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Leadership in a Complex World: How to Manage "The Tragedy of Choice"

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Contrary to popular notions, leaders do not lead people: They lead organizations that in addition to people include social roles, cultural values, beliefs, hopes and expectations. For instance, the oldest continuing organization on earth, the Catholic Church, is led by a Pope who need not have such traditional leadership qualities as being charismatic, visionary, decisive, ambitious, or well connected. He is chosen in large part because he shows promise to keep the Church solvent and perhaps even growing; and because he is committed to the values that the followers expect the Church to provide. A good Pope will need to have different qualities from a Genghis Khan or from a John D. Rockefeller, who led organizations that were very different from the Catholic Church. Yet the most important task of both Genghis Kahn and Rockefeller, like that of the Pope, was to convince people that it was in their best interest to follow them and keep the organization they led (e.g., the Mongol Horde, the Rockefeller financial empire) prosperous.

Over time, human social organizations have changed in the direction of increasing complexity. Complexity, as used in systems theory and in evolutionary science, includes two independent but complementary processes: one toward increasing *differentiation*, the other toward increasing *integration*. In terms of the evolution of human organizations, differentiation involves such processes as the division of labor, the specialization of functions, democracy and individual rights and responsibilities. Integration, on the other hand, involves the development of legal systems, nation states, religions, ideologies, and the current trend toward globalization. When differentiation occurs without integration we have anarchy, chaos and conflict; when integration proceeds without differentiation we have stagnation and oppressive conformity. A successful organization is one that is able to maintain equilibrium between specialized, differentiated functions, and a unity of purpose provided by a common purpose and shared values. To return to our earlier example, the Roman Catholic Church achieved a degree of complexity that allowed it to survive two thousand years of challenges. On the one hand, the church kept a high degree of *integration* by establishing a single central authority whose task was the preservation of the faith—faith being the main "product" of the organization. The decisions of the Pope in matters of faith were supposed to be divinely inspired and therefore final. On the other hand, the church was also *differentiated*: The Pope is elected by a college of cardinals representing different nations and cultures; monastic orders like the Franciscans, Benedictines, Jesuits and Salesians have arisen to emphasize different applications of Christianity such as helping the sick, educating the young, or simply to worship the Supreme Being.

This complexity served the organization quite well over the centuries, but as with all human institutions, the Catholic Church has also been vulnerable to external and internal threats. Of these, the internal ones have been the most dangerous: whenever its central values have been compromised, the entire organization has come close to collapse. The church was almost destroyed when roughly five centuries ago the Renaissance Popes, in order to maintain their extravagant lifestyles, started peddling "indulgences." This meant that contrary to the values and beliefs the church was promulgating, those who could afford to pay for it could buy insurance for the afterlife, instead of earning it through virtuous actions and faith. By diluting the integrity of its product, the church facilitated the emergence of a formidable competitor: the message of Martin Luther, which reasserted the priority of spiritual over material values. Similarly, the scandals involving the sordid abuse of young children by priests supposedly supporting chastity and celibacy is causing a contemporary crisis in the organization, a crisis which is unlikely to be healed unless the leadership of the organization finds ways to re-align values with actual behavior. Ultimately the challenge for the Catholic church is an

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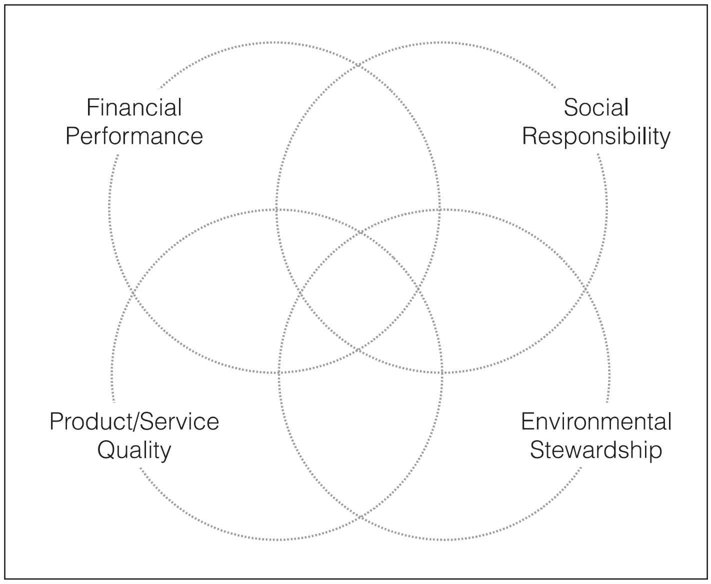

Figure 1 The Mandala Model

existential one: for this most venerable of organizations to remain relevant into the future it must continue its past tradition of accommodating the plurality of values inside its organization, acquiring and integrating compatible values from outside itself all while remaining authentically true to itself—no mean feat.

