

# DevelopingLeaders

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## Nextsensing to Frame the Future Firm

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# Corporate Governance, Managing Risk and Bridging the Values Gap

**Insights from Darden, ESMT, IE,  
INSEAD, Rotman, Schulich, Wharton,  
World Economic Forum and others**



# Bridging the Values Gap

## How Authentic Organizations Bring Values to Life

Values are the wellspring – the foundation – of building a great company. They are one of the most important components of how any business creates value in the inarguably global approach to twenty-first-century capitalism.

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### Business and the Values Gap

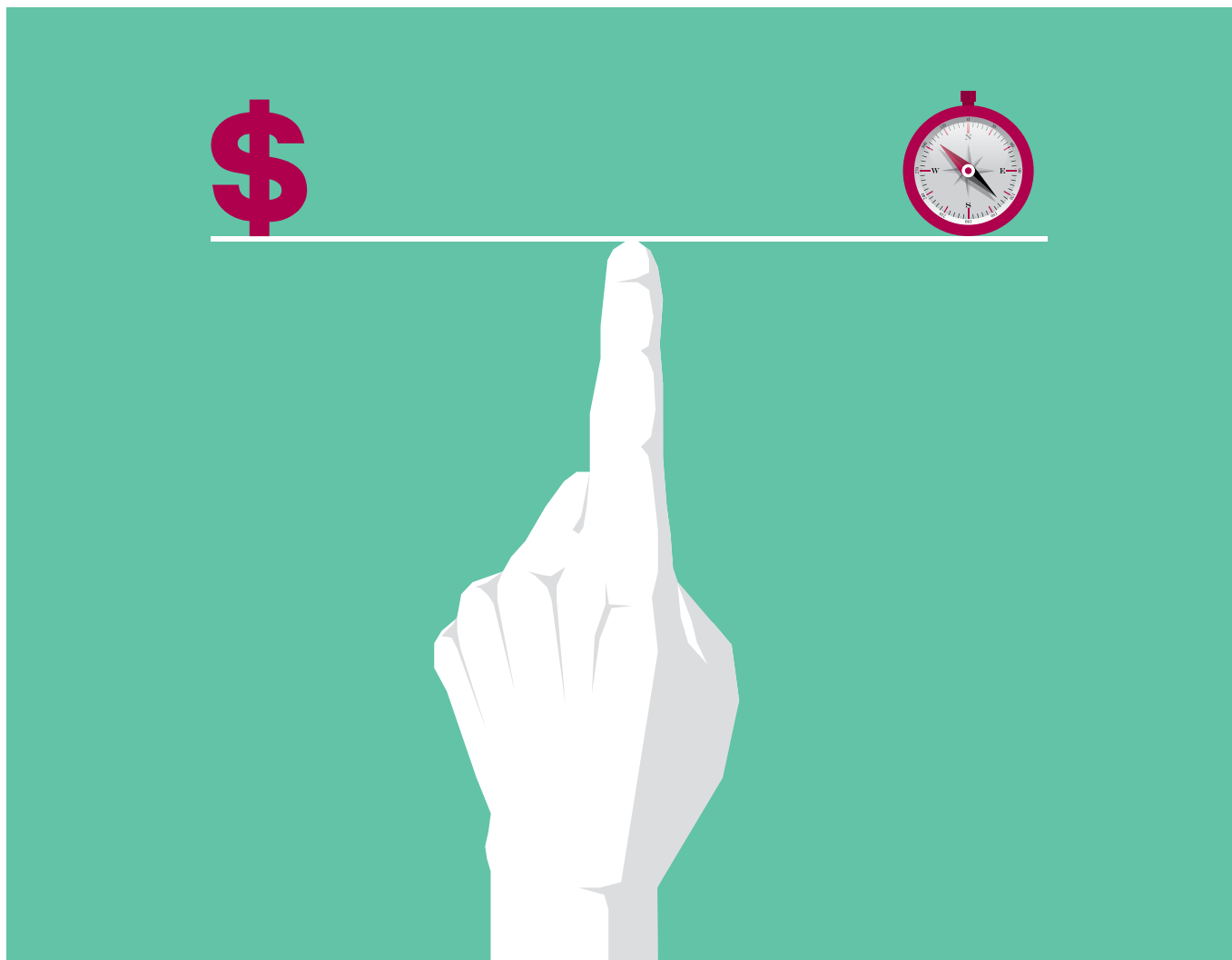
Many companies have statements of their values. However they fail to realize that values do not live in the statements but in the systems and processes that drive the day-to-day activity of a company and its employees. Values live in the conversations that employees and key stakeholders have about what the company is trying to deliver. And, of course, values live in the hearts of the people who work at the company, from the senior management to the lowest level employee.

