

PRINCIPLES OF RESPONSIBLE MANAGEMENT

Global Sustainability, Responsibility, and Ethics



Oliver Laasch • Roger N. Conaway

PRINCIPLES OF RESPONSIBLE MANAGEMENT

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By Oliver Laasch and
Roger N. Conaway



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MANAGEMENT**

Glocal Sustainability, Responsibility, and Ethics

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PRME Principles for Responsible
Management Education

A CRME publication in support of PRME



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Principles of Responsible Management: Global Sustainability, Responsibility, and Ethics

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Cover Image: © Sapsiwai/Shutterstock

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WCN: 02-300

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Library of Congress Control Number: 2013946384

ISBN-13: 978-1-285-08026-0

ISBN-10: 1-285-08026-2

Cengage Learning200 First Stamford Place, 4th Floor
Stamford, CT 06902
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Printed in Canada

1 2 3 4 5 6 7 17 16 15 14 13

Welcome to the first comprehensive textbook for responsible management education, *Principles of Responsible Management: Glocal Sustainability, Responsibility, and Ethics*. While the community of practice for responsible management education has grown exponentially, reaching impressive practice results, the development of a shared basic content structure for responsible management courses has been lagging behind. This book aims to close this gap.

Through our work with many educator colleagues in the United Nations Principles for Responsible Management Education (PRME) network, we have seen an increasing shift from the traditional organizational course focus on “What should businesses be and do?” to a focus on the individual level of the single manager as a person, asking “Who should the manager be, what should he or she do, and how should he or she do it?” The shift goes from business sustainability to sustainability management, from business responsibility to responsibility management, and from business ethics to ethics management. Many of the traditional courses in business ethics and business and society are currently experiencing a fundamental shift from the organizational to the individual perspective. Courses sticking to the organizational perspective are enriched by integrating the individual perspective, which explains how employees, especially managers, can act as intrapreneurs, making their organization more responsible. This book aims to be a resource to efficiently and effectively realize this important transition.

The organizational perspective is still an important basis of this book and educators will find many of the established topics traditionally taught. But we also have included information about the logical next evolutionary step of translating the organizational vision into the managerial and operational achievement of this vision by a responsible manager. What we hope to achieve with this book is to provide both experienced educators and those first entering the field of responsible business and management with a resource that helps them to empower thousands of individual students around the world to become responsible managers, to be change agents, and to act as the human foundation for responsible businesses in order to achieve a responsible socioeconomic system and a sustainable world society.

APPROACH, CONCEPTUAL STRUCTURE, AND TERMINOLOGY

Principles of Responsible Management provides business students with the necessary knowledge, tools, skills, and self-perception to become responsible managers. In order to realize these goals, we provide a very profound overview of the conceptual development of the field of responsible business and management. Toward that end, we have pursued several educational and conceptual

innovations or realignments that then became the models for shaping the structure, content, and tone of this book.

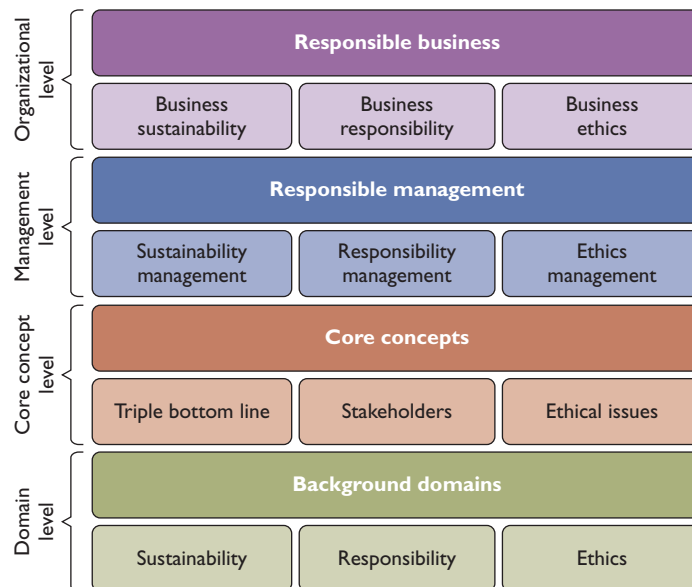
The first and most visible of these models is the treatment of the three topics of sustainability, responsibility, and ethics—the three domains of responsible business and management—as complementary, mostly mutually reinforcing, but distinct in their core concepts and organizational implementation. We found the ongoing discussion about hierarchical relationships and the dominance of one topic over another—such as the often-discussed relationships of business responsibility as a subtopic of business ethics, or sustainability as a goal of business responsibility—to be overly complicated for students, an impediment to learning, and an inhibitor to the theoretical development of the field. This is why we decided to purposely apply a simplified understanding of the three domains as follows:

- *Sustainability* is centered on the core concept of the triple bottom line and aims to create a neutral or, better, positive triple bottom line.
- *Responsibility* is centered on the core concept of stakeholders and aims to optimize stakeholder value.
- *Ethics* is centered on the core concepts of ethical issues and opportunities, and aims to create moral excellence.

We believe that once this basic understanding has been developed, it will be easier to build a more refined understanding of the three domains. The three domains of sustainability, responsibility, and ethics each have one dedicated chapter (Chapters 3–5), and they are a recurrent theme throughout all other chapters. The following figure further illustrates the underlying conceptual design.