Leaders of business face no less a daunting existential challenge than that facing the Roman Catholic Church: we have reached a point in history when just being profitable is no longer a viable goal for a successful business model. Public awareness has evolved to expect more from business than the provision of services and commodities—the expectation has extended to include long-term safety and sustainability, ethical production and delivery methods, employee well-being, and responsibility to the community—a set of goals summarized under the concept of Corporate Social Responsibility, (CSR). As societal values change, CSR is beginning to be an increasingly important measure of what makes a business effective. But CSR adds an additional layer of complexity to the job of a leader, who already manages multiple tradeoffs in deciding what activities to pursue to achieve strategic aims. The ultimate goal of any organization is to survive by adding value to the lives of the population. In the case of the for-profit firm this translates to creating a business model that outcompetes competitors in the marketplace. The challenge becomes one of effectively integrating a new set of values around social and environmental responsibility while remaining true to that goal. We suggest that visionary leaders who have successfully woven CSR into the fabric of their strategy have shown themselves adept at navigating this complex process of differentiating and integrating competing values.

Leaders wishing to emulate the example of these CSR pioneers must find a way to gain similar perspective on and appreciation of the pluralism of values. By focusing strategy through the lenses of four macro values, Superior Product Quality, Social Responsibility, Environmental Stewardship and Financial Performance, the **Mandala Model** offers a prism through which effective business leaders view and refine strategy that acknowledges the full spectrum of values at work within and around an organization. The relative complexity of the Mandala Model is due to a simple reason: the values of any organization do not exist in some steady state but in a defined state of flux. However, that volatile interaction between values, including those associated with CSR, ensures the viability of the culture, creativity of strategy and engagement of stakeholders that will allow an organization to endure and thrive (Fig. 1).

GROWING ACCEPTANCE OF CSR AS EXISTENTIAL NECESSITY: A LEADERSHIP DILEMMA

Management and strategy authors from Michael Porter to Bill George have long argued that for organizations to effectively conduct CSR (defined as environmental and social responsibility), it must become a strategic imperative. A few companies, such as Patagonia, Whole Foods, Nike, Wal-Mart, Unilever and Interface Carpet, have successfully proven that CSR can align with competitive advantage, and leaders like Yvon Chouinard, John Mackey and Ray Anderson are held up as visionary. However in the broader business landscape, despite increasing attention to CSR as a business necessity, such strategic integration has proven stubbornly elusive to most companies.

In current management literature, we find frequent descriptions of how leaders of organizations can integrate CSR into strategy. Michael Porter describes a method of "Creating Shared Value," where companies find the points of synergy between value chain activities and positive social/environmental impact. Norton and Kaplan propose adapting their iconic balanced scorecard to include social and environmental metrics to measure and improve performance in those areas. Other works such as Edward Lawler's *Management Reset* discuss the need for focus and shared leadership while Whole Foods CEO John Mackey's *Conscious Capitalism* describes qualities of Visionary Leadership from Systems Thinking to Emotional Intelligence and Spiritual Intelligence.

We see a critical gap in the literature. What do leaders do when strategic decisions need to be made and CSR values do not have a seat at the table when the strategic path of the firm is being forged? How do these leaders achieve a harmony of values? The practitioner must make these decisions every day. The current literature glosses over the fact that this decision making process with competing values is fraught with potential pitfalls and distractions. Porter's Shared Value thesis, for example, calls for narrowing social and environmental focus to areas of high overlap with strategy and goals to serve society and organization simultaneously. Alternately, Mackey describes an ideal state in which leaders, "rather than sacrifice a higher value for a lower value. . . seek strategies that can simultaneously fulfill multiple values." By emphasizing narrow or broad harmony between values, these authors fail to acknowledge both the complexity of how values are held and exercised by individuals, groups and society and the power inherent in the dynamic tension between those competing values—what Drucker would call "Dynamic Disequilibrium." The key to unlocking the potential of CSR to add to long-term value creation is by embracing the destabilizing role that competition between values provides in the growth and development of the organization. We propose that visionary leaders become adept at understanding the pluralism of values among an organization's material stakeholders, and manage a delicate process of trade-offs between conflicting values to arrive at superior strategies. Most important, these visionary leaders recognize that continued growth and success hinges on differentiating and integrating values into the culture of the organization. They find the sweet spot between weak cultures wherein values are overly differentiated and normative command-and-control cultures that prize integration at all costs. In an environment of high complexity, people are empowered to own their part of the collective purpose, to make creative leaps, allowing the organization to leapfrog rivals and over time more effectively and consistently deliver value to all their stakeholders (Fig. 2).

