NATIONALACCOUNTANT

Values for a New Era

The era of the carrot and stick approach to business is over. The keys to unlocking performance in the twenty-first century are values which align with the organisation's purpose and which are shared and acted on by leaders and employees alike.

Respect. Communication. Excellence. Integrity. While these are admirable values for any organisation, they were also the values of Enron. More than 80 per cent of Fortune 500 companies have a corporate values statement, yet up to 70 per cent of employees in those organisations say that their stated values are not practiced the majority of the time[1]. At a recent Think Tank session we ran, more than 20 CEOs and senior executives from some of Australia's most reputable organisations worked through a rigorous approach to setting, embedding and sustaining corporate values.

THE VALUE OF VALUES

It is now well established that companies with core purpose and values outperform the share market and comparable companies in their industries, yet most organisations struggle to make their values more than a plaque on the wall. For example, in the wake of the new economy, values such as empowerment, innovation, communication and social responsibility have risen to the forefront of desired organisational behaviours. However, a survey of corporate values conducted by the American Management Association revealed that companies who espouse these particular values struggle to practise them, as the results in the table below show.

Espoused Value	% of Employees who believe it is practiced most of the time
Open communication	44%
Innovation	40%
Social Responsibility	32%
Empowerment	29%

Table 1: Espoused versus Practiced Values (AMA Research, 2002)

WHY VALUES FAIL

There are two core reasons why most organisations fail to create the values-based organisations they desire. Firstly, their approach to developing and embedding values lacks the required rigour for success. Secondly, and even more importantly, many organisations find themselves trapped between the values-based approach to performance required in the knowledge economy, and the industrial age control paradigm that pervades their organisation's mindset, systems, structures and symbols.

The industrial age mindset assumes that employees do not need to see the future, that the leader knows best and makes all of the important decisions, and that nothing good happens without the 'carrot-and-stick'.

And while these management philosophies underpinned the massive productivity gains of the twentieth century, they cannot support an economy in which human capital is the only sustainable source of competitive advantage.

VALUES AS THE NEW MANAGEMENT FRAMEWORK

If detailed policies and close supervision were the keys to success in the last century, clearly articulated outcomes and shared values are the keys to unlocking performance in the twenty-first century. In the absence of rules, values provide the framework for action, particularly for organisations in a state of constant change. Provided the values are appropriately selected and embedded, they serve as instruments for achieving the vision, creating the required space to adapt and grow, while also providing implicit elements of control.

1. Corporate values survey, American Management Association 2002.

The results for values-based organisations are predictable; statistics show that companies with core purpose and values outperform the share market and comparable companies in their industries. Despite these findings, values are often relegated to a poster on the wall, or tucked away in an induction manual. Many perceive values as a soft management function that should be outsourced to HR, rather than a strategic imperative with clear links to the bottom line.

MATCHING THE RHETORIC WITH REALITY

In practice, the values-based approach to management is both difficult to understand and challenging to execute. According to the American Management Association, 86 percent of fortune 500 companies have a corporate values statement; however, up to 70 percent of employees believe that their stated values are not practised the majority of the time. 'Integrity' is the most frequently espoused value, yet in the wake of recent corporate scandals across the globe, there is clearly a misalignment between stated and actual values. In many cases it is easier to conform to politically correct pressures than to be clear and unapologetic about what you stand for.

For those with the best of intentions, sorting through the proliferation of theoretical models and values classifications can be an onerous task. Often, organisations ask the question 'How can we bring our values to life?; however, there are other critical considerations that must be addressed before values can be embedded into actions.

KEY CONSIDERATIONS

Essentially, there are five key areas to consider when undertaking a values initiative:

- origin
- type
- language
- priority, and
- alignment of the values.

Figure 2 outlines the key considerations and questions surrounding each of these areas.

1. Origin of the values

When developing values, leaders often make one of two mistakes; consulting too widely so that the values are disconnected from the organisation's core purpose and unique mission, or not consulting at all so that the values are meaningless to anyone other then the CEO or founder.

Ideally, values should be developed by a core group of leaders and top performers who then engage the wider organisation in the translation of the values into more detailed definitions and accompanying behaviours. In this way, leaders are able to arrive at the right values, while also creating broad ownership in the organisation.

Some acknowledgement of universal values is also necessary. For example, Generation Y's strong desire for self-actualisation, and the societal desire for work-life balance are universal values that can serve the organisation and its members.

