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### **Towards Total Responsibility Management (TRM)**

*Is your company responsible enough towards its natural environment and key stakeholders?*

#### **Key Learnings:**

- Recognize the importance of formulating values to be accepted as responsible corporate citizens
- Assess other vital elements in the TRM framework
- Review if existing strategies support the responsibility vision
- Recognize the need for 'multiple bottom-line' focused auditing systems
- Evaluate the importance of transparency in responsible management
- Review the importance of measuring organization performance based on responsibility management

Here is an interesting paradox. During World War II, America and its allies ravaged Japan. Despite the destruction, within a span of twenty years, Japanese manufacturing companies started from the scratch and recouped. Soon, they became market leaders and developed products with excellent quality at reasonable prices. American companies, which basked in the glory of World War II victory, were far behind and gradually began to feel the competitive heat. Now what was the secret behind the Japanese success stories?

#### **The quality revolution!**

Going back in time, even in the early 1980s, most American companies paid scant attention to quality management despite increasing public attention and demand for quality products. On the other hand, Japanese companies started their journey to recovery post World War II with fundamentals of quality from two American gurus, Deming and Juran. All this time, American managers evinced scant interest.

By the mid-1980s, as customer awareness increased, companies worldwide began to realize that paying close attention to product and service quality was crucial for successful growth. Customer perceptions regarding quality of Japanese products had shifted from good to excellent worldwide. It was then that the Americans began to feel the pressure and realize the importance of quality. The realization triggered off quality revolutions in the US (formation of the Baldrige Award) and in Europe (ISO Standards and the European Quality Award). Over time, several American companies began implementing quality management and improvement initiatives to regain global competitiveness. The quality revolution thus gained a strong foothold in the global business world.

#### **The 'responsibility' revolution!**

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Now cut back to the late 1990s. A similar revolution surfaced in the global industrial arena again. This time, the revolution emphasized managing a company's responsibility for labor and human rights, supplier, consumer, ecological and related stakeholder practices. The focus was on how companies had begun to respond to such issues by developing responsibility management systems that are, in many ways, comparable to existing Quality Management Systems (QMS).

To understand this better let us analyze the global business scenario in the late 1990s. Most companies operate in a global arena, by procuring and selling their wares using global supply chains. An important fact that has to be reckoned with is the enormous and growing pressure from a relatively new but strong frontier... environmental, labor and human rights activists and regulations! Activists, consumers and investors alike became aware of the social expectations placed on companies and their suppliers. This also led to a marked proliferation of auditing and reporting methodologies on these fronts in recent times.

### **Caught in the spotlight!**

Poor working conditions, disregard for employees' rights, use of child labor, immature hiring and firing policies and poor environmental practices lead to much more complicated consequences for a company today than in the past. Innumerable instances of human rights/ labor activists discovering sweatshop conditions /use of child labor, especially in the footwear, toy-making and apparel industries have been highlighted and battled out between companies and consumer/ human rights/labor courts. Think of the negative publicity and the reputation damages caused to such companies due to customer boycotts and legal actions.

Many leading companies are now implementing strategies and practices to integrate external demands and pressures for responsible practice. These are analogous to QMS but incorporate broader issues of responsibility. These emerging practices are referred to as Total Responsibility Management (TRM). In simple terms, they are systemic efforts to manage a company's relationships with its natural environment and key stakeholders.

### **The new frontier...TRM!**

TRM approaches are built on widely accepted foundation values and comprise three main elements:

1. **Inspiration** or vision-setting and leadership systems
2. **Integration** of responsibility management into business strategies, employee and operating practices
3. **Innovation** and improvement including measurement and learning systems and their indicators

Though all the above elements may not be firmly in place in any company, efforts to manage responsibility share the above three elements of the framework. Here we analyze the above elements and compare them with existing QMS.

