How to Kill a Sustainable Enterprise

Harald Bergsteiner
Gayle C. Avery

VOLUME 2, NUMBER 3

www.sustainability-journal.com
How to Kill a Sustainable Enterprise
A not so Fictional Case
Harald Bergsteiner, Macquarie University, Australia
Gayle C. Avery, Macquarie University, Australia

Abstract: The authors contrast sustainable “Rhinelander” leadership practices with less sustainable “Anglo/US” practices. Key differentiators are identified and brought to life by means of a theoretical case that shows how a well-performing Rhinelander enterprise can be destroyed by implementing Anglo/US practices. The case illustrates the relatively complex, self-optimizing and self-reinforcing nature of the Rhinelander leadership approach, and why this dynamic system is difficult to copy. Key aspects of the case are examined with reference to the relevant literature.

Keywords: Leadership, Sustainable Leadership

GIVEN THE ENORMOUS cultural, political, social, religious and environmental diversity of the world (Albert, 1992, 1993; Hofstede & Hofstede, 2005; Gelfand, Lim, & Raver, 2004; Pascale & Athos, 1981), it is not surprising to find different leadership philosophies sometimes competing, sometimes co-existing, in different regions. Avery (2005) uses 28 case studies from countries as diverse as Australia, Germany, Hong Kong, Japan, South Africa, Sweden, Switzerland, and the U.S.A., to analyze and describe two fundamentally different ways of leading organizations in the capitalist world.

In line with Albert (1992, 1993) she refers to these as Anglo/US and Rhinelander leadership principles. Note that these terms are not to be understood in a geographic sense, but denote different approaches to creating value. Nineteen criteria distinguish the two approaches. Perhaps the most critical of these are: on the Anglo/US side, shareholder focus, short-term view, subservience to the financial markets, and seeing staff essentially as a cost; contrasted with this is the Rhinelander’s focus on a broad range of stakeholders and the long-term, distrust of the financial markets, and seeing employees as the organization’s primary asset.

The strong value placed on employees under Rhinelander leadership reflects a much more complex way of approaching efficiency, change, and productivity than under shareholder-value leadership (Hutton, 2002). Included among Rhinelander principles are specific high-performance human resource (HR) practices that parallel those said to promote strategic advantage for firms (Pfeffer, Hatano, & Santalanen, 1995), although more research is still needed to determine the relative significance of the individual HR practices (Wall & Wood, 2005). These practices include special induction processes, recruiting for cultural fit, providing job security, employee participation and empowerment, information sharing, self-managing teamwork, multi-skilling and training staff across different activities, a relatively non-hierarchical culture, ensuring that wage differences are moderate, and striving to promote from within (Ichnioski & Shaw, 1999; Pfeffer et al., 1995). For these practices to pay off, both the organization and the employees need to adopt a long-term view.

High-performance HR practices form just one part of the self-reinforcing Rhinelander leadership system (Avery, 2005). An emphasis on high quality, innovation, ethics, and social and environmental responsibility also typify Rhinelander enterprises. Importantly, it is the complementary and interactive effect of a whole bundle of practices that constitutes the strength of the Rhinelander approach (Gould-Williams, 2003). Particularly with HR practices, firms that have implemented “the full package” have tended to show gains in business performance, whereas firms that adopted one or two isolated components did not.

Rhinelander organizations tend to outperform their Anglo/US counterparts even on that aspect of the Anglo/US model that its proponents hold sacred above all others – promoting shareholder value. Rhinelander-led companies also outperform their Anglo/US-led competitors on a range of other criteria, including environmental and social measures. The evidence in the literature for the greater sustainability of Rhinelander enterprises on all three of these dimensions – financial, social, environmental – is overwhelming (Albert, 1992, 1993; Gelb & Strawer, 2001; Ghoshal, 2005;
Hofstede & Hofstede, 2005; Hutton, 2002; Kennedy, 2000; Malik, 2002; Mintzberg, Simons, & Basu, 2002; Mitchell, 2001; Ozment, 2005; Stiglitz, 2002; Vitois, 2002; Willmott & Flatters, 1999; Zalewski, 2003). Coincidentally, many Rhineland companies also feature on best-employer, best-company-to-work-for, and similar lists. Again, there is evidence that over time the ‘best’ public companies financially outperform comparable companies in their industries (Chan, Gee, & Steiner, 2000; Fulmer, Gerhart, & Scott, 2003; Romero & McFarlin, 2004). Examples based in the U.S.A. include SAS Institute, IBM, WL Gore & Associates, Colgate-Palmolive, Marriott Hotels, and Continental Airlines.

