THE Value Shift

By Lynn Sharp Paine

*In her book, **Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance** (McGraw-Hill, 2003), **Lynn Sharp Paine** provides ample evidence that corporations are paying more attention to values than ever before. In the following excerpt, she discusses their motivations, and shows that the paths to values are many and varied.*

Harvard Professor Lynn Sharp Paine

Business has changed dramatically in the past few decades. Advances in technology, increasing globalization, heightened competition, shifting demographics – these have all been documented and written about extensively. Far less notice has been given to another, more subtle change – one that is just as remarkable as these more visible developments: the attention being paid to values in many companies today.

When I began doing research and teaching about business ethics in the early 1980s, skepticism about this subject was pervasive. Many in business and academia saw it as either trivial or altogether irrelevant. The whole enterprise, said critics, was misguided and based on a naïve view of the business world. Indeed, many had learned in their college economics courses that the market is 'amoral.'

Back then, accepted wisdom held that 'business ethics' was a contradiction in terms. People joked that an MBA course on this topic would be the shortest course in the curriculum. Bookstores offered up volumes with titles like *The Complete Book of Wall Street Ethics*, consisting entirely of blank pages.

Today, attitudes are different. Though far from universally embraced – witness the scandals of 2001 and 2002 – ethics is increasingly viewed as an important corporate concern. What do we believe in? What principles should guide our behavior? What do we owe one another and the people we deal with – our employees, our customers, our investors, our communities? Such classic questions of ethics are now being taken seriously.

The growing interest in values has manifested itself in a variety of ways. In recent years, many managers have launched ethics programs, values initiatives, and cultural change programs in their companies. Some have created corporate ethics offices or board-level ethics committees. Some have set up special task forces to address issues such as conflicts of interest, corruption, or electronic data privacy. Others have introduced educational programs to heighten ethical awareness and help employees integrate ethical considerations into their decision processes. Many have devoted time to defining or revising their company's business principles, corporate values, or codes of conduct. Still others have carried out systematic surveys to profile their company's values and chart their evolution over time. Many companies have also undertaken efforts to strengthen their reputations or become more responsive to the needs and interests of their various constituencies.

The list of initiatives seems endless. Among the most prominent have been initiatives on diversity, quality, customer service, health and safety, the environment, legal compliance, professionalism, corporate culture, stakeholder engagement, reputation management, corporate identity, cross-cultural management, work-family balance, sexual harassment, privacy, spirituality, corporate citizenship, cause-related marketing, supplier conduct, community involvement, and human rights. A few companies have even begun to track and report publicly on their performance in some of these areas. For a sampling of these initiatives, see Figure 1-1.

What's Going On?

A thoughtful observer might well ask "Why the upsurge of interest in ethics and values? Why have companies become more attentive to their stakeholders and more concerned about the norms that guide their own behavior?" In the course of my teaching, research, and consulting

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CORPORATE INITIATIVES – A SAMPLER

COMPREHENSIVE	APPLYING TO ALL ACTIVITIES AND FUNCTIONS	
	Internally oriented:	ethics programs compliance programs mission and values initiatives business principles initiatives business practices initiatives culture-building initiatives cross-cultural management programs crisis prevention and readiness
	Externally oriented:	reputation management programs corporate identity initiatives corporate brand-building initiatives stakeholder engagement activities societal alignment initiatives non-financial performance reporting initiatives
FOCUSED	APPLYING TO PARTICULAR ISSUES OR CONSTITUENCIES	
	Employee oriented:	diversity initiatives sexual harassment programs employee health and safety initiatives work-family initiatives workplace environment initiatives
	Customer oriented:	product and service quality initiatives customer service initiatives product safety initiatives cause-related marketing
	Supplier oriented:	supplier conduct initiatives
	Investor oriented:	corporate governance initiatives
	Community oriented:	environmental initiatives corporate citizenship initiatives community involvement initiatives strategic philanthropy
	Issue oriented:	electronic privacy human rights initiatives anti-corruption programs biotechnology issues

Figure 1.1

over the past two decades, I have learned that the motivating concerns are varied.

