The financial crisis of 2008 was the worst business disaster since the Great Depression and made everyone aware of the dangers of the “maximization of shareholder value” approach to business.

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Peer Reviewed

ABSTRACT

Organizations that succeed in the Information Age / Age of Internet and Globalization will have to be innovative and adapt quickly to changing market conditions. Approaches that worked in the past no longer work when competition can come from anywhere in the world and any industry. This paper describes the kind of leadership firms need in order to transform themselves into innovative enterprises. A successful CEO will do everything possible to make sure that employees feel engaged.
An effective CEO today may find that she has to apologize for a corporate blunder. This requires CEOs with integrity that have the right kind of vision and have the ability to create an environment that encourages creativity. It also means that firms will have to be concerned with the triple bottom line, people, planet, and profits, not just maximizing shareholder value.

**INTRODUCTION**

If an organization is going to thrive in the global information age, it will need a new kind of CEO. One who understands that the world has changed a great deal and we are in a knowledge-based economy. The financial crisis of 2008 was the worst business disaster since the Great Depression and made everyone aware of the dangers of the “maximization of shareholder value” approach to business. In fact, Jack Welch, former CEO of General Electric, called maximization of shareholder value the “dumbest idea in the world.” A firm’s objective, according to Welch, should be maximizing customer satisfaction (Denning, 2011).

Any CEO who still believes that “greed is good” should read the *Financial Crisis Inquiry Report* (Financial Crisis Inquiry Commission, 2011) to see the damage caused by this philosophy. Greed was responsible for the bankruptcies of such major companies as Lehman Brothers, Enron, Worldcom, Washington Mutual (WaMu), MF Global, and many others. Sadly, accountants and auditors who were supposed to be the watchdogs may have been responsible for many of the above bankruptcies. They allowed all kinds of accounting irregularities and did not object when bankers and CEOs took huge amounts of risk in order to increase their bonuses (admittedly, in many cases, the auditors did not understand how much risk the firms were taking).

Porter (2012) observes: “in any given year a fraud was being committed by 11 to 13 percent of the large companies in the country.” In 2013, Transparency International ranked the United States an unimpressive number 19 in its Corruption Perceptions Index (higher rankings indicate a perception of more corruption), tied with Uruguay. Denmark and New Zealand were tied for first place and seen as the least corrupt (http://cpi.transparency.org/cpi2013/results/).

Organizations are waking up to the importance of integrity. Americans, according to a June 2014 Gallup poll, have lost confidence in such important institutions as the Presidency (only 29% of respondents indicated that they had a “great deal” or “quite a lot” of confidence in that institution), the Supreme Court (30% confidence), the public schools (26%), banks (26%), the healthcare system (23%), the criminal justice system (23%), organized labor (22%), big business (21%), and Congress (7%) (Watson, 2014). A recent Wall Street Journal / NBC News poll indicated that 71% of Americans thought the United States was on the wrong track, and 78% of adult Americans felt that “their children’s generation would fare better than their own” (Bruni, 2014).
THE BOARD OF DIRECTORS

To restore confidence in big business, boards will have to hire CEOs with integrity. Indeed, Warren Buffet, CEO of Berkshire Hathaway, said: “In looking for people to hire, look for three qualities: integrity, intelligence, and energy. And if they don't have the first one, the other two will kill you” (Anderson, 2012). It is well known that integrity and credibility are the cornerstones of effective leadership. Without them, leaders will not be trusted by subordinates. Leaders who are trusted have the ability to convince subordinates to follow them and help achieve their vision (Kouzes & Posner, 2010: 15-20). It is interesting to note that researchers claim that “a boss you trust is better than a 30% pay raise” (Barker, 2014). Often, companies make mistakes and it is the CEO who will have to apologize to the public.

The purpose of the apology is to win back the trust of customers as well as other stakeholders. Koehn (2014) believes that “To restore trust, the apologizing CEO must show somehow that the firm has significantly changed how it does business.” Koehn (2014) further posits: “Stakeholders will be inclined to repose trust in the firm and its leadership only if the CEO displays appropriate shame and remorse.” In any case, a CEO who has credibility will be more effective at apologizing than one who is perceived as not being trustworthy.