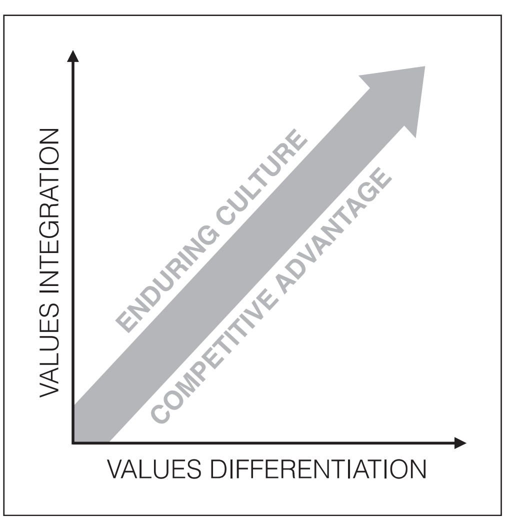

Figure 2 Values Complexity Leads to Stronger Culture and Competitive Advantage

THE LINK BETWEEN VALUES AND PERFORMANCE

For any organization, the values it claims to hold represent the reason for its existence. Religious organizations exist to help people live a virtuous life; governments exist to protect and deliver services to citizens; for-profit companies exist to solve a specific problem in the market—typically expressed as its **Core** or **Shared Purpose**—based on a core assumption. For example, Walmart's low-cost ethos is a manifestation of the core assumption that providing low-cost goods to people helps make their lives better. This sense of core purpose forms the basis for all effective strategy of the company, and over time, the foundation for the company culture. A commitment to CSR represents an additional set of values based around ideas of creating positive impact (or at least minimal negative impact) in the lives of employees, communities, and the natural environment. Given Walmart's low-cost core purpose, these CSR values manifested in an internal push for cutting costs around waste (fuel for distribution, packaging, utilities and power consumption). These CSR initiatives capture the rising tide of consumer sentiment and at the same time support the core purpose of delivering lowest cost (highest value) pricing for their customers. For example, when the company announced in 2006 it would phase out incandescent light bulbs, it positioned the move as a cost savings for its customers: "We have a fundamental belief that all families should have access to affordable, sustainable goods, and compact fluorescent light bulbs are a great way for our customers to save money."

Diverse management researchers from Porras to Kotter to Sisodia have long linked strong values and culture to outstanding performance. Authors refer to this as "Values Alignment"—where the values of material stakeholders, internally and externally, align with the mission, vision and purpose of the company. In such a halcyon arrangement, employees are engaged because they like their jobs, customers become loyal to the point of advocacy, external stakeholders become brand supporters, and shareholders reap rewards dwarfing those of rival companies. In his book, *Firms of Endearment*, Rajendra Sisodia notes that his values-driven sample of companies outperformed the S&P by a nearly 8-1 margin over the ten years leading up to 2006. Similar companies arise as examples again and again in these descriptions of values-aligned organizations: Whole Foods, Patagonia, Starbucks, Interface Carpet, and even Walmart and Costco. And the leaders of these companies, in many cases the founders, get credit for fostering a strong internal culture based on core espoused values.

VALUES ALIGNMENT—EASY TO SAY, VERY CHALLENGING TO EXECUTE

The problem with holding up Values Alignment as a means of creating positive stakeholder engagement is that even the task of lining up values within an organization is difficult. Adding the interests and passions of external stakeholders complicates this effort exponentially. Many companies have fallen into the trap of articulating a set of core values that either don't represent their true beliefs or upon which they fail to base their actions. Enron famously held up an admirable set of core values emphasizing integrity and responsibility to shareholders, but the unfolding of the trading scandal revealed these values as mostly hollow.

Even when a company is committed to its core values, tension between values can exist inherently or arise due to circumstance. Furthermore, because people are complex, it is highly likely that at any one time, certain individuals or groups will elevate some values over others. In this environment leaders must respect these tensions and overcome a "Tragedy of Choice."

NAVIGATING THE TRAGEDY OF CHOICE

Isaiah Berlin describes the inevitable "situation of tragic choice" arising from a pluralism of values, wherein two or more incompatible values come in conflict and one cannot accommodate all of them. He notes that, "until the Romantic era, the very idea that values might be in conflict had not arisen. Until the Romantics, serious philosophical opinion held that for any genuine question there must be one true answer; that these truths were accessible to all human beings; and that all the true answers to true questions must be compatible with each other." In reality, perceptions and underlying values often conflict, even within a single individual, let alone within an organization of hundreds or thousands of individuals.

Even within an organization with strong, authentic espoused values, leaders must recognize the tension created by the pluralism of competing values. Whole Foods holds core values in both environmental stewardship and financial return—two values that can find themselves at odds with one another. Furthermore, even supposed CSR values can conflict when a company must choose between sourcing locally or sourcing from a more environmentally friendly but more distant vendor.