Where there is a significant values gap between the values statement and what really happens every day there is a problem. The trust in the business is eroded and it is much less able to create value for its stakeholders.

Perhaps the most notable example of this in recent decades is the case of Enron – an energy company once named Fortune magazine's Most Innovative Company for six consecutive years – which loudly proclaimed its core values of respect, integrity, communication, and excellence. Most know how this story ends: with a stated commitment to values proven hollow, chairman and chief executive officer (CEO) convicted, and a consulting accounting firm completely out of business. This past year, in late 2015, Volkswagen was exposed for using software designed to cheat the United States and European emission tests, resulting in a loss of public trust and as yet immeasurable financial damage for the company. Within days, the word Volkswagen became synonymous with corporate deception. Clearly, despite having joined in 2010 with a group of twenty-one German businesses with a shared mission statement for responsible action of business something went wrong in creating a gap between their stated corporate values and corporate practice.

While there have been ongoing cycles of business scandals which ultimately lead to the significant mistrust of business as an institution, there are many thousands of businesses that not only are clear of scandal, but contribute significantly to the world and serve to create value for their stakeholders. We see several important trends in positive changes in the story of business:

- The emergence of many values-based companies, such as Whole Foods Market, The Container Store, Starbucks, Southwest Airlines, and the realization that many great companies, like the Tata Group and Unilever have been built on a foundation of purpose and values.
- The rise of social entrepreneurship and the creation of innovative solutions for some of our most pressing societal problems
- The push by traditional companies to remake themselves for the twenty-first century



### Why the Values Gap? Mistakes about Values Lead to Underperformance

Most organizations underperform because they do not understand how values work. The challenge for organizations is to do values right or not to do them at all.

#### **Common Mistakes about Values**

Companies with disconnects between stated values and follow-through lose out with their customers, employees, and many other stakeholders. They may get a second chance to bridge the gap, but it is much better to head off this potential loss in trust and connected financial, productivity, growth and other challenges by avoiding three common mistakes.

- **The 'Top Management Sets the Values' Mistake:** Top management returning from a retreat energized by their newly agreed-upon values statement may find this falls flat when presented to employees or another stakeholder group. Where was the conversation that went into understanding shared values? Developing key understandings through dialogue, rather than a top-down approach, leads to a higher chance of success and follow-through of values into action.
- **The 'Walk the Talk' Mistake:** what is on the wall had better be in the hall. This involves not only following through on statements involving 'integrity', 'teamwork', 'respect', but also having the conversations needed to understand the varying interpretations and meaning of these words amongst and between stakeholders. Getting the words right does not mean you have got the values right: ensure you are not missing the key nuances that could impact follow-through in the understanding of all stakeholders.

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- **The ‘Separation of Business and Values’ Mistake:** The notion that business is somehow separate from ethics is one of the main causes of underperformance. We spend one third of our lives in our work; we cannot assume that that one third is separate from our values outside of business, and that ethics and values do not permeate all that we do. Organizations that understand this and avoid this mistake are acknowledging the created value for employees and other stakeholders. Integration of ethics and morals in all we do leads to healthier psychological outcomes for individuals—and businesses.

So the question becomes: ‘how’ does a company avoid these and other common mistakes about values and purpose?

## Bridging the Gap: Values through Conversation

### ***Authenticity: Begin with Yourself***

Our collective fifty years in working with seasoned executives and global companies has taught us much about how to begin to close the values gap towards positive results for a company and all of its stakeholders. Success requires that we avoid making trade-offs among stakeholders, and that we deliver creative solutions where interests and values may conflict amongst stakeholder groups. For this, business leaders can begin by examining their own approach to values. Business is an inherently human institution, and as such leaders within organizations must understand themselves as complex human beings with multitudinous (and sometimes conflicting) aspirations, abilities, and values.

To ‘know thyself’ requires an understanding of why we do what we do, and this is the first step in engaging in being authentic as leaders. We must be willing to engage in dialogues that involve who we are and what we believe in today, as well as what has made up our past, and where our hopes lead in the future. Can you think of a time when you wondered if what you said you believed was then carried out through your actions? Since we can often deceive ourselves to avoid the dissonance of our internal contradictions and external actions, we must check our ‘blind spots’ by engaging others in conversation towards assessing our values and authenticity.

Values are not ethereal concepts – we take a very pragmatic view towards values, and to having them become actualized through our practical decisions as leaders. To help executives think through how to be more effective in articulating and acting on their values (both personally and professionally), we suggest the use of Values through Conversation (VTC) approach. This approach can be employed not only at the individual level, but also in assessing the authenticity—and potential gap between—an organization in action and its stated values.

