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Principles of Responsible Management: Glocal Sustainability, Responsibility, Ethics

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MANAGEMENT: BASICS AND PROCESSES

You will be able to ...

- 1 ... understand how traditional management evolves to responsible management.
- 2 ... identify the skills necessary to be a responsible manager.
- 3 ... conduct the traditional management tasks of planning, organizing, leading, and controlling responsibly.

"Seventy percent of organizations say that sustainability has a permanent place on the management agenda."¹

The majority of CEOs (88%) consider mind-sets and skills of managers as the most critical condition for creating sustainable companies.²

"Forty-nine percent of CEOs cite complexity of implementation across functions as the most significant barrier to implementing an integrated, company-wide approach to sustainability."³

AXA Winterthur in Switzerland: Meet the Responsible Manager

What does a responsible manager do? What are his or her tasks? What skills does the responsible manager need? How does the responsible manager change the company environment? How does the responsible manager plan, organize, lead, and control responsible business performance? Let us ask a responsible manager: Thomas Hügli is the Chief Communication and Corporate Responsibility Officer at AXA Winterthur, the Swiss branch of the multinational insurance company AXA. The Swiss branch earned more than 10 percent of premiums of the AXA Group and is one of the national leaders in AXA in corporate responsibility (CR) topics.

After having been the company's leading communicator for many years, in 2009 Thomas Hügli took on the new responsibility of managing the AXA Winterthur's responsible business performance. He heads the company's CR department, a medium-sized team of responsible management specialists, and implements responsible business topics jointly with the business's assigned managers ("CR network") in departments from operations to procurement to marketing to human resources. Thomas Hügli stresses that his management practice includes all three domains of responsible management: sustainability, responsibility, and ethics. He mentions that majority of his tasks (60%) are related to stakeholder management (responsibility), 30 percent is managing the triple bottom line (sustainability), and approximately 10 percent of his work is related to managing values and moral decision making (ethics). He states that he aims to balance those three domains at a higher level in the future.

Comparing his former job and the new tasks, Thomas realized that the work done by a responsible manager differs greatly from the work in mainstream management. He states that his current job involves much more "selling" of the topic, convincing decision makers of the relevance and crucial importance of the topic. He also engages much more with the topic on the "ground," spending a large amount of time in meetings presenting CR and directing implementation. It is not unusual to find resistance to change. Accordingly, Thomas emphasizes how the competencies needed by a responsible manager must be different from those of a traditional manager: Self-competencies and social competencies, for example, are crucial. For himself and his team, Thomas sees characteristics such as endurance, passion for the topic, assertiveness, leadership, and change competencies as primary assets. Proficiency in specific fields of knowledge, domain competencies and knowledge about how to get things done, and procedural competencies are key to

responsible management success. Thomas stresses especially the importance of stakeholder engagement skills in order to challenge senior management and employees constructively, as well as a solid working knowledge of both mainstream business and specialized responsible management topics. In his core team, Thomas works with a diverse crowd, including lawyers, people with responsible management degrees, and people with environmental science degrees. His own academic background is in business and in communication, which he sees as an ideal combination.

AXA Winterthur's responsible management performance is measured primarily through the score of the Dow Jones Sustainability Indexes (DJSI) ranking mechanism. The goal is to achieve a DJSI score of 69 by 2015. The score in 2011 was 59. This indicator is based on forty-six questions, which can be answered on a performance fulfillment level from 1 to 5, with 1 representing the lowest and 5 the highest performance. Planning for responsibility performance at AXA Winterthur means to ensure that the performance in those single questions is increased and to subsequently raise the overall score. Organizing for responsible business performance primarily involves the annual CR week and the coordination between the CR department and mainstream business functions in charge of stakeholder relations. The main leading task for Thomas is his role as chair of the high-level CR steering committee, which meets biannually. The committee involves leaders of many company areas, including the company's CEO. The committee is a powerful leadership tool, as the company's corporate governance structure gives the committee the same importance as, for instance, the risk or pricing committees. In controlling for responsible business performance, Thomas primarily refers to the yearly self-assessment of how well initiatives have been implemented inside the mainstream business functions and takes corrective actions in case of unsatisfactory results.

The main challenge for the future of Thomas Hügli's job as responsible manager will be to achieve the score of 69 in the DJSI. While first improvements were related mainly to employee engagement, compliance, and policies, his responsible management activity has now reached the stage of maturity "where the going gets tough," as it requires profound and far-reaching changes in the core business activities, including the mainstream business structures and portfolio (products, services), which are the fundamentals of the company.

Source: Hügli, T. (2012, June 6). Responsible management at AXA Winterthur. (O. Laasch, Interviewer).

2-1 RESPONSIBLE MANAGEMENT

“Responsibility for social impacts is a management responsibility—not because it is a social responsibility, but because it is a business responsibility” and “managers must convert society’s needs into opportunities for profitable business.”⁴

If we take seriously the above quote of the world’s most renowned contemporary management scholar, Peter Drucker, responsible management itself is a pleonasm, an unnecessary accumulation of words not contributing to the overall meaning, such as “black darkness” or “burning fire.” Drucker sees responsibility for the social impact of one’s management activity as a natural core element of good management which does not need to be specifically mentioned. Paraphrasing Drucker’s words, managers must achieve positive social impact as one of their basic responsibilities to their organizations, actively detecting social needs and turning them into business opportunities. Do managers in practice follow this fundamental recommendation? In order to answer this question, we must understand the types of responsibilities potentially fulfilled by managers, and then examine what managers must do to fulfill them. The fundamental questions to be addressed throughout this chapter are: How do traditional management and responsible management differ? and What do managers need to do to rightfully earn the title “responsible manager?”

In this chapter, we first explain the main elements of management theory and illustrate how they need to be interpreted or changed in order to achieve responsible management practice. Central questions are: What does performance, effectiveness, and efficiency mean to a responsible manager? What are the objects to be managed? How does responsible management differ on varying hierarchical levels? Second, we scrutinize the responsible manager on an individual level. What knowledge, skills, and personal attitudes does such a manager need? Third, we revisit the four traditional management functions—planning, organizing, leading, and controlling—and systematically integrate responsible management considerations into each of them. Questions to be answered in this area include: How does one plan and organize one’s area of management influence to maximize responsibility performance? How does one integrate responsibility considerations into one’s leadership and controlling activities?

DIG DEEPER

Responsible Management and Business in the 1930s

Adriano Olivetti launched in 1932 the first portable typewriter through his Italy-based company Olivetti. He designed a program of innovative projects to modernize operations at the company. In realizing his plan, he placed a great importance on the company’s relationship with the community, creating projects for the construction of new production facilities, offices, employee housing, canteens, and nurseries, and developing a complex system of social services. The new organization led to a significant improvement in productivity and sales, with operations in all the major international markets and 36,000 employees.

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2-2 MANAGEMENT BASICS AND THE EVOLUTION TO PRIME MANAGEMENT

“Management like the combustion engine is a mature technology that must now be reinvented for a new age.”⁵

What does **responsible management** for the modern business and society look like? Mainstream management practices have been blamed for many of the world’s current ailments, issues, and crises, including the universally important issues of social injustice and environmental destruction. The formalized field of critical management studies has gained considerable momentum, and management has been criticized from a variety of different perspectives.⁶ In this chapter, we take a positive

Responsible management assumes responsibility for the triple bottom line (sustainability), stakeholder value (responsibility), and moral dilemmas (ethics).

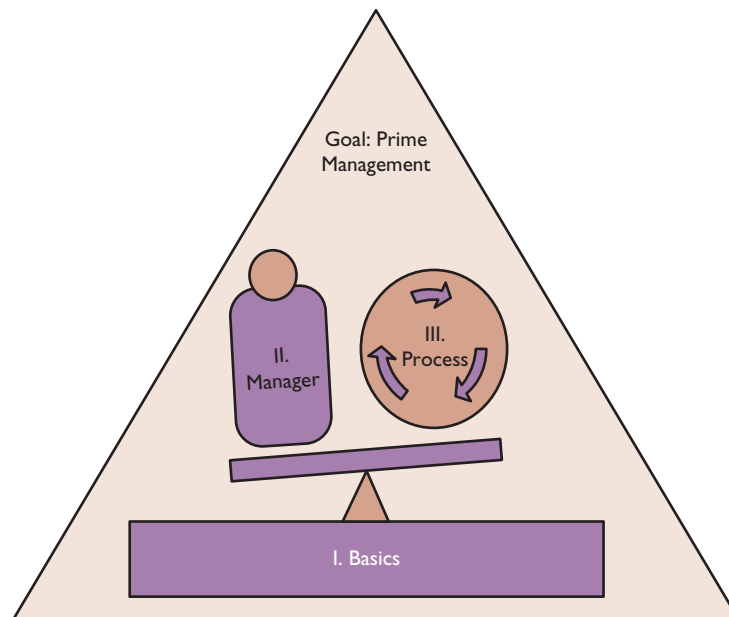
perspective aimed at translating criticism into concrete proposals for change in what management is and does. The underlying belief is that management and its influence on business can move from being a source of problems to being a source of solutions.

Change proposals will be made from the three main domains of sustainability, responsibility, and ethics, which reflect the most powerful streams of thought in current requests for change in management practices. Each of the three domains provides a unique perspective, but the domains also overlap and complement each other in their effects on management. The broad guidance given by those topics is summarized in the following list:

- **Sustainability:** Management activity must lead to a sound, positive triple bottom line that protects, creates, and sustains social, environmental, and economic business value. Management practice must embrace **triple bottom line optimization**.
- **Responsibility:** Management activity must lead to the optimization of overall stakeholder value (SV), instead of the narrow focus on maximizing shareholder value. Management practice must embrace **SV optimization**.
- **Ethics:** Decisions in management must be morally desirable in both process and outcome. Management practice must embrace **ethical decision making** and create **moral excellence**.