The **Mandala Model** proposed by Crooke describes the broad interplay of contemporary values relevant in today's business world. It posits four "macro-values:" *environmental stewardship, corporate citizenship, product/service quality, and financial strength*. These "macro-values" are essentially broad categories that encircle numerous related values. For example, the macro-value *of environmental stewardship* refers to the need for organizations to recognize and mitigate or minimize their impact on the natural environment; it also represents the ultimate goal of integrating environmental concerns into product (and service) design in order to progress toward closed-loop manufacturing processes that eliminate waste. *Corporate citizenship* represents the social realm and the organization's relationships with stakeholders, ranging from employees to suppliers to neighbors in the local community to government entities. *Product/service quality* refers to the need to excel at the organization's core competency. In his writings on social responsibility, Drucker states that, "Performance of its function is the institution's first social responsibility. Unless it discharges its performance responsibly, it cannot discharge anything else. A bankrupt business is not a desirable employer and is unlikely to be a good neighbor in a community. Nor will it create capital for tomorrow's jobs and the opportunities for tomorrow's workers." Thus, Drucker proposes that producing a product or service of the highest possible quality is a critical social responsibility of organizations. Another component of *product/service quality* is product innovation and an understanding that change and market disruption from innovation is a constant. Again, Drucker's writings provide perspective:

> *...the modern organization is a destabilizer. It must be organized for innovation, and innovation, as the great Austrian-American economist Joseph Schumpeter said, is 'creative destruction.' And it must be organized for the systematic abandonment of whatever is established, customary, familiar, and comfortable, whether that is a product, a service, or a process; a set of skills; human and social relationships; or the organization itself. In short, it must be organized for constant change.*

Finally, *financial strength* refers to the need for organizations to be financially sound; without this, as Drucker explains, the other values become irrelevant.

Built upon experience at Patagonia and expanding upon the traditional "Triple Bottom Line" (People, Planet and Profit) trend in CSR, the Mandala Model represents the values as circles, reinforcing the inclusive nature of the macro-values or elements. The overlapping circles (Venn diagram) design signifies the interrelated nature of the macro-values and illustrates that collectively, they function as a system.

In this system, the macro-values do not operate in isolation; rather, they feature many areas of overlap and interaction. The process of strategic decision-making is rarely, if ever, guided by one of the four macro-values individually. For example, *product/service quality* at Patagonia is defined as striving to achieve the best possible product with the least possible social and environmental harm. As described above in the quotation from Drucker, *financial strength* is integrally related to the other three values, which cannot function without an economically viable organization. Furthermore, the four values are mutually reinforcing: each of the elements is important individually, but when leveraged as a collective group, the relationships become synchronous. The power of *environmental stewardship* is amplified when *financial strength* is realized, and vice versa; and the same can be said of any of the values. For example, when an organization is financially successful, it can invest in environmental innovations, such as solar panels on its buildings, which ultimately reduce long-term expenses and enhance financial performance.

While the Mandala Model represents organizational values, individuals can also subscribe to these macro-level values. According to Rokeach, individuals hold unique hierarchies of values; those values may correspond with this set of organizational values, depending on the nature of the individual. Indeed, people can hold environmental stewardship and corporate citizenship as personal values (especially as related to their consumption patterns and the kind of organizations with which they want to be associated); product/service quality and financial strength are manifested on the individual level when employees adopt the goals of the company as their own and value the financial stability (and potentially the status) associated with the organization's financial success.

By using the Mandala Model it is possible to observe both areas of alignment and conflict between myriad values sets within these macro values. Most important, the Mandala represents a process to facilitate decision-making and strategy formation that visionary leaders might use to recognize tensions between values and thus create a process to make strategic organization decisions that not only optimize societal trends but also create greater commitment among all stakeholders. This commitment often will translate into loyalty and brand strength (value). Leaders understand that no one decision or strategy is likely to satisfy all macro-values equally, but that the process improves decision quality and creativity, buy-in from stakeholders, and ultimately the growth and development of the organization by building on its ability to deliver on its promise to create long-term competitive advantage.

MANDALA IN ACTION: THE PROCESS IS NOT PREDICTIVE OF THE DECISION

In 2000, Patagonia faced a crisis in one of its core categories, Capilene. The base layer clothing had an odor control problem: it had no odor control. Competitors had started releasing products that added heavy metal (silver) ions (branded X-static) to their clothing to control odor. With this technology one could conceivably wear the same t-shirt for a month and it wouldn't smell. Patagonia began losing share and felt the pressure to adopt the heavy metal.

Some in the product team advocated heavily for adopting the X-static technology, urging that it would make this core product competitive and that athletes who demanded performance in the field were in desperate need of an upgraded product. Here they found alignment with many in the finance department who pushed for a solution to the degradation in the market-share trends for this category of products that represented a large part of the company revenues. However, the company's environmental department staff had two concerns; (1) what such a product would do in the long term to customers' bodies, and (2) at the end of the product's useful life-cycle, the presumed negative impact it would have on the environment as it biodegraded in a landfill over the foreseeable future.

Leadership recognized this impasse as a potential tragic choice between incompatible values—long-term environmental goals potentially had to be sacrificed to meet short-term financial and product goals. Such a capitulation would surely have disheartened all for whom environmental values were held dear—a significant portion of Patagonia's employees. However, those employees also were interested in seeing the company make its numbers so the company could continue to grow profitably and to win in the marketplace—lifting the financial success for all—another conflict of values.

