

The Influence of Sustainable Leadership and Strategic Agility on Business Sustainability

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Abstract: In today's dynamic business world, companies are moving toward business sustainability strategy and regard it as a core company business. Based on dynamic capabilities theory and contingency theory, this paper presents a conceptual model which suggests sustainable leadership is a crucial capability that influence business sustainability while strategic agility plays a vital role in enhancing the impact towards business sustainability among public listed companies in Malaysia. The conceptual model proposed in this study enriches the literature in organizational performance, shifting from traditional profit-based measurements to a holistic view of business sustainability. Practically, this study provides insights to the regulators and managers that sustainable leadership is an important capability; and along with strategic agility; influence business sustainability among Public Listed Companies in Malaysia.

1 INTRODUCTION

Most companies used to view sustainability as essentially a 'green' issue such as reducing energy, waste disposal costs or supporting some community-based charitable activities; rather than regarding sustainability as a core company business. Nevertheless, this view is transforming rapidly in response to disruptive forces in a dynamic business world. Consequently, this urges all companies to be more accountable and transparent in addressing all stakeholders of the business towards attaining business sustainability. In today's competitive business world, companies are moving toward business sustainability strategy rather than growth strategy (McKinsey, 2012). Business sustainability reflects a company's efforts to go beyond focusing only on profitability, by also managing its environmental, social, and broader economic impact on the marketplace and society as a whole (Svensson et al., 2016).

Attaining business sustainability requires commitment from all stakeholders. In particular, sustainable leadership plays a critical role in ensuring business sustainability. Sustainable Leadership entails adopting a long-term perspective in decision-making; nurturing innovation aimed at delivering value to customers; developing a skilled,

loyal and highly engaged workforce; and offering quality products, services and solutions (Gerard et al., 2017). It is evident that top management emphasises sustainable leadership and agility; moving from avoiding uncertainty to managing uncertainty (Fadol et al., 2015) in their quest of profit optimization. Moreover, companies conduct their business activities while interacting with and transforming their environment; hence eventually impact their surroundings (Jerónimo Silvestre et al., 2016).

As companies operate in the context of fast changing business environment today, being strategically agile is crucial for companies to sustain the business performance. Strategic agility denotes the ability of an organization to foresee, act and respond proactively strategy-wise to internal weaknesses or external opportunities and threats which may confront an organization (Nkuda, 2017).

2 BUSINESS SUSTAINABILITY AND PUBLIC LISTED COMPANIES IN MALAYSIA

Companies have adopted various types of business strategy frameworks to evaluate their business performance in terms of financial results, customer

focus, operational processes and people development which is, often referred to the Balanced Scorecard (Kaplan and Norton, 1992). Recently, many companies have adopted the sustainability framework to evaluate performance in terms of financial, social and environmental dimensions known as the Triple Bottom Line (TBL). Interest in the TBL model has been growing rapidly across publicly traded companies, as well as private and non-profit organizations. Significant research has been conducted on the TBL theory and the impacts that the financial, social and environmental components of the TBL have on publicly traded companies (Schulz and Flanigan, 2016). The adoption of a triple bottom line (TBL) approach begins to shift in defining the business objectives from maximising “shareholder profits” to maximising “stakeholder value”. This new perspective indicates that organizations broaden the basis of performance evaluation from short-term financial focus to include long-term economic, social and environmental and economic aspects (Padin et al., 2016), thereby introducing the concept of business sustainability.

In Malaysia, Bursa Malaysia has demonstrated a commitment to sustainability by asking Public Listed Companies (PLCs) to disclose a narrative statement of their material economic, environmental and social risks and opportunities in their annual reports. Compliance with the initiative may sound easy to some companies, but it would in fact require a lot of thinking, internal alignment and possible organizational changes. The focus on materiality, governance and management - as suggested by Bursa Malaysia - encourages companies to bring investor relations and sustainability teams together and agree on how sustainability can support the investments.

Business sustainability is crucial for PLCs in Bursa Malaysia. It is timely to explore further studies to investigate the role of sustainable leadership which influences business sustainability of PLCs in Bursa Malaysia. To strengthen the resilience of PLCs in Bursa Malaysia and face future competition, being agile strategically is crucial. This will ensure their resources and capabilities are developed and deployed continuously in order to drive the performance momentum. From previous empirical studies, strategic agility plays an important role in hastening the transition to business sustainability, and take the organization forward in facing the challenge, as well as strengthening their performance to face future competition.

This paper presents a conceptual model and discusses the impact of sustainable leadership on business sustainability. Furthermore, this paper integrates the importance of strategic agility in interacting with sustainable leadership towards enhancing business sustainability among PLCs of an emerging market, Malaysia.

3 THEORETICAL FOUNDATION AND REVIEW OF LITERATURE

This study based its theoretical foundation on the dynamic capabilities theory and contingency theory.