Many boards are working to rid themselves of CEOs with harsh, autocratic management styles. Indeed, there is evidence that warm, likable, CEOs that are at the center of “positive energy networks” are far more effective on the job than those who are seen as not caring about people (Brady, 2006). Engardio (2006) declares that we are seeing what is called “karma capitalism” or “inclusive capitalism.” Indeed, many firms want CEOs that pursue the goals of value creation, virtue, and social justice (Blanchard, 2003; Blanchard, 2007; Covey, 1991; Pava, 2003).

EMPLOYEES

Employees want respect, the feeling that they are appreciated for the job they do (Barker, 2014). Sutton (2010) posits that nasty people seriously damage organizational performance. An abrasive CEO can easily create a toxic workplace with his or her vicious approach to dealing with people (Kusy and Holloway, 2009). Carly Fiorina, former CEO of Hewlett Packard averred: “abrasive never works, demanding is sometimes required” (Korn and Feintzeig, 2014). Reed Hastings, CEO of Netflix, asserts that his company does not need “brilliant jerks” since the “cost to effective teamwork is too high” (Korn and Feintzeig, 2014). Hess (2013) studied effective CEOs and found that they tended to be servant leaders:

These leaders were servants in the best sense of the word. They were people-centric, valued service to others and believed they had a duty of stewardship. Nearly all were humble and passionate operators who were deeply involved in the
details of the business. Most had long tenures in their organizations. They had not forgotten what it was like to be a line employee. They believed that every employee should be treated with respect and have the opportunity to do meaningful work. They led by example, lived the “Golden Rule,” and understood that good intentions are not enough — behaviors count. These leaders serve the organization and its multiple stakeholders. They are servant leaders.

**THE CEO**

There is no question that integrity is important, but is not enough. Carr (2010) cites a 60-country survey of 1,500 CEOs and public leaders who were asked which were the most important leadership qualities. Creativity was ranked first (60% indicated that it was the most important leadership quality); integrity was second (52%); and global thinking was third (35%). Competition is fierce in the global Internet age since an innovative competitor from another part of the world can suddenly steal another company’s customers. The Internet has leveled the playing field considerably. It is very difficult to recognize a competitor since technology has converged and competition may come from an unexpected industry. After all, several years ago no one expected cell phones to become flashlights, cameras, alarm clocks, computers, television sets, radios, GPS systems, and many other devices. It is doubtful that the television networks imagined that Netflix would create its own shows (e.g., ‘House of Cards’); and, that GM believed that Google would be working on a driverless automobile. Apple is probably going to shake up the watch industry with its iWatch. Raphan and Friedman (2014) state: “To successfully compete, companies must be nimble and creative, not tied to the marketing and management rules of the past. Even seemingly successful companies, such as AOL, Blockbuster, Blackberry, Myspace, and Netscape, can be driven out of business if they are not able to adapt quickly to new and unexpected forms of competition.”

One of the most important jobs of the CEO will be to change the culture of an organization so that it becomes nimble, creative, and innovative. CEOs will have to be creative thinkers and respect innovation. Inflexibility, resistance to innovation and change, and the failure to respond quickly to marketplace demands can be deadly in the global Internet age. In 2011, The Management Innovation Exchange (2012) sponsored a “hackathon” in which hundreds of management innovators attempted to find major management problems that prevented companies from thriving in today’s environment. They found that some of the major problems included:

1. an unwillingness to adapt to the rapidly changing world, preference for doing things the old way, and a lack of experimentation;
2. insufficient resources devoted to develop a culture of creativity
3. too much bureaucracy, and ineffective leadership which has a lack of vision and does not encourage creativity.
To innovate successfully, three areas in the organization have to work together and coordinate their efforts: marketing, management, and research and development (R&D). Resistance by any of these functional areas will obstruct the ability of the organization to innovate. Sivadas and Dwyer (2000) emphasize the importance of cross-functional coordination and the elimination of barriers between areas if a firm wishes to innovate. Moreover, all the employees of the firm have to work together. CEOs have to change the culture of the firm and do the following:

