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Responsibility: The new business imperative

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Executive Summary

Businesses today are experiencing profound pressures to reform and improve stakeholder-related practices and their impacts on stakeholders and the natural environment—in short, to manage responsibly as well as profitably. Pressures for expanding the emphasis on profits to managing responsibly derive from three general sources: primary stakeholders such as owners, employees, customers, and suppliers; secondary stakeholders such as non-governmental organizations (NGOs), activists, communities, and governments; and general societal trends and institutional forces. The latter include a proliferation of "best of" rankings, the steady emergence and development of global principles and standards that are raising public expectations about corporate responsibility, and new reporting initiatives emphasizing the so-called triple bottom lines of economic, social, and environmental performance.

To respond to these pressures, many multinational corporations (MNCs) in particular are developing what we have called total responsibility management (TRM) systems approaches for managing their responsibilities to stakeholders and the natural environment. In this article we outline the dominant pressures pushing the evolution of total responsibility management and present a managerial framework that highlights the three main components of TRM approaches—inspiration (vision), integration, and improvement/innovation—with the indicators inherent to a responsibility measurement approach.

A wide range of stakeholders is pushing companies to respond in a more responsible way to the numerous pressures that today's organizations face.[1] One source of pressures is primary stakeholders,[2] such as owners, employees, customers, and suppliers, who can be viewed as being on the 'inside' of the company. Another source of pressures is secondary stakeholders including non-governmental organizations (NGOs), activists, communities, and governments who are also seeking greater corporate responsibility. A third source of pressures is general social trends and institutional expectations, reflected in the proliferation of "best of" rankings, the steady emergence of global principles and standards that define expected levels of corporate responsibility, and new initiatives to publicly report the triple bottom lines for measuring economic, social, and environmental performance. This article argues that companies are responding to the pressures for accepting greater corporate responsibility by developing systemic approaches to managing the balancing of all these responsibilities. We term the recognition and integration of these triple-bottom-line performance expectations total responsibility management or TRM.

The pressures on multinationals to develop TRM have been growing throughout the 1990s. In the early part of the last decade, numerous exposés of exploitative labor practices in global supply chains pressured multinational brands and retailers to adopt corporate codes of conduct. Later in the decade, stakeholder pressures—and social-institution expectations—increased further, driving firms to not only introduce codes of conduct but also to pressure their suppliers to adopt these codes. The pressures have increased with the recent fall of Enron and the renewed calls for greater corporate integrity.

*The responsibility for opinions expressed in this article rests solely with the authors, and publication does not constitute an endorsement of those opinions by Boston College or the International Labour Office.

Because of these pressures and the current attention to corporate integrity, many companies may find that being recognized for responsible business practices embedded in what we call total responsibility management, or TRM,[3] becomes the new business imperative. We believe total responsibility management can be a significant source of competitive advantage for those companies taking the lead.

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In developing this argument, we offer the analogy to the quality management movement of the late 1970s and early 1980s. When it began, U.S. companies were generally indifferent to quality, but it became a competitive imperative by the end of the century. In the same way, the stakeholder and institutional pressures that companies are experiencing today are putting increasing emphasis on responsibility management, as a competitive imperative.[4] To illustrate the total responsibility management evolution, we provide data from a study of leading-edge consumer companies that are institutionalizing responsibility visions, integrating them into strategies and practices, and developing measurement systems that promote improvement and learning.

Pressures on Companies for Responsible Practice

The stakeholder pressures framework (see Figure 1) highlights the key demands facing companies today to be more responsible. Pressures come from three major sources: 1) primary stakeholders, such as owners, employees, customers, and suppliers; 2) secondary stakeholders, including NGOs and activists, local communities, and governments, and 3) generalized institutional or societal pressures such as the emergence of "best of" rankings, global standards and principles, and reporting initiatives focusing on multiple bottom lines rather than the traditional financial bottom line alone.

Pressures from Primary Stakeholders

Four particular primary stakeholder groups are pressuring companies to adopt responsibility-management approaches: owners, employees, customers, and suppliers.

Pressures from Investors (Owners)

Investors naturally desire a reasonable return on their investments through profits, increases in share value, company growth, and market potential. Performance pressures are a normal part of corporate life; however, there are some growing investor pressures that are expanding the definition of corporate responsibility.

Social Investing The social investment movement represents a significant source of pressures by investors and potential investors on companies to manage all of the corporation's responsibilities. By 2001, the amount of money invested in socially screened equities of one sort or another had passed the $2.03 trillion mark with one out of every eight professionally managed investment dollars being part of a socially responsible portfolio.[5] The long-held assumptions in the financial community regarding a trade-off between returns and responsible investment practices do not appear to hold up under examination.

For example, the DSI (Domini Social Index, a socially screened index created to track against other non-screened indexes) has generally outperformed the S&P 500 on a total-return basis and on a risk-adjusted basis since its inception in May 1990, although it trailed the S&P 500 during 2000.[6] Further, academic studies in finance and economics journals have consistently found either positive or neutral performance differences between socially screened and unscreened investments.[7] These studies suggest that social investing has few negative consequences (at least over time) and there may be positive financial benefits.[8]

The Link between Financial Performance and Responsibility Significant evidence from a large and growing body of academic research suggests at minimum a neutral, and quite likely a positive, relationship between responsible corporate practices and corporate financial performance.[9] So clear is this link that the authors of one recent meta-study concluded that since the evidence supporting the positive—or, minimally, neutral—relationship is significant, it is time for scholars to turn attention to new research questions.[10] Indeed researchers have concluded that companies' reputations and financial performance can be enhanced through attention to the quality of managing their day-to-day operations, or what these authors simply call "good management"; that is, there is little difference between managing for responsibility and managing well.[11]

Shareholder Activism Another owner/investor group exerting pressure for corporate responsibility is shareholder activists. In the U.S., activist