### 1. Inspiration

This involves vision setting and leadership commitment processes, which create the organizational context for TRM. The first step towards a TRM approach for a company is to implement its responsibility objectives/ inspirational vision into practice. The vision is based on the unique competitive situation, corporate history and stakeholders. Above all, it is unique to each company. This is akin to TQM where goals are set based on a company's unique situation. This involves:

**a) Stakeholder commitment process:** It is a fact that TQM is centered on two sets of stakeholders, customers and employees. In Japanese, a single term – *okyakusama* – is used to refer to both 'customer' as well as 'an honorable guest'. Successful TQM companies treat the former like the latter. They maintain open dialogues with customers and this enables them not only to meet current needs but also to anticipate future needs.

However, today companies are no longer accountable to customers only. Other stakeholders play an equally important role in their growth and success. The TRM focus is wider and includes those stakeholders whose interests and concerns can impact the company. These stakeholders include investors, suppliers, activists, communities, Non-Government Organizations (NGOs), governments and undoubtedly customers. Thereby, many leading companies have begun to implement stakeholder engagement processes that include interactive forums, discussion groups, dialogue processes or online communications before they make significant changes or hit trouble spots.

Moreover, just as TQM relies on employee involvement, utilizing employees' knowledge, creativity and enthusiasm, TRM approaches also center on employees. Employee involvement is very relevant to labor and human rights practices as employees are not only effected but are also aware of where improvements are required. Moreover, they are responsible for implementing the TRM vision.

Customers and stakeholders today are highly aware and conscious. They can demand information about product making practices and consequences of product use. These factors play a crucial part in business decisions today than they did in the past. Hence, building and nurturing mutual relationships all with stakeholders is essential for business improvement.

**b) Foundational values:** Foundation values are the basic set of values which a company and its supply chain partners need to maintain to be accepted as responsible corporate citizens. In other words, the foundational values depict what is acceptable and what is not for a company. These are primarily constructive values that support human and employee rights and dignity. They provide a 'moral minimum' for acceptable practices like respecting human dignity, providing adequate working conditions, abolishing child labor and so on. Foundation values help a company to set stretch goals both in terms of profitability, market leadership and social performance.

**c) Responsibility vision and leadership commitment:** Commitment from top management towards establishing and implementing a 'responsibility vision' is critical. This, however, should be continuous and consistent. If management sees TRM merely as

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a public relations exercise, then TRM has bleak chances of becoming part of the company's operating practices. For the TRM vision to move forward, companies need to support it through allocation of resources, changes in procedures and reward systems. Remember, support and acceptance have to cascade from all levels (from the top right down to shop floor personnel).

The second element of the TRM framework is:

### **2. Integration: Changes in strategies and management practices**

The next stage is integration of a company's vision, values and leadership commitment into its strategies and their implementation through operating practices. Today, employee rights, human rights and congenial working conditions are imperatives. Be it through human resource policies, marketing practices or supplier relationships, most companies have realized the impact of their decisions on key stakeholders.

*a) Strategies:* Upon defining its responsibility, goals and values, a company must integrate them into its functional strategies. It is equally important that the strategies clearly reflect a company's ultimate vision. Responsibility vision helps companies in times of crises. For instance, during the Tylenol poisoning incident in the early 1980s, Johnson & Johnson's vision helped it take a decision to pull entire batch lots of Tylenol from the market despite the enormous costs involved. This apart, it spent a huge amount on rendering several apologies to the public. Thus it was able to overcome the crisis without damaging its reputation. The next step involves turning responsible vision into operations strategies.

*b) Building human resource capacity:* Just like TQM, employees are the core elements for TRM implementation. Employees help make the vision a reality. Realization of these goals requires involvement and commitment of employees both within the company and throughout the supply chain. The codes of conduct to be integrated into TRM include: policies on working conditions, hiring, retention and dismissal policies, remuneration, hours of work, forced and child labor, discrimination, promotion, freedom of association and collective bargaining. The emphasis on such standards within a company's supply chain is very critical in TRM, as the boundaries between a multinational company and its suppliers are blurred, especially in the eyes of activists, consumers and stakeholders.