However, the Mandala Model reinforces a key tenant in multiple attribute decision analysis that by making values the basis for strategic goals, decision-makers can expand the scope of their alternatives rather than erroneously focusing only on the alternatives initially at hand (Keeney, 1994). Instead, according to Keeney, values should inform goals and objectives. Once those goals and objectives are established and metrics for those objectives are defined, a decision maker can expand the universe of options by finding, uncovering or creating the alternatives that best meet those goals. Fortunately, by looking at the problem through the Mandala Model, the company was able to do just that: tapping its reservoirs of talent and creativity to seek a viable alternative to the tragic choice before it. A brilliant staff scientist and innovator was tasked with finding something that matched Patagonia values but performed like X-static. Within a year, his team discovered Chitosan, a technology using ground crab shells that mirrored the silver ion's ability to control odor. Patagonia introduced the product into its Capilene clothing, and by touting its environmental benefits and performance the company soon not only restored the financial success of the product line but also in fact expanded the category. This competitive advantage continues today.

PRODUCTIVE CONFLICT

The Capilene case illustrates how challenging the decision-making process can be when all values are taken into account. It also highlights the importance of using creativity to break paradigms. Further research from the company shows that employees felt higher levels of engagement simply by knowing that senior management was making strategic decisions that took all of the Mandala values in account (which in Patagonia's case were reflected in its espoused values). This extends beyond the organization to external stakeholders as well—making strategic decisions through the Mandala is by its very nature a participative process involving interior and exterior voices. For example, environmental expertise cannot solely be housed inside the organization but must incorporated advocates, NGOs, government agencies, etc. Likewise creative positive social impact requires listening to employees, but also social rights groups, community leaders/representatives, etc.

In his book (with Raj Sisodia) *Conscious Capitalism*, John Mackey describes Whole Foods' periodic "Future Search" stakeholder collaboration as a three-day town hall meeting with representatives from most internal and external stakeholders "coevolving" the future of the company. It's a wonderful scene of synergy and common purpose meant to show the alignment that can occur between stakeholders, and the bounty of creativity that can result from such ingathering, but such alignment cannot occur by itself. What the authors don't explain is the secret sauce that created the goodwill behind such participation in the first place, and how leadership encourages stakeholders to return to the table when, as is likely, their individual interests are not completely satisfied by the resulting strategy. We see this process as evidence for what Lencioni describes as "productive conflict:" a process through which constituents achieve satisfaction participating in a decision-making effort regardless of whether or not their position prevails.

And yet the Capilene case also illustrates the degree to which these stakeholders are willing to tolerate a state of values disequilibrium: a year is a long time to watch finances and product superiority erode in the hope of finding a creative solution. And while the company was fortunate enough to innovate their way through their dilemma, that outcome can prove elusive. A 2006 Case Study describes how, in 2001, a very similar values-led company, household products purveyor Seventh Generation, faced a nearly identical decision to the Capilene decision. When the manufacturer of the brand's natural baby wipes pressured the company to switch to selling conventional wipes with objectionable chemicals, Seventh Generation management had two options: capitulate on their espoused environmental and personal safety values, or threaten the loss of one of their most profitable product categories. Unlike at Patagonia, the voices calling for finance initially won the day, and the company switched to conventional wipes, causing a sharp backlash from employees and customers alike, who felt betrayed by the decision.

Seventh Generation favoring Finance over Environment may initially seem to be merely the reverse of the Patagonia decision and therefore equally valid. However, deeper analysis reveals a far less balanced decision, betraying a broader and deeper cross section of Mandala values: in addition to failing the core Environmental and Health values, conventional wipes represented a product that was undifferentiated and therefore lower quality. Finally, the decision cost the company in terms of employee engagement, both among those who strongly identified with the mission, and among those customer-facing employees dispirited by dealing with negative reactions. Ultimately this extreme disequilibrium could not be sustained, and the company apologetically pulled the wipes from store shelves.

KEYS TO SUCCESS: BELIEF IN VALUES COMPLEXITY AND FREEDOM TO ACT ON VALUES

In order for this approach to realize its full potential, leaders must accept that adding to the complexity of the organizational culture will strengthen it. As in other forms of human development, organizational growth occurs through a process of differentiating and integrating new skills; organizational culture grows by differentiating and integrating new values and new value sets. Visionary leaders remain open to the idea that values, and the assumptions that underlie those values, must match up with the reality they see around them, or indeed the reality they see around the corner.

For example, in proudly showing off preliminary plans for the new environmentally friendly Apple headquarters (currently under construction), Steve Jobs confided that he believed environmental provenance would in 10—15 years time be as critical to the success of Apple products as functionality or design was today. Jobs understood that the reality of society was changing and that to remain competitive Apple would have to integrate environmental stewardship into its core values. Similarly, Walmart's efforts in sustainability initially lay outside the company's previous core values, but eventually they integrated them into the company's culture by successfully serving the core purpose of lowering costs. Environmental sustainability had never been a prominent value for GE, but in bringing it into the company's value system, GE under Jeff Immelt created Ecomagination, the fastest growing unit in the company. In both cases this added values complexity not only strengthened the culture, but also resulted in millions of dollars in savings and revenue respectively.

