

Making The Soft Stuff Pay.

A framework for business judgement.

A comment by Steve Mullins

Key Issues Facing Today's Organisations.

As communications have become increasingly efficient and more widespread, organisations have gained a number of opportunities and challenges. Some of these challenges significantly impact effective governance and reporting.

There are well documented examples of rogue executives, where one solitary individual will make a decision – a decision which might not necessarily reflect the policy or corporate behaviour of that organisation as a whole. The risk is that a single person can put the entire operation and its stakeholders in jeopardy.

Organisations which operate in different countries automatically translate the culture, legislation or religion of the parent country to different areas of the globe. Management might fail to perform to their best because the emphasis, and ways of doing things, may be different in a different country.

Investigative journalism, keen to unearth malpractice and keen to deliver news, may not take fully into account the different values adopted by an organisation in different societies. There may be an opinion voiced of an organisation's social performance in one society which is based on the values prevalent in a different society - providing ample scope to malign perfectly respectable local practices.

This paper sets out to explore how values might change, both over time and from society to society. It also offers a framework for more effective management, for future planning, for social reporting, and for better clarification of operational norms and standards to the various stakeholders and the media.

Executive Summary

The paper explores the values used by organisations from a moral and ethical standpoint. The premise is that the moral values are absolute, with clear rights and wrongs; and set the local operational framework. These moral values will be derived from a balance of religious, cultural and legislative standards which have evolved over time, and where different influences may predominate in different societies.

The ethical¹, or operational, values of an organisation will be established within this local moral framework and will describe how the organisation operates normally.

As organisations work in different societies, and as different societies can change, it is important that stakeholders know and understand the operational requirements, where there are differences and why there are differences. One of the reasons may be that the parent company is sited in a society which is dominated by legislation; an overseas branch may be in a society which is dominated by culture or religion.

¹ Examples of ethical values include *long-term* focus [oil companies] as opposed to *short-term* focus [share investors]; or a *hierarchical* way of working compared to an *informal* approach – none are wrong, but each is different.

There is the risk that by sticking to the values of the parent, the branch will be at variance with local society and subject to sanctions or operational difficulties. In addition, the management requirements for that branch may be different to those most appropriate to the parent.

Some of the benefits that a closer understanding of values will deliver include:

- More effective decision-making as the corporate values framework is clearer.
- Reduced risk of rogue decisions, as the corporate behaviour is better understood and mavericks will become more noticeable.
- Better media coverage as decisions are more easily and more accurately communicated globally.
- Lower risk, which normally leads to greater sustainability

Introduction.

There is increasing pressure for companies to report on their non-financial activities and the circumstances that have led to various business decisions. In the UK the Turnbull report now urges that the ethical stance of a company be made public; those companies that define their stance are open for scrutiny – not all impartial, and those companies which choose not to describe their position are open to suspicion from their stakeholders and investors.

The purpose of this note is to offer a model to the busy company executives involved in the running and reporting of industry – the Company Secretaries, Chief Executives and others responsible for the planning, management, compliance and reporting of company activities.

This model sets out to provide a framework to explain, amplify and put in context selected elements of corporate judgement, so that investors and the other stakeholders can better understand how decisions have been made. This better understanding is directed to strengthening the various relationships of the organisation with its different stakeholders.

These selected elements are some of the ‘soft’ issues of business, which are gaining in recognition and importance. In particular the *moral stance* and *ethical values* used in practice and how circumstance can change a stakeholder’s perspective of the values which an organisation applies in practice.

It must also be recognised that it is the people within organisations that make decisions, not the organisations themselves. Consequently, the more clearly articulated and better understood the values of an organisation, the less the likelihood that aberrant decisions will be made.

This paper sets out to describe a means to clearly identify, modify and articulate the values within a dynamic and vibrant organisation and its different operational units, and how to effectively communicate them both internally and to outside stakeholders.

Setting the scene.

There is an increasing level of interest and concern within all responsible organisations that after decades of control by means of ‘hard’ measures there is a growing need to better manage the ‘soft’ areas of business.