Figure 2.1 shows the three elements of business (basics, manager, and process) in which responsible management activities must be incorporated to obtain **prime management**. Figure 2.2 shows how the three domains of responsible management are highly interrelated, complementary, and in some cases overlapping. The numbers 5, 6, and 7 describe the three domains of responsible management: ethics, responsibility, and sustainability. The numbers 2, 3, and 4 illustrate theories representing an overlap between two of the domains. For instance, sustainability ethics, which would fall in number 4, is a hybrid construction between the domains of sustainability and ethics. Number 1 illustrates the perfect situation of responsible

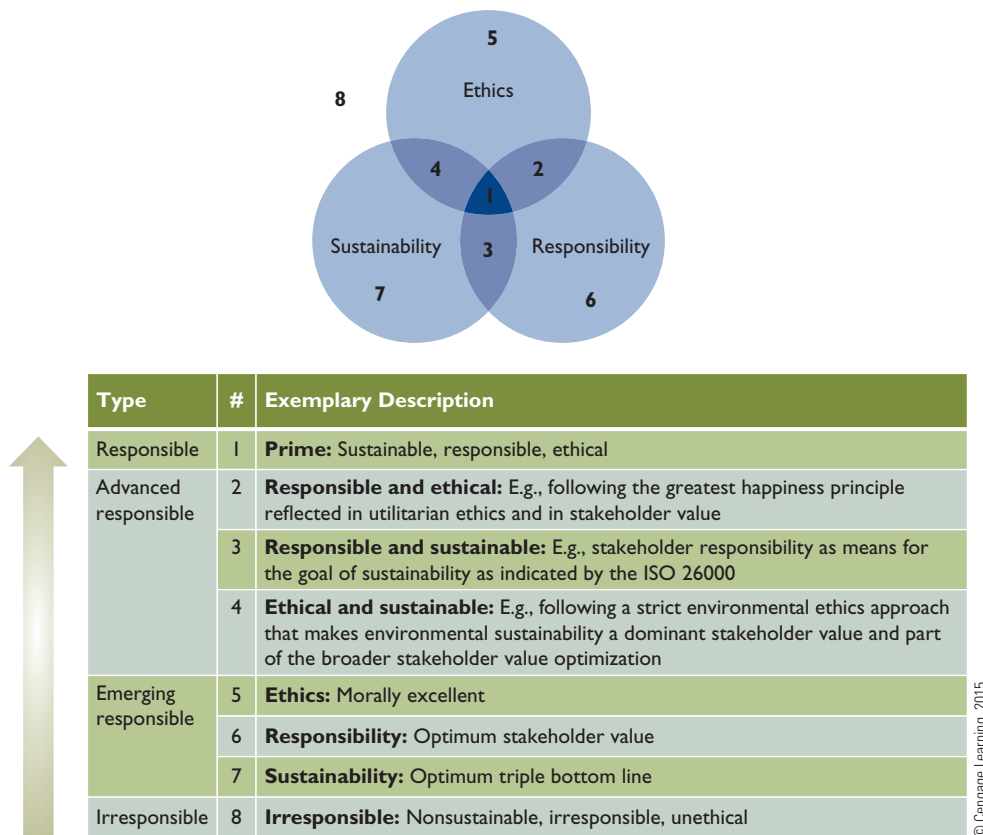
Figure 2.1 Conceptual Map: Elements of Responsible Management



Prime management refers to superior management practice leading to performance that, at the same time, is socially, environmentally, and economically sustainable; optimizes SV; and leads to moral excellence.

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Figure 2.2 Dimensions of Responsible Management



management where all three domains are satisfied. Responsible management leads to what we might call *prime management*, referring to superior management practice leading to performance that, at the same time, is socially, environmentally, and economically sustainable; optimizes SV; and leads to moral excellence. Number 8 illustrates the opposite situation, irresponsible management, where none of the domains is satisfied.

This integrative model for responsible management can be seen as the highest level in the evolution of responsible business thinking, since it incorporates the three background domains of sustainability, responsibility, and ethics as distinct and equally important bases for **responsible business**. The model is in line with recent developments in theory and practice in which responsible business is seen as being strongly influenced by all three domains. Instead of dividing responsibilities by their economic, legal, ethical, and philanthropic nature,⁷ we can divide them into responsibility for the triple bottom line, stakeholder, and moral issues. Only if a business is a responsible business and fulfills all three conditions can it rightfully call itself a **prime business**.

In order to foster an evolution from mainstream management to responsible (prime) management, management practice must integrate sustainability, responsibility, and ethics into its basic elements, processes, and outputs. The next section reexamines the traditional question, What is management? by extending it to ask, What should management be in light of sustainability, responsibility, and ethics?

A **responsible business** assumes responsibility for the triple bottom line, stakeholder value, and moral dilemmas.

Prime business refers to a superior type of business that leads to performance that is at the same time socially, environmentally, and economically sustainable; optimizes SV; and displays moral excellence.

Not For Sale

2-2a What Is Management and How Do We Make It Responsible?

Understanding **management** requires understanding the basic elements of management. Those elements can be grouped in three areas: management inputs, management process, and management output (see Figure 2.3). The main management inputs are the **resources** available for the management process and the **goals** aspired to as outcomes. In the process stage, the two main criteria of evaluation are **effectiveness** (Does management activity contribute to the goals set?) and **efficiency** (Has the contribution been reached with the minimum amount of necessary resources?). Outcomes of the management process are typically called management **performance**. Performance is usually evaluated in the light of the preset goals described in the input stage.

To take the next step toward responsible management, the elements of the management process must be reconfigured to integrate sustainability, responsibility, and ethics. How do they need to change? We will pursue this question in relation to all the elements in the three areas of input, process, and output. The following description provides only a rudimentary and exemplary overview; it will be expanded in the chapters that follow.

Goals. Traditionally management goals are centered on the ultimate achievement of increased competitiveness, which leads to above-average profits, which ultimately benefits shareholders. Goals for a sales manager, for instance, might be to increase the number of deals made by his or her team. This rather narrow goal perspective must be broadened in responsible management. **Responsible management goals** have to be aligned with the three dimensions of sustainability, responsibility and ethics. The *responsibility* perspective would apply goals that optimize the value created by management activity for all stakeholders, not just shareholders. For example, the sales manager would need to consider if the product sold is actually good for the customer, the environment, society at large, and all the other stakeholders affected by or affecting the product. From a *sustainability* perspective, a fundamental consideration of corporate goals must be that they are socially, environmentally, and economically sustainable and that

In Practice

Integrating Social and Economic Goals through e-Choupal

ITC Limited, an Indian conglomerate headquartered in Kolkata, sets an example in India by turning the rural farmers' problem of dishonest trade practices by market intermediaries into an opportunity for both the company and the farmers. *Choupal* in Hindi means "village meeting place." E-Choupal helps rural farmers to get in touch with buyers through the Internet as a way of cutting out the middlemen. It shows how a "responsibility-driven goal" can become the source of competitiveness across the related supply chains.

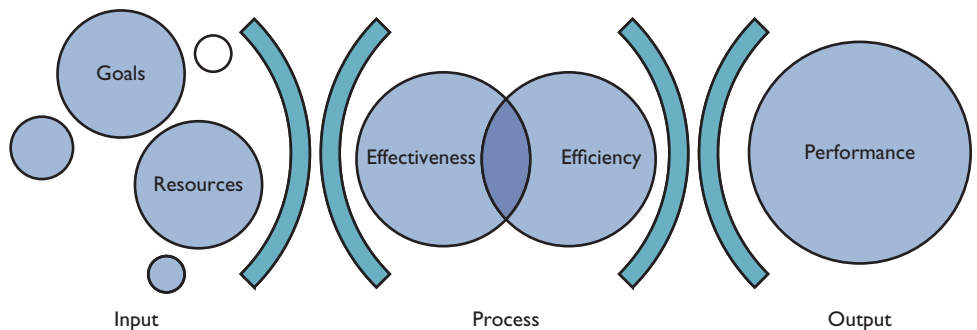
Sources: Mukherjee, W. (2012, July 25). ITC's e-Choupal boosting company's FMCG business. Retrieved from Economic Times: http://articles.economictimes.indiatimes.com/2012-07-25/news/32848625_1_fmcb-business-e-choupal-network-farma-di-wills; Upton, D. M., & Fuller, V. (2003). ITC e-Choupal Initiative. HBS Premier Case Collection.

Management is the process of working with people and resources to achieve performance effectively, efficiently, and in line with preestablished goals.

Goals describe the outcome aspired to in the management process.

Responsible management goals should aim at creating value for stakeholders in all three domains of the triple bottom line, and at achieving moral excellence.

Figure 2.3 Elements of Management



they are not immoral from an *ethics* perspective. If those points are considered thoroughly and the goals are pursued in a sound management process, an organizational goal becomes a societal goal, and the organization takes its place as an integral contributor to a healthy world community, creating wealth for all stakeholders, and abstaining from morally questionable behaviors.

Resources. Mainstream management considers any input for achieving organizational performance a resource. Necessary resources are often classified as technical, social, financial, and human resources. **Responsible management resources** are to be seen through the three perspectives of sustainability, responsibility, and ethics. From a *sustainability* standpoint, resources are understood as the three types of capital—social, environmental, and economic—that need to be sustained or even regenerated in the management process. Responsible management abstains from seeing resources as a mere means for achieving organizational goals. The capital thinking provides them with a broader significance. Capital needs to be sustained and becomes an end in its own right. Responsible managers would withdraw from the excessive use of nonrenewable environmental resources, such as petroleum and other extractive industry product, because using them would mean to reduce, not sustain, this environmental capital. Responsible managers would invest in the education and welfare of the people with whom they work, as this increases the overall social capital. Finally, responsible managers would not engage in financial transactions that put the economic capital of their company at risk to be destroyed rather than sustained. The *responsibility* perspective requires that resources are distributed throughout the management process in a way that optimizes the value created with all stakeholders of the company. A responsible manager of a product development team, for example, would use the human resource creativity of his team to develop the product that yields the highest financial return to owners of the company. He would also consider the value the design creates for customers, how safe and satisfying the production processes will be for employees, and whether the new product will have the potential to include and develop otherwise marginalized suppliers. From an *ethics* standpoint, resource thinking itself is questionable. Consideration of human beings as a mere resource, toiling for the good of an abusive company, has been considered morally questionable. A similar argument applies in regard to the environment, which, from an ethics-of-rights perspective, is often considered to have rights of its own that far exceed the management understanding of it as a mere resource.