From this three-domain structure emerged the need for an umbrella term that unified and integrated the three domains. The terms *responsible business* and *responsible management*, while being rather new, have been used implicitly to describe topics related to all three domains: sustainability, responsibility, and ethics. We borrowed *responsible business* and *responsible management* as umbrella terms, but we are well aware that they are rather imperfect placeholders until a

Framing of Responsible Management and Other Central Terms



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more accurate terminology emerges. Along the same lines, it is important to not confuse the umbrella terms of *responsible management* and *responsible business* with the subdomain of “business responsibility.” As illustrated in the figure, the word *responsible* in “responsible management” and “responsible business” refers to a responsibility for stakeholders (business responsibility), the triple bottom line (business sustainability), and ethical issues (business ethics). The word *responsibility* in the subdomain of “business responsibility” more narrowly refers to the prevalent understanding in the academic literature of the responsibility emerging from a relationship with stakeholders.

The book’s main title *Principles of Responsible Management* was chosen to make clear that this is a comprehensive textbook, similar to prominent textbooks with titles such as “Principles of Economics” or “Principles of Marketing Management.” The title also addresses the aspiration that responsible management should become a well-established field with broadly accepted concepts and principles. As a welcome side effect, the title closely resembles the name of the Principles for Responsible Management (PRME) initiative, which has been an important network for the development of the book and for whose more than 500 academic member institutions we hope to have created valuable educational material. Toward this end, the book can cover both introductory and advanced courses in business sustainability, responsibility, and ethics and serve as complementary material, “bringing responsibility” to mainstream business courses.

A second consideration regarding the title is the use of the term *glocal*. One might assume that the term was included as a fashionable buzzword for marketing purposes. The opposite is true. After long consideration and a weighing of alternatives, we felt that the focus on globalization assumed by many academics and practitioners is inadequate to describe the thinking in responsible management. “Localization,” an adaptation to local circumstances, is as important as global thinking. Readers will find a wide variety of case boxes describing responsible management activities around the world that respond as much to local as to global needs, and that are as relevant globally as they are locally.

BOOK AND CHAPTER STRUCTURE

The book’s first section (Parts A and B: Chapters 1–5) explores the context of responsible management in two chapters and subsequently delves into the theory of sustainability, responsibility, and ethics in the next three chapters. The book’s second section (Parts C–F: Chapters 6–15) takes a closer look at primary management functions, including strategic management, entrepreneurship, organization, operations, supply chain management, human resources, marketing and communication, international business, accounting, and financial management. Each topic is addressed in a complete chapter that provides concepts and tools applying sustainability, responsibility, and ethics to the respective management function. Important didactical design features of the chapters include:

- An integrated blend of outstanding “mainstream” management and responsible management concepts
- A “word cloud” summary to introduce chapter content
- An introductory case and In Practice boxes written by international educators and practitioners
- A Pioneer Interview and a Practitioner Profile about the chapter topic
- End-of-chapter review questions

Text Supplements

- PowerPoint presentations and an Instructor’s Manual with Test Bank are available for each chapter. All are created by the text authors and are available online to adopting instructors. Instructors can access the material through a secure website and will need a Single Sign In account (SSO) with Cengage to access these materials. Instructors can access the material at: <http://www.cengage.com/login>

USE AND CURRICULA

The book’s primary use is as a required textbook for business sustainability, responsibility, and ethics courses, as offered by many business schools. A second use will be for business degree programs, which will find the book’s chapters on mainstream business functions—such as strategic management, accounting, and human resources—to provide valuable content for coverage of sustainability, responsibility, and ethics across the curriculum. A third possibility is to use this book as a primary text for first-year courses, such as “Introduction to Management,” as each chapter’s responsible management content is structured around the logic of mainstream management concepts. We have taught such courses, and the student’s experience of learning how to manage responsibly while for the first time learning about management was very valuable. The fourth use of this book is for executive education and corporate training programs, as the book’s coverage of management tools and practice examples is well aligned with executive needs. The book has been tried and tested in all four uses by the authors. Educators interested in pedagogy are welcome to get in touch with the authors to discuss educational strategies and designs.

An initial hurdle (for both students and lecturers) might be the usage of the central terms *responsible management* and *responsible business*, and their subdomains of business sustainability, business responsibility, and business ethics. Unfortunately, there are no universally accepted definitions for the respective terms as yet. Many, often contradictory definitions exist in theory and practice. Developing a unifying framework for this book that would follow an internal logic was a challenge and a process that involved much discussion and review with both academics and practitioners. The logic followed here is that the umbrella terms—*responsible management* and *responsible business*—include the responsibility for the triple bottom line (sustainability), for stakeholders (responsibility), and for ethical issues and opportunities (ethics), as illustrated in Figure 1. We recommend that instructors give this framing and structure a try and discover the internal logic together with students in the course. Throughout the dozens of courses we have taught in which we built on this structure, we have come to appreciate its merits and its advantages over different framings of the concepts.