This concern is reflected in the growth in companies supporting *Reputation Risk Management*, the further development of corporate social reporting requirements as laid down by *Turnbull*, and increasing media activity in ‘policing’ the activities of high profile organisations, yet there is little agreement about what to address, or how to address those things that matter – although there is evidence² that attention to the soft issues delivers better results, possibly brought about by encouraging staff to work to common ends by common means.

Part of the problem is a difficulty in establishing and quantifying complementary moral and ethical frameworks which define the operating parameters of an organisation, and recognising how these frameworks can change between different societies and how they might be caused to evolve over time.

And it is increasingly difficult to persuade committed managers to adopt a soft approach, as there is little available to them which demonstrates tangible progress from adopting an approach which recognises the soft issues.

The purpose of this brief note is to summarise some of the thinking that has gone to provide one working model for the corporate management of ethics and morals which is relevant across the various international and operational boundaries.

No attempt is made to explore behaviour or culture, as in many cases these elements will fall naturally from coherent management and common core values within an organisation.

Scope and Definitions.

The scope of the paper is confined to corporate morals and ethics and the interplay between them. The application of the thinking is as appropriate to different divisions of an organisation in different societies as it is to the various operating units in the same country.

In trying to provide some working definitions it is not possible to confine them exclusively to the corporate arena – as business is made up of people, each with their own personalities and backgrounds. Additionally there are legal and cultural differences between established societies and these too must be respected. The definitions try to relate to the work environment but will naturally be coloured by external and personal circumstances.

² Does Business Ethics Pay? published by The Institute of Business Ethics ISBN 0953951731

The definitions used are:

- ***Culture***: The established norms by which a collection of individuals naturally go about their working or personal lives – In an organisation: “what happens when management isn’t there”.
- ***Religion***: The spiritual leadership taken by people, singly or in groups, to give their own lives better meaning, to guide their conduct and to recognise the power and significance for them of a higher being.
- ***Legislation***: The codes of behaviour imposed on individual societies to provide security and conformity; allowing society to function, prosper and grow in a way consistent with desired norms.
- **Belief**: The range of personal convictions built on experience, temperament, personality and how a person has grown up in society.
- **Behaviour**: The way individuals naturally go about their personal or working life, their relationships with immediate colleagues and with others.
- **Human Rights**: How people should be properly treated by society [detailed in numerous treaties, laws and cultural obligations].

The latter three derive from culture, religion and legislation.

- **Morals**: Working within the absolute norms of a society. In a given society or culture there will be aspects that are acceptable in that culture but not necessarily in another. For example, in the UK it is wrong to deliver corporal punishment; in other societies this is acceptable.
- **Ethics**: The selection of values within the moral framework which express how an organisation prefers to operate. For example some organisations have a very short-term approach [share dealing] and others a long-term approach [oil companies]. Neither way of operating is wrong, they are just different.
- **Values**: The selection of specific criteria to amplify any of the above definitions.

Assumption.

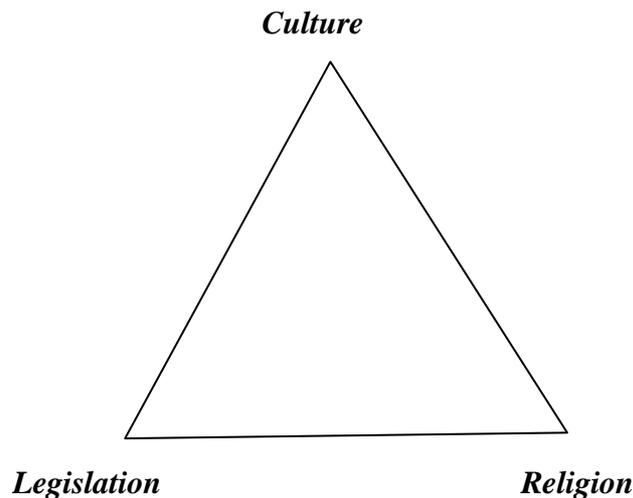
The approach with respect to managing the soft issues, governance and reporting is based in a sound appreciation of the moral and ethical framework within which an organisation [or a specific part of an organisation] normally operates.

