

STRUCTURING ORGANIZATIONAL VALUE STATEMENTS

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Keywords: ethics, consequentialism, value structure, value tree

ABSTRACT

Organizations today typically include statements about organizational values on their web pages. However, such value statements often occur in separate places, are of different sorts, and leave unclear messages of what values the organization creates or adheres to. This paper argues that value statements would be clearer and at the same time more suitable for strategic decision-making purposes if they were structured according to the classical ethical categories of virtue, duty and consequence.

Virtue values would include what is commonly known as *core values*. Examples are honesty, integrity, openness, and impartiality. Core values are enduring principles that tell people how to think and act. They are meant to help create and sustain an organizational culture that influences people's conduct and sets the organization apart from others.

By *duty values* we mean rules that the organization has voluntarily chosen to subscribe to, beyond laws and regulations. Examples of such rules are ISO standards regarding health, safety and environment issued by the International Organization for Standardization. Such standards typically describe verifiable rules and procedures to be in place, without actually measuring real end impacts.

Consequential values are connected to the *raison d'être* of the organization. Consequences are end impacts of organizational activities. In the perspective of corporate social responsibility, an organization exists for the purpose of the stakeholders – with the owners usually considered as a preferred stakeholder.

In this perspective, consequential values are identified with stakeholders' interests such as owners' yield, workers' salary, health and safety, costumers' satisfaction, and society's concern about environmental impacts (Barney, 1997).

The three value categories are connected to different ethical mindsets of decision-makers. Therefore, to portray the full set of values of the organization in a meaningful way, the categories should be separated, but juxtaposed. Although one may argue that virtues and duties are instruments for consequential values, virtues and duties do have a natural status as intrinsic values. This leads to a value structure where the three sets of values are portrayed on the same level, but separate. As a refinement, the consequential values can be developed into a strategic goal hierarchy that may be used for decision-making purposes.

The paper reports from a survey of Norwegian and American companies that are compared with regard to how they emphasize the three value categories on their web pages. The general conclusion is that a substantial proportion of companies make references to all three value categories, but they are immature when it comes to well-structured value statements.

1. Introduction

Internet has changed the way companies present themselves both to their own employees and to the outside world. Virtually all companies now have their own website that can be easily found and explored with search engines, and this has provided new opportunities for communication. The focus of this paper is communication of values. Companies exist to create value, and most companies include some kind of value statements – explicitly or implicitly – on their website. Value statements are, however, often obscure and sometimes even conflicting (Stevens, 1994); and in particular, they do not appear to conform to the classical concept of goal hierarchy that is used for decision making purposes in MCDA (Keeney, 1992). Our main question is: How can value statements be structured to communicate better and at the same time provide a basis for strategic decision making?

Previous surveys of corporate values have tended to focus only on so-called core values, using the annual report as source of information. Chun (2003) is closer to our approach by perusing the company's web pages, but while she also just looks at core values, we investigate the whole value system.

To explore this issue, we first develop a theoretical framework for value statements, which is supposed to be useful for strategic decision-making purposes. Then we report from a stratified survey of American corporations listed on the New York Stock Exchange (NYSE) and on Oslo Stock Exchange (OSE) that studies value statements in the light of the theory to see whether the framework is applicable.

2. Need for better value structure

To explain our intent, let us first look at an example that is typical for many corporations. ConocoPhillips (COP) is the largest American corporation in our survey, and a search with the keyword 'value' on their web pages immediately brings up a "purpose-and-value statement"¹:

Purpose: "Use our pioneering spirit to responsibly deliver energy to the world."

Values: We operate safely. We respect one another, recognizing that our success depends upon the commitment, capabilities and diversity of our employees. We are ethical and trustworthy in our relationships with all stakeholders. We are accountable for our actions. We are a good neighbor and citizen in the community. We anticipate change

¹ <http://www.conocophillips.com/about/Purpose+and+Values/index.htm>. May 2006.

and respond with creative solutions. We are agile and responsive to the changing needs of stakeholders and embrace learning opportunities from our experiences around the world. Our "can do" spirit delivers top performance. We encourage collaboration, celebrate success and build and nurture long-standing, mutually beneficial relationships.

We observe that the purpose is to create value for the world by delivering energy, and that the value statement make references to *how* they operate and behave, as well as more indirect references to value creation for stakeholders. But these are certainly not all the values that are created, and further search on 'value' brings up the letter to the shareholders in the annual (2005) report that indicates that the owners, which are the residual stakeholders, are seen as preferred compared to the other stakeholders:²

At COP, we welcome the relentless challenge of raising shareholder value. ...In line with our objective to maintain regular dividend increases, we raised the quarterly dividend rate by 24 percent during the year.