The Rhineland model’s competitive advantage essentially derives from the fact that it is a complex, self-optimizing and self-reinforcing dynamic system that is difficult to copy. Rhineland companies tend to understand this uniqueness and many permit even direct competitors to observe their production processes. Toyota, a Japanese Rhineland enterprise, welcomes tens of thousands of visitors each year, many of them from rival carmakers, “certain its methods can’t be replicated through observation alone . . .” (Chandler, 2005, p. 37).

The Rhineland approach requires extraordinary commitment to training on the part of both the organization and the workers (extraordinary by comparison with the Anglo-US approach, that is), extraordinary levels of trust (e.g. at both BMW and Toyota, ordinary workers on the production line are authorized to bring the production line to a halt if a quality problem warrants this), and extraordinary dedication to the firm’s mission, vision and goals (Avery, 2005; Chandler, 2005). To demonstrate how the interconnectedness of the multitude of organizational variables characterizing Rhineland organizations is at once a strength but also a weakness, we take the theoretical case of a healthy Rhineland organization and show how, through one ill-advised key intervention and its multiplier-effect, an entire organization can ultimately be driven into ruin.

The theoretical case described in this paper draws on and synthesizes contributions from various empirical researchers in a theory-building approach known as middle-range thinking (Laughlin, 1995). This can be described as a paradigm of research that operates at the interface of, or that tries to bridge, the paradigmatic divide between empirical and non-empirical research. It is an approach designed to address the fundamental science problem described by Staats (1999) and Piggot (2002), whereby empirical methods of research (experiments, surveys, field studies) yield a huge volume of facts, but, through lack of integration, not many insights.

The Journey towards Destruction

Teamwerk is a successful German SME Rhineland company making specialized, hi-tech tooling equipment. Until recently, it was wholly in the ownership of a fourth-generation family-holding. The company’s 2500 employees make a wide range of products, of which 40% are exported. Creative and innovative workers are essential for the business to survive in a highly competitive market. We present the case as a story line, with relevant aspects to the literature.

Three years ago, Teamwerk was faced by three challenges:

- Owing to its excellent reputation, the company was an attractive take-over target and the aging family owners sold a majority shareholding to a company operating on Anglo-US principles. The new shareholder saw in the acquisition possible synergies, a foothold in the European market, and opportunities for growth.
- The company’s former CEO was retiring, making room for a successor of the new owners’ choice.
- Significant investments needed to be made for this profitable company to achieve major growth.

The newly appointed CEO, a graduate from a business school subscribing to the Anglo-US model (according to Ghoshal (2005) this describes the majority of MBA schools, including many of the so-called elite schools), took a closer look at the company. He found a number of things that he thought would help him address these issues:

- Teamwerk was not unionized, because the workers had never asked for it. Unionization is not mandatory in Europe (Goerke & Pannenberg, 2004), but beyond a certain size German companies are required by law to allow the establishment of a union, even if only one worker asks for it.
- The workers were paid substantially more than the industry average. The high wages of German workers are frequently cited by German and foreign media as a major cause of certain economic problems that Germany is currently experiencing, such as high unemployment (e.g. “Economics focus”, 2005).
- The workers were entitled to a 35-hour week and six weeks annual leave – which they actually took. According to the U.S. National Bureau of Economic Research, American workers average 25.1 hours per week, compared with Germans’ 18.7 and French workers’ 18 (Alesina, Giacser, & Sacerdote, 2005).
• The company had just reported a lower than expected profit for the last year, attributed to macro-economic issues.

• While Germany continues to be a world-leader in exporting, domestic consumption is stagnating (U.S. Department of State, 2005). With 60 percent of Teamwerk’s revenue being derived from the domestic market, profits are down.

The new CEO fairly quickly analyzed the financial parameters of the organization, and thought he knew exactly what needed to be done. However, he had also learned as part of his intercultural management training that a German CEO is more of a speaker of the top team than the sole decision-maker. He therefore needed to get others’ support.