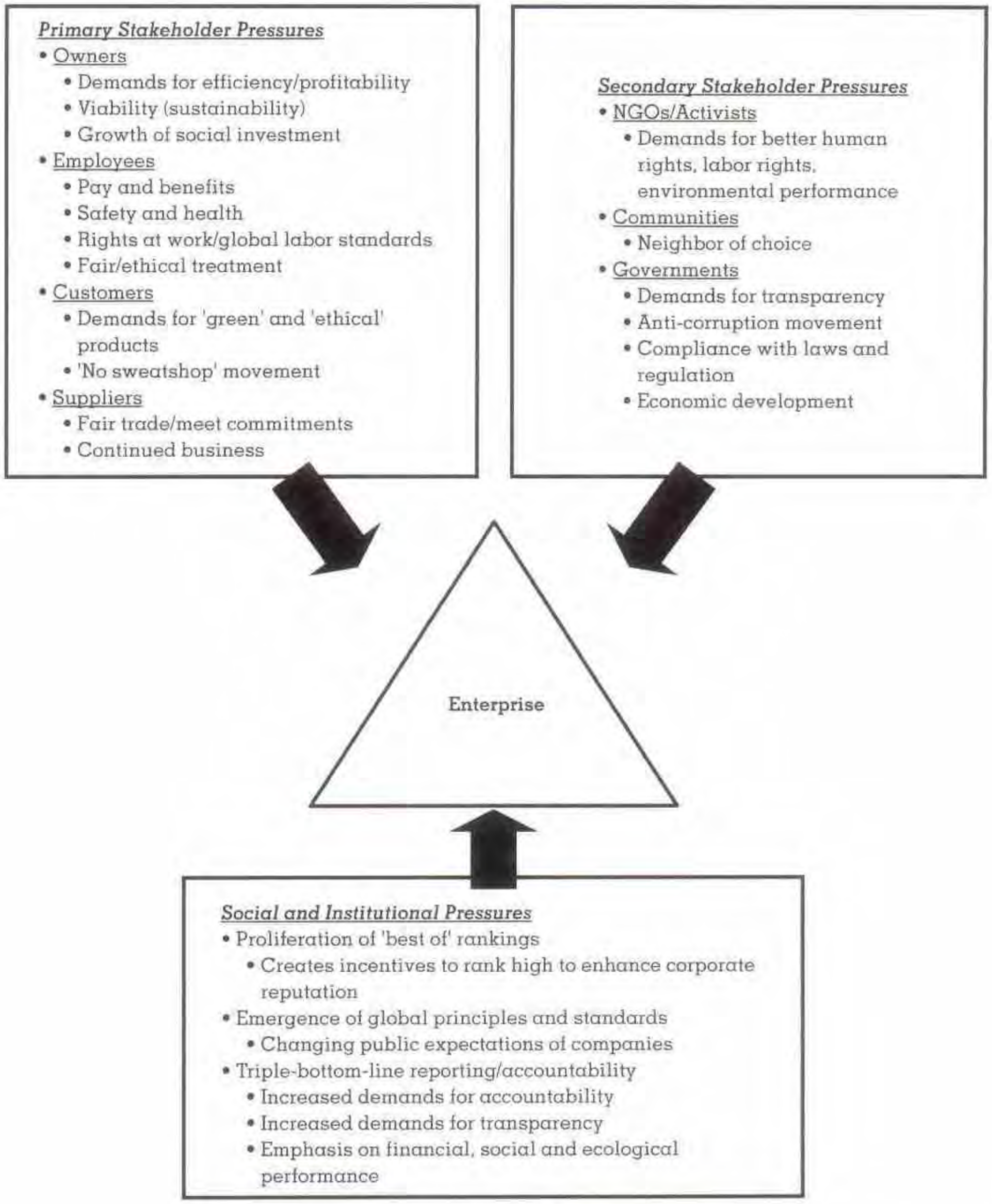

FIGURE 1
Stakeholder and Societal Pressures on the Development of Total Responsibility Management (TRM) Systems in Corporations

groups such as the Investor Responsibility Research Center (IRRC) provide interested investors with impartial information about corporate practices. IRRC's activities are supplemented by shareholder activism on the part of institutional investors and groups like the Interfaith Center on Corporate Responsibility (ICCR), a coalition of 275 Protestant, Catholic, and Jewish institutional investors, who submit numerous shareholder resolutions on a range of important social issues annually. Among the focuses of ICCR's activism are sweatshops and human rights abuses, ecological issues such as global warming, equal opportunity, safety of genetically modified food, decreasing military actions, and similar social issues. About 300 shareholder resolutions are tracked annually by IRRC, many of which are withdrawn before voting because activists work with management to change company policies.

Transparency of Corporate Responsibility Data The growing availability of data on corporate practices makes it easier to assess how companies respond to the many pressures to accept the need to manage responsibility as what they do is more visible. Among the factors currently assessed are labor issues, ecological issues, community issues, and public controversies. That these internal practices are regularly evaluated by outside agencies creates incentives for companies to monitor their own behaviors and controversial issues from within to avoid problems. Data and assessment make for transparency, for, as the old accounting saw goes, what gets measured gets management attention.

Proprietary data on corporate responsibility are now gathered and used by large institutional investors and social investment advisors, such as Trillium, TIAA-CREF's Social Choice Fund, the Domini Fund, and Calvert, to name a few. In addition, social research organizations, such as Kinder, Lydenberg, Domini (KLD), systematically collect annual data on specific stakeholder- and issue-related practices of all the largest firms (as of 2002, data are being collected on the Russell 3000 companies). These research houses sell the information and assessments to individual and institutional investors, law firms, corporations, and other institutions that use it to help their clients make investment decisions in line with their values. Further, external assessments of corporate practices related to corporate responsibility practice are undertaken on most large, publicly held companies globally by an emerging global network of leading social research organizations called SiRi, Sustainable Investment Research International Group, representing 11 countries.[12]

Pressures from Employees

Employee opinions about where to work are the basis of potential competitive advantage, particularly in an information- and knowledge-based strategy era in which continuing shortage of highly skilled and talented workers is expected.

Employee perceptions about how a corporation accepts and manages its responsibilities are often part of employee decisions about where to work.[13] Further, unions and related institutions, for example, UNITE (Union of Needletrades, Industrial and Textile Employees), work with student activists to put increased pressure on companies to reform their labor practices to meet global labor standards. With numerous watchdog groups looking out for the rights of employees, e.g., Sweatshop Watch, companies ignore their own and their suppliers' labor and employee practices at their reputational peril.

Pressures from Customers

Customers are increasingly pressuring companies to accept and manage their responsibilities through their purchasing power.

Consumer pressure on corporate performance is brought to bear on corporations through, for example, J. D. Power's consumer-oriented ratings of products.