CONTRIBUTORS, COLLABORATION, AND THE WAY AHEAD

Principles of Responsible Management: Global Sustainability, Responsibility, and Ethics is a product of the efforts of many individuals. The writing process leading to this publication has been highly collaborative, with more than 50 contributors as chapter authors, case and box contributors, and interviewees. The book includes exclusive interviews with outstanding topic pioneers, such as Edward Freeman,

Philip Kotler, John Elkington, Geert Hofstede, Robert Costanza, Björn Stigson, Simon Zadek, Sandra Waddock, Michael Braungart, Mark Kramer, Linda Treviño, Jonas Härtle, and Liz Maw. While two-thirds of the total chapters have been written by the primary authors, other outstanding specialized educators authored the following chapters:

- Accounting and Controlling: Ulpiana Kocollari (University of Modena)
- Entrepreneurship: Rory Ridley-Duff (Sheffield Hallam University) and Mike Bull (Manchester Metropolitan University)
- Operations: Rick Edgeman (Aarhus University) and Zhaohui Wu (Oregon State University), together with Oliver Laasch
- Supply Chain: Zhaohui Wu (Oregon State University) and Rick Edgeman (Aarhus University), together with Oliver Laasch
- Human Resources: Elaine Cohen (Beyond Business), together with Roger Conaway
- Finance: Nick Tolhurst (Steinbeis University Berlin), together with Oliver Laasch

Nick Tolhurst, author of many landmark publications in corporate social responsibility (CSR), has been a driving force in the conceptual design of the book and in ensuring Pioneer Interviews with outstanding individuals. We hope to enlarge the contributor base for future editions. Responsible management contents are in a dynamic evolution process, and we are building a community to co-develop future versions of this book. Meanwhile we would be very interested in getting in touch with educators adopting the book. Feedback from students is also very welcome. Through the Center for Responsible Management Education (CRME), we have created a community of practice consisting of educators, academics, and practitioners that we hope to enlarge and strengthen with new collaborators.

Also, we are well aware that this book, per design, can only be limited in its representation of different disciplines and contents. Our daring in covering a breadth of contents—touching on disciplines as different as philosophy, environmental studies, sociology, and, of course, management—is prone to come with blind spots and perhaps mistakes given the complexity of representing highly specialized management topics ranging from accounting to strategy. Nevertheless, we are convinced that such broad coverage is necessary to provide students with the necessary background to manage responsibly in a volatile and rapidly changing world, and educators with a broad content basis for adapting their contents to the requirements of each course. Therefore, while we made sure to investigate every topic thoroughly, there must be much room for improvement, and we are looking forward to integrating the input of critical individuals in later editions. Please get in touch with us through olaasch@responsiblemanagement.net.

ACKNOWLEDGMENTS

Even before its official publication, this book was well received. Positive points our reviewers highlighted included the conceptual rigor, practical application, and strong chapter structure. We thank the following for their valuable input:

- Jacqueline Brassey, Tilburg School of Economics and Management, the Netherlands
- Freek Cronjé, North West University, South Africa

- Robert K. Fleming, National University of Singapore
- Subhasis Ray, Xavier Institute, India
- Paul Sheeran, University of Winchester, United Kingdom
- Gilvan C. Souza, Indiana University, United States
- Helen Tregidga, Auckland University of Technology, New Zealand
- Monika Winn, University of Victoria, British Columbia

The team at the United Nations Principles for Responsible Management Education has to be thanked for its immense support of this publication from its very beginning. Specifically, we would like to thank Manuel Escudero, former head of the PRME Secretariat, for recognizing the book's value for PRME. His successor Jonas Härtle officially accepted the book project as an important project in support of PRME, and provided invaluable help and feedback in the process. We would also like to thank the coordinators in the PRME Secretariat, Lisle Ferreira and Merrill Csuri, for their contributions. In addition, we want to thank our friends and colleagues at the Center for Responsible Management Education for sharing their knowledge and passion to empower educators all around the world, and to help students to become responsible managers.

We would like to thank our team at Cengage Learning South-Western Publishing: Michele Rhoades, our Senior Product Manager who initially took on our book and greatly supported and pushed its development; Michael Roche, our Senior Product Manager who helped wrap up our text in its final stages; Susan Smart, our Senior Content Developer, who worked with us from the beginning to develop and review the book, and directed us with the text supplements; Colleen Farmer, the Senior Content Project Manager who shepherded the book through production to achieve this final product; Robin LeFevre, our Marketing Manager, and Emily Horowitz, our Market Development Manager; and our copyeditors, compositors, media personnel, and the many others involved with the publication of our book.

Finally, and most importantly, we would like to thank our friends and family for their patience, understanding, and support during five years of intense work.

- Oliver Laasch: I would like to thank my wife Aranzazu Gomez Segovia, who has been with me throughout the whole process and whose love and wisdom were there as invaluable “inputs” whenever I needed them; my family—my loved parents, “step-parents,” and grandparents, my brother, and my “Mexican Family”; and finally Roger N. Conaway, who once said how impressive it would be if we were able to write a book together and still manage to be friends afterward. I think we made it.
- Roger N. Conaway: Oliver, we indeed made it to the end and we are still friends. You are a great example of how to graciously work as a team, complete deadlines under intense pressure, and demonstrate in-depth intellectual capacity and talent when researching topics. Additionally, without the love and encouragement of my wife, Phyllis, I would not have finished this project. She made the difference. She endured a preoccupied mate who wearily stared during meals, stayed intensely busy during long hours on weekends, and taught full time while writing. She lovingly supported me each moment of the way. Moreover, I wish to thank Isaías Ruiz Solano, Dean, and María del Pilar Castellanos Rueda, Academic Director, in the School of Business for their support and encouragement. Finally, most of all, I thank God for giving me the ability, patience, and endurance to complete this task.

PRME—PRINCIPLES FOR RESPONSIBLE MANAGEMENT EDUCATION

The mission of the Principles for Responsible Management Education (PRME) initiative is to inspire and champion responsible management education, research, and thought leadership globally.