Individual executives have their own particular reasons for tackling this difficult and sprawling subject. Even within a single company, the reasons often differ and tend to change over time. A company may launch an ethics initiative in the aftermath of a scandal for purposes of damage control or as part of a legal settlement. Later on, when the initiative is no longer necessary for these reasons, a new rationale may emerge.

Despite the many ways executives explain their interest in values, we can see in their comments several recurring themes. Their rationales tend to cluster into five main areas:

- Reasons relating to *risk management*
- Reasons relating to *organizational functioning*
- Reasons relating to *market positioning*
- Reasons relating to *civic positioning*
- Reasons relating to *finding a better way*

To show how these themes have emerged, following are a few examples of companies that have turned their attention to values in recent decades. Notice that each has emphasized a somewhat different set of values.

Risk Management

Some managers have turned to values as a way to manage or eliminate certain risks, particularly those associated with misconduct, but also those associated with carelessness, neglect, and insensitivity. By focusing on the values that guide people's behavior, they hope to minimize the incidence of malfeasance and its damaging consequences.

Most managers who have turned to values as part of their risk management strategy are most concerned about the risks associated with corporate misconduct – misdeeds committed by those acting in the company's name or on its behalf. In recent years, these risks have escalated to the point that even seemingly minor misdoings can spawn problems of crisis proportions, particularly if they become known to the public. As most recently illustrated by the experiences of Enron, Arthur Andersen, Tyco, and others, a company caught in misconduct can quickly find its reputation in tatters and its core relationships shattered.

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Misconduct threatens not only the corporation, but also individual executives, board members, and corporate officers who can find themselves on the firing line. Even those who are not personally involved can suffer reputational, legal, and financial damage from their mere proximity to malfeasance.

Such concerns underlie the heightened emphasis on values in many companies, particularly those that have experienced firsthand the repercussions of misconduct. In my book I describe in detail a dramatic case in point: Salomon Brothers, the former Wall Street trading and investment firm. Salomon no longer exists as an independent company; it was acquired in 1997 by Travelers Group, which then merged with Citicorp the following year. In 1991, however, Salomon was a leading Wall Street firm and the most active among 39 'primary dealers' involved in the U.S. Treasury's weekly securities auctions. With earnings of about $300 million for the previous year, the firm was in the midst of a five-year effort to improve its management processes when misconduct on its government trading desk triggered a corporate crisis.

Thanks in large measure to a rescue program lead by board member and interim chairman Warren Buffett, Salomon weathered the crisis. But the effects of the scandal lingered. Two years later, the company had still not fully recovered its lost underwriting business. When the merger with Travelers Group was announced in 1997, several observers linked the favorable terms extended to Travelers to the scandal. Maughan seemed to confirm their analysis. "We had to spend two years fixing [the firm] before we could start driving forward," he said. "The opportunity cost was very substantial."

Organizational Functioning

For some managers, the turn to values is less about preventing missteps and more about organization building. It is not so much a defensive measure as a positive effort to build a well-functioning company. These managers talk about values as essential for encouraging cooperation, inspiring commitment, nurturing creativity and innovation, and energizing the organization's members around a positive self-image. They see ideals like respect, honesty, and fair dealing as the building blocks of a high-performance culture.

An example of this type of turn to values is in evidence at Sealed Air Corp., a U.S.-based specialty packaging company, best known to consumers for its Bubble Wrap® products. At Sealed Air, the focus on values cannot be traced to a particular triggering event or crisis. Rather it has grown naturally from an evolving awareness among the company's successive leaders, who have tried to create a 'seamless corporate culture' based on a clearly-defined set of values that they regard as key to successful globalization. These include personal accountability, respect for the individual, truth, and fair dealing. Sealed Air's values are more than just financial tools; they represent a very human approach to people both inside and outside the company. They not only contribute to good financial results, but they also, in the judgment of CEO Bill Hickey, "make Sealed Air an enjoyable place to work."

Market Positioning

A third cluster of themes fueling the turn to values is market oriented. For some managers, positioning their company vis-à-vis markets and industry rivals is paramount. They focus on the importance of values for shaping their company's identity and reputation, building its brands, or earning the trust of customers, suppliers, or other business partners. One important concern for many of these managers is what customers and other market-actors expect of the products and services they buy and the companies with which they deal.