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Some customers also say that they base purchasing decisions on their perceptions of a company's responsibility practices. Studies by the marketing firms Cone/Roper and Walker Research both indicate that customers are more likely to purchase products from companies they perceive as acting responsibly.[14] Product and service quality are key characteristics demanded by customers today. For example, most European firms require that suppliers meet ISO quality standards as a condition of doing business. Quality in manufacturing and service delivery is addressed through the U.S.'s prestigious annual Malcolm Baldrige Awards, which generate much positive publicity for recipients. Awards and recognition for TRM practices have been offered annually since 1987 through Corporate Conscience Awards now given by Social Accountability International. Though the latter awards are not yet as prestigious as the Baldrige Award, winning companies do gain significant positive public exposure through the publicity received.

Similarly, customers, as evidenced by reports from Cone/Roper and Walker Research[15] noted above, are becoming increasingly sophisticated about and aware of company practices. Better availability of information about the responsibility practices of companies that produce consumer goods may well increase consumer pressures and preferences in the direction of more responsible practices.

Pressures from Suppliers

One impact of globalization has been to increase the number of supplier and distributor alliances, making the supplier an integral part of corporate operations. The devolution of responsibility for manufacturing to suppliers has resulted in new relationships between headquarters and supplier companies, since both need to know what to expect of each other. Pressures for TRM throughout supply chains have mounted in the face of the anti-globalization movement. Indeed, abuses within company supply chains have been the target of numerous negative media and watchdog reports in recent years.

Some industries, particularly consumer products, have been seriously affected by the negative publicity surrounding certain labor practices in suppliers' facilities, especially with respect to the treatment of employees. Issues raised in recent years have included child labor, long work hours combined with low pay, abusive treatment of workers, and poor working conditions, among others. Companies in retail industries that source from developing nations have been hit hard by social and labor activism, low ratings in various rankings and public opinion surveys, consumer activism directed against their products, and shareholder activism on labor, human rights, and ecological issues.

Pressures from Secondary Stakeholders

In addition to pressures coming from primary stakeholders, companies face new sources of secondary stakeholder pressures to act responsibly in their corporate practices. Of particular relevance are NGOs and activists, communities, and governments.

NGOs and Activists

Non-governmental organizations (NGOs) and activists, aided by the global ease and transparency of electronic communication, are sources of pressure for total responsibility management. Global activists and NGOs have emerged demanding that companies adhere to high expectations regarding labor standards, human rights standards, and national sovereignty. Additionally, activists protest continued unfettered free trade and globalization and have disrupted meetings of the World Trade Organization, World Economic Forum, World Bank, and others in recent years. The capacity of activists to mobilize their own resources, disseminate negative information about companies, and take concerted action against practices they find offensive or problematic has never been greater.

Protesters are only one of many sources of stakeholder pressure. Other secondary stakeholders have been energized to exert pressure partly because of the impact of the Web and partly because of the increasing sophistication of outsiders and the general public about the impact that corporate practices have on corporate responsibilities. Environmentalists consistently pressure companies for better environmental management and more sustainable practices. Information about toxic releases and other ecological problems created by corporate activities is increasingly available. Environmental activism is better informed through television such as the 2001 Bill Moyers television special about the chemical industry's "Trade Secrets," which indicated that the chemical industry knew that certain of its products were harmful to both human beings and the natural environment. Such widely available public information intensifies pressures on companies to implement practices that are environmentally responsible.

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Communities and Governments

Communities and even nations, many of which have been in a competitive battle with other communities, provinces, or states for businesses, are beginning to become aware of the negative consequences of eroding tax bases and lack of company commitment to a locale. Companies may increasingly find it necessary to act as—and become—"neighbors of choice,"[16] living up to high standards of excellence with respect to their communities.[17] These standards for community excellence can provide a process methodology for developing corporate involvement. Similar in many respects to the processes involved in quality management, standards of community-involvement excellence enable companies to benchmark their own practices against those of other companies.

Social and Institutional Pressures and Trends

A number of institutional developments have led to pressures for responsibility management, creating a need for greater transparency of and accountability for corporate impacts. These pressures have become even more urgent in the face of Enron's collapse, in part because despite Enron's active assertion of environmental, human rights, and climate-change policies, their actual practices and financial condition were impenetrable.

Current institutional pressures for total responsibility management derive from: 1) the visibility and attention given to the proliferation of "best of" rankings, 2) a growing array of principles and global standards promulgated by major international bodies, and 3) related reporting and accountability initiatives that expand corporate responsibility from only an economic focus to the triple bottom line. These institutional pressures create growing demands for transparency and accountability.

Ratings, Rankings, Research, Awards

A major source of pressure on companies' stakeholder-related performance (or corporate responsibility) is the numerous ratings and ranking schemes that have emerged in recent years, as well as highly visible awards for best practice. In contrast to traditional corporate rankings that have largely evaluated companies on financial criteria, size, and growth rate (e.g., the Fortune 500), ratings and rankings now regularly evaluate companies' performance with respect to their treatment of a whole variety of different stakeholders and issues. For example, *Business Ethics* magazine's annual 100 Best Corporate Citizens ranking, which uses the KLD data discussed above, gains considerable attention.[18]

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Fortune magazine's widely recognized "Fortune's Most Admired Companies" has been ranking companies on multiple criteria other than financial since the early 1980s. The "most admired" list is perhaps the best known and most prominent of the corporate rankings, but it is far from the only one to which corporate leaders pay attention. Employee issues are covered, e.g., in *Working Women* magazine, which publishes the "Best Companies for Working Women" rankings, and *Fortune* also publishes an annual ranking of "Best Companies to Work For." These rankings are complemented by (or compete with) *BusinessWeek*'s "Best Companies for Work and Family" ranking and other rankings that monitor corporate practices relevant to specific groups of employees, such as minorities. Management quality is covered by *Fortune's* rating, as well as by *Industry Week's* "100 Most Admired" company ratings. Further, global rankings of businesses on multiple criteria can be found in *Fortune's* "Global Most Admired" rankings and the "Far Eastern Economic 200" ranking.[19]

Other reputational rankings include, *Asian Business's*, "Asia's Most Admired Companies," *Management Today's* "Britain's Most Admired Companies," and the *Financial Times*' "Europe's Most Admired Companies."[20]

Emerging Global Standards

Global standards and principles are another source of institutional pressures. The UN's Global Compact represents one prominent example. Drawn from internationally agreed to principles focusing on human rights, labor, and the environment,[21] the Global Compact is an effort to promote values-based practices in global corporations.