Such integration as Schein notes hinges on success: "Joint action and observation of positive result precede agreement on what is real." Before values can be codified in an organization, they must provide observable benefit. This applies to the Mandala Model as well: not everyone shares the same values, but with faith that the process will respect everyone's personal values, and be true to the espoused values, the differentiated values can be integrated. If a process yields a decision counter to expectations, it will be seen as fair as long as it takes all values into account and remains true to the espoused values of the organization.

Just as important, this model requires allowing freedom for individuals in the organization to find personal points of alignment between individual values and the espoused values of the organization and, more important, the freedom to act on those points of alignment. Former senior global vice president of purchasing, communications and distribution at Whole Foods Michael Besancon described in conversation with the authors that the Green Mission teams at the company arose not as a mandate but independently as concerted action by individual team members. For these individuals, environmental responsibility was a strong value, enough to spur independent action. The level of empowerment was such that they felt free to engage on this issue and began waste reduction schemes and other environmental initiatives that soon spread through the stores.

This freedom is indicative of a broader autonomy at Whole Foods. The company keeps a relatively flat structure—devolving many leadership decisions down to individual team members. Besancon describes his son Christopher's role at Whole Foods. While currently a team member at a store, Christopher Besancon is responsible for scheduling multiple other employees and is even empowered to make purchasing decisions. He cites one example where, after doing the research, Christopher decided to stock a new product because he'd thought it would likely appeal to shoppers. Because he felt ownership in the decision he planned and executed every aspect of the purchase, from initial sourcing to the display case look and feel.

Such independent decision-making is unheard of in the highly regimented grocery business, but is indicative of a broad array of structures and policies in place at Whole Foods meant to empower employees and decentralize decision-making. Employees in groups vote on new team member additions, regional managers design new stores from the ground up, and employees at the local level decide on how to spend emergency funds and where to direct corporate charity. Besancon finds this empowerment to be the source of Whole Foods' legendary level of employee engagement and loyalty, making them owners, protectors and promoters of the company culture.

Whole Foods has turned this level of employee engagement into a competitive advantage, but going forward companies may need to think of such engagement as a basic requirement for doing business. An August 2014 *New York Times* article entitled "The Millennials Are Generation Nice," quoting research from the Brookings Institute, noted "almost two-thirds (64 percent) of millennials said they would rather make $40,000 a year at a job they love than $100,000 a year at a job they think is boring," and that millennials overwhelmingly "responded with increased trust (91 percent) and loyalty (89 percent), as well as a stronger likelihood to buy from those companies that supported solutions to specific social issues (89 percent)."

CHALLENGES FOR LEADERS USING THE MANDALA

Leaders who wish to effectively use the Mandala to unite an organization around a shared purpose will need to face down numerous challenges. To meet these challenges they will require **conviction**, **action** and **comfort with risk**.

First, leaders must have an unshakable **conviction** that engaging the pluralism of values is important to the success of the organization; and that the values eventually adopted must match reality. Currently the vast majority of large corporations issue sustainability reports. According to the Global Reporting Initiative (GRI), the body responsible for the framework used to report CSR activity, 80 percent of the largest companies in the world issued GRI reports, a laudable statistic that indicates the growing awareness of sustainability's importance in the overall discourse. However a recent analysis of those reports reveals that 77 percent do not have a full process for assessing materiality, the prioritization of issues that are important to stakeholders and to strategic interests. This indicates that these organizations are not fully invested in acknowledging the values of their stakeholders, or are only doing so in a limited, unsystematic way. In short, they lack conviction.

So how does one go about acquiring conviction? Conviction can come from a variety of sources, but typically it stems from either inspiration or desperation. As a source of conviction, desperation typically stems from a crisis. In 1989, when confronted with reports of sweatshop labor at Nike's suppliers, CEO and founder Phil Knight famously shrugged off its relevance, sparking a backlash that adversely affected revenues for two years and proved to be an intractable public relations (PR) issue for much longer. However, this experience forced a reexamination of priorities at Nike, which is now largely regarded as a leader in CSR and sustainability (Fig. 3).

CEO Ray Anderson of Interface Carpet found inspiration to embrace sustainability as a result of reading Paul Hawken's *The Ecology of Commerce*. Unlike Knight's Nike, Interface Carpet faced no PR disaster over its status quo, merely some gentle prodding over sustainability from some customers. But Anderson's reading of Hawken's description of how industry is systematically destroying the environment radically transformed his perspective, leading to his eventual decision to make Interface a company whose operations would eventually create zero negative environmental impact. In the process, Anderson became justly lionized as a visionary.