The presupposition is that sound business is founded in clearly defined, well articulated, easily understood, and shared moral and ethical values which are relevant to all the organisational functions. The comments below attempt to put them into operational context.

The Qualitative Approach.

Morals: The absolute framework.

As noted above, the moral framework will vary from society to society as it is defined and driven by culture, religion and legislation which fit together to form a civilisation. These form a framework for additional moral values, in particular: Human Rights, Behaviour and Belief.



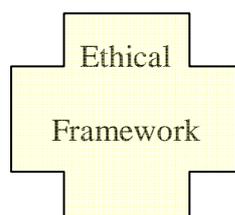
Each of these boundaries will be determined by local circumstance, established in history and controlled by established bodies with vested interests.

Ethics: The relative framework.

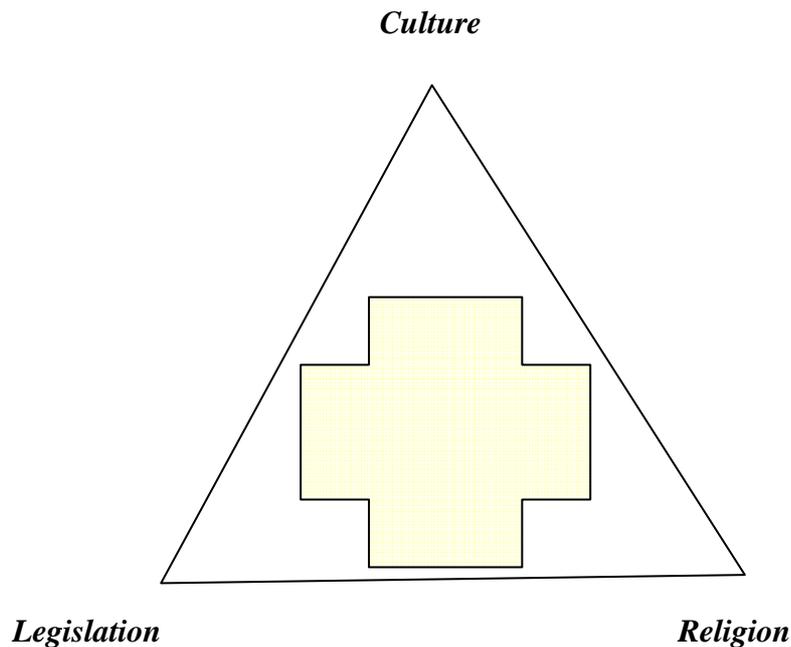
The concept that in any given society morals are absolute and ethics are relative establishes that the ethical framework must fit within the moral one. This assumes that the organisations we wish to work with have foundations which are already considered to be acceptable in the context of their local culture.

Similarly, the ethical setting will be the values the organisation adopts as its normal way of going about its business. There are different approaches to defining ethical standards; one of these is discussed in more detail below.

The ethical framework can be variously described, but for the purpose of elaborating the qualitative argument it has been given an imaginary shape to represent the various positions adopted along fifteen different ethical gradients normally expressed as *business values*



So, we have an ethical framework for the operation which fits within a moral one, i.e.