The Global Compact principles are only one set of what has become a virtual flood of new standards which business is expected to meet (see Table 1 for a selective sampling of current standards, principles, and codes of business conduct). For example, the Business and Social Initiatives (BASI) database put together by the International Labour Office lists over 400 different initiatives related to codes of conduct, principles, and standards, most of which were developed since public

Table 1
A Selected Sample of Emerging Standards, Codes, and Principles

<u>Environmental Principles and Standards</u>
CERES (Coalition for Environmentally Responsible Economies) Principles
ISO 14000 and 14001
Responsible Care Principles
<u>Labor Standards and Principles</u>
International Labour Organization's (ILO) Fundamental Principles
ILO Conventions
ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy
Fair Labor Association Guidelines
<u>Human Rights Standards and Principles</u>
UN Declaration on Human Rights and the Environment
UN International Convention on Economic, Social and Cultural Rights
<u>General Business Principles and Standards and Standard-Setting Bodies</u>
The UN's Global Compact
OECD Guidelines for Multinational Enterprises
American Apparel Manufacturers Association
Caux Principles
Clarkson Principles for Stakeholder Management
<u>Anti-Corruption Conventions</u>
OECD 1997 Convention on Combating Bribery of Foreign Officials in International Business Transactions
Transparency International Core Principles and Integrity System

attention began to focus on this issue during the 1990s.[22]

What is clear from this proliferation of standards, including internal codes of conduct generated by individual companies,[23] is that there are certain baseline expectations or responsibilities to which companies are increasingly expected to adhere by a wide range of stakeholders. Codes related to corporate social policy generally encompass employment issues, training, working conditions, industrial relations (including freedom of association and the right to organize and bargain collectively), and child labor, as well as ecology and sustainability, not to mention anti-corruption measures.[24] As Kolk, van Tilder, & Carlijn point out, however, codes are merely a starting point for dialogue between companies and their numerous stakeholders.[25] Further, codes of any sort, whether internally or externally generated, will be respected and credible only when they are consistently reported. Public reporting of corporate activities provides the transparency necessary for codes to be implemented and monitored.

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Reporting and Accountability Initiatives

Demands for improved triple-bottom-line performance represent the last societal or institutional source of pressure to be discussed. The triple bottom line, pioneered by the Institute of Social and Ethical AccountAbility,[26] emphasizes that companies are responsible for multiple impacts on society, with associated bottom lines. Standards, principles, and codes are only useful if they are implemented and to the extent that companies can assure stakeholders that they are living up to them. To establish credibility with stakeholders, particularly with activists and critics, some companies are beginning to engage in more transparent reporting practices, many of which are now emerging from international multi-stakeholder coalitions.

Perhaps the most important reporting and accountability initiative, which is linked to the implementation of both standards and codes, is the Global Reporting Initiative or GRI. As of this writing, more than 1,000 organizations or other participants have joined the GRI, representing 35 countries. The dominant focus of GRI is to develop and disseminate a multi-stakeholder, global consultation process based on principles of transparency and inclusiveness, found in GRI's "Sustainability Reporting Guidelines."[27] By creating generally accepted reporting standards, GRI hopes to diminish some of the current confusion about what standards are appropriate to meet stakeholder expectations and to detail how corporate performance with respect to emerging stakeholder demands and standards should be met. Creating generally accepted standards is critical as one study indicates that some 54% of the world's largest companies now disclose some type of social and environmental information on their websites.[28] In contrast to the Global Compact and other standards which focus on what is to be achieved, the major thrust of GRI is to elevate the comparability and credibility of what is actually being done by companies in meeting their stakeholder and ecological responsibilities.

GRI, like the Global Compact and many other initiatives, is voluntary, with companies not required to externally verify their reports. Among the companies that already acknowledge being influenced by the GRI in issuing their own versions of responsibility reports are AT&T, Ford, Nissan, P&G, and Royal Dutch/Shell. Further, some 32 corporations have participated in revising the original GRI guidelines.[29]

The voluntary nature of these efforts causes distress to some critics, who seek external, more objective verification or certification and monitoring of corporate practices. Two additional sets of standards have evolved which, although also voluntary, have external monitoring components. One of these is SA 8000 or the social accountability standards, which are modeled on, monitored, and certified in a manner similar to the ISO quality standards. SA 8000 focuses explicitly on supplier and subcontractor relationships and aims to help companies cope with the visibility of apparel, footwear, and toy brands' sweatshop, child labor, and human rights challenges—challenges inherent in manufacturing in developing countries with less effective regulatory and enforcement frameworks and institutions.

AA 1000 is a similar set of standards aimed at helping companies improve their ethical performance and validity to outsiders. Issued by the Institute of Social and Ethical AccountAbility, a group of about 400 businesses, academics, consultants, and NGOs, the AA 1000 standards build on SA 8000 and GRI to focus explicitly on determining what constitutes best practice with respect to accountability, performance measurement, and evaluation.

Combining these reporting initiatives with advances in responsibility or social auditing,[30] there is clearly less opportunity for companies to claim that "you can't measure corporate responsibility effectively." Responsibility auditing, typically undertaken voluntarily by assessing internal functional areas in a company such as employee relations, community relations, environmental management, and quality, allows a company to determine ways of improving its own internal practices by becoming more responsible.[31] Another form of social auditing, pioneered in Great Britain by the New Economics Foundation, seeks the opinion of a range of external stakeholders on the company's performance as input to its internal assessments.[32]

In addition to these initiatives, competitive pressures on large accounting firms are causing them to shift their priorities toward more holistic performance assessment models that encompass measures related to both different stakeholders and priorities other than financial priorities. The large accounting firms and others are now beginning to develop auditing instruments like the balanced scorecard,[33] KPMG's strategic systems audits,[34] and the Holistic Performance Model proposed by Lewellyn and Sillanpää.[35] As these types of tools for measuring performance more broadly continue to evolve, pressure on companies to use these tools to report out to their stakeholders is likely to continue to mount.

