What is responsibility management? And why bother?

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Total Responsibility Management: The Manual

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What is responsibility management? And why bother?

Almost every manager today knows that satisfying customers by meeting their quality demands is a critical component of business success. Quality management is a given in modern companies, a competitive imperative. Yet it was not always so. Back when the quality movement was getting started, few managers really understood either the importance of quality to customers or how to manage for quality. Much the same could be said today about managing responsibility as was said about the early days of quality management. Why should responsibility be managed? What is responsibility management? Who cares? And, importantly, how can responsibility be managed? This manual will attempt to answer these questions and provide a framework for managing a company’s responsibilities to stakeholders and the natural environment that can be applied in a wide range of contexts.

Perhaps the analogy to the quality movement will help. Companies know that product or service quality affects their customer relationships and the trust customers have in the company’s products and services. So
too a company’s management of its responsibilities to other constituents affects its relationships with those other stakeholders and the natural environment. But why bother? The answer is quite simple. Never has it been easier for employees, reporters, activists, non-governmental organisations (NGOs), community members, the media and other critical observers to find fault with companies and their subsidiaries. A problem identified, even in a remote region or within a remote supplier, can virtually instantaneously be transmitted around the world at the click of a mouse. Ask footwear, toy and clothing and other highly visible branded companies what their recent experience with corporate critics has been and they will tell you about the need to manage their stakeholder (i.e. human rights, labour relations, environmental, integrity-related) responsibilities or face significant consequences in the limelight of public opinion.

Even companies without brand names experience increasing pressures to manage responsibility from social investors, employees and their customers in the supply chains they serve. Stakeholders, those who are affected by or can affect the company’s activities, care about how a company treats them, about impacts companies have on others, on society, on themselves. Increasingly, employees, customers, investors, environmental activists, the media, suppliers, communities and governments and others are making their concerns known in visible ways. Complicating matters further, many companies today find that outsiders seldom make distinctions between the company doing the sourcing and members of its supply and distribution chains. Critics of companies seem to believe that the sourcing company can and should be held responsible for whatever happens throughout their supply and distribution chains. Companies doing the sourcing are forced to respond to these concerns because otherwise their reputation—and business—suffers.

No company can hope to avoid criticism entirely, of course, because all companies have impacts on stakeholders and the natural environment; some of these impacts will undoubtedly create concerns among some stakeholders. However efficiently a company operates, problems can

1 The classic definition of a stakeholder, given here, comes from Freeman 1984.
arise, particularly if the company mindlessly barges ahead with decisions that affect employees, communities, suppliers, customers and activists concerned about the natural environment—without consulting with them. What companies can do is to manage their stakeholder-related responsibilities in ways that minimise negative impacts, build trust and thereby reduce potential criticism. In short, they can manage the relationships that they build with stakeholders (and activists concerned with nature) and the practices that the company uses to produce and deliver goods and services. It is this process of managing relationships and company impacts that responsibility management is all about.

Responsibility management occurs through a systemic process that in other writing we have called ‘total responsibility management’ or TRM—to make an analogy with already-familiar processes of management quality, total quality management, TQM (see, for example, Waddock and Bodwell 2002; see also Waddock and Bodwell 2004). Further, whether you do it consciously or not, you are already managing responsibility, just as companies were already managing quality when the quality movement hit. Sometimes they were just doing it badly or mindlessly!

In reality, companies manage their responsibilities to stakeholders and the natural environment through the operating practices and strategies they evolve to accomplish their goals. They do so because responsibilities are integral when there are impacts—and few managerial decisions have no impacts on either one group of stakeholders or another or on the natural environment. Just think of the array of corporate functions with the term ‘relations’ in typical titles: employee and labour relations, supplier relations, community relations, investor relations, customer relations, government relations, and the list goes on. This manual will make that process of managing responsibilities to and relationships with stakeholders and nature more explicit. Making the process explicit is important because too few of today’s decision-makers yet understand how they are managing stakeholder responsibilities as well as they understand how to manage quality.