Further, COP documents efforts regarding health, safety and environmental performance, and has obtained the ISO 14001 certificate, meaning that it complies with certain environmental management standards that are supposed to help organizations minimize environment impacts and observe applicable laws, regulations, and other environmentally oriented requirements.³

Given that the general purpose of an organization is to create value, and assuming that the website citations above are somewhat typical of a corporation, we feel that the concept of value is vague and that there is a need for better structure of the concept.

3. Ethics as basis for value

Ethics is about what is good or bad, right or wrong and probably a good place to start to get a better grasp on the concept of value. There are three main classical theories of ethics: virtue ethics, duty ethics, and consequentialism (Baron, Pettit *et al.*, 1997), leading to different conceptions of value.

3.1 Three kinds of ethics – three kinds of value

Virtue ethics is often attributed to Aristotle and pertains to people's character and how they act. Forgiveness, gratitude, regret, remorse, loyalty, humility, compassion, courage, prudence and loyalty are examples of classical Aristotelian virtues. The focus is on attitude, not on consequences. Courage is important, not survival. Websites frequently include statements of so-called *core values* that tell how people in the organization should behave – in other words what virtues are emphasized. These are known as "thick" normative concepts since they are complex, as opposed to "thin" concepts like 'good' and 'right' (Williams, 1985). Of those companies in our survey that make value statements, approximately 50 % mention core values explicitly, the ten most frequent ones being: 'integrity', 'honesty', 'respect', 'openness', 'fairness', 'innovativeness', 'trustworthiness', 'creativity', 'reliability', and 'dignity' – in that order. COP's purpose-and-value statement above mentions several virtues, such as 'pioneering spirit', 'respect', 'commitment', 'trustworthiness', and 'agility'. They also mention 'responsibility', 'capability', and 'accountability', which have a more dubious status as virtues, a question we will return to below.

The modern version of duty ethics – or rule base ethics – is mainly attributed to Immanuel Kant, who could not accept that arbitrary personal sentiment should be the basis for moral choice, and tried to

² <http://wh.conocophillips.com/about/reports/ar05/letter.htm>. May 2006.

³ <http://sd.conocophillips.com>. May 2006.

formulate a principle whereby rules for ethical choice could be deduced through introspective reasoning. He insisted that actions possess moral worth only when we do our duty, for duty's sake – consequence does not matter. Max Weber formalized the principle of Rule Based Management, describing the *ideal bureaucracy* where there are fixed jurisdictional areas ordered by rules (Weber, 1947) and a well-defined hierarchy of positions for people to occupy. Management is prescribed through well-defined procedures where decision-making can take place without emotions. Weber described the ideal decision-maker as a cool bureaucrat that treats everybody according to rules, without “hatred or passion”. We will take for granted that organizations obey the laws and regulations of the society where they operate, and that statements to that effect are uninteresting. What is interesting, however, is when an organization voluntarily chooses to subscribe to additional rules. For instance, UN Global Compact is a set of ten principles for international business conduct in the areas of human rights, labor and the environment, which in 2006 has 2500 businesses as members.⁴ Other examples are Corporate Social Responsibility (CSR) standards, of which there are many (Freeman, 1984), and various ISO standards organized by the International Organization for Standardization.⁵ Commitment to ISO standards entails filling in forms and following procedures that are supposed to help improve performance, but the emphasis is on the rules in themselves – and verification that the rules are in fact followed, not actual consequences of business operations. In the COP example, we find reference to one such standard, namely ISO 14001.

While being virtuous and dutiful is considered ethical, it is also ethical to aim for morally good consequences. Most people would consider it morally good to deliver energy to a needy world, but the morality of returning short-term profits to owners through annual increases in dividends – on the other hand – might be disputed. To avoid a discussion of the morality of objectives, we prefer the neutral term *consequentialism* instead of consequential ethics for the third pillar in a value system. Consequentialism means that one focuses on end impacts or end values of corporate actions, no matter whether these are morally good or neutral. This means that we move beyond an analysis of pure ethical value statements, but consider all kinds of value. For a company that subscribes to CRS, consequential end values would include stakeholder values – including owner interests, which might conceivably be weighted against each other to maximize an overall objective like long-term economic value (Jensen, 2001). In the citations from COD's website above, obvious end values are ‘energy delivered’ and ‘shareholder returns’. There are allusions to other stakeholder values, however, and we shall return to that after a short discussion of ethical mindsets.

3.2 Ethical mindsets

What comes first, virtue ethics, duty ethics or consequentialism? This is an old philosophical problem that we cannot pursue here, but see Blackburn (1998) for a good discussion. The short version is that according to Aristotle, virtue is important since it will promote human flourishing – which is a consequentialistic argument. Similarly, Kant's third version of his categorical imperative: “So act as though you were through your maxims a law-making member of a kingdom of ends,” means that we should make laws that have good consequences for the society where we are members. Thus, there are authoritative arguments for saying that both virtue- and duty ethics are consequentialistic in origin, and this is also Blackburn's conclusion. The reason the two ethical principles are so important, is that they take away the burden of thinking about consequences of our actions all the time. As long as our actions are virtuous and we abide by the rules, the consequences will probably be good, and we will be fine.

