

The Role of Responsible Leadership in Creating a Risk Culture that Promotes Sustainable Innovation in Business

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Abstract

The purpose of this study is to show that responsible leaders are those who are risk takers and develop a risk culture that encourages sustainable innovation. Through a review of literature, it was revealed that research on sustainable development seems to have underestimated the role of responsible leadership in embedding a risk culture that underpins sustainable innovation. Therefore, this study through a critical approach, discusses the strategic imperative of a risk culture that encourages sustainable innovation in organisations and how a responsible leader can instil such culture. The study further proposes four (4) set of actions through which responsible leaders can establish and maintain a risk culture that promotes sustainable innovation; this is relevant to both decision makers and practitioners.

Keywords: business sustainability, risk culture, responsible leadership, sustainable innovation

1. Introduction

Sustainability has not only become the new normal in the global business world but a major index of organisational success. Sustainable development was first defined over 30 years ago as the “development that meets present needs without jeopardizing the ability of future generations to meet their own needs” (United Nations General Assembly, 1987, p.5) encompasses three dimensions of needs (“triple bottom line”), namely: economic opportunity and prosperity, environmental preservation and social equity. The ripple effects of the recent economic and financial crisis, coupled with ecological disasters, limited resources, increased oil prices and the threat of climate change, revealed that a business model which aims to simply maximize short-term profitability is ineffective and flawed. Hence, sustainable business strategies and models, both at the institutional and organisational level, is necessary if firms are to be competitive over the long term. In light of the above, many organisations are interested in improving their operations, so that they can contribute to the development of sustainable societies in which they operate (Schüz, 2016; Baumgartner, 2009; Paraschiv, Nemoianu, Langă, & Szabó, 2012). These sustainability goals are achieved by developing sustainable innovation activities (Nidumolu, Prahalad, & Rangaswami, 2009), whether these are innovations of products, processes, marketing, technology, non-technological or organisational structures.

While sustainable innovation is a source for competitive advantage and a necessity for business sustainability, it is also a source of substantial risk and uncertainty. This uncertainty and complexity could result in leaders becoming more conservative and risk-averse in an attempt to create certainty (Ashby, Bryce, & Ring, 2018). In practice, leaders that wilfully neglect innovation, risk missing out on significant potential opportunities for their stakeholders, this finally becomes a risky strategy itself. How leaders approach risks associated with sustainable innovation is an important decision which will underpin their success in achieving long-term competitive advantage (KPMG, 2011). This is because risk is an imperative for sustainable innovation and just as Brands & Kleinman (2010) noted, if there is no risk, there will be no innovation. In an increasing volatile world, there is arguably no more critical role for any responsible leader than to prepare the organisations for risk – taking it, avoiding it and managing it. Failure of the leaders to manage risk and develop a risk focused culture could affect the attainment of business sustainability goal (Gandz & Seijts, 2013).

Even though sustainable innovation is inextricably linked to risk and the ability of the organisation to manage the risks is dependent on the leader’s effectiveness, the role of responsible leadership in creating a risk culture which promotes sustainable innovation seems to be underexplored in the field of sustainable development. This study propose that these elements are crucial for implementing sustainable innovation successfully in a business. The

question this study seeks to answer are whether responsible leaders should be risk takers and how they can embed a risk culture that promotes sustainable innovation? The study contributes to literature by displaying the need for responsible leaders to be risky oriented, their obligation in developing a risk culture in business in order to promote sustainable innovation.

2. Responsible Leadership: A General Approach

Responsible leadership is mainly concerned with making appropriate business decisions, in line with the interests of all shareholders (clients, employees, workers, suppliers, the community at large, the global environment), considering the prospects for better future generations (Brennan & Binney, 2010). When the concept and theory of responsible leadership arises, there are several issues to be considered such as whether the business activities are sustainable; whether leaders can identify the systemic risk management activities that are sure to contribute to the value of the company; whether leaders realize the short-term risk involved while making quick profits and those could possibly endanger the company reputation; whether leaders consider the welfare of the entire staff and the workforce (De Bettignies, 2014).