Scholars explained dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Teece et al., (1997) stated that dynamic capabilities can be disaggregated into capacity to sense and shape opportunities and threats; to seize opportunities; and to maintain competitiveness through enhancing, combining, protecting and when necessary, reconfiguring the business enterprise's intangible and tangible assets. Helfat et al., (2007) highlighted the dynamic capability is an organization's ability to purposefully create, extend or modify its resource basis. Hence, a dynamic capability provides a firm foundation for achieving a sustainable competitive advantage (Zapata-cantu et al., 2016). In fact, dynamic capabilities can be expressed by shared and decoded knowledge that an organization could absorb through constant and past occurrences (Souza et al., 2017).

Souza et al., (2017) explored organizational practices that indicate a dynamic capability which include perspectives of Origin indicators of dynamic capability such as tacit knowledge over experiences, shared knowledge and codification knowledge; Indicators of dynamic capabilities such as the ability to converse with employees and customers, ability to integrate employees and customers' knowledge in processes, products, services and business strategies and entrepreneurial skills of the administrative top and Indicators of eco-capabilities include commitment of managers, directors and president for environmental issues, flexible labour, shared sense among members about the benefits of sustainable activities, training within sustainability content, introduction of processes compatible with sustainable strategy, benchmarking of internal strategies with competitors, performance and

inventory evaluation, organizational climate and provision of information to employees about the implemented sustainable programs.

Contingency theory suggests that the best way to organize depends on the nature of the environment to which the organization must relate. According to the theory, the environment in which the firm operates must also be taken into account for organizational success (Fazal et al., 2017). Contingency theory of leadership was proposed by the Austrian psychologist Fred Edward Fiedler in 1964 which emphasizes the importance of both the leader's personality and the situation in which that leader operates. There are two styles of leadership, namely task-motivated and relationship-motivated (Fiedler, 1964). A contingency factor is thus any condition in any relevant environment to be considered when designing an organization or one of its elements and might determine which style of leadership is best suited for that particular. Contingency theory states that effective leadership depends on the degree of fit between a leader's qualities and leadership style and what is demanded by a specific situation (Amanchukwu et al., 2015).

Leaders inspire with their vision and shared vision. They are persistent in their principles but flexible in details; while crafting the strategy for the future with stakeholders and setting the direction for achieving growth and sustainability. This is even more crucial in the context of Public Listed Companies to have leaders whom deliver value to all stakeholders. Leader with sustainable leadership quality requires taking long-term perspective in making decisions; fostering organized innovation towards value; developing a skilled, devoted and highly engaged workforce; and offering products, services and solutions of high quality (Gerard et al., 2017). In fact, sustainable leadership refers to any ethical behaviour that has the purpose and effect of serving groups of people and addressing communal problems in significant ways (Bendell et al., 2017).

The seven principles of sustainable leadership consist of creating and preserving sustainable learning; securing success over time; sustaining the leadership of others; addressing issues of social justice; developing rather than depleting human and material resources; developing environmental diversity and capacity; undertaking activist engagement with the environment (Amanchukwu et al., 2015). On the other hand, Bendell et al., (2017) combined their critique on both leadership and sustainability, and proposed seven main "unsustainability" in mainstream leadership which includes ignoring purpose or assuming the primary

purpose to be the benefit of an employer; assuming or believing a senior role holder to be most salient to organizational or social change; ignoring the political and moral aspects of an exclusive focus on enhancing the agency of senior role holders; assuming that "leader" is a continuing quality of a person rather than a label; assuming that the value of an individual lies mostly in their confidence in their distinctiveness; assuming that leadership development is about learning more than about unlearning; and believing that material progress is always possible and best.

Sustainability requires mindsets that work with the dynamic interplay between companies' leadership and their context – the drivers, conditions, events and stakeholder expectations that influence and shape the sustainability journey (Metcalf and Benn, 2013). Sustainable organizations can only evolve on the basis of leadership that can deal with increasing complexity and interdependence among business stakeholders and direct its efforts to meeting the future needs of these stakeholders (Metcalf and Benn, 2013). By serving these needs, business will create long-term sustainable "triple value," that is, value for the organization as well as for the social and natural environment in which it operates rather than merely creating short-term singular value, primarily for shareholders (Tideman, 2016).

Haneberg (2011) defined agility as the efficiency with which organizations respond to continuous change by consistently adapting. Adaptation may be unnoticeable at any one moment in time but the snowballing effect results in changing the organization to be more competitive in its environment (Nold and Michel, 2016). According to Michel (2013), organizational agility is the ability to make countless small adaptations in response to non-stop change that result in changing the fundamental building blocks of the organization. In today's business environment, companies must be agile and adaptable to respond in small increments that ultimately change the leadership, systems, and culture allowing the firm to survive and prosper in a different environment (Nold and Michel, 2016).

Castanias and Helfat (2001) argue that, when the skills of top management combine with other firm resources and capabilities of the firm, together they have the potential to generate value. Hence, possessing valuable, rare, inimitable, and non-substitutable resources is an essential state for value creation. Furthermore, value is created when resources are evaluated, manipulated, and deployed properly within the firm's environmental setting

(Fadol et al., 2015).