But this does not mean that virtues and duties can be subsumed under consequentialism. Far from it! Our attitude towards virtue and duty is psychologically and emotionally very different from a mere consideration of tradeoff among consequences (Wenstøp, Forthcoming). J. G. March (1994) has observed that decision-makers in organizations use two kinds of logic, what he calls a logic of consequence – which is rational consideration of consequences, and a logic of appropriateness – which is to fulfill role expectations, doing what is deemed appropriate. Interestingly, March finds that most decision-makers

⁴ <http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>. March 29, 2006.

⁵ <http://webstore.ansi.org/ansidocstore/iso.asp>

will say they apply a logic of consequence, while the reality seems to be opposite. Appropriateness pertains to virtue as well as duty. Lack of integrity, honesty etc. is inappropriate, and so is breaking of rules – and both evoke strong emotions of guilt and shame. Baron and Spranca (1997) have identified several values that they call *protected values*, meaning that they are not subject to trade-off. Examples are rights, obligations and environmental values.

The upshot of this is that people consider different values with different mindsets. A consequential mindset allows for trade-offs between end results, while virtues and duties generally do not. And this is our main argument for using the classical ethical perspectives as basis for structuring organizational values. Virtues, rules and consequences are all reasons for actions, and should therefore be considered for a place in the value statement of an organization, but they are used differently, and should therefore not be mixed. Let us see how this can be worked out in practice, using the case of ConocoPhillips.

4. Sorting out values

We classified ‘pioneering spirit’, ‘respect’, ‘commitment’, ‘trustworthiness’, and ‘agility’ as virtues since they characterize *how* people in the organization should act, but we stopped at ‘responsibility’, ‘capability’, and ‘accountability’ since these have direct consequences. Responsibility appeared in a context that seemed to implicate the environment, capability presumably fosters quality, and accountability means that they will compensate stakeholders that have reason for complaint. Thus, these three virtues may be seen as instrumental values for other end values. Still, the important question here is whether tradeoff is allowed. COP would probably not “for any price” be seen as irresponsible, incapable or unaccountable. And if that is the case, the three virtues deserve their own place in the value system, and so do the end values they are meant to foster. This principle may seem to run contrary to the standard recommendation for goal hierarchies, which emphasizes ends and discourages means (Keeney, 1992). But the point is that in while the values in a goal hierarchy are supposed to be tradable, virtues are not and need to be kept outside.

The second pillar in the value system is rules that the organization voluntarily subscribe to, and that are supposed to protect values. Rules make operations run smoothly and lessen the need for decision-making, but there is little point in listing obligatory rules in a value system, such as Sarbanes-Oxley Act⁶ compliant “Code of ethics” statements that are mandatory for corporations at NYSE. That can be taken for granted. COP has an ISO 14001 certificate, which means that they satisfy a complex system of standards for how their operations impact the environment.

What end values do we find on COP’s WebPages? There are several references to stakeholders in the purpose-and-value statement, and some of them are mentioned explicitly: costumers, employees, neighbors and the community. Owners are also stakeholders, and *end values* are the interests of the stakeholders, which include stock value and dividends for the owners, energy for the costumers, safety for employees, and citizenship for the community. Actually, COP has according to the WebPages an extensive program for Health, Safety and Environment in operation with an elaborate set of performance measures and emphasis on sustainability, but we need not go into such detail to illustrate the principle.

5. Value system

We propose that the values of an organization can conveniently be portrayed as a set of three boxes that are juxtaposed and on the same level, one box for each value category, as shown in figure 1:

⁶ US Congress 2002

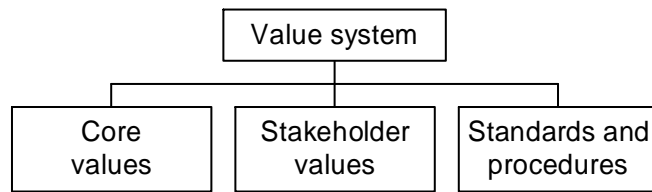


Figure 1. Generic value system

The core values in Figure 1 describe the attitude and character of the organization, the stakeholder values will usually be depicted in the form of a goal hierarchy that leads to performance measures for the various stakeholder interests, and the standards and procedures are voluntary standards and processes that the organization has committed itself to, in order to promote values. Figure 2 shows an outline of how a value system for ConocoPhillips could be depicted.