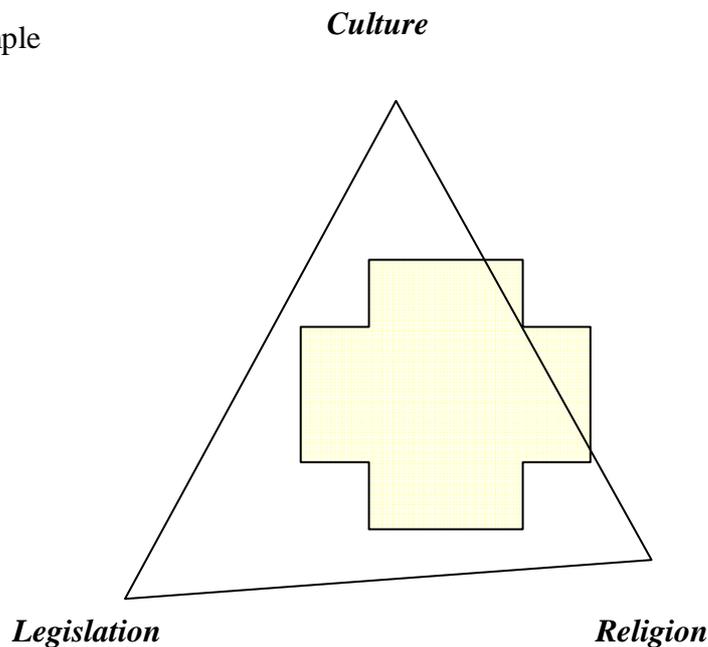


The Moral/Ethical Interplay

So far, so good. However, if the organisation should choose to set up a new operation in a society different from where it originated, there may be a different moral framework which impacts on the ethical standards.

As an example, the religious and cultural elements in the originating society may be such that they are considered unacceptable to an organisation in a different society. The impact is that the position of the organisation in the new society might now be considered unethical as the ethical framework has been forced outside the moral one – ***even though the original ethical structure and values have not changed.***

For example



And, whilst there has been no change to the way an organisation operates, all of a sudden it becomes unacceptable to the local community because it is trying to work within a moral framework different to that in the home country.

There have been a number of recent examples of religion replacing legislation or of legislation being imposed or re-imposed. This has created local and international tensions as those societies strive to readjust; and international organisations have been put into the position where the changes to the moral [legal/cultural/religious] framework have made unacceptable what used to be accepted ethical practice.

The Quantitative Approach

Having set the scene and how these two elements [moral and ethical] interplay, we can explore how they might be measured and expressed in a way which allows comparison between operating centres and with respect to local sensitivities.

There is also the need to develop a means of supporting continual organisational evolution with respect to both the internal processes and the various stakeholders.

Experience has identified that an effective starting point is to explore the ethical framework of an organisation. One way to articulate and define that ethical framework is to use an approach which quantifies fifteen values spectra³.

Quantifying the Ethical dimensions

In all instances so far there have usually been ten or so of the fourteen ethical values which are common across the organisation. These form the basis to move forward. Different organisations will have different sets of common values.

And typically there are four values sets where there is a high degree of variance between groups or operating units; these are the elements which need to be resolved to give an organisation overall cohesion.

Two methods may be used to quantify the ethical values: a questionnaire, and a management game. The strength of this approach is that the questionnaire asks for people to define the business as they feel it should be, and one they would like to be part of. The game allows people to define how the organisation currently operates.

The questionnaires are amalgamated for statistical analysis and then destroyed so that there is no individual exposure and people can be honest. The management game is played in a large group, thus providing a cabinet-style decision, again with no individual exposure. This individual anonymity is a powerful force for gaining meaningful data. It also provides a sound feed-back loop to monitor progress.

Results are amalgamated and the output identifies just those few elements which need the most attention. This simple output allows decisions to be directed to precisely where it will have most impact - and by operating unit.

³ Developed from the earlier work of Cattell

Quantifying the Moral dimensions

The moral dimensions may be quantified with reference to the ethical analysis and must be managed on a case by case basis.

Taking as an example the values spectrum of *Developmental* to *Opportunistic* there may be a diversity of approach in different societies – one society protective of its citizens with extensive legislation and education [developmental]; another through established culture may be prepared to exploit sections of its citizens [opportunistic].

Organisations may choose to make use of these differences; for example, in areas where there is strong legal protection and sound education the organisation may choose to provide higher added-value products which need a high skill element to make. Or it may move to a low-waged culture [even by paying higher wages than the local norm] to reduce production costs and deliver more easily made goods cheaper.