The PRME are inspired by internationally accepted values such as the principles of the United Nations Global Compact. They seek to establish a process of continuous improvement among institutions of management education in order to develop a new generation of business leaders capable of managing the complex challenges faced by business and society in the 21st century.

In the current academic environment, corporate responsibility and sustainability have entered but not yet become embedded in the mainstream of business-related education. The PRME are therefore a timely global call for business schools and universities worldwide to gradually adapt their curricula, research, teaching methodologies, and institutional strategies to the new business challenges and opportunities. <http://www.unprme.org/>

CRME—CENTER FOR RESPONSIBLE MANAGEMENT EDUCATION

CRME was founded as the Center for Sustainability and Responsibility (CRSE) at the Mexican University Tecnológico de Monterrey in 2010. In 2011, CRME became an independent organization with the goal to empower responsible management education and primarily working in support of the United Nations Principles for Responsible Management Education. Today, the CRME is a web-enabled center with a small permanent team physically located in Berlin, and a global network of collaborating educators, academics, and practitioners. CRME's operations are based on both physical on-site interaction and online communication. A main competence of CRME outside the domain of responsible management is the pedagogical design of web-based learning activities. <http://responsiblemanagement.net/>

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CONTEXT: DRIVERS, ACTORS, SUBJECTS

You will be able to...

- 1** ...understand main sustainability, responsibility, and ethics issues.
- 2** ...map the main actors and their roles in responsible management.
- 3** ...adjust to your company's main drivers of responsible management.
- 4** ...manage barriers, criticisms, and inhibitors of responsible management.

One third of the top fifty MBA programs require all three topics, sustainability, responsibility, and ethics, in their core curricula. at least one course is required by 84 percent.¹

Ninety-seven percent of responsible managers expect their company's responsible business area to expand: through more coverage areas (57%), higher budgets (21%), and more staff (19%).²

Most companies (74%) see the potential to reduce costs as the main driver of their responsible business initiatives.³

Author: Oliver Laasch; Contributors: Aurea Christine Tanaka, Björn Stigson, Bligh Grant, Dewi Fitraasari, Narine Arustamyan

Shell in Nigeria: “Have We Got It Right?”

“Have we got it right?” might have been the question leading to the establishment of Royal Dutch Shell’s initiative for extensive sustainability, responsibility, and ethics infrastructure and activities. At the end of the 1990s, Shell became one of the most active multinational companies in responsible management. The foundation of this activity was laid in Shell’s eight *Business Principles*. The principles define the company’s responsibility to primary stakeholder groups (shareholders, employees, business partners, and society), commitment to sustainability by referring to the triple bottom line (environmental, social, and economic performance), commitment to ethics by highlighting the importance of moral principles (nonbribery, respect for the law), and commitment to values (honesty, integrity, and respect). Those business principles were first published in 1976 and have been updated constantly, corresponding to a changing context.

With such a long history of developing high principles, one might guess that Shell has always been a role model in its actions. Nevertheless, this British-Dutch multinational company has a long history of receiving bad press, especially in relationship to its performance in Nigeria. In the African country, the company has encountered a variety of drivers, inhibitors, and issues of different natures. The case, more extensively described by Hennchen and Lozano in 2012, gives an excellent insight into how the context of a company shapes its responsible management activities.

Issues encountered in Nigeria were manifold. The company was found to be highly unsustainable in all three dimensions. Economically, in spite of being one of the most profitable businesses worldwide, the company did not contribute much to poverty reduction and economic development of the country. Socially, there were many health-related issues because of flailing practices (the burning of natural gas). Environmentally, oil spills seriously damaged local ecosystems, not to mention the global impacts of petroleum and related

products. Stakeholder issues, most prominently with the local communities, evolved and Shell found itself involved in accusations of corruption. There were even accusations of a potential involvement in the hanging of the oppositional leader Ken Saro Wiwa. These issues were between Shell and actors from the civil society (the Ogoni people and the Movement for the Emancipation of the Niger Delta, or MEND) and the governmental sector (legislators of the Nigerian government).

A variety of drivers of Shell’s new drift toward responsible management emerged. First, there was a profound *business case* for better practices, making sense profitwise. Shell was to decide either to leave the Nigerian location, which was strategically important and profitable, or to appease through a shift toward higher standards of responsible management. Local *stakeholder wants and needs* in the Nigerian community were manifested physically by protests and frequent sabotage, considerably affecting operations. Increasingly, *institutional power* through laws (e.g., the Petroleum Operating Bill), standards (e.g., the Extractives Industry Transparency Initiative), and international organizations (e.g., UNEP, Transparency International) started to target the company.

In opposition to the drivers, inhibitors, criticisms, and challenges emerged. Evidence was found that *lobbying and corruption* had allegedly slowed down the implementation of legislation for responsible business in Nigeria. On an international level, the company has been accused of *greenwashing*, or evoking a misleading impression of their responsible business performance. Probably the biggest challenge to responsible management activities for Shell lies in the sustainability dimension. With the core business of petroleum, an unsustainable product in itself, the company’s efforts will continue to be hampered as long as there is no change in the very core business.

Sources: Shell. (2010). *Shell general business principles*; Hennchen, E., & Lozano, J. M. (2012). Mind the gap: Royal Dutch Shell’s sustainability agenda in Nigeria. *Oikos Global Case Writing Competition*.