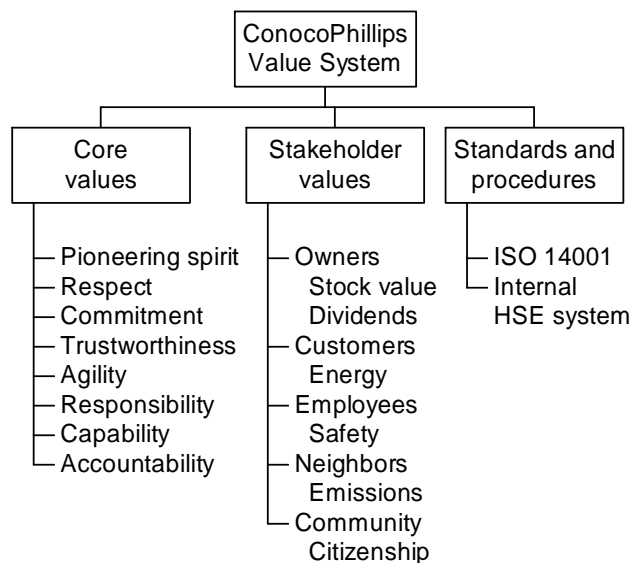


Figure 2. Outline of how one could construct a value system for ConocoPhillips, based on the information available on the company's WebPages (May 2006)

There is no trade-off between the top-level value categories, or between the core values, which function as a backdrop for all activities in the organization. Stakeholder values *are* subject to trade-off, however. Good corporate governance requires consideration of stakeholder importance, for instance through a corporate objective function as it proposed in Jensen's (2001) enlightened stakeholder theory. Instead of a stakeholder approach as in Figure 2, one could also adopt a stockholder approach, and portray the other stakeholders as instruments for the owners. This would be more in accord with corporate law, which regards stockholders as the residual stakeholder, and therefore entitled to preferred treatment reflecting the higher risk they are obliged to carry.

6. A survey of Norwegian and American corporations

To investigate to which degree the proposed value system is applicable to current business practice, we conducted a limited survey of Norwegian and American companies listed on OBE and NYSE, respectively. We wanted to find out to which degree companies at all state values on their web pages, to which degree values can be classified according to the three value categories, and to which degree the categories are emphasized. We also wanted to see whether there are systematic differences between Norway and the US in this respect.

We searched the web pages with keywords such as 'corporate governance', 'ethics', 'values', 'goals', 'social responsibility', 'community involvement', 'procedures', 'environmental involvement', 'stakeholder', 'shareholder', 'who we are', 'commitment' and 'purpose'. This would usually lead to value oriented sections, provided they existed, that could be investigated more thoroughly. Statements of company values are often found at different sites depending on the topic, e.g. financial goals, social responsibility and certification.

We looked for *virtues* (core values) by searching for statements of behaviour, attitude or character with keywords like 'integrity', 'honesty', 'openness', 'respect' and 'fairness'. *Consequentialistic values* (stakeholder values) were found by searching for statements focusing on the outcome of actions with keywords like 'maximising', 'profitability' and 'creating value'. Finally, we looked for *duty values* (standards or procedures) by searching for statements that show respect and commitment for rules, norms, certifications and authorities with keywords like 'legal', 'ISO standards', 'safety', 'health' and 'certification'.

The pilot study of 100 Norwegian and 107 American listed companies was a randomized sample stratified over industries. We registered only whether the companies at all did make statements concerning virtues and duty values. It turned out that approximately 2/3 of the companies in both countries stated such values. There was no significant difference between the countries, but a positive and significant ($p = 0,000$) association between size measured as revenue and value statement.

In our main study we studied only companies that had statements of virtue or duty values. The sample consisted of 43 Norwegian and 43 American listed companies, where we went into depth of the companies' web pages and evaluated the strength of value communication in each of the three value dimensions. In addition, we noted which particular virtues were emphasized, if any. The evaluation of communication strength was based on judgement of whether the values statements were easy to find, whether they were easy to understand, and whether they were comprehensively dealt with. We found that of the American companies, 77% communicated consequentialistic values, 54 % communicated duty values and 67 % communicated virtues. That compares with 86 %, 47 % and 61 %, respectively, for the Norwegian companies. The top six virtues for the American companies that stated virtues were: integrity (67 %), honesty (50%), respect (29%), diversity (21%), openness (21%) and fairness (21%). Among the Norwegian companies the top six virtues were: honesty (29%), respect (24%), integrity (18%), diversity (18%), openness (18%) and innovativeness (18%). The data collection period was from June to December 2005.

7. Conclusion

The general conclusion is that the prevalence of website value statements is quite high for the companies listed on NYSE and OSE, and all three value categories are well represented. Stakeholder values are most prevalent, followed by core value statements, while value related standards and procedures are least prevalent. The values statements tend to be found in quite different places in the web-pages and are not well organised, but they can be identified, sorted out and presented in a more comprehensive manner according to the proposed value system.

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