(1) **Provide a Vision:**

Organizational leaders have to be able to develop a clear vision of the future of their organization. As was noted above, ineffective leadership that lacks a vision will stifle creativity (Management Innovation Exchange, 2012). The leader of an organization must provide a clear vision and it should also be stressed in the mission statement of the organization. Needless to say, maximizing shareholder value is not a vision that motivates employees. Leaders should be seen as change agents who want to make their organizations the best in the world. Leaders have to make employees share in the vision and believe that they can change their environment and, in some cases, the world. This vision has to be communicated to all and should stress the importance of taking risks and creating better and better products/services. The vision has to permeate the entire organization and thus motivate everyone in the firm to achieve at very high levels.

(2) **Engage and Empower Employees:**

Back in the 1950s, Peter Drucker saw the corporation as an organization “built on trust and respect for the worker and not just a profit-making machine” (Byrne, 2005). This is even truer in the Information Age where the major asset of most firms is the intellectual capital of its employees. One good idea can be worth billions to a company; a bad idea can destroy it. Leaders who strengthen bureaucracies and lead by fear stifle enthusiasm and creativity. Employees feel a sense of powerlessness and do not trust their employers (Fry, 2003).

A successful CEO will do everything possible to make sure that employees feel engaged. Engaged employees feel connected to their job; to an engaged employee, a job is not just a way to make a living. Engaged employees tend to be more motivated and will do everything possible to make sure their organizations succeed. They have a passion for the work they do, are energetic, creative, and enthusiastic (Gross and Holland, 2011). There is evidence that employee engagement is extremely low; one study found that 70% of employees and 50% of managers are disengaged (Gross and Holland, 2011). Another study found that only 29% of American employees were engaged in their jobs (Thottam, 2005). Among American workers, “job satisfaction is at its lowest level – 45 percent – since record-keeping began over two decades ago” (Barker, 2014). It comes as no surprise that there is a strong correlation between
employee engagement and customer satisfaction, productivity, and profits (Gross and Holland, 2011; Thottam, 2005).

CEOs who are indifferent to employee engagement are harming their organizations by discouraging the right people from seeking employment. Gallup has been measuring employee engagement using what they refer to as Q12 Employee Engagement Survey. A meta-analysis done by Gallup shows the following:

Work units in the top quartile in employee engagement outperformed bottom-quartile units by 10% on customer ratings, 22% in profitability, and 21% in productivity. Work units in the top quartile also saw significantly lower turnover (25% in high-turnover organizations, 65% in low-turnover organizations), shrinkage (28%), and absenteeism (37%) and fewer safety incidents (48%), patient safety incidents (41%), and quality defects (41%) (Sorenson, 2013).

It is impossible for any leader to do everything. Therefore, it is vital to empower followers and provide them with the authority to make decisions so that they can enact change in an organization. Leaders who look for scapegoats and blame others when things go wrong will find themselves in a stagnant organization where there will be a fear of change. An innovative environment can only be created if subordinates are trusted. Innovative firms encourage employees to experiment and take chances and tolerate failure with equanimity. In fact, this is a characteristic of a learning organization (Friedman et al., 2005). There is a great deal of scholarly research showing that there is a strong correlation between job satisfaction and autonomy. The more time workers have to make their own decisions, the happier they are with their jobs (Barker, 2014).

(3) Creating a Learning Organization:

According to Shenk (2014), creativity, rather than being in the domain of the “lone genius,” often comes when we work in pairs.

For centuries, the myth of the lone genius has towered over us like a colossus. We canonize stories of rare geniuses—the ones who made the Sistine Chapel or Hamlet, the lightbulb or the iPod. On closer inspection, however, the primary creative unit is actually the pair. Whether it’s Marie and Pierre Curie, or Tiger Woods and his caddy, a dyad is the most fluid and flexible of relationships—and it naturally arouses engagement, even intensity (Shenk, 2014).