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1.1 What is responsibility management?

Managing responsibilities goes well beyond traditional ‘do good’ or discretionary activities associated with philanthropy and volunteerism, which are frequently termed ‘corporate social responsibility’ and sometimes associated with narrow definitions of corporate citizenship. In its broadest sense, responsibility management means taking corporate citizenship seriously as a core part of the way the company develops and implements its business model. In this broad sense, responsibility management focuses on managing corporate responsibilities, which involves managing stakeholder relationships and the companies’ impacts on stakeholders. It thus focuses on the nature and impacts of company practices with respect to all important stakeholders and the natural environment.

From this perspective, managing responsibility means building trusting relationships with key stakeholders, such as employees, customers, suppliers and communities, and ensuring that, despite power differences that may exist, the company’s impacts are positive rather than negative. Managing responsibility therefore means working to reduce the negative impacts of corporate activities and developing mutually beneficial practices and ways of interacting (or engaging) with stakeholders so that long-term relationships can develop. It can mean active engagement with critics of the company as well as governments, to gain their perspectives and inputs, as well as with those primary stakeholders on whom the company’s existence depends: investors, employees, customers and suppliers/distributors. Increasingly, it also means using natural resources in ways that are sustainable over the long term, as the European Union’s white paper on corporate social responsibility makes clear. The specifics of responsibility management are unique to each company, its industry, its products and its stakeholders, yet, as this manual illustrates, a general approach to managing responsibility is feasible—indeed, is increasingly necessary.

Relationships with key stakeholders (including stakeholders such as trade unions, employee associations and NGOs, who might be critical of the company) enable companies to problem-solve with stakeholders from a basis of trust rather than a more adversarial base. With explicit responsibility management systems in place, company leaders can work
problems out with stakeholders, rather than allowing those problems to fester and ultimately damage the company and its reputation, not to mention its stakeholders or the natural environment. Responsibility management can be quite complex; however, the general framework for responsibility management is very similar to other management systems with which managers are already familiar, including quality and environmental management systems. Let us focus on the comparison with quality management, as quality approaches are best known.

Managing for quality fundamentally means paying attention to what customers actually need and want, rather than assuming that the company knows best, and working to deliver on those needs and wants. Managing responsibility similarly means paying attention to the needs and interests of stakeholders in much the same way, but of a significantly broader array of increasingly vocal stakeholders. Employees, customers, suppliers and distributors, other allies and partners, communities where the company locates facilities (or where the supply chain members are located), owners and investors, creditors, and local, regional and national governments are among the stakeholders to whom it makes sense to pay attention.

Yes, paying attention to the interests and concerns of all of these stakeholders can be difficult and adds significantly to the complexity of the manager’s job. Yes, it is probably infeasible to meet the demands of all of them—and no one expects that any company will do that. But numerous companies have discovered to their chagrin the costs of ignoring serious or significant stakeholder interests and concerns and have had their reputations tarnished as a result. Think, for example, of the accusations against Nike of sweatshop labour practices in its supply chain, the reputational damage to Liz Claiborne over the same accusations, or the challenges Shell faced in its dealings with Greenpeace over the decommissioning of the Brent Spar drilling platform. More recently, consider the impact of lack of consideration of customer needs and concerns with Merck’s belated withdrawal of Vioxx after concerns about heart problems were known.

In contrast, think about the forward-looking publication of a transparent report about real problems—and what is being done about them in a
similar situation by The Gap in 2004. The result of a lack of such attention can be lost customers, difficulty recruiting talent or problems with locating in certain communities, for example. Although it is not easy identifying significant problems that exist internally, the demands on companies to be more transparent and to use their power more wisely are intensifying. Through forward-looking disclosure and active engagement with stakeholders, all elements of responsibility management, companies can avoid tarnished reputations and potentially more serious restrictions on their activities.