I-1 THE CONTEXT OF RESPONSIBLE MANAGEMENT

“It should be noted, however, that specific historical, political, economic, and cultural factors determine ... CSR [corporate social responsibility] of firms. ...”⁴

How can we compare the management of a cause-related marketing campaign at Walt Disney with the remediation of the environmental consequences of an oil spill by Shell? Both fall under the broad umbrella of responsible management, so obviously

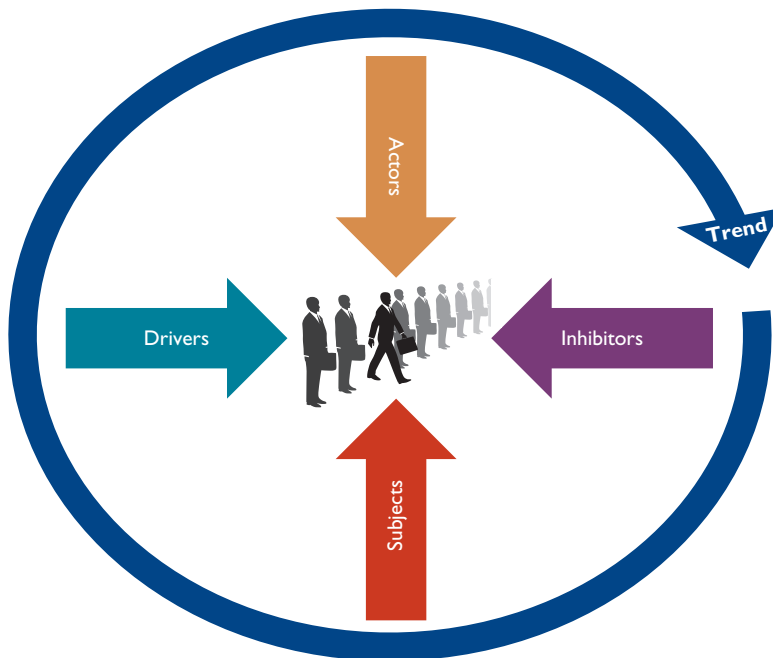
there is much diversity among responsible management activities. Responsible management is a completely different animal from organization to organization, from one department to another, and even varies considerably between individual managers. The variations not only stem from different internal approaches, but more importantly are influenced by the different issues addressed and the predominant actors involved. Variation can be further increased by the predominant drivers and strongest inhibitors of responsible management. As illustrated in Figure 1.1, identifying those external factors is crucial for choosing the right answer for each management challenge. They define the general responsible management trend in a given situation.

The first section of this chapter will illustrate the main **issues** encountered in the three aspects of responsible management: sustainability, responsibility, and ethics. It will discuss how responsible management addresses those issues in conjunction with **actors** from nonbusiness sectors, namely, civil society and the public sector.

The second section focuses on the **drivers** of a company's responsible management activities. Depending on the prevalent driver, the specific responsible management approach and activity implemented will vary greatly. For instance, a company that aims to enter new markets through responsible business will have a very distinct focus from one that reacts to the pressure exerted by strong institutions demanding responsible management.

The third section illustrates **inhibitors, criticisms, and challenges** typically encountered in responsible management. Those negative-influence factors are diverse, ranging from Nobel Prize Laureate Milton Friedman's "The business of business is business" argument to the practical internal challenges encountered by responsible managers.

Figure 1.1 The Context of Responsible Management



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Drivers of responsible management are external and internal factors that foster responsible behavior.

1-2 SUBJECTS AND ACTORS OF RESPONSIBLE MANAGEMENT

“... responsibility in the following seven core subjects: organizational governance; human rights; labour practices; the environment; fair operating practices; consumer issues; and community involvement and development”⁵

The environment of any responsible management activity is most significantly defined by issues, or subjects, to be addressed by responsible management. Another important element of the responsible management context is actors who co-address or are involved in the same issues in a parallel pattern. A responsible manager must know those contextual elements in order to adjust his/her own actions. In the following sections, we can map those elements only broadly. It is the task of a responsible manager to acquire the necessary expert knowledge for the subset of issues and actors relevant to that manager's sphere of influence.

1-2a Subjects and Background Disciplines

Human rights, global warming, corruption, biodiversity, labor rights, fair competition, community well-being—this list of potential **subjects** (also called *issues* or *causes*) to be addressed by responsible management could be extended endlessly. Those subjects, however, can be grouped into three main **background domains** of responsible management: sustainability, responsibility, and ethics. This framework will be the recurrent theme of this book, with practical applications provided in each chapter.

Sustainability, responsibility, and ethics have significant overlap and strongly influence one another; nevertheless, they do describe distinct core concepts of responsible management sufficiently to subsume the different subjects under them. Table 1.1 illustrates how various subjects involved in responsible business management can be categorized within these three subject areas, using the core concepts of each background theory.

- **Sustainability** usually is related to systemic social, environmental, and economic issues that threaten the well-being or even survival of current and future generations.⁶ For example, such systemic issues include global warming, which on a business level is translated to CO₂ management, the global water crisis, the degradation of life-important ecosystems, and planetary overpopulation. On a business level, those issues are often translated into the so-called *triple bottom line* of social, environmental, and economic performance.⁷
- **Responsibility** at its core deals with the relationship to the various groups that affect or are affected by a business. Those groups are called *stakeholders*.⁸ For example, the area of labor standards is concerned with the relationship to employees, the area of consumer rights relates to consumers, and the area of supply chain practices to suppliers. Each is an important stakeholder group.
- **Ethics** at its core is related to making the right decision in dilemma situations⁹ and refers to streams of moral philosophy. As an example, the subject of human and natural rights is highly related to the philosophy of the ethics of rights and justice. Corporate governance revolves around *moral dilemmas* such as the principal-agent dilemma of whose interests should be protected, those of the owner or those of the manager of a company.