Peter M. Senge (1990) popularized the concept of the learning organization with his immensely influential book, The Fifth Discipline. A learning organization has been defined as “an organization skilled at creating, acquiring, and transferring knowledge,
and at modifying its behavior to reflect new knowledge and insights” (Garvin, 1993). In the corporate world, many firms are recognizing that the ability of an organization to learn is the key to survival and growth and “organizational learning” has become the mantra of numerous companies. Indubitably, an organization that wants to be innovative must have the ability to learn and build on past knowledge and experience (Argyris and Schoen 1996; Senge 1990).

Some of the characteristics of a learning organization include: empowerment of employees; a commitment to constant learning and personal growth; the utilization of shared knowledge; an ability to adapt to changing conditions; an emphasis on cooperation, not turf; and an infrastructure that allows the free flow of information and ideas. Firms that set up the technological infrastructure allowing divisions all over the country and the world to share knowledge will be better able to serve customer needs all over the globe. In addition, they will be better able to surpass the competition as well. Ideas for improving products and services can be discussed by divisions in very different localities.

In a learning organization, it is known that good ideas can come from anywhere in the organization; indeed, it is foolish and dangerous to believe that only top management has the best ideas. It is very difficult for knowledge sharing and innovation to take place in a pyramid-shaped organization with a tall organizational structure, i.e., characterized by numerous layers of management.

The kind of leadership that is needed is one in which creativity is encouraged, not thwarted by management. Needless to say, knowledge sharing works much better when there is a relatively short chain of command, i.e., what is known as a flat organizational structure. Information must be able to flow in all directions — including from the bottom of the organizational pyramid to the top — even if this means that some managers might feel that they are losing some of the status and authority of their position.

Many organizations make the claim that “our employees are our most critical resource” (Casarez et al. 2009: xxii-xxiii). They, however, do not have a mechanism in place for employees to provide ideas on how to suggest improvements. Critical knowledge remains in the hands of a few key employees and when they leave the firm, it may be lost. This is not the case in a learning organization where knowledge is shared. According to Casarez et al. (2009: xxiii), Google and Toyota have been exceptionally successful because they tap into the collective knowledge of all employees. For example, at Toyota, an employee who thinks of an improvement that might help production, may stop the entire production line. Ideas can come from anywhere in the organization, and ideas originating from employees are just as valued as those coming from top management.

(4) Encourage Diversity:
Friedman and Amoo (2002) contend that in the knowledge economy workforce (and management) diversity is vital: “Diversity and tolerance are not only about morality: they are a way of ensuring that firms attract the most talented individuals.” Many CEOs agree with this opinion. Ivan Seidenberg, CEO of Bell Atlantic, asserted: “Diversity is a competitive advantage. Different people approach similar problems in different ways” (Colvin, 1999). Justice Sandra Day O’Connor writing for the majority in 2003’s Supreme Court decision in *Grutter v. Bollinger* (Shaiko, 2013):

Diversity promotes learning outcomes and better prepares students for an increasingly diverse workforce… Major American businesses have made it clear that the skills needed in today’s increasingly global marketplace can only be developed through exposure to widely diverse people, culture, ideas, and viewpoints.

Firms that want to be creative have to employ all kinds of people with all kinds of experiences to ensure that there will be an abundant supply of fresh, innovative ideas. Organizations that consist mainly of old, white men will not be as innovative as diverse organizations. Multicultural diversity encourages creativity since people from many different backgrounds will have a plethora of different ideas. Weaver (2001) showed that firms with senior leader teams consisting of multicultural and female members had significantly higher growth rates than firms with teams consisting only of white males.

The technology industry is admitting that it is having diversity issues; Companies such as Apple, Facebook, and Google acknowledge that a significant proportion of their employees are white and Asian males. Apparently, technology firms employ few women, Latinos and African Americans. One study found that the many women quit their jobs at technology firms because of “extreme pressure and a hostile culture” (Silicon Valley’s Diversity Problem, 2014).