The subject of responsibility of the dynamic leadership concept is very intricate and extremely arduous to pin down (Khaola & Coldwell, 2019). The overall responsibility of what is expected to be performed by a person who can and must pervade through the entire company and also influence, motivate and underpin each business activity, is risky to be perceived as somewhat very difficult to manage, grasp, and perform and less specific than many other aspects of performing business (Dholakia et al., 2010). While mapping out the leadership strategy, the prime question each company asks, "Where you expect your company to be a year from now?" It is always an exciting and amazing mind game for the leadership, complete with an intense, smart and decent struggle. The more the leadership cultivates the strength and essence of overall performance, the more the employees and the management can enjoy its fruits (Sherwood, 2017 cited in Khaola *et.al.*, 2019)).

The main leadership principles need to understand the consumer behaviour, the ethical, cultural, social, and individual impact on the final consumer purchasing approach, within the complete framework of the existing company, employee, supply chain and logistic operational knowledge. Most of the business leaders face an initial and major challenge; it is not possible to completely define the real role and responsibilities of leadership. The main problem starts with the term leadership, which appears too vague to elaborate and specify, and it means various things to numerous people (Khaola &

Coldwell, 2019). Therefore, it is a clear dilemma, as to know how a responsible leader and his leadership aspects should be clearly defined, without which, he/she is unable to be the most responsible leader to behave as per the guidance (Drewell, 2012).

The core responsibility tenets of the responsible leadership mindset specified by several business leaders informing the leadership elegance and approach to five basic dimensions, known as Vision, Awareness, Responsibility, Imagination, and Action. All of these dimensions must be considered, and measured at the organizational, individual, and societies (Collinson, 2008). These dimensions reflect the decisive break considering the existing business logic. They also can keep with a different paradigm, which defines the company as the stakeholder's coalescence with a purpose to find a proper solution to problems facing societies, and communities (Khaola & Coldwell, 2019).

3. Organizational Culture & Innovation

There is an agreement in the literature about the importance of organizational culture for innovation (Chang and Lee, 2007; Higgins and McAllaster, 2002; Lau and Ngo, 2004; Llore'ns Montes et al., 2004; Martins and Terblanche, 2003; Mumford, 2000; Obenchain and Johnson, 2004; Ruigrok and Achtenhagen, 1999 as cited in Naranjo-Valencia, J., et.al. 2011). In order firms to innovate successfully, should address specific requirements regarding their internal behaviour and their external relationships (Tylecote, 1996). Siguaw et al. (2006) emphasized that the organizational culture is a facet of operational competency shaped by the innovation orientation of the firm (as cited in Naranjo-Valencia, J., et.al. 2011). Organizational culture regards the values, beliefs and hidden assumptions that organizational members share in common (Cameron and Quinn, 1999; Denison, 1990; Deshpande' and Webster, 1989; Miron et al., 2004 as cited in Naranjo-Valencia, J., et.al. 2011). Research has emphasized on the key role of culture in innovation (Ahmed, 1998; Higgins and McAllaster, 2002; Jamrog et al., 2006; Jassawalla and Sashittal, 2002; Lau and Ngo, 2004; Martins and Terblanche, 2003; Mumford, 2000). This is because it is considered that encourages innovative behaviour among the members of an organization leading them to accept innovation as a key organizational value and enhance commitment to it (Hartmann, 2006). Furthermore, 'cultural aspects and management behaviour are closely related and can be serious impediments to change' (Boonstra and Vink, 1996 as cited in Naranjo-Valencia, J., et.al. 2011 p.58). Tesluk et al. (1997) mentions

that culture elements have a twofold effect on innovation – from the perspectives of socialization and of coordination. From the perspective of socialization, ‘people become aware whether creative and innovative behaviours are part of the path the business treads. Simultaneously, through activities, policies and procedures, business generate values, which support creativity and innovation, and its innovative capacity will subsequently improve. What the literature has not clarified is which types of culture enhance or inhibit innovation. Moreover, there is a lack of empirical research analyzing whether different innovation strategic orientations – innovation orientation versus imitation orientation – require different types of organizational culture’ (Naranjo-Valencia, J., et.al. 2011 p.58).

