure maximum transparency. This organization with such an unusual workplace dynamics is also very successful. All these policies have led to employee engagement levels that are amongst the highest anywhere in the world. This is a typical

example of the Humanistic Leadership Style (Prasad, 2011) which is becoming increasingly popular these days. Prasad (2011) in his work on happiness at the workplace, coined this new term to capture the leadership styles of all the new age business leaders who display characteristics of a self-actualized personality on the Maslow's hierarchy of pyramid of needs.

The traditional leadership models as depicted on the Blake & Mouton's Leadership grid looked at two dimensions – concern for results and concern for people. Humanistic leadership style talks about a third dimension- developing the leadership potential of the reportees/employees, and that in turn creates a culture where excellence, trust, camaraderie, care for all stakeholders, transparent communication, creativity etc. start to flourish naturally which in turn produces excellent performance. According to this concept, professionals who report to such leaders, get impressed by their inspiring and confidence generating leadership style which in turn motivates them to take more responsibility proactively thus improving their own leadership and decision making abilities.

### **Corporate Responsibility through Leadership Style**

Humanistic leadership style is a strategic, compassionate and ethical style which considers the strengths, weaknesses and emotions of the people they work with. These leaders set an example to the society, and always walk their talk. People follow them seeing their commitment to the promises already made and the hard work exerted by them to meet their promises. They listen patiently to the dissenting views too, and work facing reality where no importance is given to assumptions. Since they are operating at the self-actualization level of the needs hierarchy, they are emotionally very stable which allows them to listen to and accommodate all the contradictory viewpoints in a very objective manner.

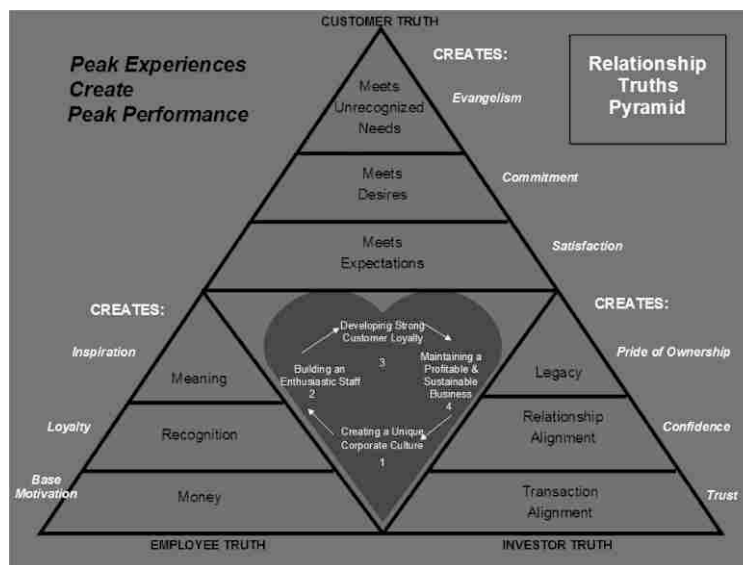
**Figure 2: How happiness spreads across all stakeholders in an organization**



Figure 2 above depicts the process by which a Humanistic leadership style is able to ensure a highly motivated workforce which in turn takes care of the customer needs making them satisfied. Customer's satisfaction leads to higher profitability thus making investors happy about their investment in the company. The investors trust and support to the leadership helps

the organization to scale greater heights. The above framework depicted in Figure 2 is partly inspired by the Relationship Truth Pyramid framework developed by Chip Conley, who himself is another Humanistic leader inspired by Maslow. Figure 3 below shows the Relationship Truth Pyramid.

**Figure 3: Relationship Truth Pyramid (Chip Conley)**



The three inner pyramids give idea about the relationships of the organization with customer, employee and investor respectively. This is a framework which Conley has developed using his understanding of both Maslow's theory of hierarchy of needs and his experiences gathered from applying Maslow's ideas to his hospitality business called Joie de Vivre Hospitality. This is a chain of hotels and restaurants that are managed by Conley using Maslow's ideas on the way human needs are arranged in a hierarchy where higher order needs of belongingness, esteem and self-actualization are more deeply satisfying to the employees, customers and investors than the lower order needs based on the physiology or safety concerns.

Employee truth speaks about the inspiration level which is created from the base motivation and loyalty they achieve in the organization. This provides more meaning to the work and the life associated with it. They serve the customers enthusiastically and that helps develop strong customer relationship and loyalty which can initially meet the customers' expectations, and later on, even their desires. There are many unmet needs for a person, which requires an extra effort from the organization to understand and help achieve them. If successfully done, this leads to a greater satisfaction level in the customers. This can also be related to the ancient Indian moral dictum which stated 'Athithi devo bhava' (Guest is God). When the hotel employees operate with that kind of a respectful perspective towards the guests, it would naturally lead to the satisfaction of the higher order needs of the guests as well as the employees. As explained in Figure 2, these strong relationships with customers reflect in the profits and make investors happy about their venture. The more the organization achieves employee truth and customer truth, more the returns multiply for the investors.