Effectiveness. Effectiveness must be measured by the achievement of goals set previously. The question is whether the management process contributes to the achievement of the preset goals. If the goals set in the input stage reflect the sustainability, responsibility, and ethics perspectives, then management must merely aim at the highest possible degree of accomplishment of those goals. Nevertheless, management goals are often not cross-checked with responsibility, which means that in many cases, management effectiveness might even be irresponsible. Imagine, for instance, a tobacco company that achieved a successful market entry into an African country where people barely smoked before. No doubt, the effectiveness assessed from the corporate goal-setting perspective is a given. **Responsible management effectiveness** cannot be assessed as positively. The *sustainability* perspective would consider such an outcome of the marketing management process unfavorably, as it destroys the social capital living in the healthy pattern of nonsmoking. From a *responsibility* perspective, this case would be considered by

Resources are the input used in the management process to achieve predefined goals.

Responsible management resources are social, environmental, and economic capital (triple bottom line), stakeholder inputs, and moral capital.

Effectiveness describes the degree to which the management process has contributed to the preestablished managerial goals.

Responsible management effectiveness is measured in the amount of triple bottom line value and SV created and the degree of moral excellence achieved.

assessing the overall welfare created by the market access. Responsibility means asking how much welfare is created for company shareholders and the local economy, and how much SV is in turn destroyed through the pulmonary diseases and other detrimental health effects among consumers. From an *ethics* viewpoint—more specifically, an ethics-of-justice perspective—the market entry would be seen as unfair and immoral, based on the fact that the company would be enriching itself at the cost of killing thousands of people through pulmonary diseases.

In Practice

Responsibly Building Capacity for Responsible Performance

In southern Lao PDR, Bolaven Farms is sustainably growing and retailing high-quality coffee while building capacity through a residential training program for local farmers that emphasizes ethical and sustainable production. Resident farmers not only acquire technical training but also receive housing and meals for the whole family, including English classes for the children, a 30 percent contribution to medical bills, and, upon graduation, access to loans that allow them to establish their own farm or become contract farmers. This social enterprise is thus contributing to eradication of poverty, development of sustainable agricultural practices, and biodiversity conservation through organic farming.

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

Efficiency describes the proportion between resource input and management output.

Responsible management efficiency is measured by the ratios between the triple bottom line capital used and created, the stakeholder input and value created, and the moral issues encountered and moral excellence achieved throughout the management process.

Performance is the output of the management process.

Responsible management performance is a product of the responsible management effectiveness and efficiency achieved. Responsible management must reassess the criteria applied for evaluating performance as good or bad.

enjoy the work? Are employees growing as human beings in their work, or are they exploited so that they represent lost social capital? From a *responsibility* perspective, efficiency could be defined as SV created (or destroyed) per unit of production. Efficiency from an *ethics* perspective might aim at the lowest amount possible of amoral behavior per unit of product or service. Those alternative interpretations of efficiency provide different options for mainstream management thinking.

Performance. The output or performance of a management process may narrowly be interpreted by short-run profit. For a responsible manager, short-run financial performance must be considered only with other criterion to judge the success of the management process. *Sustainability* thinking requires planning in long-run financial performance, including decisions such as selling subprime loans that make short-run money sense, but in the long run may threaten the sustainability of the company or the whole economic system, as demonstrated in the world economic crisis that began in 2007. Performance for a responsible manager is not constrained by economic performance only, but rather is defined as a combination of social, environmental, and economic performances, the triple bottom line. From a *responsibility* perspective, a manager would think in terms of stakeholder performance, the value created for all groups related to the management activities. *Ethics* suggest that the responsible manager would thoroughly scrutinize all facets of the management outcome for potential immoral components. A common prejudice is that **responsible management performance** is harder to measure and evaluate than mainstream management economic performance. Table 2.1 illustrates a basic scheme for the evaluation of performance of responsible management.

Table 2.1 Performance Dimensions and Indicators in Responsible Management

Domain	Performance Domain	Exemplary Indicators
Sustainability performance	Social, environmental, economic value (performance) (triple bottom line)	Traditional economic performance Social value creation Environmental value creation (e.g., water, CO ₂ , waste, biodiversity)
Responsibility performance	SV (performance)	Number of stakeholder complaints Scores in single stakeholder satisfaction surveys (e.g., organizational climate or customer satisfaction surveys)
Ethics performance	Moral excellence	Number of ethical failures Percentage of compliance with qualitative indicator lists

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2-2b Evolution of Management Thought

In 2009, senior management thinker Gary Hamel brought together a group of thirty-five eminent management specialists, including C-level managers from Google, UBS, and McKinsey, as well as other CEOs and theorists, such as the management gurus Henry Mintzberg and Peter Senge. This eminent team of “renegades,” as they called themselves, jointly developed twenty-five recommendations for management of the future. The consensus was that management has to take the next evolutionary step. Interestingly, their first three recommendations all related to ethics, sustainability, and responsibility:

1. Ensure that the work of management serves a **higher purpose**. Management, both in theory and in practice, must orient itself to the achievement of **noble, socially significant goals**.
2. Fully embed the ideas of **community** and **citizenship** in management systems. There is a need for processes and practices that reflect the interdependence of all **stakeholder** groups.
3. Reconstruct management’s **philosophical foundations**. To build organizations that are more than merely efficient, we need to draw lessons from such fields as biology, political science, and theology.⁸

If this is the future of management, what is the past? At this point, we will not go into a lengthy discussion of classic management theories. Table 2.2 provides a brief summary that, because of space considerations, is merely a rudimentary overview. Each management school delivers valuable insights for different parts of the management process; interestingly, many ideas of responsible management practices are either rooted in those classic management theories or concerned with rebuking assumptions made by those theories. Therefore, for those who want to be part of the evolution of management, knowing the classics is a must.

As shown in Table 2.2, mainstream management theory can provide many insights for responsible management, both practices to avoid and practices on which to build. Although many of the established management theories include elements of responsible management, in the early twenty-first century, the importance of responsible management has increased exponentially. There is broad consensus among management scholars that responsible management is “here to stay.” It is a lasting trend, and time will show whether it is simply a new facet of mainstream management or the next step in an evolution toward a superior management field with superior managers.

Table 2.2 Mainstream Management Thought and Its Significance for Responsible Management

Stream of Thought	School	Proponents	Thought	Interpretation and Significance for Responsible Management
Science and administration	Administrative learning	Henri Fayol (1841–1925)	The management process consists of the tasks of <i>planning, organizing, commanding, coordinating, and controlling</i> . Management should be guided by a diverse set of <i>principles</i> , from principle 1, the division of work, to principle 14, the team spirit.	Responsible management must explore the integration of sustainability, responsibility, and ethics in each of the management tasks. The fourteen principles of management must be extended to cover responsible management considerations.
	Scientific management	Frederick Winslow Taylor (1856–1915)	Management must <i>analyze</i> the <i>efficiency</i> of workers' tasks through scientific methods and then give workers the right (often monetary) <i>incentives</i> to perform more efficiently and increase productivity.	Thinking of employees merely in terms of efficiency and extrinsic functioning may result in abusive management patterns that contradict a SV perspective on employees, which advocates human development through work.
	Fordism	Henry Ford (1863–1947)	Management should concentrate on increasing the efficiency of the production through <i>standardization</i> of processes and products.	Although standardized and mechanical production processes may lead to ecoefficiency in the usage of natural resources, the value of such work for workers has to be questioned.
	Bureaucracy	Max Weber (1864–1920)	The ideal form of organization is the <i>authority-based bureaucracy</i> , which is characterized by the subdivision of work into elementary <i>tasks</i> , performed by <i>specialists</i> , whose positions are organized <i>hierarchically</i> and governed through a system of abstract <i>rules</i> . Promotion is based on seniority and achievement for the organization.	The rigid structures envisaged by bureaucratic management conflict with the stakeholder view of the firm, where flexibility, multiple perspectives, and a spider-web of relations, responsibilities, and communication channels are imperative.
Contingencies and structure	Organizational contingencies	Peter Lawrence; Jay W. Lorsch	Organizations must adapt their structure and management practice to changing environmental conditions, called <i>contingencies</i> .	The global issues and crises affecting both general society and organizations are strong contingencies that, according to situational management, require new, responsible forms of organizations.
	Contingency model of leadership	Fred E. Fiedler (1922–)	Different situations require different <i>leadership styles</i> (measured by leadership perception scores [LPCs]) for outcomes to be effective. Leaders must be matched with the adequate situations, and vice versa.	The organizational transformation in responsible management requires effective leadership, adapted to a varied set of contingencies.
	Strategy and structure	Alfred Chandler (1918–2007)	Organizational <i>structure</i> must follow the organizational <i>strategy</i> .	Responsible management must integrate the triple bottom line, stakeholders, and morality into strategy and, at the same time, develop adequate business structures by which to put those strategies into practice.

Stream of Thought	School	Proponents	Thought	Interpretation and Significance for Responsible Management
Human relations and behavior	Human relations	Elton Mayo (1880–1949)	Social and psychological processes are more important for employee productivity than monetary incentives. <i>Human relations</i> inside groups have to be managed, and an authoritarian leadership style should be replaced with <i>democratic leadership</i> .	The human relations approach in work groups can be transferred to broader stakeholder groups related to companies. Stakeholder democracy is the responsible management counterpart to democratic leadership.
	Theory X and Theory Y	Douglas McGregor (1906–1964)	The <i>attitude</i> managers have toward their employees determines managers' behavior. Managers perceiving employees as inherently lazy (<i>Theory X</i>) will use an authoritarian and control-based leadership style. Managers perceiving employees as self-motivated (<i>Theory Y</i>) will create a trust-based environment in which employees can fully develop themselves and their tasks.	Theory Y reflects the SV approach of responsible management by focusing on co-creation of employee and organizational value.
	Leadership theory	Chester Barnard (1886–1961)	Organizations are <i>social systems</i> , and managers inside the system have to balance <i>employee orientation</i> with <i>performance orientation</i> .	In responsible management, the word <i>employee</i> must be replaced with the broader term <i>stakeholder</i> , so that a balance is sought between stakeholder orientation and performance orientation thinking. The relationship in responsible management is less antagonistic than in traditional management, as performance is redefined in terms of general stakeholders, rather than only shareholders.
	Motivation theory	Frederick Herzberg (1923–2000)	Herzberg explains employee motivation through both <i>satisfiers</i> (e.g., professional success, appreciation) and <i>dissatisfiers</i> (e.g., work conditions, company reputation).	Responsible management practices must be highly motivating for employees, since those practices reduce dissatisfiers (e.g., bad reputation, poor work conditions) and strengthen satisfiers (e.g., meaningfulness of work, self-fulfillment through work).
Mathematics	Management science	Patrick Blackett (1897–1974)	Management science, also called <i>operations research</i> , bases managerial decisions on the scientific, mostly statistical analysis and mathematical modeling.	Management science can be a valuable tool for modeling, measuring, and managing the complex social and environmental effects caused by managerial decision making.
	Decision theory	Herbert A. Simon (1916–2001)	Right decisions in management are made based on <i>mathematical models</i> .	Decision theory requires integration of the triple bottom line, SV, and moral considerations in decision modeling.