4. Business Sustainability, Sustainable Innovation and Risk Culture

Sustainable business regards optimal utilization of opportunities and effective management of risks arising from social, economic and environmental developments, in order to create long term shareholder value (Paraschiv et al., 2012). For a business to attain sustainable goal, it will have to proactively integrate sustainability considerations into its innovative activities (Galpin, Whittington, & Bell, 2015; Paraschiv et al., 2012). Sustainable innovation, as with general innovation, is inextricably linked to risk and its outcomes are uncertain (Lv, Tian, Wei, & Xi, 2018). In the face of this heightened uncertainty, leaders might be tempted to become risk averse and more conservative (Nidumolu et al., 2009; Ashby et al., 2018; Torrance, 2016). However, choosing the ‘safe’ option can be a risky strategy itself, which will severely hinder the successful implementation of sustainable innovation. Nevertheless, an organisation simply deciding to embrace sustainable innovation is not sufficient, the decision must be backed with actions that create an environment in which employees are comfortable to take risk be innovative (Ahmed, 1998).

Arguable, a key innovative capability underpinning sustainable innovation, is the ability of the organisation to embed a culture that is risk oriented. Possession of a strong risk culture provides the organisation with necessary ingredient to innovate. Organisational risk culture refers to system of values, beliefs, knowledge and understanding within an organisation that shapes day to day risk decisions of leaders and employees (IRM, 2012; Hillson, 2013; Deloitte, 2016). It focusses on behaviours and assumptions which are relevant to risk taking and its mitigation. In this context, an organisational risk culture centred on sustainability is an organisation where members have mutual beliefs and opinion about the importance of balancing social equity, economic efficiency and environmental responsibility that are guiding the leaders and employees in their behaviour and decision-making process related to risk.

From strategic perspective, an organisation in which its members are comfortable to take risks integrated in sustainability, will necessitate a culture of risk intelligence, beyond mere compliance, by anticipating and addressing perceived risks before they materialise (Torrance, 2016). This yields substantial first mover advantages in terms of fostering innovation. For instance, in the early 1990s, Hewlett-Packard (HP) realised that because lead solders are toxic to human health, particularly children, and can contaminate soil and ground water, the government would ban its use someday. Over the following decades, HP experimented with alternatives and was able to innovate solders that are mixtures of silver, tin, and copper and became amongst the first to adopt the use of non-lead as soon as the European Union put a restriction on the use of lead (Nidumolu et al., 2009). Because HP’s organisational culture is one that is risk-oriented, they went beyond simply “ticking the box” approach to compliance, by addressing risks which could hinder the company’s sustainability.

5. Responsible Leadership, Risk Culture and Sustainable Innovation

Responsible leadership centres on the relationship between leaders and stakeholders, with the purpose of addressing diverse social, environmental and economic issues, which brings about sustainability and new opportunities for a business through innovation (Pless, 2007). Because risk is an imperative for sustainable innovation, the leader’s awareness of risk (risk taking and mitigation) determines the effectiveness of their responsibility to the firm, planet and human nature (Gorzeń-Mitka, 2015). Arguably, a responsible leader must be a risk taker in order to successfully embed sustainability in the business operation in a way that will generate the highest and best value to all the stakeholders.