The TRM Approach

Demands that companies adopt a set of values-based operating principles, a code of conduct, or a set of standards are likely to increase in the future. As primary and secondary stakeholders gain ever-greater ability to mobilize their own resources against corporate practices they find objectionable, a company's willingness to monitor and report out verifiable information on the triple bottom line to external stakeholders is likely to become, as quality has already done, the *sine qua non* of competitive advantage.

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Although no company is immune to the forces highlighted above, ironically it is the companies whose reputations have been most sullied that have perhaps moved the farthest to implement responsibility management systems and make them marginally transparent.[36] Approaching responsibility through integrated management systems is in the early stages of development in most companies, but the outlines of this emerging approach can be delineated in what we have called total responsibility management (TRM), sketched below.[37]

The TRM approach is derived from a study of emerging responsibility practices in international brand companies. The research points to the importance of integrating responsibility into vision and values, strategies and practices, and improvement and learning systems.[38] In implementing their codes of conduct, many brand multinationals are working increasingly closely with suppliers to ensure that suppliers meet the standards embedded in codes. Further, these multinationals are joining or helping to form organizations and initiatives like the Fair Labor Association (FLA), GRI, or the Global Compact, to assure the credibility of their report on these activities.

The research, qualitative in nature,[39] has involved over a hundred interviews with managers of multinational brand companies (MNCs) and their suppliers. Research teams traveled to MNC headquarters in the United States and Europe, as well as sourcing offices of MNCs in Asia. Senior managers, line supervisors, and others were interviewed in Cambodia, China, Costa Rica, Poland, Russia, Sri Lanka, Thailand, Turkey and Vietnam. The field research involved observation of factory-level activities, with factory walk-throughs in about three dozen factories in the Asia region.

This research indicates that companies respond in a variety of ways to the pressures and forces identified earlier but that their responses bear commonalities in the development of responsibility management systems. Responsibility management as it is evolving in these companies is a systemic approach to managing the complete set of a company's responsibilities to its stakeholders and the natural environment, similar in many respects to quality management. TRM approaches involve three major processes: *inspiration* or institutionalizing a vision of responsible practice throughout the enterprise, *integration* of responsibility into corporate strategies, building human resource capacity, and management systems, and *improvement and innovation* through indicators that measure responsibility and learning from experiences (see Figure 2).[40]

Inspiration: The Responsibility Vision

A key element of a total responsibility management (TRM) approach is ensuring that responsibility is built into the corporate vision and associated values. Top management not only needs to make a serious commitment to responsible practice and articulated values, but also to ensure that everyone in the

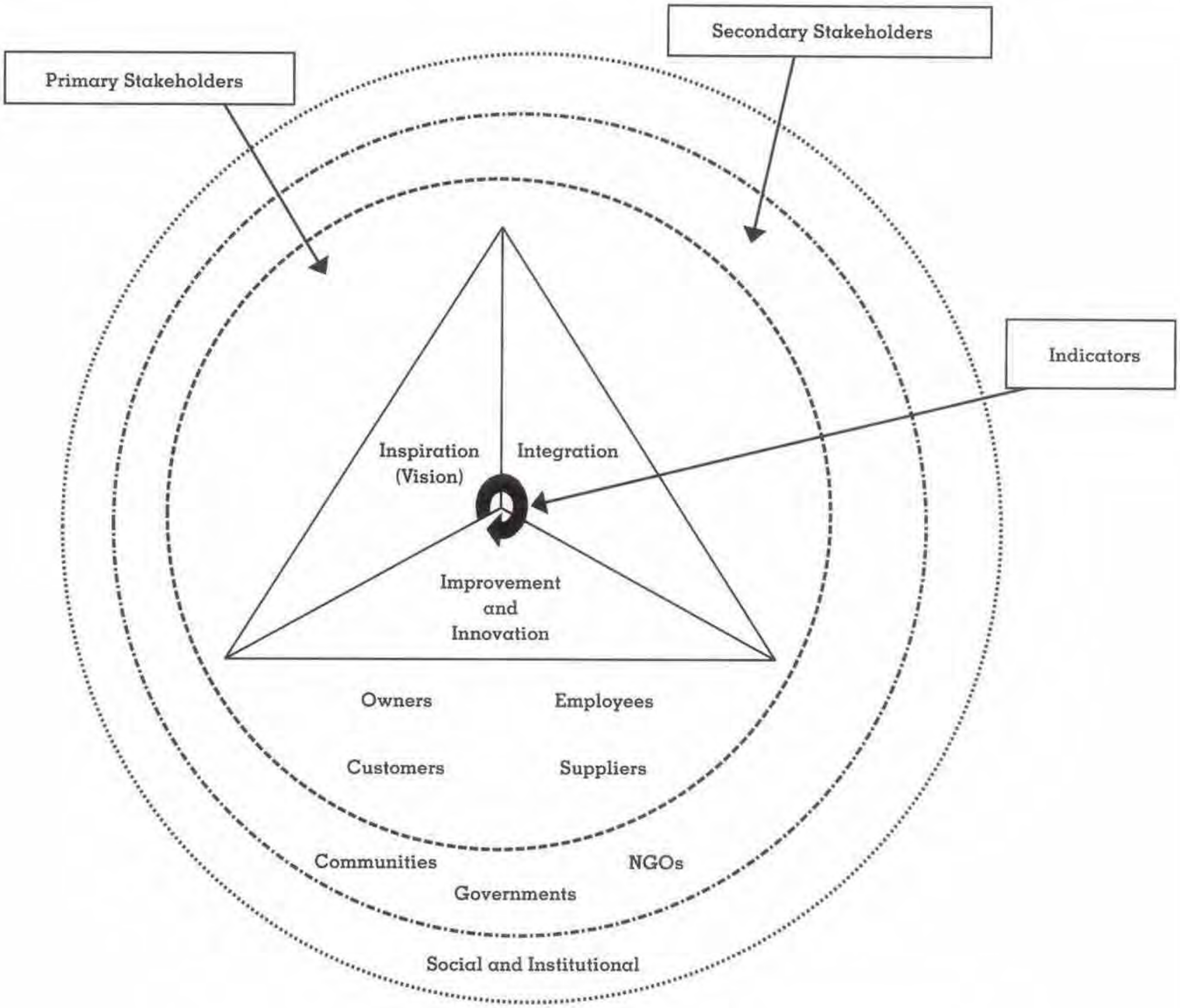

FIGURE 2
An Integrated Model of Total Responsibility Management (TRM)

organization and its supply chain is aware of that commitment and seeks to meet it. The research indicates that the support of top management can strengthen responsibility initiatives and, conversely, that the lack of support can cripple any progress on integrating responsibility issues into corporate practices. In one example, we heard how a public speech—stating clear responsibility goals, supported by the CEO's internal actions—sent a message that moved all the way through the corporate supply chain. We were told repeatedly how such support needs to cascade through management, from the top down through corporate supply chains, backed up by communication and training as well as the introduction of incentives that support a responsibility vision for the company.

