

# Compliance & Ethics Professional

January  
2017



A PUBLICATION OF THE SOCIETY OF CORPORATE COMPLIANCE AND ETHICS

[www.corporatecompliance.org](http://www.corporatecompliance.org)

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# Managing values: A vital element of culture, ethics, and success, Part I

- » Companies have been probing the use of corporate values for many years now, but with limited success.
- » There's potentially real business value to values that a company takes seriously.
- » Understanding corporate values and how they function is critical to extracting value from them.
- » Corporate values come in many types, each with a unique role in a company.
- » Real—or operating—values reflect the way that employees conduct the company's business, treat stakeholders, and one another.

Companies and other organizations have been promulgating corporate values statements for years now.

Almost every major company exhibits a set of values or principles that it states are intended



Lunday

to reflect and reinforce its most cherished beliefs and behaviors. Yet companies continue to fall short of these lofty ideals, bow to short-term interests, and engage in misdeeds. It can make anyone question the true purpose and worth of these public aspirations and whether an organization's employees, investors, or any other stakeholder can take the values seriously. Are values statements really just public relations tactics and window dressing meant to "put lipstick on the pig"? (My apologies to the pig.)

From what I see, most organizations do not appear to derive real value for their efforts. With all of this focus on a set of corporate values, shouldn't an organization see greater return for its labors? Is it even worth the time

spent on these values initiatives if they add no real, meaningful value? What if, instead, such efforts risk creating institutional hypocrisy whereby the company states one thing but employees do otherwise?

On the other hand, what if real, significant, lasting value can come from corporate values? When effectively articulated and managed, what if corporate values could help a company to build institutional integrity, strengthen its culture and, in turn, augment its success at meeting its strident objectives? What if such values served as important drivers for effective ethics and compliance management? It may be a lot to ask for, but if corporate values can really deliver the goods, it seems to be a compelling opportunity for corporate leadership to explore—and with due haste.

## Corporate values in the crosshairs

Discussion of corporate values has remained a hot topic for several years now. Starting with increased attention in the mid-1980s, it seems that each passing business scandal or

other failure returns attention to the focus on companies' values. Books and reports have focused on this subject. And changes in the 2004 revised U.S. Sentencing Guidelines for Organizations regarding "ethical culture" and "tone at the top" increased the relevance of corporate values to responsible conduct in organizations.

But for all the years of this discussion, it is surprising how many business leaders have not learned how to effectively turn the conversation on values into a real service for their companies. For several years now, companies have developed and disseminated values statements, but many of these efforts appear as little more than "window dressing." The articulated values seem to fall flat and miss finding their way into corporate cultures in any meaningful way.

Observers back in the early 1990s noticed that for years, companies had written toothless values statements.<sup>1</sup> In 2002, business consultant Patrick Lencioni noted in the *Harvard Business Review* that Enron had a glossy set of values—ones that were later revealed to be quite empty of substance. He also found many corporate values statements to be bland, impotent, or just plain dishonest, and he commented that such weak efforts only created cynicism and dispirited employees, distanced customers, and weakened managerial credibility.<sup>2</sup>

Meanwhile, professors Ed Freeman and Ellen Auster, in *Bridging the Values Gap*, reported that in 2009 public confidence in businesses reached an all-time low and remained there over the following years.<sup>3</sup> They argue for a new narrative to change the

conventional paradigm of soulless institutions with an overriding focus on shareholder wealth, short-term mindset, lack of commitment to ethical conduct, and dismissal of any responsibility to broader society. They also cite research that shows significant employee disengagement in their employers, which appears highly likely to limit their productivity.

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### The value of values

With all the focus on corporate values with seemingly limited success, any business leader is wise to ask, "Are corporate values worth the effort?" Given the many pressing priorities, why should leadership spend

the time and energy struggling to articulate, communicate, reinforce, and hold fast to a set of values? As a management tool, many leaders find corporate values to be fuzzy and soft, lacking in rigor and a direct connection to the bottom line. So, many leaders pay short shrift to their company's values, because they don't see their purpose.

However, research has been finding real value in corporate values. A 2005 Booz & Co./Aspen Institute survey of global senior executives found that a commitment to corporate values corresponded with strong brand equity and company reputation. This study also identified that this commitment to values also correlated with stronger relations with a company's extended enterprise (e.g., customers, employees, suppliers).<sup>4</sup> More significantly, the study identified a correlation between corporate values and financial performance. It saw that for companies that had performed at least 10% above their

industry competitors in financial performance, their leaders had more actively addressed their values. Although correlation is not necessarily causation, it does suggest that business leaders who outperform their peers think about corporate values differently.