Multi-national companies face a further challenge on the subject of values. Typically, they must decide whether to accept the global values

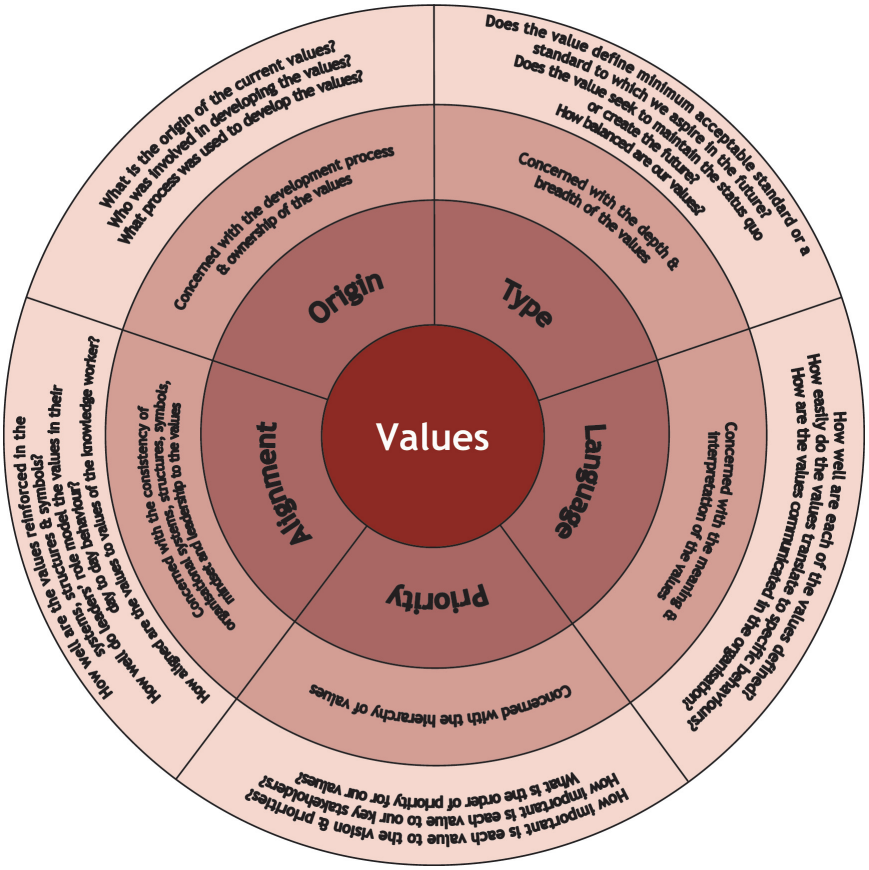

Figure 2: PCD Values Wheel

originated in head office or develop a different set of local values. Neither alternative is ideal since in the first instance the values may become 'lost in translation', and in the second instance, the subsidiary may lose consistency with the parent. An alternative approach to this dilemma is for the subsidiary to adopt the values of the parent company, but redefine the meaning of each of the values for the local context.

2. Type of values

Perhaps the most complex aspect of creating meaningful values is to achieve a breadth and depth between the four different types of values. Figure 3 depicts a framework that allows an organisation's value portfolio to be plotted along two continuums.

On the horizontal continuum, values may be classified as either 'foundational' or 'aspirational'. Foundational values define minimum acceptable standards while aspirational values articulate a desired future value not currently possessed by the organisation. Generally speaking, a balance is important to allow for both control and stretch. Many foundational values define minimum acceptable standards but still require constant work.

On the vertical continuum, values may be classified by the degree to which they are oriented toward 'control' or 'growth'. Control values seek to maintain essential aspects of the status quo, while growth values are critical to the vision and strategy of the organisation. In the new economy, growth and aspirational values are critical to create sustainable competitive advantage.

It is useful to plot the point each value occupies between these continuums in order to (i) identify an imbalance in the portfolio of current values, and (ii) identify movement over time. The same value may sit on very different parts of the grid depending on the organisation. For example, IBM may regard 'innovation' as a foundational value, whilst most other organisations would consider it a growth or aspirational value. Context is again important – where each value is placed on the grid will determine how to communicate it inside the organisation, and how to embed it within the performance systems.

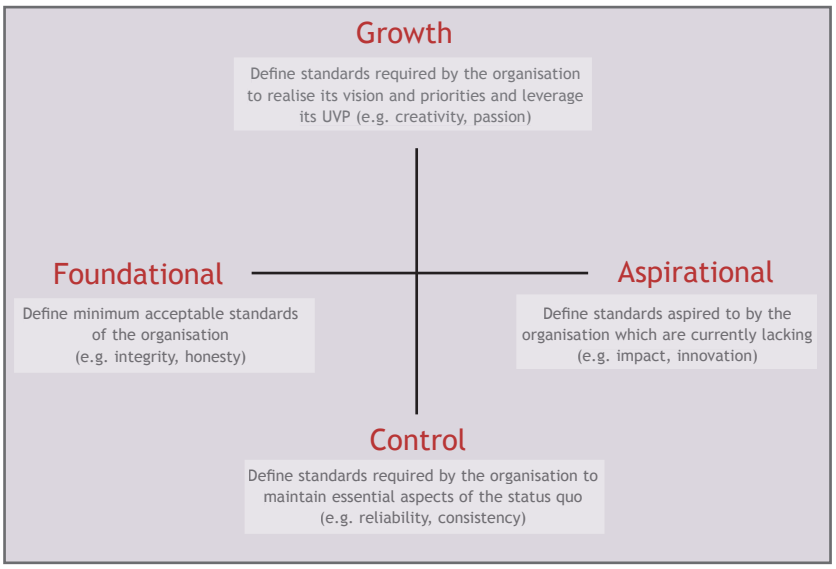

Figure 3: PCD Values Grid

3. Communication of the values

Even with a balanced portfolio of values, many organisations will undermine their success through loose language and poor communication.