(Continued)

Table 2.2 Mainstream Management Thought and Its Significance for Responsible Management (Continued)

Stream of Thought	School	Proponents	Thought	Interpretation and Significance for Responsible Management
Systems, dynamics, and complexity	Evolutionary management and chaos theory	Karl Weick (1936–), Peter Senge (1947–)	Management and organizational structure should be <i>decentralized</i> for more <i>flexibility</i> , less hierarchy, and less planned, evolutionary development, as this fosters constant learning and the <i>sense-making</i> process.	A flexible and evolving management system is likely to adapt more quickly to the changes necessary to implementing responsible management practices.
	Systems theory	Norbert Wiener (1894–1964); Hans Ulrich (1919–1997)	Organizations are to be managed as <i>self-regulating, organizing, complex, and interconnected systems</i> that <i>interact</i> with other external systems, such as markets, governments, and society.	Systems-based management is valuable in the implementation of responsible management activities, which aim at a holistic management that interacts with and benefits the various stakeholder systems, as well as the surrounding environment.
	Work environments	Kurt Zadek Lewin (1890–1947)	<i>Environments of work</i> and managerial action can be classified as authoritarian, democratic, and laissez-faire.	A democratic work environment is likely to deliver the best responsible management results, as it facilitates stakeholder engagement at eye level.
	Empirical success research	Peter Drucker (1909–2005)	Good management principles should be derived from <i>empirical practice</i> experience. What works in practice should be considered good management.	Responsible management requires the development of good practices, following the principles of sustainability, responsibility, and ethics.
Efficiency	Lean management	Taiichi-Ohno (1912–1990)	Lean management aims at the elimination of any resource usage that does not increase <i>value for customers</i> . The main goal in the process is to <i>reduce waste</i> and <i>increase quality</i> , which jointly constitute operational efficiency.	Lean management can be applied in responsible management by substituting <i>stakeholder</i> for <i>customer</i> and focusing on creating SV while saving natural resources in the production process.
Strategy	Competitive advantage	Michael Porter (1947–)	Management must find a beneficial <i>strategic position</i> that will lead to competitive advantage. This might be based on either unique <i>resources</i> (resource-based view) or a unique <i>market position</i> (market-based view).	Responsible management can serve to create both unique resources (e.g., loyal and effective employees) and a unique market position (e.g., innovative sustainable products).

Sources: Barnard, C. I. (1939/1968). *The functions of the executive*. Cambridge: Harvard University Press; Chandler, A. D. (1977). *The visible hand: The managerial revolution in American businesses*. Cambridge: Belknap Press; Fayol, H. (1947). *Administration industrielle et générale: Prévoyance, organisation, commandement, coordination, contrôle*. Paris: Dunod; Fiedler, F. E. (1964). A contingency model of leadership effectiveness. *Advances in Experimental Social Psychology*, 1, 149–190; Herzberg, F. (1987). One more time: How do you motivate employees? *Harvard Business Review*, 65(5), 109–120; Hillier, F. S., & Lieberman, G. J. (1986). *Introduction to operations research*, 4th ed. San Francisco: Holden-Day; Lawrence, P. R., & Lorsch, J. W. (1969). *Organization and environment: Managing differentiation and integration*. Irwin: Homewood; Lewin, K., Lippitt, R., & White, R. (1939). Patterns of aggressive behavior in experimentally created social climates. *Journal of Social Psychology*, 10(2), 271–301; Malik, F., & Probst, G. J. (1982). Evolutionary management. *Cybernetics and Systems: An International Journal*, 13(2), 153–174; March, J. G. (1978). Bounded rationality, ambiguity, and the engineering of choice. *Bell Journal of Economics*, 9(2), 587–608; Mayo, E. (1933). *The human problems of an industrial civilization*. New York: Macmillan Company; McGregor, D. (1960). *The human side of enterprise*. New York: McGraw-Hill; Senge, P. (1990/2010). *The fifth discipline: The art and practice of the learning organization*. New York: Random House; Stürm, J. R. (2005). *The new St. Gallen management model: Basic categories of an approach to integrated management*. New York: Palgrave MacMillan; Taylor, F. W. (1911). *Principles of scientific management*. New York: Harper; Weber, M. (1978). *Economy and society*. Berkeley: University of California Press; Weick, K. (1995). *Sensemaking in organizations*. Thousand Oaks: Sage.

2-3 THE RESPONSIBLE MANAGER

“What does it mean to say that ‘business’ has responsibilities? Only people can have responsibilities.”⁹

Forty-two percent of CEOs mention their personal motivation as the main driver for their company’s sustainability initiatives.¹⁰ Powerful high-level managers say they are leading an integral part of their company’s activities based on a personal preference to do good. Individuals matter and are critical in responsible management and for the progress toward a better global society.

Those words might sound overly significant. Are we exaggerating the importance and power of management to “do good”? Figure 2.4 illustrates the central role of managers in a broad systemic shift toward sustainability, responsibility, and ethics. As demonstrated by the figure, three broad change mechanisms may well be triggered by a change in a single manager toward truly responsible management. First, managers have the power to change business in their respective spheres of influence, regardless of their hierarchical position. A frontline manager may create a sustainable, responsible, and ethical bubble in managing his or her own team. A top-level manager can do so for the company as a whole. Once the business has shown success in transforming to more responsible ways, its industry peers are likely to follow for competitive reasons, and so might companies from other industries and ultimately the economy as a whole. While the economy is changing, the impact on society of the overall economic system of industries and single companies becomes visible. For instance, consumers are educated through companies and have a broad choice of sustainable and responsible products. Employees who have learned responsible practices in companies might transfer those practices to their individual lives. In developing countries, a waste recycling culture often starts first in companies and is then transferred to civil society. Companies leading in responsible management activities often lobby politicians to foster public policies for sustainability, responsibility, and ethics.

That description of a chain of events is, of course, a highly idealized one. In reality, change is a process that starts at many points. You could also identify consumers or politicians as being the individuals who might trigger a particular change toward a better system. Nevertheless, the chain of beneficial events described here can start with individual managers.

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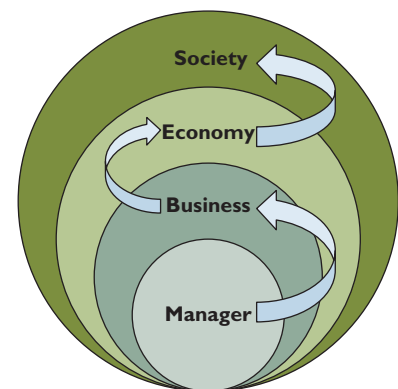
Do We Actually Need Hierarchies?

Some current management schools see hierarchies as an outdated construct. This could profoundly change the roles of managers. Network-based organizations are replacing classical hierarchies and group employees with flexible project teams that have changing roles and are characterized by extensive collaboration. Research **network-centric organizations** and analyze how this structure might affect responsible management.

Source: Bartlett, C. A., & Ghoshal, S. (1997). The myth of the generic manager: New personal competencies for new management roles. *California Management Review*, 40(1), 92–116.

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Figure 2.4 A Layered Model of Managerial Influence



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2-3a The Role of Managerial Hierarchies

In the last section, we addressed the universal applicability of responsible management on different hierarchical levels inside an organization. Individual managers’ areas of influence are typically defined by their hierarchical position. On the lowest hierarchical level, **frontline managers** (operational managers) are directly involved with nonmanagement employees and supervise the company’s operations. **Middle managers** (tactical managers) translate the organizational goals and strategy into specific objectives and actions. Middle-level managers usually supervise a team of frontline managers and receive guidance from top-level

management. **Top managers** (in the “C-suite”) are in charge of defining the organization’s normative structure and overall strategy.

On all three levels, two types of responsible managers exist:

- **Mainstream managers** are primarily concerned with the usual economic business operations in the traditional departments, such as marketing, research and development (R&D), and accounting. For mainstream managers to become responsible managers, they need to integrate sustainability, responsibility, and ethics into a long-established job profile.
- **Specialized responsible managers** have an official mandate to focus on sustainability, responsibility, and ethics as their main activity. On the top management level, those jobs might be called chief sustainability officer (CSO), vice president (VP) for responsible business, or chief ethics officer. Specialized middle managers might be called director of sustainable operations or environmental protection officer. Line management positions are titled, for instance, environmental manager or community relation managers.

It is likely that, in the future, those two types of managers will increasingly merge into one amalgam of a management profile that truly integrates responsible management into mainstream management, and vice versa.

As illustrated in Table 2.3, the management tasks typically performed by either type of responsible manager widely differ, depending on each manager’s respective hierarchical level. The four main tasks of management—planning, organizing, leading, and controlling—which will be further elaborated in the last section of this chapter, are performed by managers of all levels, but typically take very different forms on different hierarchical levels. For instance, the control task performed

Table 2.3 Hierarchical Management Levels and Typical Responsible Management Task Descriptions

	Top Managers	Middle Managers	Frontline Managers
Plan	Strategically plan a business’s transition to becoming a responsible business. (High)	Plan tactical moves to translate the overall responsible business strategy into concrete objectives and actions. (Medium)	Plan how to use the resources available and involve nonmanagement employees in achieving the responsible business objectives provided by middle management. (Low)
Organize	Create organizational institutions and responsibilities, and facilitate change processes to become a responsible business. (Medium)	Re-organize frontline management in a way that empowers them to manage responsibly. (High)	Adjust employees’ assignments to the necessities of responsible business. (Medium)
Lead	Provide the right tone from the top, giving priority to responsible business change. (Medium)	Lead line managers in the implementation of objectives for responsible business. (High)	Lead employees in the day-to-day implementation of responsible business activities. (High)
Control	Monitor the responsible business performance of the organization’s main areas and decide on corrections in the overall strategy. (Low)	Observe the responsible business performance of frontline managers and decide about tactical moves to improve their performance. (Medium)	Constantly supervise employees’ actions and the responsible business output in order to optimize group performance. (High)

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through a chief sustainability officer (top level) involves monitoring all departments of business based on a bird's eye view. A factory's environment, health, and safety manager (frontline) will fulfill his or her control task by meticulously checking different factory areas and even single employees' contributions to sustainable business performance.