Companies are aware of the great demographic changes that are occurring in the United States and much of the world. Many are using ethnic marketing to target various ethnic groups such as Hispanics, African-Americans, and Asian-Americans. This is not enough. There are so many different groups out there. Friedman, Lopez-Pumarejo, & Friedman (2006, 2007) claim that the largest multicultural target market is the handicapped. They state:

Companies must understand that diversity goes beyond hiring and marketing to women and ethnic minorities. To be truly diversified, firms have to be concerned about the needs of the disabled. This includes those in wheelchairs, the deaf, the blind, and the mentally ill; true workforce diversity is vital for firms that desire to thrive well into the future (Friedman, Lopez-Pumarejo, & Friedman, 2006).
It is no secret that immigrants are essential for innovation. According to a study conducted by the Partnership for a New American Economy, immigrants were involved in more than 75% of patents at the leading universities in the United States. Most of these patents were in STEM (science, technology, engineering, and math) areas that are important for jobs and economic growth (Martin, 2012). Page (2007, 2011) used mathematical models and cases to demonstrate that diverse organizations made up of different kinds of people are more creative and productive than those that are homogeneous. People from different backgrounds see things differently and are more likely to find solutions to complex problems.

(5) Corporate Social Responsibility / Triple Bottom Line

Society and business are interdependent; this is why corporations have to be concerned about society and not just profit (Porter and Kramer, 2006). Thus, “corporate social responsibility can be much more than a cost, a constraint, or a charitable deed — it can be a source of opportunity, innovation, and competitive advantage.” Porter and Kramer (2006) use the Toyota Prius, a hybrid automobile, as an example of a car that helped provide the Toyota company with a huge competitive advantage but at the same time provided environmental benefits. It is possible to make money and help the environment.

It is important to make a corporation sustainable, rather than concentrating solely on profits or even on customer satisfaction (especially if it is short-term customer satisfaction). Sometimes, this is referred to as the triple bottom line and accounting is used to measure social, environmental, and financial activities (often referred to as people, planet, and profits – the three P’s). Sneirson (2011) has the following to say about the sustainable business:

A sustainable business should therefore pursue financial goals while at the same time treading as lightly as possible on the earth and its natural resources, supporting the business’s employees and local communities, and developing products, services, and technologies that contribute to larger societal efforts to live more sustainably. This might entail being more than minimally compliant with environmental regulations, more than minimally generous with employees and communities, or paying more for goods and services that are sustainably harvested or produced. Such efforts might sacrifice profits, at least in the short run in that money that might otherwise be distributed to shareholders as dividends is reinvested in the company, environmental efforts, or employees and communities. But such expenditures often benefit the firm, financially and otherwise, over the long run; indeed, several studies have shown that—particularly in consumer-oriented industries, but in the
business-to-business context as well—sustainable business practices tend to pay for themselves and frequently turn a profit.

Firms that are concerned about more than profits, and care about people and the world, will have a greater likelihood of surviving in the long run (Slaper & Hall, 2011). The future does not look promising when it comes to hiring the best people or attracting customers for organizations that are indifferent to the triple bottom line. One survey found that 80% of respondents aged 13-25 wanted to work for a socially responsible firm that "cares about how it impacts and contributes to society"; a significant number are even willing to take a 15% cut in pay to work for an organization with good values (Meister, 2012). A survey by NetImpact found that 53% of employees indicated that working at "a job where I can make an impact" was “essential” as far as happiness; with students the percentage shot up to 72% (Meister, 2012).

Holland (2011) asserts: “Corporate social responsibility drives employee engagement, which in turn drives business success. Therefore, investing behind CSR initiatives makes good business sense.” Researchers have found that people that are engaged in work that makes a difference, i.e., benefits society, show much higher levels of job satisfaction than people who are not engaged in meaningful work (Barker, 2014). Barker (2014) affirms that “having meaning in your life increases life satisfaction twice as much as wealth.” Moreover, employees who were surveyed claim that taking a job for the money has been their biggest career regret (Barker, 2014).