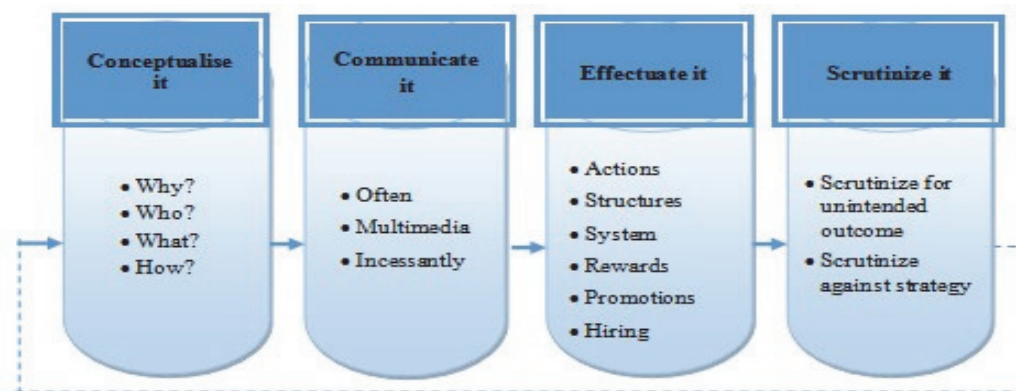
Hence, in a complex and volatile business environment, there is no role more critical for any responsible leader than to prepare the company and set the tone for risk – taking it, avoiding it and managing it (Ashby et al., 2018; Gandz & Seijts, 2013; Boons & Lüdeke-Freund, 2013; Torrance, 2016; Galpin et al., 2015; Paraschiv et al., 2012). Failure of leaders to manage risk and develop a risk focused culture could have dire implications on the sustainability of the business; this is because risks brings about sustainable innovation and sustainable innovation leads to risks (Schüz, 2016), so no company can survive if they are not risk oriented. A responsible leader instills a strong risk culture that fosters sustainability by identifying systematic risks which the organisation can confront

headlong, instead of taking a short-term risk for quick profit, which could be detrimental to the reputation of the organisation.

For instance, Volkswagen innovated a fraudulent software in some of their diesel motor types which created “wealth” for Volkswagen for many years. However, in September 2015, an investigation by the International Council on Clean Transport (ICCT) identified the fraud and it became public. Although Volkswagen made quick profit from such innovation, but the emission scandal did not only hurt their reputation but resulted to a multi-billion USD compensation payment for affected stakeholders (Schüz, 2016). The organisational culture of Volkswagen was that of a weak risk culture and their then CEO, Matthias Muller, did not demonstrate such a responsible leadership when he responded to a question asked by an American journalist on how he will like to confront the ethical problem connected with the emission scandal. Muller said the company gave the technical engineers a target to solve a problem and they came with some software solutions which was not compatible to the

American law and that he doesn't understand why it is referred to as an ethical issue (Muller, 2016). He assumed the issue lay in their misunderstanding of the American law and not an ethical problem. A responsible leader would have acted differently by not only procuring prosperity but also serving the people and the society (Schüz, 2016).

Transmuting or tightening the risk culture of an organisation is neither easy nor fast but it is definitely feasible and worthwhile. However, without diligent effort by the leaders to integrate an organisational risk culture that supports the development of sustainability strategy, the firm's effort to successfully implement a sustainable innovation will be severely hindered. As with all successful culture change efforts, creating a risk culture that nurtures and acknowledges sustainability requires a multi-level approach (Galpin et al., 2015). The change should originate and be cultivated by the leaders and be integrated into the organisation's goals, objectives, values and strategy which will send clear signals throughout the organisation about the focus and direction of the firm. In order to successfully embed a risk culture that supports sustainable innovation, a set of 4 activities needs to be addressed by every responsible leader as shown in figure 1.



Source: The authors

Figure 1. How to establish and maintain a risk culture that promotes sustainable innovation