Awareness of the concerns and interests of stakeholders, both inside and outside the company, can only enhance company performance and decision-making processes, especially since companies cannot do business today without encountering these groups in some way. Thus, whether they do it explicitly or not, whether they do it well or not, companies are managing responsibilities. The key to making responsibility management part of the company’s business success is to make explicit and discussable in a variety of forums the stakeholders’ interests and concerns, and work jointly and collaboratively at times, and within the company at other times, to ensure that these concerns do not become significant problems.

1.2 How to manage responsibility

Using the TRM framework is not rocket science. As we pointed out above, companies are already managing their responsibilities to stakeholders. It simply needs to be done using the same management techniques, problem-solving techniques, engagement strategies and systemic strategies already in use for managing quality. Similar thought processes and techniques can be applied to the relationships with other stakeholders beyond customers and employees, who are the focus of quality. TRM is

2 The Gap’s forward-looking and highly transparent social report can be found along with more recent reports at www.gapinc.com/public/SocialResponsibility/sr_report.shtml (accessed December 2006).
simply a systemic framework for managing responsibility for all of the companies’ stakeholder- and natural environment-related activities: that is, a system of total responsibility management. By making responsibility management explicit, TRM has the capacity to help companies develop integrity, values-driven vision, and respect for the perspectives of stakeholders affected by the company’s business activities.

Briefly, TRM starts with inspiration. Inspiration means that the company has articulated a values-driven vision to which top management is committed. This vision provides inspiration because it creates meaning for stakeholders engaged in a range of processes, partnerships and other relationships with the business. Built on generally agreed foundational standards that provide a floor of expectations about company practices and performance while incorporating the company’s own explicitly stated values, the vision guides strategy development and implementation, processes, procedures and relationships.

The next major component of TRM is integration. TRM integrates the company’s inspirational vision into its strategies, its employee relationships and practices, and the numerous management systems that support company strategies. Each company needs to determine how to do this in a way that satisfies its particular stakeholders, industry demands and product array.

TRM, using continual improvement tools creates feedback loops that foster innovation and improvement in management systems. Innovations and improvements in various strategies and stakeholder-related operating practices can potentially boost performance, and improve results. Key performance indicators, or a measurement system that assesses how well the company is performing along at least the triple bottom line of economic, social and environment (Elkington 1998) is an important element of the TRM framework, as are transparency and accountability for results. Box 1.1 provides an overview of the elements of the TRM framework, which is also pictured (for the more visually minded) in Figure 1.1. Each of these elements will be dealt with in greater detail in the following chapters, following a brief exploration of the ‘business case’ for responsibility management.
TRM IN BRIEF

INSPIRATION: VISION SETTING AND LEADERSHIP SYSTEMS

1. Responsibility vision, values and leadership commitments. Each firm determines its own vision for responsible practice and leadership, based on a foundation of generally agreed global standards and values as articulated by international bodies. The company makes a commitment to responsibility management through the top-management team and leaders throughout the organisation. This commitment helps the company determine not only ‘What business are we in?’ and ‘How do we compete?’ but also ‘What do we stand for?’ in developing its responsibility vision, enhancing leadership commitments and implementing core values that underpin all of its activities.

2. Stakeholder engagement processes. Stakeholder engagement means developing dialogue, communication and mutuality with important stakeholders to inform operating practices and strategies. The company determines ‘What is our impact on stakeholders?’ and ‘How do we appropriately incorporate the views of key stakeholders into our responsibility vision and leadership?’ through its stakeholder engagement processes. Stakeholders include: primary stakeholders (employees, unions, owners, supplier/allies and customers) and critical secondary stakeholders (communities and governments). Specific other stakeholders may also be included, depending on the company’s situation and industry.

INTEGRATION: STRATEGY, EMPLOYEE AND OPERATING PRACTICES

3. Strategy. Having determined its responsibility vision and stakeholder engagement strategy, a company then develops an overall strategy for achieving its vision, leadership and corporate goals in a responsible way. The company asks, ‘How do we match our vision and what we stand for with the reality of what we do and are?’ and ‘How do we achieve our corporate goals and
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objectives consistent with our inspirational vision and core values?

