

Verité Up Close:

Business Excellence and Responsibility



Verité engages with some of the world's best-run companies, some of the world's biggest, and some of the world's most socially active. These designations do not always overlap. What is the relationship between excellence in business and excellence in corporate responsibility? How can we strengthen it? First, a caveat: There is no single clear definition of "responsibility," in contrast to the reasonably common approaches to measuring business excellence and, of course, scale. I am, naturally, most interested in how excellence links with supply chain social responsibility.

The concept of "shared value," promoted by Michael Porter and Mark Kramer, has promise. The authors describe it as "creating economic value in a way that also creates value for society by addressing its needs and challenges." I had the chance to see one articulation of shared value as applied by Nestlé during a very useful stakeholder meeting recently. The company described a number of thoughtful programs in its focus on "rural development" that help suppliers to Nestlé build stronger and more profitable businesses.

But the notion of shared value must be modified in its application to a context of hired labor and contracted production, where it is not obviously distinct from more standard approaches to compliance with laws and ethical norms. The 'sharing' that happens with hired labor often means providing fair wages as contracted, fair treatment, safe conditions, and freedom of opportunity.



In order, then, to integrate business excellence with excellence in responsibility, the following approaches apply.

1. First, a company will need to identify very clearly what it is aiming to achieve. This may sound obvious, but the vast number of supply chain social responsibility programs are input-oriented rather than outcome-focused. Corporate social responsibility as currently practiced by many companies is often a collection of (at best) semi-related activities rather than a coherent program aiming at a concrete impact. Companies too often measure their social responsibility in terms of its activities (review a sample of corporate responsibility reports and you are most likely to read about how many audits a company undertook) rather than the change that resulted from these activities. In the absence of impact measurement, companies achieve far less than they could. Excellence requires a clear description of intended impact.

2. Second, excellence requires that companies eliminate the dissonance between business activities and social responsibility. Companies often have substantial 'social compliance' programs to ensure that human rights are respected in the contracted factories and farms that make up their supply chains. At the same time, they source in a typical way by giving incentives for procurement officers to demand ever-cheaper prices and ever-quicker turnaround times. With such a contradictory structure, it is little wonder that factories are confused – and sometimes forced to falsify their documents -- and that progress towards ethical sourcing is halting at best.

On issues of gender equity, companies have a similar disconnect. Many support schooling for underprivileged girls through philanthropy, for example, but do not translate that concern into equitable hiring and promotion for women. As a result, their overall impact is blunted.

3. Third, companies generally ignore one of the most effective levers of change they have in their toolkit: incentives. Excellent businesses are superb at aligning personal incentives with business goals. In the practice of social responsibility, this incentive-oriented structure is almost never present.

Businesses would contribute more effectively to social change if they applied to social responsibility the management frameworks that they use to solve other business problems. Companies obsessively measure the quality of their products. They can measure the proportion of workers in their supply chains whose income meets legal standards. Companies incentivize efficient sourcing. They can incentivize gender equity. Companies listen to customers. They can listen to the voices of vulnerable people in their supply chains. Companies focus resources on the most strategic interventions. They can identify the most material social issues and act on them, rather than reacting to the topics their loudest critics force on them.

Adopting these approaches can make companies more socially responsible, more efficient and more effective. They can strengthen the connection between business excellence and responsibility.

Thanks for reading.

--Dan Viederman, CEO