The role of German CEOs is often described as “primus inter pares”, i.e. as first among equals (Avery, 2005).

The new CEO therefore had to persuade Teamwerk’s management board and then the supervisory board, on which some employees and minority shareholders sit, that three things needed to happen:

• One, substantial funds needed to be invested in new processes and infrastructure to allow strong growth to occur.

The old owners had been content to grow in good times, using either the company’s own resources or bank finance, the latter generally being known to offer “patient capital”. Many SMEs are fiercely independent of the capital markets, even if this imposes limitations on growth (Avery, 2005). The owners and employees on the supervisory board had resisted raising equity or increasing the company’s debt to maintain financial independence.

• Two, notwithstanding the above, the new CEO felt compelled to ensure that the next quarterly results be better than the previous ones in order to lift returns to shareholders.

The pressures on companies to succumb to short-term shareholder value by continually achieving satisfactory quarterly results are immense:

• Business schools teach it (e.g. Ghoshal, 2005)

• Many academic journals support it (e.g. Stewart, 2004)

• Some government policies require it (e.g. Stiglitz, 2002)

• Media support it (e.g. “Saving Germany’s auto industry”, 2004, p. 72)

• Managers are tied into it via self-interest (e.g. Kennedy, 2000)

• Financial markets drive it (e.g. Drucker, 2003; World Economic Forum, 2004)

• Many major investment funds are locked into it

• Given the above, many managers do not know of alternatives.

The options facing the new owners in trying to finance significant growth essentially consist of: increase revenue, raise equity, incur debt, and/or cut costs. Of these options the CEO decided that the first is a medium to long term strategy, the second is not viable because the timing and market conditions are judged to be inauspicious, the third increases costs in the short term, which only leaves the fourth as a viable option to quickly generate the required capital.

• Three, the CEO concluded that the only way to be able to achieve the above two objectives was to reduce the size of the workforce, thereby achieving substantial, immediate and lasting cost savings.

Downsizing is often seen as a way of achieving relatively quick cost savings. However, a long-term study into the effects of downsizing on both individuals and corporations concluded that layoffs rarely lead to increased profitability, and sometimes the opposite occurs (Cascio, 2002).

The CEO persuaded both boards that, despite legal difficulties that would need managing, this downsizing could be achieved and justified on the grounds that:

• compared with most U.S. workers, Teamwerk employees were overpaid in both wages and holiday provisions. Realizing that it would be difficult to cut wages, the CEO argued that the remaining employees could work a little harder and longer.

The new CEO is working on the assumption that because employees work fewer hours, they necessarily produce less. Evidence suggests that per hour worked, Germans are more productive: (a) as typically found in Rhineland businesses, the German workforce is highly skilled (Estevez-Abe, Iversen, & Soskice, 2001), (b) this highly skilled workforce requires less supervision than their counterparts in Anglo-U.S. organizations with a less skilled labor force (Hofstede, 2003), and (c) Europeans “take a more aggressive stance toward employee self-influence” than do Americans, with Americans tending to mean “participation” where Europeans mean “empowerment” (Manz,
1990, p. 276). Under Rhineland leadership, organizations are likely to operate with fewer expensive managers/supervisors and deliver higher quality than their competitors, which could justify a shorter working week and higher rates of pay.

- not having a well-organized union would facilitate such “necessary” short-term downsizing.

In Germany, union-management relations tend to be far less confrontational and antagonistic than in Anglo/US countries. Among other things, because unions are required by law to be represented at management board level in companies above a certain size, unions are involved in key decision-making processes and hence tend to adopt a more balanced attitude than is often the case in Anglo/US-run corporations (Albert, 1993; Upchurch, 2000). The CEO can expect that following his intervention employees will unionize.

- the new investment would create new workplaces.

The CEO has either failed to take into account the high cost of formal training of new staff or he regards on-the-job training as sufficient. This attitude would run counter to the evidence that U.S. public companies that invest heavily in training and developing their people outperform the Standard & Poor index by between 17 and 35 percent (Bassi & McMurrer, 2004). Sometimes CEOs are also afraid that training staff will drive up wages as employees demand more money for their new skills. However, according to OECD research, wages do not rise if employees develop skills that their current employer needs and that are difficult to transfer to other employers (OECD, 2001). Rhineland leadership emphasizes continually upskilling employees. Therefore, because of the high cost of training new staff, Rhineland companies avoid having to lay off people, if at all possible. First, they do not like to lose valuable knowledge and skills, second, they do not like to act as surrogate trainers for competitors’ employees, and, third, it obviates the need for the expense of recruiting and training new staff once things turn around (Avery, 2005).