Indeed, regardless of its inception, the conviction that embraces broader social values indicates that visionary leaders are open to changing forces in industry and society and willing to reexamine their underlying assumptions. It is a simultaneous act of humility and courage. But primarily it is a conviction rooted in the determination to recognize new opportunities to realize the basic value of an organization—to succeed in the present as well as the future. This is distinct from the naked opportunism of an Enron capitalizing on laxities in the regulatory environment and the tax code to enrich itself at great societal cost. Rather this willingness to seize opportunity lies at the heart of entrepreneurship as defined by Drucker, "The entrepreneur always searches for change, responds to it and exploits it as an opportunity." Just as successful entrepreneurs seek change to "create value and to make a contribution," leaders who see past the horizon into the future are willing to use the future trends (e.g., CSR) in their value chain to form sustainable competitive advantage. This positive bias supports a leader's conviction.

"In periods where there is no leadership, society stands still. Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better."
- President Harry S. Truman

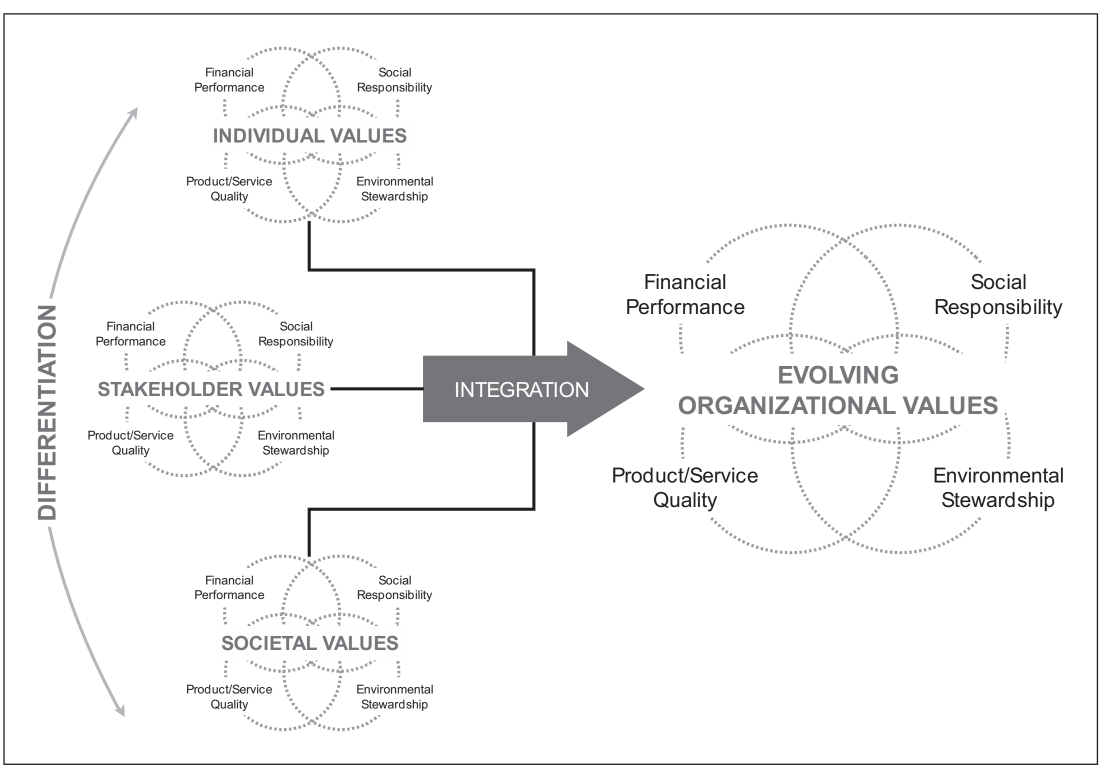

Figure 3 Values from a Variety of Stakeholders Contribute to Organizational Values

Embracing the Mandala Model further requires that leaders **act** on that conviction. A recent BCG report revealed that while two thirds of corporate leaders now feel that sustainability issues are strategically important, only 40 percent of those leaders state their organizations are addressing those issues. BCG calls this a disconnect between "Talkers" and "Walkers."

Leaders also need a **comfort with risk** to see the process through. Just as Steve Jobs knew that environmental sustainability would need to become a core competency for Apple, he also knew that the process would be long and fraught with challenge internally and externally. The external skepticism would come from shareholders and environmental groups who had been highly critical of the company practices up to that point. Current CEO Tim Cook recently faced exactly this type of backlash from activist investors who threatened action over his environmental commitments, claiming that they ran counter to creating value. Unswayed, Cook replied, "If you want me to do things only for ROI reasons, you should get out of this stock."