Even in the low waged environment an organisation can provide genuine social benefit as measured by local standards. High profile examples might be clothing companies, low profile examples might be call centres or software programming organisations.

Linking Morals and Ethics

It is important that there is clarity between morals and ethics, which is made explicit to stakeholders and others with interest in the organisation. For it is quite conceivable that an organisation may be operating ethically in one society but not in another – due to differences in the moral framework.

As an example, one of the pairs of values is *Informal* – *Hierarchical* and it might be quite normal for senior members of an organisation to entertain their staff to drinks from time to time to gain informal comment about the organisation. In one society drinks might be served in order to emphasise informality, in another society alcohol may be banned.

The organisation has not changed its values in any way, yet would be seen to be operating immorally in one society, and not in another – the moral imperative in the second setting being different to that in the first.

There is scope for debate and disagreement over which is the more important - legislation or religion for example - in the different operational centres, but in the final analysis the outcomes must be agreed and understood by all – and be simple to communicate, with reasons.

There is also a case to be made for different ethical values in different countries, or in different corporate functions – for example the Board of Directors will have a long-term focus, the distribution division will have a short-term focus. Yet, there will be significant agreement over many core values which are relevant to the organisation as a whole. Any exceptions need to be clarified and justified.

Moving the organisation forward.

In using values to move forward, it is helpful to remember *morals* as the framework defining the absolute imperative in the society where the organisation is situated and *ethics* as the values to which that organisation operates within the moral framework.

The ethical standards – some thoughts

In getting an organisation to recognise a common set of core ethical values it is important to accept that the organisation, or division, might be special and at variance with other organisations, divisions or stakeholders.

Examples might include:

- The Board taking a long-term strategic view, Shareholders taking a short-term tactical view.
- The organisation in one country may act in an informal manner, in another country in a hierarchical manner.
- The PR department concerned with image, the engineering department concerned with outcomes.
- There may be a high degree of trust with a joint-venture supplier, but a low level of trust with another stakeholder.

And whatever the outcome it must be consistent within the local moral framework.

The moral framework – some thoughts

In making decisions about the operational framework an organisation needs to respect the relative importance and influence of those sets of values which define the local moral imperative.

There must be congruency of the moral values with and ethical values if the organisation is to operate successfully in different environments.

People inside and outside the organisation have to be made aware of where moral obligations stop, why they stop where they do and which is the dominant influence in reaching a judgement.

Some quick wins

There is ample scope to take a view of the organisation to provide a common message to the various stakeholders. A statement of common values will also help to prevent the 'rogue decisions' being made. The steps to provide a basic framework are:

- Define the moral [absolute] boundaries in terms of the various societies where the different divisions operate.
- Identify the various pressures on the organisation in the different societies and hence where there is the possibility of alternative values needed to keep the operating division within local norms.
- Define the operational values [ethics] and identify those which are core to the operation.
- Publish widely the core values and corporate expectations.
- Investigate those values where there are discrepancies between operating units or divisions and understand why there are differences.
 - Either publicise widely the differences and their significance,
 - Or, rationalise the differences and put in place local change programmes.
- Keep all communications simple, two-way and transparent

Why organisations might fail

An organisation under pressure may take a short cut by imposing values, determined in isolation of how the organisation actually operates, and nominating these as the corporate standard; then announcing widely to all stakeholders that something will be happening.

It's a short-term tactic, and it might work because the chances are that other problems will emerge later and mask the lack of activity or progress.

Conclusions

By identifying and articulating both moral and ethical values company reporting may more readily justify management decisions to stakeholders, investors and the media; thereby retaining and potentially building their confidence in the future.

In identifying the moral imperative within which an organisation has to operate there is a potential reduction of risk as changes to the local social fabric can be better identified and planned for; which will support the sustainability and long term value of that organisation.

The identification and articulation of common values may reduce corporate risk as guidance to decision-makers and decision-influencers will be consistent with organisational requirements at all levels.

Risk will be reduced as there will be a higher probability of spotting maverick decisions being made by unguided individuals.