- the action, very quietly, but very effectively, would signal to the remaining staff that there was a “new broom”, and that they needed to “shape up”, otherwise they might also be “shipped out”.

The CEO may be assuming that fear of losing their job will improve people’s performance. He ignores research showing that job-insecure workers perceive their organizations to be ineffective in outcomes such as delivering on customer performance and effectiveness, adaptiveness to changing conditions, and morale (Reisel, Chia, & Maloës III, 2005), and suffer poor health (D’Souza, Strazdins, Clements, Broom, Parslow, & Rodgers, 2005).

- the CEO was taking a risk too, because part of his remuneration was tied to growth in shareholder returns.

Superficially this seems attractive, given that many CEOs’ remuneration is often not linked to performance at all (Conger, Finegold, & Lawler III, 1998; Crystal, 1991; Ermann & Lundman, 1982). For example, Saville (2001, p. 26), in a survey of 25 listed technology companies, found that “of the 19 companies which lost money in the year to June 2000, the average chief executive was paid $442,000 in salary and benefits, excluding options. . . In contrast, the leaders of the six companies which actually made profits ($378,000 to $42 million) were paid an average $397,000”. Linking the new CEO’s remuneration to share price movements meant, of course, that the CEO needed a “quick-fix” solution to improving the next quarterly result. However, tying CEO bonus payments to quarterly results tends to be counterproductive by creating a focus on short-term profits at the expense of long-term goals and other stakeholders’ interests (Kennedy, 2000). The dysfunctional effects of linking CEO remuneration to short-term quarterly results have been described, among others, by Bennis (2003), Crystal (1991), Ermann and Lundman (1982), Gomez-Mejia and Balkin (1992), Lawler III (2003), and Master (2002).

- Other opportunities needed to be identified for cost cutting so that funds could become available for essential investment. Formal training was mooted as another likely contender for cutbacks.

One area that Anglo/US leadership often likes to cut back on is training. Rhineland companies such as BMW continuously upskill all their workers in technical and people skills (Avery, 2005), using an annual training and development budget equivalent to that of a medium-sized university. Research shows that valuing staff, including developing their skills, brings a range of benefits to a firm (Jacobs &
Washington, 2003), including increased productivity and profits (OECD, 2001). High training expenditures make less sense for organizations that embrace a short-term hire-and-fire philosophy, even though they are essential for the long term. In Anglo/US corporations, training therefore is mostly limited to on-the-job training.

Managerial Responses: Killing the Goose that Laid the Golden Egg

Within weeks of his arrival, the new CEO therefore announces that 10% of the workforce is to be sacked to save costs. Despite some initial difficulties caused by local industrial legislation, but aided by the absence of effective union opposition and a threat that the manufacturing part of the operation could always be moved to another country, the CEO is able to implement his down-sizing plan in a relatively short time.

The threat of moving production plants ex-Germany has been described by the president of the Institute for Economics Research in Halle, and one-time member of the German federal government’s Council of Economic Experts, as mere corporate propaganda (“Nur wenige fliehen” [only a few desert], 1995, p. 94). In modern production facilities, labor costs often account for only about 15% to 20% of total costs. Moving expensive plants to countries with a lower skill base becomes less attractive with advances in technology and automation, and rising wages in countries that were possible relocation destinations.

Within the first six months, nine percent of the workforce is sacked or takes early retirement, including many good workers. Another half percent leaves voluntarily in order to seek jobs with other Rhineland companies, since these are generally the employers of choice.

The cuts have to be made across the board irrespective of performance. Because of the rigorous staff selection procedures, excellent training, a collegial and cooperative team environment, and good working conditions, Rhineland companies produce relatively few underperformers. Inevitably therefore, many of the ten percent of people going are good performers.

Over the next two and half years, annual staff turnover increases from a low two percent per annum to over ten percent. Costs start to creep up.