Of course, a classification like that shown in Table 1.1 cannot be absolutely precise. A good example is corporate governance, which on the one hand fulfills the

Subjects, also called **issues** or **causes**, of responsible management refer to topics to be addressed by responsible management.

The **background domains** of responsible management are sustainability, responsibility, and ethics.

Table 1.1 Responsible Management Subjects Structured by Background Disciplines

Sustainability (triple bottom line)	Responsibility (stakeholders)	Ethics (moral dilemma)
• World water and ocean crisis	• Labor standards	• Human and natural rights
• Global warming	• Consumer rights and protection	• Income inequality
• Deforestation and soil loss	• Workplace diversity	• Corporate governance
• Overpopulation	• Community well-being	• Fair competition
• Poverty and hunger	• Supply chain practices	• Corruption
• Ecosystem degradation	• Good citizenship	• Marketing ethics
• Biodiversity loss	• Respect for the law	• Accounting ethics

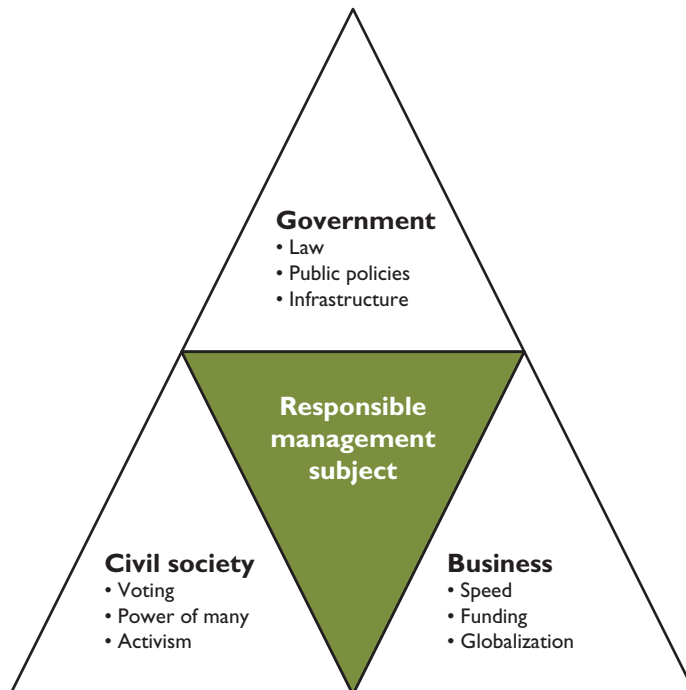
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ethics criterion of the moral dilemma, but at the same time governs the stakeholder relationship between managers and company owners. Another example is the topic of poverty, which has a sustainability characteristic of threatening the well-being of current and future generations, while also having a responsibility dimension of companies' relationships to society and their role of providing social welfare. Next, we will see how those different subjects are related to actors not only from the business world but also from civil society and politics.

1-2b Sectorial Actors

Companies can be neither fully responsible for nor solve all the issues mentioned previously. A variety of actors, known as **sectorial actors**, operate in the same subject areas. As illustrated in Figure 1.2, each of the actors belonging to the business, governmental, and civil society sectors have different types of power to contribute to the solution of issues.

Figure 1.2 Sectorial Actors: Power Resources and Levels



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Sectorial actors addressing the subjects of responsible management stem from the governmental, civil society, and business sectors.

In Practice

Empowering Women in Rural Bangladesh through Multisector Partnerships

Unilever Bangladesh started an innovative distribution system to reach rural areas encouraging women to develop a direct consumer sales distribution network called Joyeeta. Unilever partners with local NGOs and government to provide support and training for recruited women. The project piloted in 2003 with 25 women, and in 2009, there were 3,000 women selling products reaching 1.8 million households.

Source: ProSPER.Net. (2011). *Integrating sustainability in business school curricula project: Final report*. Bangkok: Asian Institute of Technology.

- **Governmental actors** have the power of legislation, of forming local public policies, and of creating infrastructure. Governments are often limited to influence in the national or regional areas and lack the necessary speed of decision making required by urgent issues.
- **Civil society actors** have a voting power to influence the other two types of actors. As civil society is “the majority,” its power of many exerts a far-reaching influence. Civil society decides which government to appoint. It also decides which company to support by buying or not buying products and can decide whom to work for. In some cases, civil society even becomes an activist for or against responsible business subjects. The effectiveness of civil society power is often mitigated by the lack of organization, professionalization, and a common voice.
- **Business actors** are powerful in that they have broad discretion in terms of their activities, which allows for fast decision

making. As long as activities are profitable, business actors have access to a wide range of funding possibilities that can be invested in the mitigating issues. Businesses often act globally and, therefore, are able to provide solutions globally. Business actors, due to the mostly prevailing profit-maximization imperative, may abstain from mitigating an issue because it is not profitable.

Table 1.2 illustrates the *micro* (individual), *meso* (organizational), and *macro* (systemic) **levels** of the three sectors mentioned earlier. Although responsible managers are located in the business sector, on an individual (micro) level, their actions are contextualized by their companies and the economic system in which they work. A main role of responsible managers is that of change agents of the overall system, exerting influence for greater responsibility on all three levels and in all three sectors. Such a change task requires macro, meso, and micro activities for an overall evolution of the economic system.¹⁰ Responsible managers typically interact with both public servants and citizens in the fulfillment of their management tasks. Companies of these responsible managers collaborate with governmental and civil society organizations, and the societal, political, and economic systems interact constantly. Thus, responsible managers must have a sound understanding of their embeddedness and interrelatedness with other actors and other sectors.