4. **Human resource responsibility.** It is people who are organised in organisations. It is people who implement the company’s vision and leadership and particularly determine how responsibly the company operates. People involved with a company, whether directly as employees or in the supply chain for a company, deserve to be treated responsibly: that is, with dignity and respect. Responsibility for human resource practices thus stretches beyond a company’s formal boundaries to include other companies taking part in a focal company’s value chain. Responsibility for human resources includes key elements of training, performance appraisal, recruitment, retention, and dismissal policies, wage and salary policies consistent with local conditions, working conditions, and employee development, communication and empowerment practices, including union relationships and commitment to meeting (at minimum) internationally agreed labour standards.

5. **Responsibility integration management systems.** Responsibility is integral to corporate practices, impacts and relationships. This integration means that corporate practices and relations are either responsible or they are not. Recognising this reality, TRM companies develop management systems that explicitly and deliberately integrate an understanding and implementation of responsibility into all management systems as well as corporate strategies. Key systems include reward systems, information and communication systems, operating, production and delivery systems, purchasing, accounting and financial systems, environmental systems, marketing and sales systems, human resource systems, and other corporate systems, supplier/ally relationships, and others as relevant.

**INNOVATION: IMPROVEMENT AND LEARNING SYSTEMS**

6. **Improvement: remediation, innovation and learning.**

Implementing a responsibility vision is an ongoing, cyclical

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**Box 1.1** (from previous page; continued over)
process of continual remediation for wrongs, improvement, innovation and organisational learning. Data from the measurement and accountability systems provides managers with guidance and structures that encourage responsible practices and provide an emphasis on continued organisational learning and development towards ever-more responsible practice. Remediation links to both the foundational values agreed by the international community and the specific responsibility vision of the corporation, focusing on continually learning and improving practices that are generally responsible but could be performed better, while immediately eliminating practices that are intolerable under the foundational values. The stakeholder dialogue process also provides key data for process, standards and system improvements.

**. . . PLUS INDICATORS TO FEED BACK INTO THE IMPROVEMENT AND INNOVATION SYSTEM**

7. **Responsibility measurement system.** Measurement of the impacts and responsibility of both the processes and results of systems and corporate practices in a multiple (at least triple, i.e. economic, social and ecological)–bottom–line framework is a critical component of implementing and understanding a responsibility vision. Responsible companies know that their stakeholder impacts can and need to be measured regularly and consistently so that results can be reported both internally and externally and improvements can be made where necessary. Measurement systems evaluate stakeholder impacts and performance through strategic and functional area assessments. Data gathered through measurement procedures, information technology systems, and responsibility auditing practices provide a baseline for continually improving operating practices, highlighting urgent situations, providing feedback on progress, and fostering accountability to internal and external stakeholders through valid and reliable assessment/auditing practices.
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8. **Results: responsible economic performance, stakeholder/societal and ecological outcomes.** The outcomes of productive processes in a company are its results—and the consequent impacts on stakeholders and the natural environment. The responsibility measurement systems help a company assess its performance multi-dimensionally and with a multiple-bottom-line orientation that permits comprehensive performance assessment along traditional financial as well as stakeholder and ecological lines.

9. **Transparency and accountability for results and impacts.** The responsible company knows that it needs to be accountable for its stakeholder and ecological impacts and results, and also to report those impacts and its operating results transparently through at least a triple-bottom-line framework (economic, societal and ecological). Data from the responsibility measurement system are used to produce responsibility reports addressing internal and external practices and the impacts of corporate activities. Companies determine how to develop trust with external and internal stakeholders through dialogue and assure the validity and reliability of their accountability systems in a cost-effective way.