To cope with the need for a responsibility vision, many companies have developed and are implementing codes of conduct that explicitly set out their expectations for both internal units and suppliers. These codes frequently serve as a baseline for generally agreed standards like those of the ILO or, more recently, the Global Compact, with the resulting statements expanding managerial responsibility objectives from purely financial to include social and environmental targets. Successful institutionalization of a code of conduct depends on a long-term commitment to systemic change, rather than a "once and done" memo from management. As the manager quoted in Example A indicates, implementing a code of conduct through a supply chain requires a cascade effect of commitment and action, downward from top management and outward to suppliers and management teams.

> *Example A. Manager of Corporate Social Responsibility, Multinational Corporation (MNC), China*
>
> With the code, you need to have buy-in from top management. Knowing that the president was behind it got it into our performance objectives and made us roll it out with our leadership partners [supplier managers]. We started with the leadership partners; we had several people who traveled country to country explaining the code and its impact.

The multinational corporation in the example has been actively pushing its code of conduct through its supply chain for several years. The company sees this as a never-ending task, similar to maintaining quality. As responsibility objectives change, new suppliers are added, and personnel change, constant attention is needed. In this process, the actual code may be less important than the attitude of management; for in the words of one manager, "Codes do not change attitudes. Things can be changed through changing management attitudes, not through a piece of paper on the wall."

The institutionalization of responsibility is not downwardly unidirectional and internal to the firm; rather, it is a two-way street, down *and* up within the firm and its suppliers. Institutionalization involves input from key stakeholders in a process of mutual learning and engagement. Engaging stakeholders and getting their perspectives on the decisions that the company is making, particularly decisions that are likely to be controversial, can be a helpful way to avoid possible problems.

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One key primary stakeholder whose voice is critical, albeit not frequently enough heard until problems develop, is the employee. By engaging in an active dialogue with workers, some multinationals have found that they can forestall problems. With supply chains increasingly stretching to developing countries, many large firms find that their suppliers are much less enlightened about the benefits inherent in employee involvement than headquarters is. Some suppliers use outdated practices promulgated by expatriate managers who can take a militaristic, old-school attitude with little respect for employees. Leading firms, however, have learned that there are significant benefits to be gained by empowering the workforce,[41] as Example B suggests.

> *Example B. MNC Manufacturing Managers, China*
>
> If I was going to introduce CSR [corporate social responsibility] to a company, I think first of all you would need to communicate to workers information on the company they are working at [the supplier] and information on the company they are supplying to [the MNC], information on what we stand for and also what rights are, and what the obligations of the company are. I would also have a suggestion box.

The manager went on to provide an example—admittedly based on the use of suggestion boxes, a tool of often limited effectiveness—of how dialogue can work to improve working conditions:

> This factory has a monthly newsletter, and we put some of the responses to the letters [placed in the suggestion box] there. Also, using a randomly selected group of workers, we went on a tour of the dorms. And the workers mentioned that the lighting during the day does not come on, and that some of them might not be working during the day and that they need lights. So now the electricity is available at all times.

Other stakeholders' points of views, particularly critical external stakeholders, also need to be heard if the company's responsibility commitments are to be met. Among relevant external stakeholders are non-governmental organizations (NGOs), particularly activists who raise critiques of corporate behaviors, governments, and consumers. For example, consumer-brand companies have been under significant pressures from student groups in recent years to meet ILO standards by avoiding child labor or abusive employment policies and implementing third-party monitoring systems. This activism has pushed the companies forward, demanding changes that would otherwise be slow to take place. As one supplier manager pointed out, "More NGOs coming here will really change things, but please don't mention my own name here. They will put pressure on management. This makes managers worry about living conditions and things like that." Listening to external voices and increasing dialogue with a variety of stakeholders can support a healthy reassessment of an organization's vision of itself or its markets, as Example C illustrates, with the example of one manager who had to consider the meaning of campus protests targeted at his company's sector.

Example C. MNC Headquarters Managers

> With the student protests, we had a real challenge figuring out "if the students are anti-sweatshop, then what are we?" It took me months until I realized that we are too. There is no way that policies that abuse workers or abrogate rights benefit companies in any way, shape, or form.

Among the first steps in implementing total responsibility management systems is articulating clear corporate vision and values and engaging stakeholders to ensure that appropriate inputs into the company's policies and practices have been heard and, where appropriate, incorporated into the company's values. Further, as the last quote suggests, meeting a fundamental level of foundational values (based on the global standards discussed above) is important for the company to avoid being criticized in the first place. Top management, having made the explicit commitment to responsible practice, needs to clearly and repeatedly communicate the vision to the rest of the enterprise so that total responsibility management can be integrated into corporate systems and practices.

Top management, having made the explicit commitment to responsible practice, needs to clearly and repeatedly communicate the vision to the rest of the enterprise so that total responsibility management can be integrated into corporate systems and practices.

A breakdown in any of these steps can stop responsibility initiatives in their tracks. In one company studied, the CEO included addressing social issues in supply chains as one of his company's corporate strategic objectives, then failed to mention this objective in his annual talk with staff, sending a clear message, we were told, of the low importance he placed on this issue. Having a clear vision and integrating it into strategic visions for the company is one step. Actually integrating it into processes, as discussed below, then has to follow.

Integration: Putting TRM into Practice

The next element in developing a TRM approach is integrating the responsibility vision into strategies, practices, and measurement systems, thereby translating vision into reality. Example D from an MNC manufacturing manager in Vietnam illustrates the complexity of this integration process. The manager highlights only the communication and training aspects of the new corporate code, without even getting into what this process entailed for actual processes outside of training.