Rhineland companies typically have lower staff turnover rates than Anglo/US companies. Sometimes the difference between Rhineland and other companies can be dramatic. For example, the Marriott Hotel in Hong Kong (a Rhineland-led, U.S.-based organization) in 2003 had a turnover rate of 8.9%, while the rest of the industry in Hong Kong averaged 29% (Avery, 2005). At the 30 Rhineland companies the authors have visited, turnover rates typically range between two to three percent. At medical equipment manufacturer Aesculap turnover is close to zero. Even at the Fraunhofer Institute, which has an avowed mission of training scientists and then releasing them into industry after five years, annual staff turnover is only about 12%. Losing talented people imposes a net cost on the bottom line. The costs of staff replacement will vary from firm to firm, but replacing a call-center customer service representative in the U.S. is estimated to cost approximately one year’s salary (Hillmer, Hillmer, & McRoberts, 2004), and higher level staff cost between one and two years’ wages and benefits (Ramsay-Smith, 2004). On top of these costs are further intangible losses associated with staff turnover; among these are lost productivity while new employees are learning, training costs, internal costs associated with exit and selection interviews, and briefing search consultants or advertising agencies.

The remaining staff, wary of hire-and-fire practices, correctly understand that a new broom is indeed being wielded, except that they perceive the instrument not so much as a broom, but as an axe. This gives rise to generalized fear.

Teamwerk’s new CEO appears to be unaware that whereas material and symbolic rewards constitute excellent motivators, fear is destructive and demotivating (Baird, Holland, & Deacon, 1999; Scarnati, 1998). A particularly insidious aspect of the kind of fear now rampant at Teamwerk is that it is generalized fear not linked to any particular behavior – undesirable or otherwise. There is an argument to be mounted for fear associated with the threat of punishment for inappropriate behavior because such targeted punishment may discourage similar future behavior and may also facilitate vicarious learning on the part of co-workers of the punished person (Butterfield, Trevino, & Ball, 2003). However, even such targeted fear-inducing leader behaviors need to be exercised with caution because fear: (a) sets free negative emotions which do not necessarily facilitate the right learning, (b) may result in the wrong
things being learned, (c) makes people more risk-averse (Fessler, 2001; Lerner & Tetlock, 1999; Lewis, 1999; Müller & Hurter, 1999; Scarnati, 1998), and (d) may encourage people to sink further resources in a failing policy in the hope of protecting their position (Staw, 1980). There is little that staff can do, however, in order to overcome generalized fear.

The remaining employees have to work harder and longer to make up for those people who have left. Since hard work and good performance no longer provide security of tenure, employees’ morale and loyalty to the organization continue to drop. Simultaneously stress rises. As a direct consequence of this, absenteeism increases, resulting in further costs for the company.

Following layoffs, a company often redistributes the same amount of work across fewer employees, raising their stress and sickness levels (Cascio, 2002; D’Souza, Strazdins, Clements, Broom, Parslow, & Rodgers, 2005). Employees cope better if the organization displays its concern for staff when work is redistributed or jobs are threatened by measures such as counseling for both those going and the survivors (Holm & Hovland, 1999). Absenteeism on sick leave and counseling add to the costs. Research shows that laying off employees rarely leads to increased profitability but typically to further losses once indirect costs are assessed (Cascio, 2002; Glebbeek & Bax, 2004).

Partly in order to cut costs further, but also as a consequence of the changed culture of the organization, the company now invests less money in training.

Losing skilled staff, either through sacking or “natural” attrition, is not only expensive – after all, costs expended on training are only being partially recouped – in effect, it is releasing trained people for the benefit of competitors.

At the same time, fewer employees express an interest in highly specialized company training. As skill levels and morale continue to sink, the ability and willingness of people to innovate diminishes.

What employees now need are generalist skills that will enable them to work with many different kinds of organizations instead of highly company-specific skills (Casper & Kettler, 2001). However, this downskilling negatively impacts on morale. A survey carried out by Hewitt Associates (2001) of nearly 13,000 employees shows that one of the two most important characteristics that distinguish Best Employers from other employers in the eyes of employees is the opportunity for career development through learning; the other is quality of work life – both have suffered at Teamwerk.