Effective decision making as reflected in good leadership is the unique capability of an agile organization (Hamel, 2012). Essential abilities for agile decision making include detecting primary warning signs of fluctuations in the internal or external environment, identifying and filtering relevant information and reacting rapidly to make an impact. Decisions are made by people and leaders alike as they are responsible and want to contribute to making the firm successful. Agile organizations enable self-determination, self-control, self-initiative, and responsibility instead of the traditional command and control approaches that are strict, rigid, and slow responding (Nold & Michel, 2016).

According to McKinsey (2012), truly agile organizations learn to be both stable and dynamic. Agility needs two things, namely dynamic capability, the ability to move fast—speed, responsiveness or adaptability; while agility requires stability, which includes resilience, reliability, and efficiency. Managing an organization successfully requires overcoming the many challenges posed by the business environment with their dynamic nature and frequent changes.

When the business environment was relatively steady, traditional quality tools and techniques were enough for organizations to succeed. However, the current dynamic business environment has driven a need to re-examine the traditional business performance concept to understand the increased dynamics of volatility, uncertainty, complexity and ambiguity of business environments (Saleh and Watson, 2017).

As a preliminary argument for a structured management solution, Saleh and Watson (2017) proposed critical success factors that address the dynamism which include dynamic capability, leadership agility and organization agility. Dynamic capability is the company’s ability to build, renew and reconfigure its resource base that already exists in the company in order to respond to the changes in the external business environment (Teece et al., 1997; Helfat et al., 2007, p. 4).

Leadership agility calls for the leader’s ability to take decisions within a turbulent business environment, where information is limited and there is a need to continuously interpret changing conditions, apply innovative solutions and even recover from failures quickly (Saleh and Watson, 2017). Organization agility is the capability to be flexible (Tallon, 2008; Sushil, 2012) and responsive to unanticipated changes in the business environment quickly.

4 PROPOSED CONCEPTUAL MODEL

In today's turbulent business world, organizations are striving towards attaining business sustainability in order to stay relevant and competitive. Business sustainability reflects a company’s efforts to go beyond focusing only on profitability, by also managing its environmental, social, and broader economic impact on the marketplace and society as a whole.

In order to attain business sustainability, sustainable leadership has been a crucial factor as leaders today are expected to be able to adopt a long-term perspective in decision-making. Moreover, in the context of business dynamism, the capability of companies to be able to anticipate events that impact the business; be able to act and respond proactively at a strategic level is becoming vital as it influences the impact of sustainable leadership towards achieving business sustainability.

By synthesizing previous literature, a conceptual model (Figure 1) is developed to indicate the positive impact of sustainable leadership as the independent variable on business sustainability as the dependent variable. In addition, a moderating variable, namely strategic agility is included in the model as it positively influences the effect of sustainable leadership on business sustainability.

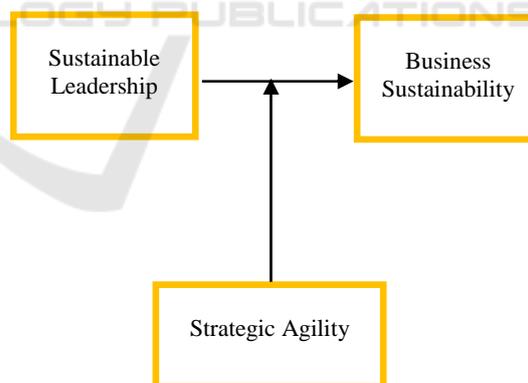


Figure 1: Proposed Conceptual Model.

5 SIGNIFICANCES OF STUDY AND CONCLUSION

This study enriches literature in the body of knowledge by clarifying and highlighting the role of business sustainability in the process of sustaining business performance among public listed

companies in Malaysia. This study highlights the gaps in current research in the field related to organizational performance by focusing on a more holistic measurement of performance, i.e. business sustainability. The measurements of business sustainability conceptualised in this study incorporate comprehensive perspectives of key performance indicators identified in academic literature and in practice, including the economic, social and environmental aspects.

Furthermore, the conceptual model proposed in this paper contributes to the existing theories of dynamic capabilities and contingency. Specifically, it relates sustainable leadership as a capability and highlights the importance of strategic agility as the moderator in which business sustainability is contingent upon in a dynamic business environment.

This study is expected to be of great value from the practical perspective as well. Specifically, this study would give insights to the relevant government and regulatory bodies on how they can form a sustainable framework to enhance the growth of PLCs listed on Bursa Malaysia. Moreover, this study would be of value to the managers and owners of PLCs in Bursa Malaysia in realising the importance of sustainable leadership and the crucial role of strategic agility.

From the global perspective, United Nations' adoption of seventeen (17) sustainable development goals (SDGs) by the United Nations in 2015 expect that governments, firms and other organisations can achieve progress on social and economic factors while not degrading the environment (Bendell et al., 2017). Sustainable development presents an enormous opportunity—if business leaders can understand economic, social, and environmental challenges as future value drivers (BSDC, 2017). Thus, it is timely for a truly sustainable leader to accelerate inclusive growth and drive sustainability at a greater speed and scale than it has to date. Achieving the SDGs by transforming business models in health, education, industry, agriculture and energy, means not only to enable better business results but also to contribute significantly for a better world tomorrow.

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