Table 1.2 Sectorial Levels of Action

Level↓/Sector→	Government	Civil Society	Business
Micro (individual)	Public servant	Citizen	Employee
Meso (organizational)	Governmental organizations	Civil society organizations	Businesses
Macro (systemic)	Political system	Social system	Economic system

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The **levels** on which sectors are influenced by responsible management activities are the micro (individual), meso (organizational), and macro (systemic) levels.

1-2c The Workplace of Responsible Managers

The type of organization in which a responsible manager works is critically important to the type and style of work the manager will be able to execute. Although a responsible manager may also work in a governmental or civil society sector organization,

the focus of this book is on business sector organizations; but whenever possible we will provide insights into responsible management of the other two sectors. The coverage of entrepreneurship will provide greater insight into the different rationales for responsible management and social entrepreneurship in the three sectors.

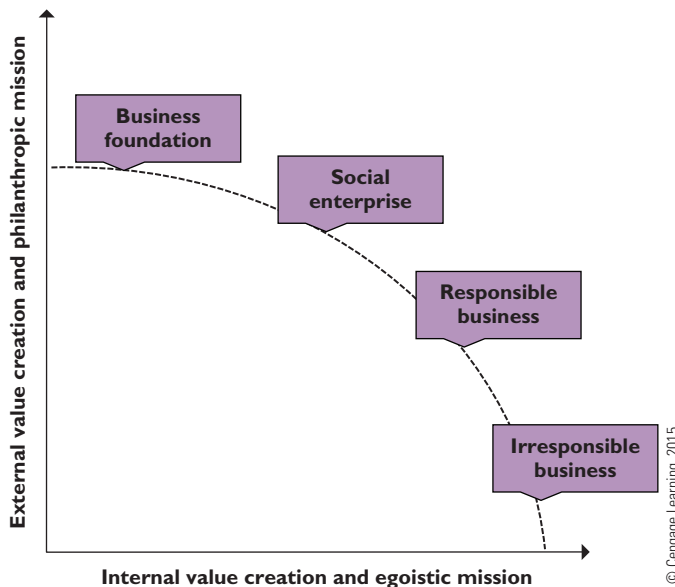
Figure 1.3 classifies business organizations by two main questions:

1. Does the **organizational mission** focus primarily on egoistic motives, such as maximum profit or maximum shareholder value, or primarily on philanthropic motives?
2. Does the **value created** by the organization accrue externally (for a broad variety of stakeholders) or internally (for owners)?

Based on those two basic distinctions, we can define the four different types of business-related organizations and different work strategies for responsible managers shown in Figure 1.3:

1. A responsible manager who works in an **irresponsible business**, characterized by a purely egoistic profit mission and creating mostly internal value for the business, is in a hard position. The manager can either decide to leave the workplace or, more desirably, act as a change agent, moving the business toward more responsible ways.
2. The majority of responsible managers probably work in a **responsible business**, with an only slightly egoistic profit mission, creating internal value while also benefiting external stakeholders. Responsible managers in such a business are able to act responsibly when justified by a slight business case, benefiting the business.
3. A **social entrepreneur** typically has a strong philanthropic mission, mostly generating external value, but aiming to be at least profitable enough to survive in the long run. Responsible managers who are social entrepreneurs should aim to maximize external value when their activity creates sufficient internal benefits to cover costs.

Figure 1.3 Business-Related Organizations, Classified by Value Creation and Mission



4. A **business foundation** has a purely philanthropic mission to spend a budget stemming from funds of the business on a predefined set of causes. Business foundations are usually stand-alone organizations, run in a parallel pattern to the main business. Responsible managers in business foundations should aim to invest the corporate money and their own activity to create the highest “social return on investment” possible. Such a manager should start to identify alternatives that will generate income for the foundation, beyond the main business’s funds, striving to become a social business that is economically self-sustaining.

All four types of organizations add value in different ways and have their right to exist. From a purely practical point of view, it makes sense to move organizations toward the middle area of Figure 1.3 where mission and value creation are balanced. In reality, we can observe such a movement toward the center happening now. Increasingly, foundations and even pure civil society organizations are becoming self-sustaining social enterprises, and irresponsible businesses are becoming responsible. What are the drivers of this movement and the responsible business megatrend that can be observed globally?

1-3 THE MEGATREND AND ITS DRIVERS

“The voices of business establishment have come to identify eight key drivers ... that make responsible corporate behavior an imperative. Not only are they persistent, they are predominant, and they will endure for decades to come.”¹¹

Responsible business has become both a business megatrend and a strategic imperative.¹² Whole industries have recently experienced “responsibility waves,” times of swift shift toward more sustainable, responsible, and ethical practices. The car industry, in spite of its inherently unsustainable starting position, has made great strides toward increased sustainability in the first decade of the new century. Shifts in key technologies from engines to breaks and shifts from new pricing schemes to business models, have turned the industry upside down.¹³ Green IT has become a mainstream topic for information technology.¹⁴ Socially responsible investment is one of the hot topics in the finance industry. Sustainable construction has become a standard for the majority of new buildings. Industries are changing. A study by the United Nations (UN) Global Compact and the consultancy Accenture found that the majority (54 percent) of CEOs believes that, between 2010 and 2020, companies will reach a tipping point where sustainability will be fully embedded into corporate core strategies.¹⁵

No matter if whole industries or single companies engage in responsible business practices, there is a set of predominant drivers for such change.¹⁶ These drivers can be grouped into five broad categories: stakeholder wants and needs, new markets and business case, converging global crises, Internet and transparency, and new institutionalized powers, as illustrated in Figure 1.4. The upper part of the figure shows the five drivers. The lower part of the same figure illustrates findings from Ernst & Young’s 2012 survey on trends in corporate sustainability, which were grouped under the headings of those drivers. The survey asked 272 subject experts what drivers were important for corporate sustainability. Interestingly, all drivers mentioned by the survey could be distributed harmoniously through the five categories of drivers.