As the employees’ loyalty to and trust in the organization, and their skill levels drop, so the organization’s trust in the employees drops. The organization can no longer assume that the employees have the necessary skills, motivation, or commitment to do all that is necessary to ensure the success of the organization. The deteriorating skill levels and mutual trust force the organization to engage supervisors to oversee, direct, support and counsel employees. The organization changes from a high-trust to a high-controlling culture.

As discussed above, Rhineland employees typically require less supervision than their counterparts in Anglo/US cultures (Hofstede, 2003), and are expected to self-manage. Given their higher motivation and commitment, Rhineland employees both in Germany and elsewhere are also trusted to exercise their empowerment responsibly. This situation is changing at Teamwerk as trust evaporates in both directions between management and employees. In an environment of low trust, control emerges as a form of risk management, replacing trust, which allows more flexibility and adaptiveness, with compliance, which relies on formal policies and procedures (McLain & Hackman, 1999).

Because of the newly appointed supervisors, the organization becomes less flat, thus increasing the cost of overheads.

The supervisors add costs, but little value. They are not employed to perform higher-level management functions such as developing strategy, planning, or looking after key customer needs. Their main task is to monitor lower level workers to ensure that they actually do what they are employed to do.

The extra layer of management means that approval processes are becoming more cumbersome, time-consuming, controlling and hence costly. As a result, the ability of the organization to respond to challenges and opportunities speedily, flexibly, and creatively is encumbered.

The extra level of management and reduced ability of workers to self-manage, owing to a
lack of the necessary skills and trust, in fact constitute a huge shift in corporate culture. In bureaucratic and controlling cultures, workers essentially engage in routine behavior. They are less likely to initiate without first referring to a supervisor or manager, since they will generally not be empowered to make decisions or take risks. This undermines the ability of the enterprise to innovate and be creative. As Samuel Palmisano, CEO of IBM, is quoted as saying, “... a smothering bureaucracy ... doesn’t allow for the speed, the flexibility, the innovation that clients expect today” (Hemp & Stewart, 2004, p. 63). Control produces dysfunctional forms of behavior such as resistance, false reporting, reduced collaboration among associates, less risk-taking, and fosters dependency (Dose & Klamoski, 1995; Ferris, Mitchell, Canavan, Frink, & Hopper, 1995). By contrast, in non-bureaucratic, visionary, and values-driven organizations, employees tend to initiate and be self-motivating (Bass, 1990). Innovative ideas are crucial in hi-tech, knowledge and service economies in areas such as R&D, process and product design, marketing and financing. Teamwerk’s survival depends on innovation.

Since 100 percent supervision is not possible, the zero-defect policy is no longer achievable. As a result, warranty claims and recalls increase, putting further cost constraints on the company, and further undermining its competitiveness.

In a review of three books on the ‘Six Sigma’ approach to improving performance, Ittig (2003, p. 19) suggests that the zero defects approach “will become the improvement tool of choice”, and will include the drive for perfection as a fundamental tenet. By embarking on a rigorous quality improvement program, Hyundai USA was able to reduce warranty provisions from 5.7% to 1.8% of its revenues (“Hyundai Motor”, 2005). Applying this warranty provision reduction to Hyundai’s 2004 worldwide revenue of just over £26 billion (Hoover’s, 2005), this would represent a saving of £1 billion (£26 billion x 3.9% = £1 billion).

At the same time, customer complaints and customer attrition increase. The decline in repeat customers needs to be compensated with new customers thereby imposing additional costs on Teamwerk.

The cost of acquiring a new customer has been estimated at five times the cost of retaining an existing one (Pfictler, 2005).

Given the uncertain nature of the employment contract, people also tend to compete more with each other and to profile themselves, even within teams; integrity begins to fail; and employees take fewer risks.

In Rhineland organizations rewards and sanctions are generally team-focused and individual (Avery, 2005). When team members are pitted against each other, team performance necessarily suffers. Among other things, falling morale, failing integrity and a rapidly diminishing esprit de corps give rise to social loafing. When people fail to carry out their component of a team’s load, “It’s a bit like a successful marriage, in which each partner takes 100 percent responsibility. Relying on each person to take only 50 percent responsibility is a sure formula for an unsuccessful marriage — and an unsuccessful team” (Faust, Lyles, & Phillips, 1998, p. 169). De Leede, Nijhof, & Fisscher (1999, p. 203) hold that [self-managing] teams can bear responsibilities that could never be carried out by a group of individuals”, let alone by competing individuals. Destroying team culture therefore will impact negatively on firm performance. Poorly trained staff (resulting from cuts to the training budget) would, of course, be well advised to avoid taking risks, since the risk of failure, and hence the risk of being fired, is increased.