Conceptualise it - Organisational risk culture like general culture is dynamic and develops because of how things have been done. The risk culture that exists in the past also shaped how things were done and influences how things will still be done in relation to risk taking and mitigation. However, the risk culture that binds people together can also blind them to realities, which could be detrimental to organisational change, especially when the organisation has history of success. For instance, fraudulent financial reporting, driven mainly by greed and inordinate quest for success led to the eventual bankruptcy of the global giants WorldCom and Enron. Notwithstanding, leaders who recognise the strategic imperative of a change in the organisational risk culture can deliberately create another culture; this is because leaders undeniably set the tone for culture and the entire organisation's behaviour (Gandz & Seijts, 2013). In terms of sustainable development, risk culture that is deliberately thought-out, addresses the following questions: why is a risk culture that fosters sustainability being established, who is expected to steer and propagate the culture and to whom is it intended to embrace, what level

of risk can be tolerated in order to balance innovation with risk appetite of the organisation, how should the risk culture be introduced, enabled, implemented, and controlled (Deloitte, 2016; Pless, 2007; Nidumolu et al., 2009; Gandz & Seijts, 2013)

Communicate it – In a research conducted by Ashby et al. (2018), it was discovered that although many of the leaders believe risk awareness is important, risk culture was hardly ever discussed in the firm. For any leader to effectively change the risk culture of their organisation, the message has to be clearly articulated and forcefully communicated incessantly using multiple channels - social media, broadcasted, speeches, website, webinars and articles. But communication goes beyond mere repetition of information, if a message for a risk culture that promotes sustainability to be effectively heard, understood and applied, the members of the organisations have to make meaning of it in the context in which they work. So, the leaders need to ensure that departmental meetings, coaching and mentoring, performance management, training and development are all used to confirm that the members understand the message (Nidumolu et al., 2009; Gandz & Seijts, 2013).

Effectuate it - The desired risk culture that promotes sustainability can be undermined unless the leaders are seen to be “walking the talk”. According to (Bertels, Papania, & Papania, 2010), most leaders have difficulties in making sustainability operational, by including it in the day to day risk decisions. For sustainability goals and strategies to succeed, they must be reflected in the shared assumptions, values, norms and belief with respect to risk, as well as in the risk-taking decisionmaking process across the organisation. The leaders must sanction those leaders below them whose risk-taking behaviour and values does not align with the sustainability goal of the organisation, even if they get great results from their actions. Critical to this task is the responsibility to motivate the members whose risk-taking behaviour are congruent with the sustainability goal of the firm. In addition, the criteria used by the organisation for hiring and promotion should convey to the members the type of activities that will be rewarded (Galpin et al., 2015).

Scrutinize it - In a complex and dynamic business environment, most strategies end up with some undesired outcomes; and culture is not always void of unintended outcomes. Thus, it is necessary that the leaders continually manage the risk culture and strategy of the organisation, not just once, to ensure that that these undesired, unplanned manifestation of culture are not evolving. Furthermore, it has long been accepted that an organisational risk culture that is aligned with sustainability strategy can be a source of competitive advantage, as long as the strategy itself is the right one (Gandz & Seijts, 2013). Conversely, an organisation might have an inspiring vision and brilliant strategy to achieve their sustainability goal, but that can never be realised if the risk culture of that organisation does not support that goal (Deloitte, 2016). Part of the “check to proceed” element of the risk culture management is to ensure that organisational risk culture aligns with their sustainability strategy. Moreover, sustainable businesses repeatedly re-examine their products and processes in order to adapt them to new contexts (Paraschiv et al., 2012).

6. Conclusion

In attempting to build a sustainable business, it is critically important to understand the key role of responsible leadership in creating a risk-oriented culture that stimulates and supports sustainable innovation. The values, beliefs, assumptions and norms relating to risk, that play a role in sustainable innovation in organisations can either support or hinder sustainable innovation, depending on how the leaders influence the behaviour of the members. Organisation whose leaders did not focus their attention on innovation and more importantly to understand the importance of risk culture in innovation, saw their fortunes overturned, while organisations whose leaders spend their energy and effort in building a robust organisations’ risk culture, which perpetually stimulate innovation are very successful. Hence, this study revealed that every responsible leader is a risk taker and four (4) sets of actions were proposed for decision makers and practitioners who wants to embed a risk culture that promotes sustainable innovation in their business. It is pertinent to note that there is need for empirical research to support the research findings on the role of responsible leadership and risk culture in encouraging sustainable innovation.

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