Example D. MNC Manager, Vietnam

> Manufacturing managers in the factories are really businessmen. Before, they worried about prices and quality. They rolled out the code to us and put us through extensive training, two to three days, and then a pretty hard test. At the same time, we rolled it out to the factories, starting at the top with the general managers, and again training, tests even, then we had them move it down. They also had to put labor-practice managers in place together with their whole supporting organization. It was a huge job.

Many firms have found it beneficial to designate a focal group for ensuring implementation of the code through training and skill development. Implementation of responsibility management today typically involves a "responsibility assurance" manager of some sort (analogous to the early days of quality management, when quality was checked at the end of the line). Today's responsibility officer is like a quality assurance officer was, typically someone external to day-to-day operations responsible for assuring responsible practice. Many companies today establish a 'department' responsible for assuring responsibility rather than integrating responsibility into the jobs of all managers and workers. The duties of this corporate responsibility (CR) department might include coordinating responsibility policy and the implementation of the code, communicating policies and practices to stakeholders, and maintaining and adjusting the code as necessary over time.

Though integration of responsible practice into operating practices is beginning to occur, it is generally still outside the operating responsibilities of most managers and rests in the hands of the CR managers. Yet, as with quality, the success of responsibility practices depends on integration at the operational level. In one case, we heard how a firm realized that design teams, requiring short sample-development times, were resulting in dramatic increases in working hours, well beyond corporate limits—yet the design staff had no idea they were causing workers in Asia to put in 80-hour weeks. Similar stories were told concerning the crucial roles of purchasing, quality control, production control, and others.

Taking a TRM approach requires reviewing problems faced in reaching all responsibility objectives and the systems that cause them to persist. In the sectors researched, some companies' CR managers work closely with compliance officers, as well as manufacturing and audit personnel, beginning the long-term process of integrating responsibility into day-to-day operating practice. Example E illustrates the evolution of responsibility management in one company in its China operations, which is well along in the integration process.

Example E. MNC Manufacturing Manager, China

> We have a new structure here. Before [a manufacturing manager] was in charge of production for all operations in the country. It was too much. So since then he handles production at [supplier], and I handle things here. Before, development, commercialization, and production were separate organizations, with him in charge of production in this country, someone else in charge of other functions in another. Implementing code was under production. Now it is much cleaner, with me in charge here of both development/commercialization/production and code.

Reasons given for keeping responsibility management less integrated in some companies resemble reasons initially given for keeping quality separate from manufacturing:[42] need for independence, conflict avoidance, and the need for different skills. Further, implementation of responsible practices throughout factories and even into the supply chain (where, perhaps, it is even more important because that is where many of the issues have arisen), even when the integration process is in its early stages, is an enormous task, as Example F indicates.

Example F. MNC Manufacturing Manager, Vietnam

> The first step for a new factory, just starting with code, you have to organize a team. You need a group dedicated to this. Second, you have to make sure that everybody understands what the code means. Third, you give seminars on the code to all the workers. All the new employees have to attend a briefing on the requirements of the code. Next, we used the code guidelines and developed an action plan to meet the code. The factory develops the action plan then we [MNC factory level staff] review and discuss it. Then [the national level CR team members] review it, and if they have points, then we adjust it accordingly.

Again, similar to the adoption of the quality management principles over the last 20 years, the implementation of corporate responsibility objectives across an organization and through its supply chain will be dependent on a systems approach to the processes and practices. As pointed out in the example below, the use of ad hoc or fire-fighting approaches to responsibility management is simply unworkable. The infrastructure specifically dedicated to responsibility issues is usually too thin to deal with dynamic environments where suppliers are numerous.

The use of ad hoc or fire-fighting approaches to responsibility management is simply unworkable.

Example G. MNC CSR Manufacturing Manager, Headquarters

> There are hundreds of factories and hundreds of thousands of employees [in our supplier firms], and we are the minority buyer in each of these. If we don't have a calendar, standards, and practices for when these standards are not met, then we would have a disaster on our hands. To make the management of this whole thing effective over time, you need a system.

TRM goes well beyond labor practices to other systems within the company. The reward, information, measurement, and reporting systems are particularly important in assuring the integration of responsibility into the company's operations.

Linking measurement systems to those providing workers and management feedback to guide decision-making is central both to quality and responsibility management, particularly if the linkage is tied to some form of incentive. As one manager put it, "When it is part of their strategic plan and people's futures are tied to it, and their performance level is linked to it, then they will do it." Doing this effectively means measuring responsible practices—and learning from what was measured; thus the third element of total responsibility management is improving and learning.

Improvement, Innovation, and Learning

Total responsibility management works only when companies learn from what has been done in the past and use that learning to make improvements. Learning requires new forms of measurement and assessment that not only transparently provide feedback to external stakeholders, who are increasingly seeking information about corporate activities, but also provide important internal information about performance to managers and employees. And credibility, reliability, and validity of these data are enhanced when the systems are externally monitored, audited, and reported, along lines suggested by the Global Reporting Initiative (GRI).

As the trends discussed in the first part of this article highlight, communication of the responsibility of a company's practices through marketing, public relations, investor relations, and community relations systems is important if the company is to avoid problems. Communication with stakeholders is equally important for the company's ongoing efforts to improve and, where necessary, remediate problems internally.

Indicators: TRM Measurement

Indicators are the ways in which a company measures performance and progress toward meeting its responsibility goals. Although indicators are critically important to the improvement and innovation process, they are also needed to assess the inspiration and integration processes, as Figure 2 illustrates. A necessary condition of these communications, particularly for the many critical external stakeholders who seek to redress problems with MNCs, is that the information communicated be credible and reliable. Those requirements mean that companies implementing responsibility management systems need measurement systems that can accommodate, at minimum, the triple bottom lines of economic, social, and environmental reporting.[43] Indeed, many companies in the reputational spotlight are creating TRM reporting systems internally and then asking their suppliers to provide evidence that they too are meeting their responsibilities.

As with quality, indicators are needed at a variety of levels, in particular wherever decisions need to be made. In our research, we found examples of responsibility indicators and potential, yet underutilized, indicators at all points in supply chains and up and down corporate hierarchies. In factories, measurements linked to health and safety provided workers and management with information on toxic vapors; in sourcing departments, purchasers sometimes had access to information on compliance audits of suppliers; and with regard to external reporting, some firms have developed annual social reports and/or actually allowed third-party auditing of various sorts.