In an effort to rein in rising costs, employment conditions at Teamwerk are tightened (employees increasingly become independent contractors, lose pension benefits, and paid holidays). Employee morale sinks still further. With lower skills, lower morale, lower mutual trust, lower motivation, lower commitment, less teamwork and less risk-taking, quality and innovation continue to drop. Cost cutting measures extend to corporate social responsibility and environmental care, which makes Teamwerk a less attractive place for the talent. The organization ceases to be an employer of choice and loses the talent war. Staff turnover increases still further and employees become even less skilled, motivated, trustworthy, team-oriented, and innovative.

Research among U.K. and U.S. companies highlights that taking a short-term approach to people, such as working with short-term contracts, is negatively correlated with innovation (e.g. Michie & Sheehan-Quinn, 2001). Innovation thus needs to be seen as a long-term investment in the firm’s future, not as a stop-start activity. As Gary Hamel (2003) and other management academics point out, a business’ only weapon for going forward is
having systemic innovation everywhere in the enterprise. When links form between employees, allowing sharing of ideas and skills in unique ways, organizations enjoy competitive advantage that others cannot emulate. Retaining staff preserves and capitalizes on these linkages (Dess & Shaw, 2001).

Finally, the managing board realizes that the developments envisaged three years ago have not and will not take place, and that it has made a colossal error. It offers the CEO a golden handshake in order to terminate his 5-year contract prematurely. This is, of course, a wonderful result for the CEO because in the first year he received a huge bonus due to the improved financial figures, in years 2 and 3 he received his normal, quite generous, salary (pegged to his U.S. peers), and at the end he gets another full year’s salary for retiring early.

**Concluding Remarks**

This paper demonstrates how relatively easily Rhineland leadership can be disrupted by misguided or poorly implemented change to just one important element, ultimately converting Rhineland leadership into the Anglo/US system. This threatens the sustainability of Rhineland leadership when pressured by Anglo/US management philosophies. The chances of Rhineland leadership being destroyed are increased when managers educated in one system are insensitive to alternatives, and simply transfer their past experiences to a different situation.

The case of Teamwerk shows how a company created on Rhineland principles can be destroyed through insensitive, and possibly unnecessary, downsizing. Sometimes it is unavoidable that staff need to be laid off, in which case a firm benefits from doing this in an employee-friendly way (Cascio, 2002). The perceptions of the employees who are not being laid off – the survivors – also need to be managed to prevent fear from spreading. The events at this theoretical Rhineland company, Teamwerk, are interpreted in the light of the literature, showing how what seems like a single cost-saving measure, namely cutting staff numbers, has a huge multiplier effect that can ultimately destroy the company’s leadership culture and financial viability. Perversely, in turning Teamwerk into a company following Anglo/US leadership principles, value was destroyed rather than created. Whilst we have chosen the reduction in staff numbers as the significant intervention that sets in motion a downward spiral, changes to other key elements of what constitutes the essence of the Rhineland system can have a similar effect; for example, significantly winding back the training budget (increases the need for supervision, lowers trust, lowers job satisfaction, lowers loyalty, etc.), becoming less ethical (lowers trust and loyalty, increases the need for supervision, etc.), or take on significant equity through the financial capital markets (promotes short-term thinking, encourages short-term hire-and-fire practices, destroys trust, etc.).

Whilst Teamwerk is a theoretical case, it is not as far-fetched as some readers might think. Avery (2005) describes the actual case of Nordstrom, a U.S.-wide fashion specialty chain of retail stores. Nordstrom started off as a family-run company committed to Rhineland leadership principles, highly successful, and regularly included in the list of the 100 Best Companies to Work for in the U.S.. A new outside CEO appointed to the company in 1997 decided to focus much more on shareholder value. The result was a decline in the company’s performance. Instead of downsizing and re-engineering, the Nordstrom family subsequently reinstated the Rhineland approach and values. Three years later the company was once again a model enterprise.