### ***Applying the Values through Conversations Approach***

Examples of this approach include Unilever, where integrating the value-driven approach of a visionary leader with the on-the-ground stakeholder values did not happen without significant work bridging the values gap. We propose that taking an approach that incorporates the following VTC principles and practices (grounded in our combined five decades of work with businesses—from small scale to multinational) leads an organization towards authentic and outcomes-based success in bridging the gap:



***Be Willing to be Introspective:*** Introspection will look different in every organization, but there are some common 'success principles' often found in thriving organizations.

- Embed introspection into everyday processes;
- Include outward introspection by attending to your immediate context as well as what is happening outside of the organization;
- Treat introspection as an ongoing journey, revisited often—especially in times of hardship when introspection is often overlooked while dealing with the immediacy of a crisis. One example of a company that has been particularly strong with outward introspection, including anticipatory view and on-the-ground customer view is Apple. With development of the iMac, iPod, iPad, and many other iterations of their product development, Apple gleaned external insights regarding user needs and interests and responded with remarkably successful products. The most brilliant strategists and visionaries, like Steve Jobs, are continuously outwardly introspective and always one step ahead of the curve.

***Don't Forget about History:*** Maintain a reflective view of the organization's (and your own) values. Understanding and incorporating the past, with an honest reflective approach rather than a static, stylized focus on what used to be, allows a chance to bridge the values gap by exploring how your past approaches shape where you are in the present. Take for example Rudy Giuliani's encouraging the citizens of New York, while the city's mayor, to

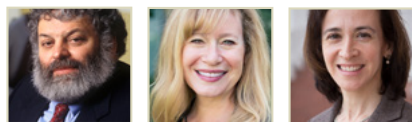
consider their history and draw strength from it after the 9/11 attack on the World Trade Center. Embracing a historical perspective, Giuliani became the face of New York during the crisis, channeling shock and confusion into hope and resiliency. While reflecting on the past, also incorporate gratitude for the journey, the challenges which tested us and how we were strengthened or overcame those difficulties. Openly, through VTC, reflecting on our past and historical values also allows for developing a collective narrative and engaging stakeholders, while incorporating multiple historical views.

**Realize Who You Are Connected To:** Have conversations, interact, lead, follow, and work together to achieve collective purpose and aspirations. When connectedness values are missing, we are not a community. There are countless benefits of connectedness. It is part of the essence of what makes us human, and our individual humanity brought together with others is what makes business work. When David Novak, CEO of Yum! Brands (including KFC and other fast-food franchises) led KFC out of a significant downturn, he claims the success was part of the connectedness and shared ownership of employees and franchisees. As Novak says, "What ultimately turned KFC around? The finance people will tell you it was the new products we developed... But I always say it was the triumph of the human spirit because we only developed those things once we started working together." Embedding connectedness in our values conversations enables us to tap into intelligence throughout the organization. Ultimately, relational work is *real work*.

**Have a Real Conversation about Your Aspirations:** Bridge the values gap by collectively understanding and building our hopes, dreams, and purpose. A company that has woven personal growth with professional growth is Starbucks, which recently announced the benefit of two years' free tuition for all employees with no strings attached. Says CEO Howard Shultz, "The only way you can build a great enduring company is by linking shareholder value with value for employees." We need the organizations we work for to collectively contribute something meaningful to the world. This ignites our passion and attracts the best talent, while providing an uplifting frame on what we are doing, enabling us to reach our goals.

## Hope for the Future

Though we have witnessed many examples of misalignment of values and action, leading to high levels of public mistrust of business, there is hope for the future. Organizations can bridge the values gap, and many are engaged in doing so. Not only did the global financial crisis leave its indelible mark on our collective memory, with the negative result of countless values gaps and the effect of short-term self-interest, but also we see new positive trends in aligning values with action. Social entrepreneurship, public-private partnerships, innovative business models built on understanding values, and an overall renewed interest in recognizing the import of business' social responsibility all promise to shift these trends into high gear. Business today is about creating value for multiple stakeholders: this cannot be done without taking values seriously. The values gap must be bridged. And if we are to invent a version of capitalism that is fit for twenty-first century human beings, it is a necessity.



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Despite much discussion about the need for leadership development in corporate and public organizations, and the considerable industry that surrounds it, this is the first authoritative periodical focused entirely on this area.

*Developing Leaders* looks at the critical confluence between the provision of executive education and the real everyday needs of organizations to strengthen their management teams, their corporate performance, and their leadership.

The publication presents the latest thinking and most recent developments in both academic and commercial executive education provision worldwide, what it is achieving and which are the best models for success, sharing the experience and expertise of top leaders and world class educators.

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