Although many multiple-bottom-line reporting systems today are still internally audited and verified, there is intense pressure on companies to use external auditors and publish the results of responsibility audits. The power of transparency is, in fact, practiced quite extensively in some of the firms studied, both in their own reporting and with their suppliers. Indeed, some managers suggest, as the comment in Example H illustrates, that a degree of competition among suppliers can enhance not only responsible practices but also performance.

Example H. MNC Country Manager

> We are starting a rating system and we do let the companies [suppliers] know that this could impact their getting business in the future. There is a competition between the suppliers. OK, this factory now has a supermarket. Then the others feel pressure. And there is close communication between factories. There has to be an open spirit and a balance of competition and sharing. On EHS [environmental, health, and safety] we don't want any secrets. We just brought all the EHS managers [from suppliers] together for that reason.

There is intense pressure on companies to use external auditors and publish the results of responsibility audits.

Information, measurement, and reward systems need to be integrated into reporting systems and fed back to decision makers so that the data can help improve practice. One manager, from an MNC's headquarters, says, "We only want information that helps us to make decisions. Therefore we don't need too many indicators—more important is 'Are they in compliance with our guidelines?' rather than 'How much water do they use?' More important is, what corrective action is needed?"

And it is exactly because "what corrective action is needed?" can be addressed only with adequate information shared internally and used to make management decisions—and that satisfies the demands of external stakeholders—that TRM is evolving. Additionally, many companies are moving toward external auditing, verification, and monitoring systems, such as those emerging from the Global Reporting Initiative, because they need to establish credibility and trust with the critical external actors discussed earlier, as the following quotation from a MNC headquarters CR manager in Example I suggests.

Example I. MNC Headquarters CR Manager

> People don't trust us. We need to explain to people, we need to get external monitoring going, the [NGO initiative] we just joined. The most important for us [internally] is self-study and monitoring. But for outside, they want confirmation.

Responsibility: The New Imperative

We have argued in this article that companies today face a growing array of stakeholder and other institutional pressures that demand greater responsibility from them. Just as companies respond strategically through their management systems to direct competitive pressures, so they are finding it necessary to develop management systems that respond to these pressures for responsibility in order to satisfy their stakeholders and actually build long-term mutually interactive relationships with them. We believe that positive stakeholder relationships are the essence of real responsibility management approaches of the sort described above.

We can distill out from the pressures described earlier the actual demands to which the companies in this study are responding. These demands seem to come down to a few concepts, simple to articulate though perhaps more complex to enact in practice:

> *Integrity:* Stakeholders demand that companies be honest, firmly adhere to their stated codes and values, be healthy, whole, and sound financially and in other ways relevant to specific stakeholders,[44] and essentially that the reality of company actions and impacts matches company rhetoric.

> *Respect:* Stakeholders demand that companies' *relationships* with different stakeholders are interactive, engaged, and take into account different points of view in decisions.

> *Standards:* Stakeholders demand that articulated values be met in practice and, at minimum, that a baseline of internationally agreed values (e.g., around core issues like labor/working conditions, human rights, environmental health, and integrity) are achieved.

> *Transparency:* Stakeholders demand company openness about company performance on the triple bottom line of economic, social, and environmental impacts.[45]

> *Accountability:* Stakeholders demand that the company acknowledge its impacts and take responsibility for them.

What all these demands require can be summed up in one word: integrity. Corporate integrity is what the TRM approaches described above attempt to ensure.

What all these demands require can be summed up in one word: integrity.

We have derived several ideas from our research that can be used by managers interested in creating a TRM systems approach for their company:

1. Create a vision and related set of values that articulate the company's core responsibilities and relate those responsibilities to corporate strategies. Values should be aligned with baseline global standards. Communicate the vision regularly and often so that it becomes a shared vision throughout the company and its supply chain. For example, BP Amoco was the first oil company to take seriously the threat of global warming, creating a vision for itself of becoming a "green" energy company.
2. Engage all stakeholders in continuing dialogue to ensure that the company's values and actions are in accord with society's and stakeholders' expectations. Get feedback and inputs on possible problem areas, and develop responsive internal systems to nip problems in the bud, avoid them altogether, or take advantage of new opportunities that emerge from the stakeholder engagement process. As an illustration, in an effort to avoid the negative effects on its reputation that Royal Dutch/Shell suffered in the mid-1990s when it tried to dispose of the Brent Spar oil rig and raised the ire of Greenpeace, the company has developed extensive stakeholder engagement policies. By getting feed-

back from stakeholders before problems arise, the company hopes to better position itself for the future.[46]

3. Integrate the TRM vision into corporate strategies and management systems in ways that build employee capacity to understand and take responsibility for corporate impacts. For example, Timberland Corporation has a long-standing corporate responsibility vision of "Pull on your boots and make a difference." When the company experienced a liquidity crisis in the mid-1990s, the integration of this vision into the daily life of the company as part of its operating practices made it possible for CEO Jeffrey Swartz to state, "We got together and figured out how to deal with our problems."[47]
4. Become a learning organization[48] by creating a TRM system based on key performance indicators that measure improvements or highlight problems that can be fed back to relevant stakeholders to generate new learning, improvements, and remediation. One company that attempts to do this is the energy company AES, which is "based on values from the start," decentralizes decision making, and pays strict attention to key performance indicators.[49]

Although managing responsibility through TRM might seem complex and new, most managers are already familiar with the basic processes on which TRM approaches rest through their experiences in managing quality. Managing for quality and managing for responsibility both require systemic approaches to a long-term process of continual organizational improvement based on a vision that is shared among relevant stakeholders. The real difference between the economic-results-only model and the modern TRM approach is that TRM includes the perspectives, needs, interests, and concerns of the multiple stakeholders interested in today's corporate integrity and responsibility. TRM provides a basis for meeting corporate responsibility in a world where corporate integrity matters more than ever.

Acknowledgments

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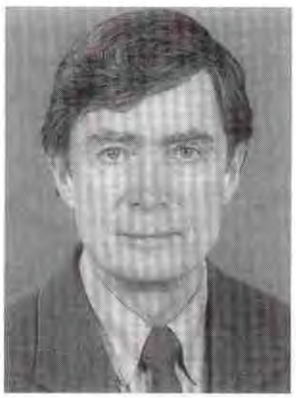

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