Corporate Values and Ethics – The Gap Between Principles and Practice

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Many companies do not practise their published Corporate Values and Ethics Principles in day-to-day business. Such corporate declarations, together with Mission, Vision and similar statements, may have been issued more because it is fashionable to do so than because there is a real commitment from the Board and senior management to these principles. The term "Corporate Values" is commonly used to describe two different types of values: universal (or personal) values and core company values. Universal values like trust, courage and honesty provide a framework within which management makes decisions which materially affect the organisation's performance. Core company values are principles or beliefs which provide guidance to employees, like "relentless customer focus", and which a company might determine to be critical to business success.

Unfortunately, the gap between published policies and business practices is even greater in the area of corporate ethics than in corporate values. This paper gives a few examples of poor ethical practice by major Australian companies. In practice, companies – and managers – are judged by their actions, not their pious statements of intent. Companies which fail to live up to accepted ethical norms of conducting business are letting down their stakeholders morally in the short term as well as financially in the longer term.

INTRODUCTION

Whilst it is common for many medium and large companies in industry to publish their Corporate Values and Ethics Statements, the sad reality is that many do not practise their values and ethics principles in day-to-day business. Thus for these companies one might wonder if such corporate declarations, together with Mission, Vision and similar statements, have been issued more because it is fashionable to do so than because there is a real commitment from the Board and senior management to these principles.

CORPORATE VALUES

The term "Corporate Values" is commonly used to describe two different types of values: universal (or personal) values and core company values. As an example of the former, the Rio Tinto subsidiary Comalco adopted "a common set of basic values which all human beings share and which is the foundation of social cohesion. Leadership development is dependent on understanding and accepting those values, which the Company has identified as trust, courage, honesty, fairness, dignity and love. Leadership training teaches that acceptance will depend on what people perceive: leaders must believe in and be seen to be demonstrating these values in their everyday behaviour" [1]. Many of these universal values, especially honesty and fairness, appear in almost all Corporate Values statements. Research shows (and I believe it is self-evident) that these universal values provide a framework within which corporate personnel make decisions which do affect their organisation's performance [2].

Hewitt Associates [3] surveyed approximately 100 companies from a variety of industries (with 20% in Australia's Top 50) and analysed more than 13,000 employee opinion surveys. In its report *Best Employers to Work for in Australia 2000*, they found that the 25 *Best Employers* have four common characteristics: strong executive commitment, highly engaged employees, aligned and supportive people practices, and strong organisational cultures and values. Strong executive commitment means that the CEOs of *Best Employers* maintain a set of core organisational values that are crucial to sustainable success.

As an example of core company values, Collins and Porras [4] found that visionary companies have core ideologies which comprise core company values and corporate purpose. The core values are principles or beliefs which provide guidance to employees, like "leading-edge innovation" or "relentless customer focus",

and which the company has determined as critical to business success. The declared corporate values of most companies contain a mixture of both universal values and core values, which perhaps leads to confusion amongst stakeholders (ie. staff, customers, suppliers and shareholders) as to the nature of the values. One approach to clarify this issue is to agree that a company should not dictate to employees what their universal values should be, but should require employees to behave and express their own personal styles and temperaments within the limits of the corporate values [5].

In an address to the National Chemical Engineering Conference (Chemeca) in Perth in July 2000, the outgoing President of IChemE in Australia, Dr Roland Williams, posed the question: "Can companies afford to issue their values and principles but then leave them on the shelf and not practise them?" His answer was a definite "No". Companies are increasingly transparent in the way they operate and they have no choice but to live up to the values and principles they proclaim. They do this by living their corporate values through consistent leadership (e.g. "I do what I say"), well-designed systems of work (e.g. performance appraisals) and appropriate symbolism (e.g. public recognition of exceptional work).

In practice, corporate values are often agreed in Board and/or senior management workshops as the values the organisation "should" have and then publicised widely. After the workshop, unfortunately, company executives return to normal business ignoring the published values and thereby rendering themselves as hypocrites [6]. Once this happens, it is a long and hard road to resurrect dead values. It can be done, however, by management taking personal ownership of the values, and making sacrifices that are believable, visible and correctly interpreted by their employees. Sacrifices are believable if a manager gives up precious time, scarce funds, personal pride or a key priority to uphold the values. Sacrifices and values are visible if they are talked about, hunted down and rewarded publicly. And in an organisation where values are languishing or dead, ambiguous behaviour by management will be interpreted negatively, so managers need to zealously explain their actions in upholding values by revealing their thought processes and motives [7].

APPLICATION OF UNIVERSAL VALUES

In any organisation, culture develops, over time, as a collective response to the systems of work, policies, practices, company values and managerial behaviour. The behaviour of managers at work is judged by employees through their "lens" of beliefs and universal values, such as honesty, fairness and courage. Employees will therefore respond positively or negatively to new change initiatives depending on their experience of past practices. For example, if senior management seeks to replace a current practice of promotion and reward on length of service with a system of promotion and reward on merit, it will need to ensure that all policies, practices, systems and managerial behaviours are consistent and aligned with this new approach. Only then will employees start to trust their management and replace their old stories of reward for service with new stories of merit-based reward.