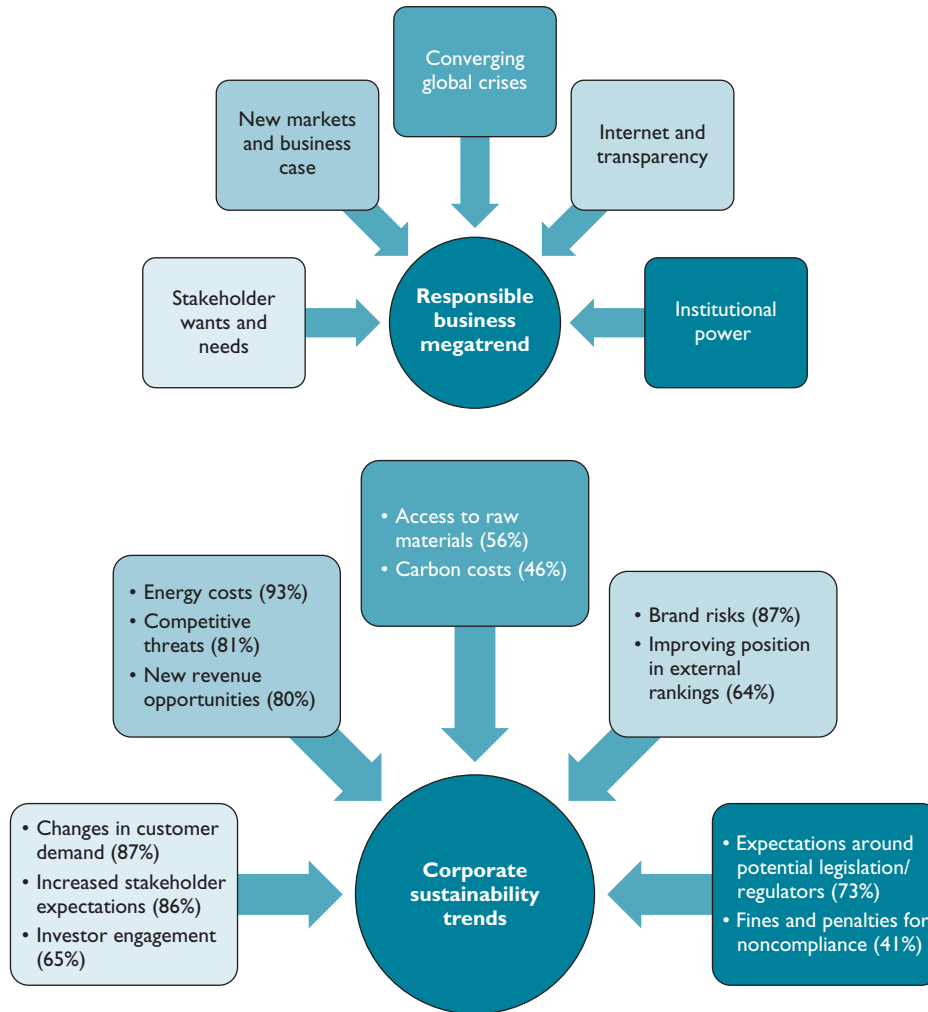
In Practice

Shortage of Water Driving Sustainable Practices

Risk of droughts and higher water consumption projections led PTT Chem Group, a petrochemical and chemical company established in Thailand, to start water resource management projects in partnership with local government and community in Rayong Province, monitoring water-shortage risks, redesigning water supply systems, and securing clean water for local community consumption and industrial usage.

Source: ProSPER.Net. (2011). *Integrating sustainability in business school curricula project: Final report*. Bangkok: Asian Institute of Technology.

Figure 1.4 Drivers of Responsible Management in Theory and Practice



Source: Adapted from Ernst & Young, (2012). *Six growing trends in corporate sustainability*. Ernst & Young.

1-3a Stakeholder Wants and Needs

Respondents of the Ernst & Young survey found that 86 percent of corporate sustainability experts mentioned increased stakeholder expectations as a main driver of their activities. The most important stakeholder seems to be the customer, as 87 percent mentioned changes in customer demand and 65 percent investor engagement for topics related to responsible business. A 2011 study conducted by KPMG¹⁷ found that companies are also driven by the motivating power of responsible business over employees (52 percent) and by improving supplier relationships (32 percent).

Responsible managers, if their company is driven by consumer interest in responsible business activities, will primarily base their decisions and behavior on assessing, addressing, and satisfying stakeholder needs. A later chapter on responsibility will provide additional information on stakeholder wants and needs related to sustainability and how companies manage the stakeholder relationship. Repeatedly, customers have been ranked by companies to be the most influential stakeholder