Values seldom mean the same thing to everyone in an organisation so definitions should be simple, explicit and easily translatable to specific behaviours.

The use of stories and metaphors is a powerful way to bring the values to life in the organisation. The most important communication vehicle for organisational values, however, is their consistent role modelling by senior leaders.

4. Prioritisation of the values

The final aspect of developing values, prioritisation, is often overlooked by leaders, yet it is critical to success. Integrity and growth are both important, but which value reigns supreme in decision-making? An organisation will likely make very different decisions if 'growth' is the number one value and 'integrity' is number four, than if these two values were reversed. The most effective way to prioritise values is to rank them by importance to the mission and vision of the organisation.

5. Alignment to the values

With the values rigorously defined, the focus can shift to the critical and challenging task of embedding them in the organisation's systems, structures and symbols. Ultimately, it is the organisation's capacity to effectively embed and execute its values that determines success.

SYSTEMS, STRUCTURES AND SYMBOLS

Key organisational systems include recruitment, reward and recognition and performance management systems. For the values to be 'real', they must be relentlessly reinforced in these systems.

Many organisations recruit quickly based on technical expertise and then spend significant amounts of money and enormous executive level time and energy 'managing-out' those who don't fit in. A balanced approach to recruitment, which investigates the candidate's most important values, as well as their past performance and technical expertise, will ensure maximum future return on the investment in that individual. Often the challenge here is that because the organisation is not clear on its values, or they are not taken seriously inside the organisation, the candidate receives a message that the values are optional.

Rewards and performance management systems represent powerful weapons to embed organisational values. In most organisations, bonuses are tied exclusively to financial metrics sending an implicit message to staff to 'get your number by any means necessary'. Jack Welch, one of the most respected and successful leaders of all time, claims that an employee who exceeds his or her financial targets but does not live the values is 'cancer' to the organisation and must be extracted.

The right people must be empowered to deliver upon the values by having the right structures in place. For example, if an organisation values 'customer-service' but the frontline staff do not have the authority or information necessary to solve customer problems, then the organisation has a structural impediment to the fulfilment of its values. Similarly, an organisation which espouses the value of innovation yet forces employees to obtain 10 'sign-offs' to test a new idea will not be taken seriously by its members.

Values, even when carefully selected and embedded into organisational systems, can be compromised if not aligned with a company's symbols. The way leaders spend their time and money sends very powerful messages to employees. If, for example, leaders espouse values of learning and development but spend more money on executive perks than on staff training, then employees will come to different conclusions about what the organisation truly values.

THE LEADER'S ROLE

A recent survey by Booz Allen Hamilton (2004) found that CEO reinforcement of values is the most effective mechanism for generating employee commitment to the values, across all geographies, industries and company size. Individuals often learn vicariously, hence it is imperative that leaders' values are aligned with the espoused corporate values.

ORGANISATIONAL CAPABILITY FOR A VALUES INITIATIVE

Companies may have difficulty connecting values to operational results because values such as honesty, openness, initiative and entrepreneurship are intangibles. There is a lack of recognised best practices in establishing linkages between values and both long-term strategic goals and shorter-term results. More than two-thirds of companies report that they collect some form of information for assessing the long-term financial impact of upholding values. However, they are often limited in scope, measuring only satisfaction and missing the opportunity to measure the degree to which values are embedded in every day action.

A rigorous approach to developing and embedding values requires a constant investment of time and energy. An organisation considering a values initiative must first come to terms with the fact that, when properly practised, values often inflict pain.

It is important to note that all organisations have values; the challenge is that often those values are not the ones espoused by the organisation. For example, a trained eye might have more accurately defined the values of Enron as 'contempt, silence, mediocrity and deceit'.

Despite the challenges, strong corporate values are essential for organisations to navigate through the dynamic new economy, accessing the full potential of their people and achieving sustainable results.

Peter Fuda is founder and managing director of Professional Change & Development (PCD) & Root Learning® Inc Asia-Pacific, whose clients include state governments, national banks and leading businesses and manufacturers. A leadership coach to many Australian CEOs and senior executives, Peter is an accomplished speaker whose ideas and approaches to change have been widely published and presented in radio and television business programs. Peter is presently completing his PhD in change management at Sydney's Macquarie University. He can be contacted on (02) 9778 7373.