The importance of universal values can be illustrated by asking an employee to complete the statement: "For me to be effective in my job I need …" Typical answers might include:
"I need

- work that is challenging and helps me to learn
- adequate coaching and training
- a safe work environment
- to be paid equitably for the work I do
- to be treated fairly
- to be given honest feedback – good or bad – about my work; and
- to be recognised for my achievements."

Although most employees want honest feedback about their performance, and deserve to get it, there is a real reluctance amongst many managers, especially (in my opinion) in Australia, to give honest assessments to subordinates. If a manager really holds honesty as a cherished personal value, he/she will believe that every employee has a right to be given honest feedback about his/her performance. How otherwise can performance be improved? But unless the culture of the company (as set and maintained by the senior management) mandates honesty in formal performance appraisals (or if appraisals are not common practice, in informal performance discussions), it is unrealistic to expect other managers to embrace the practice. They will operate in accordance with the culture of the organisation.

Generally, when the corporate environment is not aligned with universal values, negative and destructive behaviour, insecurity and under-performance result. In contrast, an aligned environment generates positive and constructive behaviour, enthusiasm, creativity and superior performance.

CORPORATE ETHICS

Unfortunately, the gap between published policies and business practices is even greater in the area of corporate ethics than in corporate values. Some examples in my personal experience are:

- An Australian Standard (AS 4120 "Code of Tendering" 1994) sets out the ethics and obligations of the Principal and Tenderers in tendering for work in the construction industry. The Standard is based on a number of principles, including fair and honest dealings, and tenders being called only after project funding has been arranged and the Principal has committed to proceed with the project. In my twenty years in engineering and construction (covering hundreds of significant tenders for the process industries) I can recall seeing only occasional adherence to this Standard or its principles. In fact, a few major resource companies still practise tendering in ways quite opposed to the spirit of the Standard, despite their published business ethics policies. Most major resource companies have public ethics policies, but none to my knowledge have adopted AS 4120. Why not?

- Several years ago a major company called for tenders for the front-end design of a chemical plant costing more than 500 million dollars. Protracted and complex technical and commercial negotiations between company and engineering contractor then took place, with many meetings at night or over weekends in view of the company's stated "urgency" to progress award. After approximately eight months of intense periods of negotiations, the company announced the project was cancelled because feedstock (which the company co-owned) to the plant was not available. At this stage the contractor's own costs were approximately half a million dollars! Apart from one verbal "sorry" to the contractor, there was no apparent concern about the ethics of the process, nor was any compensation offered.

- A recent major project overran its capital budget by several hundred million dollars. To reduce the overrun, the company has refused to pay in full many of its suppliers to the project, saying privately to them that although it acknowledged the money is legally owed, it wants to pay less in a "settlement". Those suppliers who demand full payment are thereby forced to take legal action, and the company has made it clear it will fight these actions so that a decision in arbitration or court will take years. In the meantime the supplier will get no further business from the company. In effect, the company is using its size in the marketplace to bully suppliers (who did not cause the cost overrun) into taking part payments. Not surprisingly, the company is now facing numerous legal actions, despite its stated policy that it will treat suppliers fairly and honestly! I assume the Board is unaware of this particular practice, although Directors have a responsibility to monitor management's behaviour independently.

Peale and Blanchard [8] contend that anyone facing an ethical dilemma should ask himself or herself: "Is it legal? Is it balanced? How will it make me feel about myself?" They also offer the five principles of ethical power for organisations: purpose, pride, patience, persistence and perspective.

The reality, of course, is that, as Sir Adrian Cadbury [9] wrote, "we judge companies – and managers – by their actions, not their pious statements of intent". How many companies can we think of where the management is known to be committed to, and insists on, ethical behaviour? Not many spring to mind! "The Body Shop" is a well-known example of a company whose CEO (Anita Roddick) has placed ethical practice above commercial considerations in the belief that this policy will produce superior returns to stakeholders. Neil Jenman launched an ethical real estate system in 1997 which has revolutionised real estate agency practice [10]. But there are far too few examples in Australian industry!

In summary, companies which fail to live up to accepted ethical norms of conducting business are letting down their stakeholders morally in the short term as well as financially in the longer term.

CONCLUSION

Universal values of high moral standard are essential to give individuals a framework within which they can make principle-based decisions in business and personal life. These values underpin ethical behaviour in

business. Individuals should learn these values in the home, at school, at University, and through religion; Business and Education should not only interact over their importance, but also reinforce a joint emphasis on both values and ethics. Universities have a responsibility to reinforce in undergraduates the foundations of these values, and of course Business needs to play its part by insisting on ethical behaviour by its management and staff.

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