Using a hypothetical case, we have demonstrated some of the absurdities of pursuing the Anglo/US leadership philosophy if we really want profitable and sustainable enterprises. Ghoshal (2005, p. 81) pointed out that “...companies survive and prosper when they simultaneously pay attention to the interests of customers, employees, shareholders, and perhaps even the communities in which they operate”. He wondered why we ignore the more socially-responsible Rhineland approach, which actually delivers better shareholder value, and instead revert to the unsustainable “...ruthlessly hard-driving, strictly top-down, command-and-control focused, shareholder-value-obsessed, win-at-any-cost business leader...” (p. 85).

The demise of Teamwerk can be attributed to various sources, not the least of which is an insensitive CEO who ignored the leadership culture within the existing business, and decided to impose a completely different set of values in what was no doubt a well-intentioned effort to improve the company’s financial performance. The case illustrates how being oblivious to different leadership philosophies and imposing elements of a different system can destroy the sustainability of an enterprise.

**References**


**About the Authors**

**Dr. Harald Bergsteiner**

Harry Bergsteiner has been researching at Macquarie Graduate School of Management since 1998, first through his doctorate and later as a research associate. He originally trained as an architect and urban planner before becoming a management scientist. After completing his doctorate on modelling accountability and responsibility processes, he now specialises in modelling leadership phenomena. He is the developer of the Integrative Leadership® model, and studies global companies in a search for sustainable leadership practices.

**Professor Gayle C. Avery**

At Macquarie Graduate School of Management since 1997, Professor Gayle Avery focuses on leadership and people management. She brings extensive international experience as academic, consultant and entrepreneur in Australia, the US and Europe, and is co-developer of the Integrative Leadership® model. Each year, she visits global companies searching for best practice in leadership and sustainable management, where she identifies alternatives to prevailing leadership practices. She has worked in both public and private sectors, and has been involved in designing and executing leadership development programs for middle and senior management in major Australian and international organizations throughout the Asia Pacific region.
THE INTERNATIONAL JOURNAL OF ENVIRONMENTAL, CULTURAL, ECONOMIC AND SOCIAL SUSTAINABILITY

EDITORS
Amareswar Galla, Australian National University, Australia.
Mary Kalantzis, University of Illinois, Urbana-Champaign, USA.

EDITORIAL ADVISORY BOARD
Dang Van Bai, Ministry of Culture and Information, Vietnam.
Diane Bell, The George Washington University, Washington DC, USA.
Richard M. Clugston, Center for the Respect of Life and the Environment, and University Leaders for a Sustainable Future, Washington DC, USA.
Bill Cope, University of Illinois, Urbana-Champaign, USA.
John Dryzek, Australian National University, Canberra, Australia.
Robyn Eckersley, University of Melbourne, Australia.
Steven Engelsman, Rijksmuseum voor Volkenkunde, The Netherlands.
John Fien, RMIT University, Melbourne, Australia.
Steve Hennett, University of South Australia, Australia.
Paul James, RMIT University, Melbourne, Australia.
Lily Kong, National University of Singapore, Singapore.
Thangavelu Vasantha Kumaran, University of Madras, India.
Steffen Lehmann, Queensland University of Technology, Australia.
Jim McAllister, Central Queensland University, Australia.
Reed Perkins, Queens University of Charlotte, USA.
Peter Phipps, RMIT University, Melbourne, Australia.
Koteswara Prasad, University of Madras, India.
Surekha Rao, Indiana University Northwest, USA.
Judy Spokes, Cultural Development Network, Melbourne, Australia.
Manfred Steger, Illinois State University, USA and RMIT University, Australia.
David Wood, University of Waterloo, Canada.
Lyuba Zarsky, RMIT University, Australia, and Tufts University, USA.

Please visit the Journal website at http://www.Sustainability-Journal.com for further information:
- ABOUT the Journal including Scope and Concerns, Editors, Advisory Board, Associate Editors and Journal Profile
- FOR AUTHORS including Publishing Policy, Submission Guidelines, Peer Review Process and Publishing Agreement

SUBSCRIPTIONS
The Journal offers individual and institutional subscriptions. For further information please visit http://ijes.cgpublisher.com/subscriptions.html. Inquiries can be directed to subscriptions@commongroundpublishing.com

INQUIRIES
Email: cg-support@commongroundpublishing.com