The investors are also kept in the loop of the company's noble goal of meeting the higher order needs of all the stakeholders. This gives meaning to their investment as creating a legacy in the business world that can inspire other businesses to adopt such a noble vision. It also fulfills the investors' need for a meaningful relationship with their own company. This moves them to the investor truth. Happy investors develop confidence in the organization's management team and it helps them experience pride of ownership in a great company and leads to greater investment commitment.

Impact investment is another new phenomenon which has found its space in modern business world, where the investors' intention is to create a positive social and environmental impact along with financial profits through their investment (Saltuk et al., 2011). A shift towards win-win strategy is being seen in many other organizations these days, enabling all the stakeholders of the organization to be happy about the venture. This has brought a greater focus on the ethical and philanthropic responsibilities of the corporates.

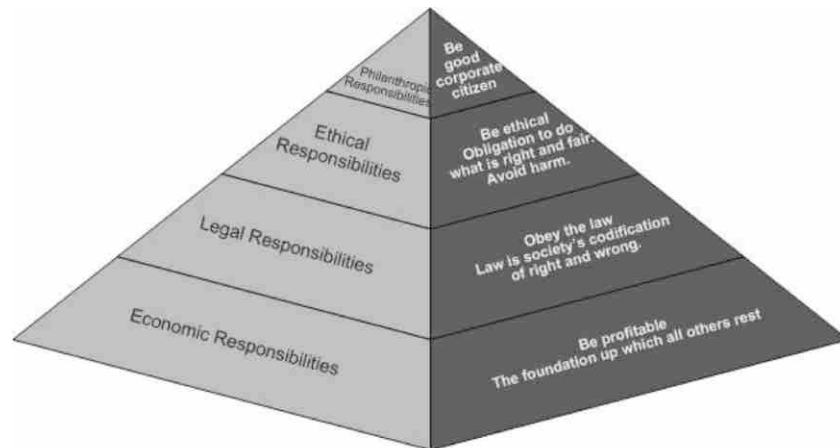
Aravind Eye Care System, with its chain of hospitals and ancillary services, is one of the best social enterprises in the globe. Founded by Dr. Govindappa Venkataswamy, it follows a unique model which is inspired by its long term vision of eradicating needless blindness in India. They have performed more than 300 thousand cataract operations so far, out of which 70% have been done free of charge as service to the poor patients who could not afford the cost of the treatment. Their efforts towards social responsibility are commendable and have been enabled by their innovative operation procedure which is similar to that of an assembly line in a factory. This has ensured a very low turnaround time, and also permits them to carry out multiple surgeries at the same time in the same operation theatre. This process innovation in the eye care space led to an almost tenfold productivity increase at Aravind as compared to other eye care facilities (Rangan & Thulasiraj, 2007).

Similar to Aravind, many new organizations have emerged that follow the social responsibility path. Some of these operate in the for profits space while others in the non-profits sector. B-Corps (Benefit Corporations) are a new type of corporates emerging to meet the social sustainability and environment standards (Reiser, 2011). These organizations are also very transparent with the public about the standards they meet. There are examples of B-Corporations like Karma Kitchen which is a volunteer driven experiment in generosity, where somebody who one does not know has already paid for one's meal enabling her to cherish it without paying. If one wishes, one could also pass the same gift to the next person who comes after her by paying for his/her meal. Most of the workers at Karma Kitchen give their time freely as voluntary service in order to serve the customers. This venture started in 2007 at Berkeley, USA and has since spread to many other parts of the world. The aim of these ventures is to "help shape a future rooted in celebration of abundance

rather than fear of scarcity, in trust rather than trade, in shared commitment rather than selfishness, in connectivity rather than isolation, in participation

rather than exclusion”  
(<http://www.karmakitchen.org/index.php?pg=about>).

**Fig 4: Carroll CSR Pyramid**



(Adapted from Carroll 1991, and Buchholtz and Carroll 2008)

Carroll (1991) and Buchholtz & Carroll (2008) came up with the framework of Corporate Social Responsibility (CSR) pyramid which has become widely accepted in the area of CSR studies. This pyramid postulates four levels of corporate functioning in terms of their worldview and corresponding strategies – economic, legal, ethical and philanthropic. A company operating at the economic responsibilities level focuses on making the organization profitable by trying to ensure maximum sales and minimum cost. Companies at the legal responsibilities level while following their economic interests, diligently obey the legal framework that prevails in the host market/s. Those operating at the ethical responsibilities level go beyond the requirements of the law alone by consciously espousing and practicing an ethical code of conduct which is based on universally accepted moral values like honesty, sincerity, truthfulness, diligence etc. They focus on doing their business ethically. The highest level in the pyramid is that of philanthropic responsibilities. A company operating at that level is a good corporate citizen that tries to do good for the society through the product or services that it offers. Aravind Eye Care, Joie de Vivre Hospitality and Karma Kitchen – the examples cited above clearly fall under the philanthropic level of the CSR pyramid.