**Box 1.1** (from previous page)
1.3 Managing quality . . . managing responsibility

As noted above, responsibility management has much in common with quality or environmental management, both of which have become familiar managerial practices in recent years. Responsibility management is a process or a system involving development of vision, explicit
articulation of values, implementation into strategies and management systems and continual improvements. To be effective, responsibility management requires commitment from top management, commitment that recognises the importance of managing responsibility to achieving the company’s long-term objectives, building positive relationships with important stakeholders and generating positive returns. In all of these elements, TRM resembles TQM in more than superficial ways, some of which are briefly explored below.

Companies ‘managed’ quality for years without realising they were doing so. The result was, in the eyes of many customers, poor quality. Only when quality management became explicit through the quality movement of the 1980s and 1990s, which evolved from Japanese and German implementation of quality management processes developed by people such as W. Edwards Deming and Joseph Juran, among others, in earlier decades, did quality begin to improve significantly. Similarly, the reality is that some degree of responsibility—or irresponsibility—is already present in all of a company’s stakeholder-related practices, activities and relationships whether it manages it effectively or not, just as some degree of quality (or lack thereof) was present in products and services before quality was explicitly managed.

Continuing the analogy with quality management, TRM follows the traditional process sequence embedded in quality systems in their implementation—plan, do, check, act—a process that is embedded in the corporate accountability management system called SA8000 (Social Accountability 8000), which focuses primarily on implementation of labour standards (Strum et al. 2000), but can be extended to TRM. The plan–do–check–act sequence provides a process for continual improvement which is needed to ensure not only that responsibility management is in place, but also that the company is on a path of continual improvement. Some of the considerations in the plan–do–check–act sequence, as applied to TRM, are noted below:

- **Plan.** Determine who are the relevant stakeholders and what are the related issues. Determine what standards are appropriate (i.e. for labour issues, check out ILO [International Labour Organisation] conventions and standards; for environmental issues, check out ISO 14000 and related standards; generally,
focus on unique considerations for the particular stakeholder). Determine what the related laws, current global standards and principles, internal stakeholder expectations, and external stakeholder inputs and expectations (from the stakeholder engagement processes) are. Create a guiding coalition of representative internal stakeholders and management to oversee the process, develop responsibility goals and objectives related to stakeholders and environmental impacts, and obtain inputs from relevant stakeholders.

- **Do.** Assess priorities based on current standards and internal documents. Determine where gaps exist between rhetoric and reality: that is, between the company’s vision, mission and values statements and the way that stakeholders and the natural environment are treated through operating practices. Develop the specific measures relevant to each stakeholder and the natural environment; establish goals and objectives related to the responsibility vision, goals and values. Undertake a baseline study to determine the current status, including costs and benefits of changing practices, so that future results can be compared. Design and implement improvement programmes as necessary, including assignment of responsibility for implementation and results to specific parties, determination of operational and system controls. Provide employee (and other relevant) training as needed, assign responsibility where appropriate, and ensure that records are kept so that improvements and problems can be tracked.

- **Check.** Have the guiding coalition review the results on a periodic basis, gathering relevant data and comparing it with baseline (or previous) results, as available. Communicate the results to relevant internal and external stakeholders for their feedback and ongoing assessment and engagement. Determine where problems still exist, where additional costs have been incurred and where improvements are still needed. Assess where improvements have been achieved and calculate benefits to relevant stakeholders.
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- **Act.** Revise responsibility goals, objectives and values as necessary. Revise programmes and practices as needed and where problems arise, to provide for a basis of continual improvement on responsibility measures. Issue a triple- or multiple-bottom-line report to relevant stakeholders in the interests of transparency and accountability. Begin the cycle all over again, recognising that systemic change is ongoing and that no organisation is ever perfect, that improvements can always be made.

Responsibility management, like quality management, means setting clear objectives to be achieved and articulating the values that drive the company’s vision and strategies. We term this part of TRM *inspiration*, emphasising the vision and values-setting processes aimed at engaging stakeholders in the purpose of the organisation. Inspiration involves top managers making a public commitment to the company’s vision and values, and it involves developing a vision for responsibility management that is widely shared so that leadership on issues of responsibility management can emerge at all levels of the organisation. Leaders, whatever their formal position, need to express willingness to engage with and learn from (and with) stakeholders whose interests in and commitments to the organisation create mutual investments and risks that are inevitably shared. In this respect, TRM is very similar to TQM, where top-management and leadership commitment to customers is a fundamental first step. The difference with TRM is that other stakeholders’ interests also need to be taken into consideration.