It is not only about attracting the best employees. A 2013 Cone Communications study dealing with corporate social responsibility found that more than 50% of consumers in ten countries would boycott companies that behaved in a socially irresponsible manner. More than 50% of consumers claimed to have avoided buying products from companies because of what they felt was “bad corporate behavior” (O'Donnell, 2013). Firms that are seen as socially responsible are able to attract and retain engaged employees. This will ultimately have positive effects on net income and growth (Gross and Holland, 2011).

**TRANSFORMING INNOVATION**

Shakweh (2014) asserts:

In today’s business environment where intellectual properties, creativity and innovation are real competitive advantage, the emphases on qualities of human interaction have never been greater. As market conditions and technologies evolve at an astonishing pace, today’s organizations and future business strategies must adapt accordingly or risk becoming irrelevant. Consequently, CEOs of the future will need to master the art of managing and leading change.
Elbert Hubbard (1856-1915), American writer, publisher, and philosopher, once said: “The world is moving so fast these days that the man who says it can't be done is generally interrupted by someone doing it.” He said this more than 100 years ago before the Internet and globalization; this is especially true today when technology is changing the world so rapidly.

Take, for example, an innovation such as Google Glass, a wearable computer that has all kinds of digital features and is reminiscent of a smartphone except that it is worn like a pair of glasses. It has the potential of dramatically changing everything from leisure to work to education to law enforcement to advertising (Hoffman, 2013). A consumer wearing it can walk into say, a department store, and see advertisements in real-time, for all kinds of products. Someone wearing Google Glass can scan the barcodes of products and use it to compare prices (Elizetxe, 2014).

Online advertising had a huge impact on the advertising industry; Google Glass has the potential of totally transforming it. The same can be said of the workplace. It is only a matter of time before work moves from the brick-and-mortar world to the virtual screen of Google Glass. It allows one to use voice commands, so a keyboard is not necessary. As far as education, Hoffman (2013) makes the point that “We all will have the potential to be ‘home schooled’ anywhere, all the time.”

Richard Branson, CEO of Virgin Group, is now allowing employees to take unlimited vacation days without having to get approval from supervisors. Branson has confidence in his employees and feels that they will take vacations “when they feel a hundred per cent comfortable that they and their team are up to date on every project and that their absence will not in any way damage the business” (Levinson, 2014). Branson stated that he was copying Netflix, which is a leader in its industry and allows unlimited vacation days. Netflix, in its “Reference Guide on our Freedom and Responsibility Culture,” indicates that it is important for an organization to “focus on what people get done, not how many hours or days are worked” (Levinson, 2014). There is good reason to rethink everything from the workweek to vacation policies.

With the Internet and Smartphones, many people find themselves working many more hours than nine to five. Some CEOs are talking about reducing the workweek to four days or even three days (Levinson, 2014). If what matters is engagement, productivity, creativity, and morale, companies will have to rethink the traditional ways employees work. The same is true of the decision of whether to allow employees to work remotely or in an office. There are those who posit that “The real creative work happens when employees are away from the office in an interruption-free zone” (Evans, 2014). This may be why many firms allow employees to work from home a few days a week.

The kind of CEO that is needed today is one with a vision who can create an environment where knowledge is shared and everyone is engaged. This may indeed
mean changing vacation policies or the workweek. CEOs have to be creative thinkers and people of integrity who think outside the box and understand how to harness the creative energies of an organization. This involves knowing how to listen. Sacks (2014) uses the Hebrew Bible to demonstrate that “to lead is to listen”; “It is common to find leaders who speak, very rare to find leaders who listen.” The rules for organizational success have changed in the global, knowledge-based economy.

CONCLUSION

It is no longer about maximizing shareholder value, but about developing an organization that is constantly trying out new ideas and outthinking the competition, an organization where the full creative potential of all employees is harnessed.
REFERENCES


Note: Photograph by Carole E. Scott