In my book I detail the efforts of the Haier Group, one of China's leading household electronics and appliance makers, where a focus on values has been an important aspect of the group's drive to become one of China's first global brands. Starting out in the early 1990s, CEO Zhang Ruimin felt the company would need a strong corporate culture to achieve a worldwide reputation for excellence. And this culture would have to be based on individual responsibility, uncompromising quality, meticulous attention to customer preferences, and continuous innovation.

His attention to these values paid off: by the end of 2001, Haier's products were being sold in more than 160 countries, including the U.S., where the company was said to have 25 to 30 per cent of the small refrigerator market. In 1998, Haier made the *Financial Times* list of the Asia-Pacific's most respected companies – the first mainland Chinese company to break into the Asian top 10. And in early 2002, an online Chinese poll voted it China's most-respected company.

Civic Positioning

A fourth set of themes behind the turn to values has to do with corporate citizenship or civic positioning. For many managers, the principal issue is their company's standing and reputation in the community, not just in the marketplace. Some seek to establish their company as a progressive force for social betterment. Others want to build good relationships with non-market or 'civic' constituencies such as governments, non-governmental organizations (NGOs), and local communities. Still others wish to establish their company simply as a solid citizen that obeys the law, pays its taxes, and respects society's basic ethical standards.

Citizenship themes have played a prominent role in discussions of values at Royal Dutch/Shell, which in 1996 undertook a major review of its values and business principles. Based on an extensive multi-stakeholder consultation process, Shell's leaders determined that the world's expectations for large multinationals were changing, and they had to respond.

"Many companies don't want to go this route," says one member of the team who worked on the initiative. "But we saw it as facing up to reality. These expectations are out there, and, if you fall short, you can lose your license to operate. You can also fall short of your own values."

A Better Way

For some managers, the turn to values needs no corporate justification. For this group, the very idea of values evokes something worthwhile, in and of itself. Their language is one of responsibility, humanity, and citizenship. For them, values are fundamental principles whose rationale lies not in their commercial advantages but in their life-affirming nature. Even if adhering to these principles turns out to be commercially advantageous, their justification has much broader and deeper roots.

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One such leader is H.T. Parekh. When he first envisioned the housing finance company he would establish in Bombay in 1977, he most certainly thought of its values in this way. Having spent much of his life studying the problems of economic development, Parekh wanted to do something about India's vast need for housing by making it possible for middle- and lower-middle-class Indians to achieve their dream of home ownership without spending their entire lives accumulating the necessary funds.

Parekh's efforts made a strong impression on employees, customers, and the community, and eventually HDFC (Housing Development Finance Corporation Limited) became a favorite of foreign institutional investors, who in the late 1990s gobbled up its shares to the maximum extent allowed under Indian law. Despite the emergence of numerous competitors in the decade following India's liberalization, as of 2001, HDFC was still the country's premier housing finance institution, with about 50 per cent of the housing loan market. As the company has embraced new technologies, faced intensified competition, and moved into new lines of business, it has sought to remain true to its guiding principles: integrity, transparency, sharing, customer service, civic responsibility, and genuineness of purpose. Says Chairman Deepak Parekh, "These values are not only good in themselves; they make sound business sense."

Beyond Value-Free Management

As these examples show, the paths to values are many and varied. Some companies arrive by way of a crisis or a scandal. Others come by way of an executive's personal conviction or a process of logical reasoning and reflection. Some are problem-driven. Others are opportunity-driven. Most arrive through a mix of both positive and negative factors.

Whatever the path, more and more companies are rejecting traditional ideas of management as a 'value-free' science and business as an 'ethics-free zone'. Executives are coming to see attention to values not as a frill, but as an integral part of effective management that touches all aspects of a company's operations. Many now believe that adhering to the core principles found in virtually all the world's ethical traditions is neither naïve nor a sign of weakness, but rather smart and a source of organizational strength.

Lynn Sharp Paine is John G. McLean Professor at the Harvard Business School, where she is head of the required MBA module on Leadership, Values and Decision Making. She holds a doctorate in moral philosophy from Oxford University and a law degree from Harvard Law School. RM