There are other similarities between TRM and TQM. Quality management, it turned out, was not about an inspection at the end of the production line, as many people originally assumed. Rather, managing for quality ultimately meant changing all of the company’s approaches and systems, *integrating* quality into the company’s objectives, product/service and work standards, and changing the systems that support production and delivery to reflect the quality objectives. Much the same can be said of responsibility management. Once a company begins using the TRM framework, no system goes unchanged: the effects of managing responsibility ripple throughout the system. This ripple effect occurs because responsibility management is based on a holistic awareness of...
the enterprise as a living system. When you change one part of it, those changes ripple throughout the organisation.

Responsibility management, as with quality management, is not necessarily about perfection, but rather about a process of continual improvement and innovation. As with quality management, improving the company’s responsibility management means involving and engaging with key stakeholders, particularly with employees. After all, it is employees who are charged with implementing the company’s strategies and practices, and other stakeholders and the natural environment are affected by a company’s strategies and practices. By engaging with them interactively, companies can develop improvement and learning systems that help them generate better returns and greater competitive advantage.

An old accounting saw goes, ‘you get what you measure’. Yet quality can’t be measured, or at least that was the initial response of many managers to the quality movement, who ultimately found numerous ways to measure quality. Today, we see similar responses around the issue of responsibility management. ‘How do you measure improvements in responsibility management?’ many managers ask. Or, ‘you can’t measure these things’, they state. Despite the doubts, quality management systems, such as those promulgated by W. Edwards Deming, Joseph Juran and Philip Crosby, demonstrated clearly that measures of quality could indeed be developed. Similar advances in responsibility management measurement systems, what we term indicators, are now evolving.

In the most progressive companies today, managing quality is everyone’s responsibility, not just the responsibility of a quality expert somewhere at the end of the line. A similar point can be made about managing responsibility. Unless responsibility management is everyone’s concern and is devolved throughout the organisation, problems can arise unnoticed until it is too late and they are already in the public eye. This approach to managing responsibility goes well beyond public relations (or, as some people call it, window dressing), well beyond compliance and even well beyond the company’s own boundaries into the supply and distribution chains. Taking responsibility for responsibility requires a systems orientation that touches all aspects of corporate life.

Managing responsibility is critical because, as NGOs, reporters and other corporate critics are likely to point out, it cannot be avoided. Some
degree of responsibility—or irresponsibility—is present in every action or impact that a company has. Whether it is on the quality of work-life experienced by employees (whether in the home organisation or supply chain), the impacts that products and services have on customers, communities and even national cultures, or in the production systems’ impacts on the natural environment, company activities have impacts. Increasingly, companies are being held accountable for the nature and quality of those impacts.

As with other management systems, such as quality, environmental and information management, responsibility management has to be thought through systemically and holistically. It is a process of building good stakeholder relationships through a continual improvement process that focuses on corporate practices, management systems, communication, strategies and transparency, much like quality management does. Responsibility management in one interpretation means engaging interactively with stakeholders in an open and transparent way, creating explicit responsibility management systems, and openly reporting results to interested parties. It recognises that there are no easy answers to dealing with the problems, criticisms and accusations directed at companies by various stakeholders, but that there are ways of managing that can help companies avoid problems in the first place, cope with them more effectively when they do arise and, ultimately, be more effective in their business operations.

Two things are critical in this regard. Responsibility management requires:

- **Building trusting and positive relationships with internal and external stakeholders** in order to be able to work productively through issues as they arise, rather than finding themselves the target of activism or negative journalism

- **Developing explicit and systemic management approaches for working through stakeholder and environmental issues**