Hence, companies need to develop supporting materials, conduct training and communicate regularly with employees as well as supply chain partners on these issues. This may also entail modifications of evaluation procedures, reward structures, and training and development systems. The exercise can yield both strategic and responsibility objectives.

*c) Integration into management systems:* This involves translating the responsibility vision into operating practices. TRM implementation cannot be achieved overnight. It is an evolutionary process that needs to move through the entire company step-by-step. Conventionally, managing responsibility issues and codes of conduct rested with the compliance or other dedicated groups.

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This situation can be compared to the industrial age prior to the quality revolution, where responsibility for quality rested with QC employees at the end of the line. However, TQM principles emphasize that every employee be responsible for quality. The same will be the case of responsibility. Implementing responsibility vision is an arduous task. It cannot be restricted to a particular group of employees.

The third element in the TRM framework is:

### **3. Innovation: assessment, improvements and learning systems**

Just as TQM focuses on continuous improvements, TRM approaches also need continuous improvements. Hence, organizations can establish processes to determine problems in TRM and remedial measures.

**a. Assessment systems:** TRM involves measuring operating practices and stakeholder relationships. Accounting and reporting systems that meet the requirements of all stakeholders, both internal and external must be created. These include governmental agencies, unions, NGOs, investors and local communities.

TRM covers much more than productivity and financial performance. Responsible practice integrates various aspects of an organization's operations. Today, single (economic) bottom-line focused performance assessment systems have given way to triple (economic, social and environment) bottom-line auditing systems like the Balanced Scorecard.

Human resource practices have to be assessed to ensure that they are in line with core values and established codes of conduct. Likewise, customers and marketing affect customer satisfaction and corporate reputation. Community relations can be assessed through social auditing methods (audits of employee, community, quality and environmental processes). These provide crucial information that helps refine TRM.

**b. Transparency and accountability:** Transparency is a crucial step towards accountability. Easy internal and external access to an organization's information and reporting methods enable it to determine if action is required to improve TRM practices. This visibility also compels the organization to achieve responsibility goals and make decisions based on responsibility considerations. With all these in place an organization can develop better relationships with its stakeholders. Reliable, valid and transparent information allows trusting relationships to form.

**c. Improvements and learning systems:** TRM approach is a cyclic process of improvement, remediation for wrongs and learning. Remediation is in line with foundation values and focuses on improving practices that meet basic standards but have large scope for better performance. It also enables an organization to immediately eliminate practices that prove intolerable under the foundation values. The information and learning systems are multi-dimensional. Implying that inputs come at all levels like corporate, country, factory and local community. Hence, TRM is not a limited period initiative but an iterative process of improvement.



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All the above elements lead to an integrated TRM approach. However, these individual elements do not have much impact when implemented in isolation. This framework makes it imperative that an organization and all stakeholders are aware of the responsibility vision, strategies and values.

Most of us would evaluate organizations based on stock market returns. However, the metric is intangible in the present day business scenario. Undoubtedly, profitability and investment returns are good indicators. Yet these are very limited metrics and exclude several critical factors that have to be measured. They are therefore not excellent indicators. Given the present business environment, historical financial performance cannot predict stock market returns as there is no assurance that the past performance will equal the future. Hence, a more accurate indicator of organization quality is essential.

Probably, the best indicator of organization quality would be to assess performance in a highly complex area. If an organization excels here, it implies it possesses the sophistication to excel in other parts of the business and thereby earn superior returns. Addressing environmental, social and other sustainability issues is a complex challenge. There are high levels of market, technical and regulatory uncertainties as well as many different stakeholders and complex issues to address. Evaluating an organization's responsibility would be prudent.

Organizations have to move beyond codes of conduct, monitoring and verification systems to eliminate problems. TRM helps integrate external demands for responsible practice, leads to transparency and responsible management of supply chains.

Complete TRM systems have not been implemented in any organization. However, the pieces are in place and given the complexity in today's business world, many organizations are preparing to make a 'safe' takeoff towards responsibility.