2-3b Competencies for Prime Managers

As seen in the previous section, individual responsible managers are influenced externally by conditions governing their activity. Hierarchies are only one example of such conditions; another is organizational culture. Internal competencies are as important as the external conditions of a responsible manager. As responsible management or prime management evolves from traditional management, managers must change internally to a new set of management competencies. A successful prime manager requires a set of attitudes, beliefs, skills, and knowledge that is, in many cases, radically different from the set held by a traditional manager.¹¹

Competencies can be divided into four main groups (referred to as competence pillars): to *know* (**domain competencies**), to *do* (**methodological competencies**), to *interact* or *live together* (**social competencies**), and to *be* (**self-competencies**).¹² Table 2.4 gives an overview of important competencies in those areas, both those traditionally required for mainstream management and the new competencies to be formed for successful responsible management. Interestingly, those two competence sets are often complementary and contain no major contradictions. For instance, the

Table 2.4 Examples of Salient Competencies for Prime Managers

Competence Group	Mainstream Management Competencies	Prime Management Competencies
Domain (to know)	<i>Technical</i> (knowledge of and proficiency in a certain specialized field)	<i>Responsible management background domains: sustainability</i> (triple bottom line), <i>responsibility</i> (stakeholders), <i>ethics</i> (morally right decisions) <i>Responsible management tools</i> (for manager's sphere of influence)
Procedural (to do)	<i>Conceptual and diagnostic</i> (analyzing complex situations and providing an adequate response)	<i>Systems thinking</i> <i>Interdisciplinary work</i> <i>Ethical, sustainable, and responsible decision making</i>
Social (to interact)	<i>Political</i> (exerting influence) <i>Communication</i> <i>Leadership</i> <i>Delegation</i>	<i>Stakeholder networking and communication</i> <i>Change agency skills</i> (leadership) <i>Critical skills</i>
Self (to be)	<i>Toughness</i> (endurance of high-workload and high-stress situations) <i>Efficiency</i> <i>Effectiveness</i> <i>Loyalty</i> (to the company)	<i>Meta-perspective</i> <i>Empathy</i> (for responsibility issues and stakeholders) <i>Embracing attitude</i> (toward responsible management practices) <i>Problem awareness</i> <i>Sense of urgency</i> <i>Self-perception</i> (especially about power)

Competencies describe an individual's abilities, which can be subdivided into domain, methodological, social, and self-competencies.

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traditionally required domain knowledge that requires proficiency in a certain field, such as marketing or accounting, will be enriched through knowledge of responsible management tools for accounting and marketing. The mainstream management competency of exerting political influence can be translated into change agency skills for more responsible management practices. Only in a few cases do salient mainstream competencies conflict with prime management competencies. For instance, prime management self-competence means to take a meta-perspective—to see oneself, one's job, and one's company from a neutral, external viewpoint. This might easily interfere with the loyalty competence typically required by mainstream management and, in some cases, might cause heightened awareness of the flaws in one's own company.

Domain competencies. The primary domain competencies to be acquired to become a responsible manager are related to the three background domains of responsible management: sustainability, ethics, and responsibility. Responsible managers must know about sustainable development and both the global and local social, environmental, and economic issues impeding sustainable development in order to integrate and manage their own triple bottom line. A responsible manager needs to know and understand stakeholders in order to manage for optimization of SV. Only if a responsible manager is able to understand the main streams of moral philosophy will he or she be able to apply those in order to make good ethical decisions and to foster those among employees. Once this background is known, a responsible manager can then translate those three domains for responsible managers into his or her own sphere of influence—to his or her own job, the management function, the company, and the industry.

To apply responsible management in the manager's department, it is necessary to be aware of **responsible management tools** available to each respective function. A marketing manager, for instance, needs to know about social marketing, cause-related marketing, or adapting the traditional marketing mix to the situation of marketing to low-income consumers. A manager working for the accounting department must know about social and environmental accounting methods, sustainability reporting, and sustainability scorecards. Top management must understand the basics of strategic responsibility to use responsible business to differentiate products or to save costs.

Methodological competencies. Among the methodological competencies, responsible management requires a stronger focus on systemic and interdisciplinary thinking than does traditional management. Responsible managers must be able to understand the full consequences of their actions in a complex system of interrelations. Systemic thinking enables responsible managers to assess the consequences of their actions through the social, environmental, and economic dimensions and to understand a broad web of stakeholder relationships. Interdisciplinary work is another fundamental competency. Responsible managers are required to merge many disciplines with their management procedures and collaborate with people from many different professions, including philosophers for ethics and biologists and sociologists for sustainability. Often sustainability-related topics require technical know-how and collaboration with engineers.

Domain competencies refer to the knowledge that makes one proficient in a certain field.

Methodological competencies describe the ability to perform a certain type of task or procedure, either physically or mentally.

In Practice

A Need for Awareness and Skill Development in the UAE

A majority of the multinational corporations operating in the United Arab Emirates (UAE) are active in CSR, sustainability, and business ethics. However, this is not the trend among SMEs operating in the country. They tend to limit themselves by practicing whatever is mandatory by law. Awareness of these topics is limited among the SMEs. Government initiatives such as "Dubai Cares" are having great impact on the UAE society. The Center for Responsible Business is a department of the Dubai Chamber that supports businesses in Dubai in practicing CSR, sustainability, and especially employee volunteering. SMEs should cooperate with the business chambers of their emirate and get support and help to implement CSR, sustainability, and business ethics in their organizations.

Social competencies. Social skills in responsible management have to be taken to another level. Stakeholder management requires the ability to interrelate, communicate, and co-create with a variety of different stakeholder groups, each of which requires a different type of stakeholder networking strategy. Responsible managers mostly work in companies on the road of development toward becoming a truly responsible business. Therefore, responsible managers often must exert change agency skills, first criticizing nondesirable realities and then actively transforming the organization.

Self-competencies. These are as important as social competencies. Especially important for a responsible manager is the ability to take a **meta-perspective**. Assuming a meta-perspective enables a responsible manager to take the stance of an external observer and to neutrally evaluate his or her own behaviors. For a responsible manager to be motivated for bettering social, environmental, and ethical issues, it is crucial to feel **empathy** for those conditions. Responsible managers will want to help a certain stakeholder, to be an ethical person, or to contribute to a specific environmental cause out of a genuine desire to help. Another self-competency is the ability to feel the urgency to make a change and feel powerful enough to contribute.

Social competencies are skills directed at the interaction with others.

2-4 THE RESPONSIBLE MANAGEMENT PROCESS

*“The general relevance of **integrating** core managerial **processes and functions** ... enabling firms to achieve corporate sustainability and aligning market and non-market forces influencing the firm.”¹³*

How does one get the “responsibility” into management? The obvious answer is: Start with what managers do. First, however, the manager must identify the roles, functions, and processes fulfilled by managers. Henry Mintzberg divided **managerial roles** into interpersonal, informational, and decisional ones.¹⁴ Managers interact with others, evaluate and pass on information, and make decisions. To avoid overlaps with coming sections, we will not elaborate on those roles here but instead focus on managerial functions that jointly form the management process.

Managerial functions are usually divided into four different types, which as a whole form the **managerial process**. The four functions, as visualized in Figure 2.5, are planning, organizing, controlling, and leading. In former sections, we explained the origin of those functions. Now we will focus on their application in responsible management practices. In order to “responsibilize” the overall management process, each of those four functions must be reinterpreted to evolve around the three domains of responsible management: sustainability, responsibility, and ethics. In the following sections, we will revisit all four functions to illustrate how responsible management transforms each of them.

2-4a Planning

What does the **planning** task of a responsible manager look like? Planning is the process of making decisions about goals and activities that will be pursued in the future. Planning tasks can be subdivided into strategic and decisional tasks. Managers need to draft an overall strategy, which is a plan to achieve competitive

In Practice

So What Happened to the Money?

At first sight, it might look like responsible management is not concerned about the financial dimension of business. This would be very unrealistic. The triple bottom line, which is the core piece of the sustainability domain of responsible management, has the economic bottom line as one of its main components. Financial factors do not become irrelevant in responsible management; rather, they are connected to social and environmental factors with the same importance.

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Self-competencies are personal characteristics affecting a person's self-perception and management, such as values, attitudes, beliefs, and other psychological conditions.

The **managerial process** consists of the four functions of management: planning, organizing, leading, and controlling.

Planning is the process of making decisions about goals and activities that will be pursued in the future.

Figure 2.5 The Responsible Management Process



advantage. They must also make single decisions and tactical moves in the day-to-day business conduct. The planning process has to consider both the short run and the often-forgotten long-run aspects to become responsible. A later chapter on strategy, *Strategy*, will extensively cover the strategic aspects of planning, which is why we will focus on the less sophisticated, but highly important, aspect of making single tactical and operational decisions in this chapter.

Decision making consists of four main steps: analyzing the situation, generating alternative solutions, evaluating alternative solutions, and selecting the solution to be implemented.¹⁵ Originally, the process also included the final steps of implementation and control, which have been omitted in the following description.

The first step of managerial decision making is the **situational analysis**. A mainstream manager would look mainly at factors that will have potential financial repercussions. How will the decision affect revenue? Are there legal aspects to be considered? How will the decision affect operations? What would my boss want me to do? In **responsible decision making**, while those questions are still important, the responsible manager must make a more complex, multidimensional analysis. From a sustainability point of view, the manager must estimate how the situation affects social, environmental, and economic capital in both the short and long run. The manager must analyze how the complex web of stakeholders relates to the current situation and question the ethical implications of the status quo.