While facing the daunting prospect of steering Interface toward its lofty zero-environmental impact goals, Ray Anderson was clear on just how much he'd put at stake. Anderson's advisor, John Picard describes, "Ray Anderson stuck to his guns, sometimes at considerable risk to his company." Recalls Picard: "You have no idea how many times Ray would look at me and say, 'Buddy, I hope we're doing the right thing. What if this doesn't work? We can take the company over the edge.' And yet he wouldn't waver. He said, 'We have to go in this direction.' I would watch these huge new issues arise. At first he was pissed and didn't want to deal with it and was almost in denial. And all of a sudden he grabbed it and said, 'This is what we're going to do. We've got to find a way to deal with it.'"

While on the surface, Tim Cook and Ray Anderson's actions seem to embody a traditional "my way or the highway" form of autocratic leadership, we see them defending the Mandala process from entropic forces that would seek to overwhelm it. In Cook's case, he defied proponents of shareholder value that sought to invalidate other necessary competing values in Apple's Value System. Anderson shows even greater courage in recognizing that while the effort to integrate other values into the organization presents risk, the greater risk lies in letting the culture stagnate. In doing so, he resists what Harvard professor Donald Sull calls "Active Inertia," in which values "ossify" into dogmas that produce reactionary responses rather than inspiration and unification of purpose.

Here the leader of a Mandala-type organization is both a chemist and a diplomat. Like a chemist attempting to achieve a sustained reaction, he or she must mix the ingredients in the proper order and use the proper catalysts to avoid either decay or an explosion. Similarly, the diplomat has the emotional intelligence to understand that the timely release of information can have the maximum impact in reaching a broader goal.

DIVERGENCE WITH CONVENTIONAL WISDOM (CSR SHIBBOLETHS LEADERS SHOULD AVOID)

Just because leaders have embraced the complexity of incorporating CSR into their value sets does not mean they must accept every ideal associated with sustainability on faith. We have identified a few shibboleths, outmoded beliefs, which can hurt the process.

Myth #1. Transparency is an end in itself (it isn't)

Leaders should distinguish between transparency for values (a good thing) but not necessarily for actions. Visionary leaders give themselves time to build consensus, prioritize communication and coordinate their moves. To reference Sun Tzu, "victorious warriors win first and then go to war." This artfulness in disclosure serves a concrete purpose in building culture. As Schein points out in *Organizational Culture and Leadership*, values and assumptions are only accepted as true when the positive effects can be observed by the many. As a result, it is in a leader's best interest to ensure the successful outcome of a new and untested initiative based on unfamiliar values, even if that means keeping it hidden from sight until it is a sure win. As noted above, Steve Jobs kept Apple's sustainability efforts under wraps to mitigate a damaging skeptical press. Similarly Nike laid careful, quiet groundwork for decades on its "Considered" line of environmentally friendly products started by sustainability chief Hannah Jones, which has helped to inform the Higg Index. This international model for the apparel and footwear industry is used to assess sustainability throughout a product's entire life cycle, from materials to end-of-life. Currently the metrics created by Higg Index are limited to a company's internal use for the evaluation and improvement of environmental performance. Plans for a future version include the creation of a scoring scale designed to communicate a product's sustainability impact to consumers and other stakeholders. Even Ray Anderson at Interface Carpet knew not to communicate his sustainability efforts until he had "measurable deliverables in a credible fashion to share publicly."

Myth #2. Boards need to be totally independent checks on the CEO

Most sustainability/CSR pundits claim that independent boards are key to ensuring strong CSR performance, implying that having strong alignment between board and executive will encourage the latter to engage in unethical behavior. However, boards must extend a healthy accommodation of a leader's efforts to embrace the Mandala or the process will inevitably fail. Boards need to be staffed with individuals who cover the range of expertise and experience correlated to the espoused values of the firm. Of course a board, like any group, will have its own pluralism of values, but it must endorse the Mandala Model as an approach to manage that pluralism in the boardroom as well.

Leaders who embrace a pluralism of values engage in a tightrope walk: The role of leadership is to execute a company's value chain activities through the lens of the company's espoused values, understanding the various positions, adapting where mutually desirable (shared value) but ultimately making the necessary tradeoffs to arrive at a business model that will win in the marketplace—no mean feat. But by committing to this they can expect generous positive outcomes:

- Disparate voices will understand that they have been heard (just being heard can have the same effect as getting one's way, especially if they understand that everyone doesn't always get their way);

- Engagement throughout the organization and the customer base will increase;
- Strategy will be more creative for the input;
- Products and services will be viewed as more authentic (in alignment with the espoused values of the firm) contributing to differentiation and a customer willingness to pay;
- As new values are added and validated, they become part of the ever-evolving dynamic company cultureable to address and adapt itself to societal trends.

In this way the Mandala becomes a crucible in which strong leadership tests and forges strategy to make it battle-ready for the long term. These Mandala-like organizations will be bedrock of a society where leaders again understand that they not only lead people, but also lead cultural values, beliefs, hopes and expectations. Most important, these leaders who see past the horizon and build perennial successful firms realize that their organizations' successful navigation through the Tragedy of Choice also contributes to the society's overall progression to greater complexity and growth.

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