### Effects on Organization's Setting

Empowered employees encourage customers to be

happy about the product they use which ultimately creates a loyalty among them (LaMalfa & Expert, 2007). “Peak” by Chip Conley talks about this concept, how a happy and passionate work environment can be created which leads to a passionate workforce who take care of the customers. This leads to a profitable and sustainable business through a robust customer base. There are many ways to measure these apparently intangible benefits thus making them tangible according to Conley. He mentions the relevant intangibles as peak experiences of customers, shareholders and employees, with the business ultimately reaching the customer loyalty and strong brand status. Chip Conley's Joie De Vivre Hospitality is California's largest boutique hotel company and through his ecstatic vision the intangible environment that prevails at the workplace even meets the self-actualizing needs of the customers. Managers are asked to customize their approaches towards their subordinates by giving them more recognition, and employees get a chance to give feedback about their managers more frequently. Employees are given various exercises to improve customer experiences, and also build a sense of belonging and teamwork. This ultimately results in knowing more about customers through continuous surveys, and gives a fillip to thinking beyond the existing product or service.

The above cases show that a great relationship between

company and customers can be created if the corporate behaves as a corporate citizen. An effective leadership style where more freedom is given to employees, leads to greater ownership on their part for their actions which leads to better performance. Such organizations also fulfill the dictates of the Normative stakeholder theory of corporate social responsibility which states that business should take care of the concerns of all stakeholders including owners, customers, vendors and shareholders (Rodin, 2005). The corporate reputation of the top 25 companies including Apple, Coca-cola, Ford, Google, Nike etc. as per the Global Corporate Reputation Index 2012 is a blend of marketplace performance and corporate citizenship. Google has initiated risky clean energy investments; Coca-Cola came up with its Plant Bottle into CSR space; and Ford has put faith in hybrids and electric vehicles more than many other competitors. Another example is McDonald's, which invested in environment sustainability with greener packaging, and demonstrated its commitment to ethical and compassionate business by breaking off its ties with Sparboe egg farms for its inhumane animal treatment. Though these companies are not perfect corporate citizens when compared to the model businesses cited earlier, they have taken initiatives to improve their reputation through their CSR practices. This is of course rewarded by customers, which is reflected in their high rank in the Global Corporate Reputation Index.

## Conclusion

It is very clear that a new trend is emerging of a new type of businesses which focus as much on doing good for all their stakeholders as they do on creating a surplus. Doing good for society is actually helping them to be more profitable too apart from helping them earn a better reputation. Their employees find meaning and passion at the workplace through the work that they do, and that leads to greater loyalty and commitment towards the organization. This also improves the bond that the company's investors have with the company making it easier to get their support for future investments (Conley, 2007). In last few years, the number of studies related to link between CSR and corporate profitability are increasing. Many of these studies are finding that the CSR activities donot have a negative effect on the profitability; in most of the cases, it has a positive and sustainable effect (Manescu, 2010). Greater corporate social performance (CSP) is linked

with better corporate financial performance in consumer industries (Baron, 2009). In this influential paper, Baron argues that the extra cost of the CSP which he also calls moral management, can be offset by five possible benefits: (i) additional customers may be attracted, (ii) these customers may be willing to pay more, (iii) it may direct the social pressure away from the firm, (iv) it may help build a favourable reputation among the members of the society, and (v) the shareholders may find additional satisfaction in holding the company's shares.

In view of these initial encouraging results, it seems that Corporate Citizenship and CSR are here to stay. The trend of corporates taking up more and more socially responsible activities may only grow in the future.

Many of the some eminent business leaders of this new genre like Tony Hsieh, Ricardo Semler, Chip Conley and others not mentioned in this paper are sharing their experiences through different fora like books, articles, blogs etc. Many of these leaders have admitted being influenced by research in the areas of happiness, subjective well being, humanistic psychology and spirituality. It is perhaps time for researchers to research the link between personal motivation of these leaders and the type of organizational policies and strategies that they adopt; the link between these policies and strategies and the type of culture that gets created at their organizations; and finally the link between the organizational culture and its impact on different relevant stakeholders of a business organization like the suppliers, investors, employees, customers and the larger community. This paper is an effort to encourage research in that direction.

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