The same considerations are part of the creative process that leads to the **generation of alternative solutions**. Responsible managers must set minimum criteria for eligible solutions. Such minimum criteria may rule out from the beginning any alternative solution that creates an ethically questionable situation, that has the potential to negatively affect a major stakeholder, or that decreases social, environmental, or economic capital. Creativity in the generation of those ideas is crucial. Responsible managers often have to take the role of a change agent. This means that they have to think outside the box of given mainstream business parameters. As a result, alternative solutions might well include potential actions that appear to be unusual or even revolutionary from a traditional business point of view.

The core of the decision-making process is the **evaluation of alternative solutions**. Table 2.5 illustrates a matrix that can be used as a tool for evaluating alternative solutions by considering both the mainstream conditions (solution effectiveness [SE]) and the responsible management conditions that reflect the three background frameworks of responsible management (triple bottom line impact, SV, moral value [MV]). In practice, a responsible manager would use this matrix to assess each alternative solution in terms of how well it fulfills each category on a scale between 0 and 5, with 0 meaning not fulfilled and 5 meaning completely fulfilled (see second column in table). In the SE dimension, an alternative that would solve the problem at hand without any risk of failure would be evaluated as 5, while an alternative that has no potential to solve the problem would be rated 0. The triple bottom line impact (TI) would be evaluated as 0 when environmental, social, and economic capital would be destroyed heavily by the solution, or 5 when all three capitals would be restored. The SV would be evaluated with 0 if main stakeholders would be damaged drastically, or 5 if they would greatly benefit from the solution possibility. The MV of a solution that is completely immoral would be evaluated as 0, while one that has no potential to deliver negative moral consequences would be a 5.

Decision making is a process that consists of four steps: analyzing the situation, generating alternative solutions, evaluating alternative solutions, and selecting the solution to be implemented.

Responsible decision making bases the judgment on how the decision affects the triple bottom line, stakeholders, and moral value.

The manager would then evaluate how strongly each factor listed in the table should be reflected in the decision to be made (see third column in Table 2.5). The manager defines a weighting factor (w_c) between 0 percent and 100 percent for each category. The weighting factors of all categories should add up to 100 percent. If all of them are equally important, each will have an weighting factor of 25 percent. In strict mainstream management, the manager would assign 100 percent to the SE and 0 percent to other categories. The only thing that would count would be solving the organizational problem, no matter what the consequences. Consider a managing director of a nongovernmental organization (NGO), for instance, who has the goal of alleviating AIDS and would orient his or her decision making purely on the SV created for patients with AIDS. This person would probably assign 100 percent of the weighting factor to the indicator for SV. There are many weighting situations, however, that are not so extreme. The concrete scheme depends on organizational goals, culture, personal preferences of the manager, and many other factors

The final stage of the decision-making process is the **final selection of a solution**. In the evaluation process, a manager might follow three main behavior patterns: *maximizing*, *satisfying*, and *optimizing*. Managers who *maximize* the overall value from the decision would choose the alternative that generates the biggest overall sum. Managers from mainstream management might focus on satisfying by using the first alternative that fulfills a predefined requirement. For example, if the original problem was a manufacturing production method that polluted a nearby river, the manager might pick the first alternative that does not pollute. Responsible managers, however, typically seek decisions to be made in a nexus of competing claims and responsibilities; therefore, the most viable option for a responsible manager probably will be to optimize by choosing the alternative that best satisfies competing claims, even though usually that will involve making compromises and incurring trade-offs between alternatives. It is possible that all alternatives will contradict responsible management, in which case the responsible manager will have to not only make a single decision, but also reexamine the organizational and personal framework under which the decision is to be made. In the most extreme case, a responsible manager might decide to leave the organization or, if having change agent power, to actively effect profound change toward a more responsible infrastructure.

The illustration of the planning process provided in this section is a generalized summary of planning at any level, whether it is personal, departmental, or organizational. Coverage of strategy Strategy, will focus on the organizational level and provide extensive coverage of the tools and cases for planning in responsible business. A chapter on entrepreneurship and the innovation of business models will describe the planning process in the context of seizing an opportunity, envisioning the development of an organization, and conducting the adequate planning to make it work in reality.

Table 2.5 Responsible Decision-Making Matrix

	Solution-effectiveness (SE) $\times w_{c_{SE}}$	Triple bottom line impact (TI) $\times w_{c_{TI}}$	Stakeholder value (SV) $\times w_{c_{SV}}$	Moral value (MV) $\times w_{c_{MV}}$	Sum
A_1					
A_2					
A_3					

On-Site versus Web Meeting: Making Tough Decisions

Imagine you are an assistant to the CEO of a multinational consulting company and you are in charge of organizing the annual budgeting meeting with the local managing directors of the company's four main business regions, USA/Canada, Europe, Latin America, and Australasia. Until this year, those meetings had always been conducted in the corporate headquarters in Paris. With the company's drastically increased revenue from responsible-business consulting, the CEO has decided to also integrate the values of sustainability, responsibility, and ethics into the company's core activities, to make sure the consultancy is "walking the talk." The budget meeting is meant to be a first landmark event for doing so. Your task now is not only to plan a successful meeting, but also to do so under the constraint to optimize triple bottom line, SV, and MV of the meeting decision. The three alternative meeting formats to be considered are:

- **A₁ "Classic On-Site":** All managing directors travel to the headquarters. *Considerations:* Carbon impact of plain travel, advantages of face-to-face meeting experience, not walking the talk of sustainable business (immoral)

- **A₂ "On-Site + Carbon Offsetting":** All managing directors travel, but the company pays for carbon offsetting to make the travel carbon neutral. *Considerations:* Cost of carbon offsetting
- **A₃ "Webmeeting":** The company invests in a sophisticated online-meeting solution and nobody has to travel. *Considerations:* Time saved, loss of face-to-face experience, inconvenience for and inexperience of "old-school managers" when using webmeetings, distractions through office environment

Following your CEO's indications to equally consider all responsible management aspects, you have given the same weighting factor of 0.25 to each of the four condition types. After considering all the above-mentioned aspects, you have come up with Figure 2.6 to describe the situation. Alternative 2, the on-site meeting with carbon offsetting, is your preferred choice, as it combines perfect SE (satisfying the need for an effective meeting) with an improved triple bottom line (much less CO₂ emissions, slightly higher cost through offsetting), equal SV, and an increase in MV through "walking the talk" of sustainable business.

Figure 2.6 Applying the Responsible Decision-Making Matrix

	Solution-effectiveness (SE) × w_{SE}	Triple bottom line impact (TI) × w_{TI}	Stakeholder value (SV) × w_{SV}	Moral value (MV) × w_{MV}	Sum
A ₁	5 × 0.25	1 × 0.25	2 × 0.25	1 × 0.25	2.25
A₂	5 × 0.25	2 × 0.25	2 × 0.25	3 × 0.25	3.00
A ₃	2 × 0.25	3 × 0.25	1 × 0.25	5 × 0.25	2.75

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2-4b Organizing

After planning, the second managerial task is to organize for performance. Later chapters will discuss in depth organization, operations, and supply chain organization. Therefore, the following is a rather brief overview of the managerial organization task that applies to every individual manager.

Organizing is the process of building the structure, systems, and culture that are needed to implement a strategy.¹⁶ Managers have the liberty to organize their own area of influence in a manner that best serves performance goals. Such organizational design prominently includes the topics of hierarchies, authority, job positions, and functions. Organizing also includes the task of identifying communication channels, assigning tasks and responsibilities, and establishing accountability. Key considerations when organizing for performance include the following:

- **Mechanistic versus organic organization:** *Should I prefer a highly bureaucratic, mechanistic form of organization, with static roles and responsibilities and a*

Organizing is the process of building the structure, systems, and culture needed to implement a strategy.

primary goal of efficiency, or should I organize my area of influence organically, with flexible roles, flat hierarchies, and a high degree of decentralization? From a responsible management perspective, many arguments speak for an organic organizational form. The single employee's personal and horizontal relationships and responsibilities are at the heart of the organic organizational form. Organic structures enable social interaction necessary for responsible management and also provide an excellent precondition for connection to stakeholders. Also employees in an organic organizational structure experience a higher degree of personal responsibility for making the right sustainable, responsible, and ethical choices. Most importantly, mechanistic organizational structures have too little flexibility in times of change, and responsible management, with its central change agency characteristics, would be hard to implement in a mechanistic organization.¹⁷

- **Differentiation and integration:** *How can I create enough specialization to get the job done and at the same time reintegrate all the varying contributions into a coherent output?* Management requires identification of functional areas inside a manager's area of influence. Differentiation, similar to Frederick Taylor's division of labor, means everybody takes the part of the work that corresponds best to that person's capabilities. Differentiation leads to specialization of single employees or whole functions. Responsible management, due to its novel character and interdisciplinary nature, often requires expert competencies in a manager's team. Integration then helps to reassemble the specialized contribution into a coherent whole, usually a product, service, or process. A responsible manager's integration task often is very complex, since responsible managers must integrate not only the contributions of a diverse set of employees (or organizational departments) with varying attitudes and skills, but also external stakeholders' contributions, which leads us to the next key consideration.
- **Delegation, collaboration, and decentralization:** *To what degree should I pass responsibilities on to others, and how should collaboration be organized?* Responsible managers, more than mainstream managers, may not always be able to perform tasks themselves. In responsible management delegation, however, unlike mainstream management delegation, the restraining factor is expertise rather than time. Responsible managers must learn not only to delegate to employees, but also to build collaborative, automatically decentralized networks of stakeholder collaborators in order to acquire the necessary expertise.

2-4c Leading

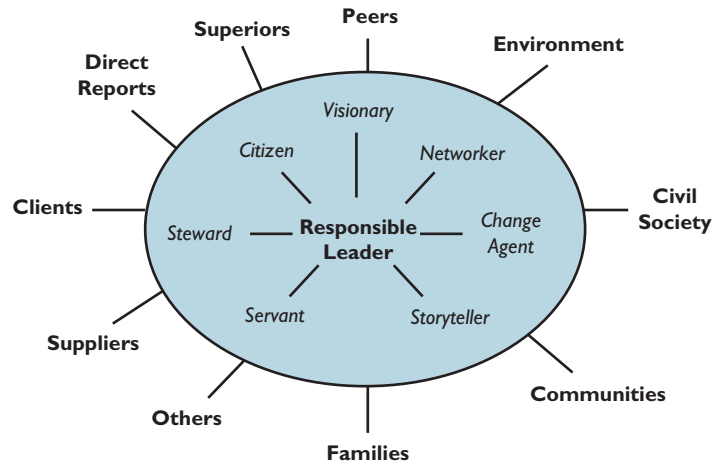
A common understanding of **leadership** is the ability to influence others to attain goals. Goals may be understood as the goals of the leader's organization, the goals of the leader's followers, or both.¹⁸ The crucial question here is: Who are the followers? In mainstream leadership thinking, followers are usually understood as subordinate employees. For **responsible leadership**, such thinking has to be broadened to a stakeholder perspective.

Responsible managers must be leaders of a varied group of individuals with different backgrounds. For example, followers of responsible managers may include, to mention only a few: consumers, who must be led to more responsible consumption patterns; politicians, who must be led and lobbied to create public policies for sustainability, responsibility, and morality; and suppliers, who must be led to transform

Leadership is the process of influencing others to attain goals.

Responsible leadership is the process of building stakeholder relationships to lead toward the fulfillment of a shared vision and goals.

Figure 2.7 Role Model of Responsible Leadership



Source: Maak,T. & Pless, N. M. (2006). Responsible leadership in a stakeholder society: A relational perspective. *Journal of Business Ethics*, 66, 99–115; Pless, N. M. (2007). Understanding responsible leadership: Role identity and motivational drivers. *Journal of Business Ethics*, 74, 437–456.

In Practice

Leading Toward a Sustainable Africa

Founded in Cotonou in 1985 by a Nigerian priest to grow agricultural entrepreneurs, Songhai Centre has been in the vanguard of the efforts to create a sustainable Africa. Through integrated farming, this project combines people and planetary interests in an admirable way: It provides jobs, and thus reduces unemployment and poverty; it uses all the waste it produces by implementing a closed-loop system; and it makes those who engage in it economically self-reliant. The agricultural sector is essential to development in most African countries, and this fact makes Songhai a unique value proposition in the face of the need for food security, poverty alleviation, and economic emancipation in the rural areas. Eighteen-month training programs are carried out in four locations: Porto-Novo, Savalou, Parakou, and Kinwédji. More than 500 farms have been established so far, and these are managed by young graduates from the training center.

Source: Songhai. (2013). Retrieved February 2, 2013, from Songhai: Africa stands up: www.songhai.org/english/

Power is the ability to influence others.

their companies to be responsible businesses. Responsible leadership is a multistakeholder process that requires social skills and mental flexibility different from those needed by mainstream managers. Figure 2.7 sums up the various roles of responsible leaders. Those roles range from being a visionary and storyteller to being a servant and steward to stakeholders.¹⁹

A crucial question for managers who aim at being responsible leaders is: How do I build legitimacy and become accepted as a leader? This question becomes even more important when one considers that in contrast to manager–employee relationships, there is no legal or contractual obligation of subordination between a responsible leader and most stakeholders. Responsible leaders are not assigned but become such leaders through an organic process of authority and relationship building, through the creation of credibility, and through the acquisition of leader legitimacy.²⁰ A central question is: From where does the responsible leader obtain power to lead such a varied set of stakeholders?

French and Raven²¹ divide the sources of **power** into categories that each have significance for responsible leadership:

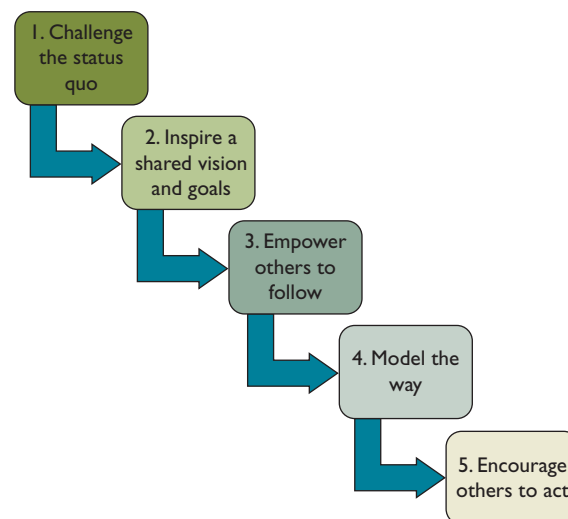
1. **Legitimate power** (legal or contractual relationship): Responsible leaders may have contractual relationships with employees, suppliers, and even clients that enable them to exert a legal influence favoring the implementation of responsible business activities among followers.
2. **Coercive power** (controlling punishment): Responsible leaders have the possibility to, directly or indirectly, punish followers for irresponsible behavior even in the absence of a contractual basis. A typical example is the withdrawal from collaborations; for instance, a weapons producer might abstain from delivering supplies to a party that is under suspicion of human rights abuses.

3. **Reward** power (controlling rewards): Responsible leaders might be able to reward stakeholders for responsible behavior. For instance, a company lobbying for tighter environmental legislations might support a political party's election campaign with such legislation on the agenda.
4. **Referent** power (appealing personal characteristics): Managers might be considered responsible leaders on the basis of their personal characteristics. For instance, charismatic responsible business pioneers, such as Ann Roderick from The Bodyshop or Dean Anderson from InterfaceFlor, have inspired industry peers to adopt responsible practices.
5. **Expert** power (expertise and knowledge): In a field as novel and complex as responsible business, power through expertise is an important phenomenon. There are few experts yet, and stakeholders may be very inclined to follow those rare managers with extensive knowledge.

Once leadership power has been established, it is time to begin the leadership process as described in Figure 2.8. Responsible leadership is a transformative process of achieving the shared vision of both stakeholder (followers) and the responsible manager (leader). The first step of the leadership process must be to challenge the status quo. Such a challenge could be to critically question and attack existing irresponsible products, structures, and behaviors. Second, the challenge has to be translated into concrete proposals for improvement, eventually summarized in a concrete vision and a single goal. Third, followers must be empowered to act upon that vision and goal. Stakeholders must be given the means, such as basic knowledge, financial resources, and platforms, by which to follow the responsibility vision. Fourth, leaders must model the way by establishing milestones and proposing activities and processes needed to achieve the vision of the stakeholder community. Finally, leaders must ensure, on an operational level, that stakeholders are doing the right things to make the shared vision a reality.

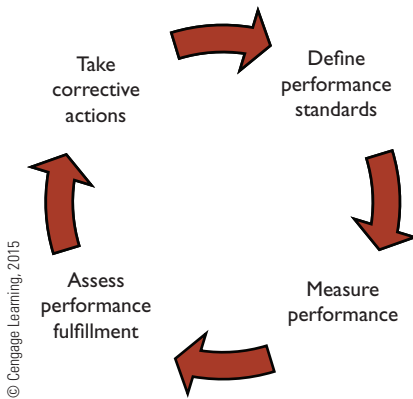
Later chapters will discuss how, leadership is seen from a broader, more inclusive perspective than it has been in traditional management and will illustrate how to lead employees and how to exert leadership through effective marketing

Figure 2.8 The Leadership Process



Source: Kouzes, J. M., & Posner, B. Z. (2002). *The Leadership Challenge*. Chichester: Wiley.

Figure 2.9 The Controlling Process



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communication. Leading multistakeholders is an important prerequisite to achieving responsible management goals.

2-4d Controlling

The last part of the management process is concerned with ensuring that aspired performance is achieved. When excellent responsible business programs have been terminated, the reason often given has been: “The controller could not see the value.” Responsible management and business that cannot be evaluated against a set of predefined performance standards is likely to be unstable, as all business activities are under a constant demand for legitimization.

Controlling is more complex in a responsible business than it is in mainstream business, since often responsible managers must translate intangible social, environmental, and ethical performance goals into measurable performance indicators. Figure 2.9 illustrates the controlling process, which begins with the *definition of performance standards*. Those standards are the output of the planning process presented earlier. The *measurement of those performance indicators* is the second step, which directly leads to the third step of *assessing performance* by comparing set performance standards with achieved performance. The final step involves *taking corrective actions* to strengthen the fulfillment of performance indicators, or to begin fulfilling the indicators in the case of complete nonfulfillment. In both cases, performance standards have to be reviewed and redefined. Controlling is an ongoing dynamic process in responsible business and must become a driver for responsible business and management through the incorporation of periodically tightened performance standards, including the use of more sophisticated measurement instruments that will lead to a positive overall development of responsible business performance.

Most companies use **bureaucratic control** systems, which are characterized by strict rules, hierarchies, and policies. There are, however, well-established alternative control mechanisms that can provide viable alternatives for control in a responsible business. One alternative mechanism is **market control**, which involves the creation of internal markets within companies. Business departments may, for instance, function as an internal company and sell their services to other departments. Another alternative mechanism is **clan control**, which aims to achieve performance standard fulfillment through social processes and the culture of an organization.²² Clan control is a promising approach for responsible management, as managers are dependent on multiple stakeholders for truly understanding whether actions and outcomes are really in line with SV optimization, a sound triple bottom line, and desirable ethical decisions. Also, such control through a shared responsible culture can help to establish responsible behavior beyond the company’s boundaries and sphere of influence. Organizational culture, for example, can be extended to, among others, suppliers, customers, and even competitors—companies in which an organization usually would have little means for bureaucratic control.

Later chapters will focus on the two main background disciplines used in the responsible manager’s controlling task. Accounting and Controlling will illustrate methods of transforming the intangible factors of responsible business into tangible indicators, in order to integrate those indicators with traditional accounting topics such as reports, audits, and managerial information systems. Coverage of Finance, which could be called “beyond finance,” deals with integrating nonfinancial factors into traditional finance tools. Examples are socially responsible investment and the social return on investment.

Controlling is the process of assessing and steering business activities and outcomes within a set of predefined goals.

PRINCIPLES OF MANAGEMENT: BASICS AND PROCESSES

- I. *Responsible management* (i.e., *prime management*) is management that embraces sustainability (triple bottom line), responsibility (SV), and ethics (morally favorable decisions).
- II. The *three domains of responsible management* are: sustainability, responsibility, and ethics.
- III. Responsible managers can be at the center of a *virtuous circle of change* in moving toward the achievement of more responsible companies, economies, and societies.
- IV. A responsible manager requires a set of *competencies* (domain, procedural, social, and self-competencies) that is different from the set required in mainstream management.
- V. The responsible or prime management process is based on the traditional four management tasks of *planning, organizing, leading, and controlling*, which evolve around sustainability, responsibility, and ethics.
- VI. *Responsible decision making* must assess SV, triple bottom line impact, and the MV created by alternative choices.
- VII. Responsible leadership is the process of building stakeholder relationships to lead toward the fulfillment of a shared vision and goals.

KEY TERMS

competencies 37
controlling 46
decision making 40
domain competencies 38
effectiveness 29
efficiency 30
goals 28
leadership 43
management 28
managerial process 39
methodological competencies 38

organizing 42
performance 30
planning 39
power 44
prime business 27
prime management 26
resources 29
responsible business 27
responsible decision making 40
responsible leadership 43
responsible management 25

responsible management effectiveness 29
responsible management efficiency 30
responsible management goals 28
responsible management performance 30
responsible management resources 29
self-competencies 39
social competencies 39

EXERCISES

A. Remember and Understand

- A.1. Describe the three domains of responsible management, mention each domain's core concept, and define *prime management*.
- A.2. Describe the different layers of managerial influence that can lead toward a more responsible society.
- A.3. Explain each type of competency required by a responsible manager: domain, procedural, social, and self-competencies. Provide an example for each type of competency.
- A.4. Briefly describe the four main tasks of the management process.

B. Apply and Experience

- B.5. Use the competencies list in Table 2.4 to check whether you are equipped to become a responsible manager. Can you think of helpful competencies for a responsible manager that are not been mentioned in that list?

- B.6. Talk to a manager of your choice and ask whether—and if so, how—the topics of SV, triple bottom line, and morally desirable decisions affect that person's work.
- B.7. Look up the Global Business Oath for Managers at www.globalbusinessoath.org/businessoath.php. How does this oath relate to the contents of this chapter?

C. Analyze and Evaluate

- C.8. Analyze the answers of the manager you interviewed in Exercise B.6 and evaluate whether you would consider the person a responsible manager.
- C.9. Search online for a management decision for which a manager has been publicly criticized. Corporate scandals are interesting for this purpose. Use the responsible decision-making matrix in Table 2.5 to score decision alternatives in that management

situation. Then decide what you would have done had you been in that manager's situation.

- C.10. Imagine you could rewrite management theory to make it responsible management theory. Which of the classic mainstream management theories summarized in Table 2.2 would you integrate, and which ones would you completely exclude?

D. Change and Create

- D.11. Propose concrete changes that the manager discussed in Exercises B.6 and C.8 could make in

order to become a more responsible manager.

Refer to the three domains: responsibility, sustainability, and ethics.

- D.12. Imagine you want to hire a responsible manager for your organization. Write a one-page job profile, describing the exact tasks to be performed on the job and the skills and experience you would want that person to possess. Imagine you will post this job letter in order to attract interested applicants.

PIONEER INTERVIEW WITH JONAS HAERTLE



Courtesy of Jonas Haertle

Jonas Haertle is Head of the Principles for Responsible Management Education (PRME) Secretariat. The PRME initiative has gathered more than 500 business schools around the world in a joint quest to educate managers for a globally inclusive and sustainable economic system.

Why does the PRME network focus on management education, and what makes the managerial role special in achieving sustainability, responsibility, and good ethics?

One of the primary reasons why PRME is focusing on management education is because it has remained quite aloof from transformation of practices. Education is at the crossroads of connecting society, business, and world at large; and therefore, it is one of the most important means by which to create future leaders. Through transformation in curriculum, teaching practices, and research based on the PRME, we envisage a way to create managers who are more sensitive and aware about issues pertaining to sustainability. Unlike in previous times, the role of the manager today is no longer limited to “getting the job done”; rather, the question has become, How can we get the job done in a responsible way?

What competencies must a responsible manager have?

Apart from good functional knowledge, responsible managers should:

- Be creative and innovative
- Demonstrate openness to continuous learning
- Be sensitive to all stakeholders of the organization and the organization's environmental impact
- Be well-equipped in cross-cultural understanding

If we succeed in the education of responsible managers, “change agents for a sustainable and inclusive economic system,” how do you think the manager of the future will be different from today's typical manager?

Henry Mintzberg said that management is a practice that blends a great deal of craft (experience) with a certain amount of art (insight) and some science (analysis). The present industry has always emphasized capabilities of managers that are built through experience. With the emergence of new knowledge, however, today's managers are not only being well trained but are learning to think more creatively as well as more scientifically. These managers are no longer limited to one domain; they blend the knowledge from different streams to create a unique solution. Moreover, these managers will not limit themselves to monotonous work; rather, they participate in dialogues, discussions, and debates. They contribute in more than one standard way; for example, while some may seek to be part-time entrepreneurs, others may collaborate with think tanks and other forms of association. The essence behind all this is to pursue change that is systemic and well aligned with the thoughts and actions of managers.

If you had one wish for business education, what would it be?

It would be radical transformation. The PRME signatories have proven that we can deliver cutting-edge

research, curriculum innovations, and new pedagogies, so now we have to move into the mode of “action.” I would say that management education has to go through a phase of “disruptive innovation” to produce a new paradigm of management education based on the PRME.

What else would you like to communicate?

We at the PRME initiative and the UN Global Compact believe in collaboration and dialogue and are always open to new ideas. From our side, we will always encourage and appreciate the efforts of management institutions to take the lead in responsible management.

SPECIAL PERSPECTIVE: HOW TO BECOME A BIG BANG BEING?

Music in the soul can be heard by the Universe.

LaoTzu

The shift from an unsustainable way of living on this planet to a sustainability-focused civilization requires more than changing a few habits or adopting a couple of new business practices. It requires nothing less than the development of a far-reaching sustainability mind-set. Although this mind-set represents a dramatic change from what we have become used to, it also represents the path to a deeper set of values that we all carry but may have lost sight of during the past five or six decades. The challenge contains within it the opportunity of a major leap for humanity: Think of it as the move toward becoming the *Big Bang Being*.

The cosmic Big Bang started the Universe, as singular energy was converted into particles and rapidly expanded. The Big Bang of humanity follows the same pattern and structure. It starts with a personal experience, something that deeply touches our hearts and makes us review our purpose—a fleeting moment of wisdom that whispers into our ears that “something is wrong.” Suddenly, we have an opportunity to make a difference. We radiate something that we are not controlling, and it is noticed by others. It spreads and touches others even when we are not in physical proximity to them, just as a single Twitter message can cause a revolution. This connection is a viral spread of “light-ness”: It is the collective impulse toward wholeness.

TEN STEPS IN THE JOURNEY TOWARD BECOMING A BIG BANG BEING

Step One: Get Prepared for the Journey

Are you curious to find out what that journey is about, why it is important, what you need to do, and what impact it promises? Good. The first step, then, is to let go of past expectations, and open your heart to the unexpected. While you are hearing about all that is going wrong on this planet, pay attention to your feelings. Explore the dimension of empathy. Go from your head to your heart. Just be with the feeling.

Step Two: Know It Is “Against all Odds”

Fine, you really want to *do* something about the problems, and not just witness them. The impulse behind business leaders who champion sustainability initiatives frequently comes from a deep-felt urge to act. Connect with your inner pioneer, your warrior, your strategist, or the child who goes fearlessly through the world. Find that place of courage and creativity, because our task is to go against the mainstream. Are you ready? If so, remember that you

are not alone. Many are now going against the mainstream with you.

Step Three: Explore Your Thinking

As Einstein put it, the thinking that created the problem in the first place cannot help us find the solution to it. We need to reinvent and redesign what we produce, what resources we use, and how we do it. Let “what if” become your mantra. We start to create a different world when we begin to imagine it. Smile at your negative “self-talk” and shelve it for a while. Explore what is beyond the short term, where there are cycles, patterns, and interconnections. You are on the right path; the signs will confirm it, so stay tuned.

Step Four: Revisit Your Dimension of Being

Begin to ask yourself: Who am I? What is my purpose? “I wish someone would have asked me those questions before,” said Dean Cycon, founder of DeansBeans, an organic, fair trade and kosher coffee bean roaster. We can

get so distracted by the hassle of doing that we forget the foundation of what we do: Why am I here? What gives meaning to my life? How fulfilling is my life today?

Step Five: Speed up the Sustainability Shift

It is not lack of interest that is holding us back; it is the values we cling to that keep us anchored in unsustainability. And we are not even aware that this is happening! Take a moment to reflect on the meaning of economic growth, wealth, comfort, independence, competition, and speed. Can you see their unsustainable side?

Step Six: Detect the Enablers

The values holding us back and keeping us stuck are not just personal: They are promoted and enabled by features of our contemporary world, such as the power and role of the media, the reliance on “objective” science and almighty technology, and the blanket of globalization that covers our planet. All these modern things can be good, but wait: What if we have been living in a bubble by believing that this is all there is? Does a collective belief in it make an interpretation right?

Step Seven: Redefine and Reshape

What alternatives to prosperity and growth could you consider incorporating into your life? What unsustainable comfort have you become used to? Our habits become difficult to change when they are symbols of our identity. Now is the time to revisit Step Four.

Step Eight: Develop Your Whole Brain

Our culture has come to place the highest priority on rational analysis, logic, objectivity, measurable facts,

science, and math. These are good left-brain features. Many of our social, economic, and environmental problems, however, seem to originate in the lack of a systemic understanding of right-brain features: the big picture, empathy, compassion, complexity, and ancestral wisdom—not to mention intuition, creativity, and the power of an image or a poem to convey a message. Why do you think we have two brain hemispheres? Try to give equal power to both voices in making decisions. If you were to do so, how would that work, and how would it feel?

Step Nine: Seize the Opportunity to Evolve

There is a Buddhist saying that difficulties and pain are our teachers. Seize the opportunity to slow down, to ponder what matters most, to sense the interconnectedness of all that is, and how we are a part of Nature, not above or beyond it. If you could be known for a difference you made, what would that be?

Step Ten: Make Ripples

You have journeyed across your being: noticing feelings; identifying thinking patterns, values, and habits; redefining and seizing the opportunity to evolve. Now what? Interestingly, before you have done anything, you have already begun to make ripples. You are beginning to be a walking statement: a role model of a Big Bang Being. Whatever you decide to do, it will be a move toward the right horizon. Now, just do it.

Source: Rimanoczy, I. (2013). *Big bang being:*

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