In fact, thought leadership on the value of values has been around for some time now. Back in 1982, McKinsey consultants Tom Peters and Robert Waterman in their seminal bestseller, *In Search of Excellence*, extolled the critical role of an organization's shared values as the lynchpin of a framework that underlies successful companies.<sup>5</sup>

Ten years later, in 1992, Stanford business professors Jim Collins and Jerry Porras argued in *Built to Last* that a core success factor in the best-run companies involves a core ideology, consisting of a compelling mission and values.<sup>6</sup> Neither research study indicated that simply having a corporate values statement made the difference; rather, it was about what companies *did* with these values as part of broader management actions that distinguished them.

In short, values appear to have much to offer an organization if leadership takes them seriously and invests the commitment, time, and effort to learn about how they operate and then extract their value. Those leaders who have an innate appreciation for *true* values-based management can help their companies weather the economic ups and downs with a strong culture intact. Some leaders will succeed in promoting their corporate values with some level of success, but too often this success is happenstance, and later business complications can thwart the leaders' early efforts. Still, like any management skill, values-based management can be effectively learned and applied.

For those corporate leaders that make the commitment to truly embed values into their organizations, the opportunities are

### Aspects of Strong Corporate Values

- ▶ The values are deeply and widely shared by employees; employees throughout the organization would list the values as highly regarded by company staff.
- ▶ The values are regularly and meaningfully demonstrated in employees' actions and company operations.
- ▶ The values support the company's mission and other core objectives.
- ▶ Practice of the values is reinforced and even pronounced during the company's difficult times or decisions.

wide-ranging. The ways that values can function within a company offer several advantages:

- ▶ Values support the company's mission and core objectives and, in doing so, inspire leadership and other staff to best serve the company. Likewise, values can encourage other stakeholders in their service to the company and, in turn, strengthen the company's overall reputation in the marketplace.<sup>7</sup>
- ▶ Values help to break the overriding, short-term mindset that can cripple a leadership team, freeing them to invest in long-term goals, plans, and payoffs. This enables employees to focus on work that further creates lasting value. When a company's overriding focus centers on quarterly financials, it's more difficult to work toward goals that yield results over years.
- ▶ Values can hold a strategic place in a company's operating philosophy and actions. Peters and Waterman found in their research that a company's "shared values" serve as the fulcrum for a company's long-term success, because they unify disparate components of corporate success—namely strategy,

structure, systems, management style, staff backgrounds, and competencies and skills.<sup>8</sup>

- ▶ Values help to unify the organization's employees under a common set of beliefs—the company's culture: Stronger values lead to stronger culture. This increases employee engagement and, in turn, the discretionary effort they put into their work. It also can speed up new hires' acclimation to the company, and so shortens their time to full productivity.<sup>9</sup>
- ▶ Values serve as touchstones for employee decision-making at times when clear standards or other resources are not readily at hand or don't exist. This allows for faster and more thoughtful decision-making, and that better aligns with senior leadership's expectations. In this way, values improve holistic decision-making by mitigating more myopic, situational decisions.
- ▶ Values help align operations so that all employees are on the same page and know what to expect from one another. This yields a strong wall against organizational hypocrisy and demonstrates operational integrity across an enterprise.<sup>10</sup>
- ▶ Values communicate to outside stakeholders what principles they can expect and depend upon from company employees and operations. This presents a more unified, consistent appearance *in practice* to external stakeholders, which can then offer greater trust in the reputation of the organization.

Companies that do not take charge in establishing, strengthening, and sustaining these functions through a values initiative leave it to other forces to influence their direction along these lines, which can have unexpected, perhaps deleterious, effects on the company's future.

## Understanding corporate values

But before undertaking a corporate values initiative, it behooves a company's leadership to better understand corporate values, what they are, and how they work. Many corporate leaders err in not truly appreciating the landscape of corporate values and so make numerous mistakes in articulating and managing them—such as simply promulgating a values statement and calling it a day.

Years ago, I worked with a company under increased regulatory scrutiny from recent questionable activities when employees blindly followed management's erroneous directives. The newly-hired chief executive, seeking to motivate the ranks and improve productivity, wrote a set of draft values, one of which read (in Nike fashion): "Just do it." Fortunately, my colleagues and I were able to preview the values statement and recommend a change to avoid a repeat of the company's recent problems. This situation reinforced the fine art of carefully articulating written values to foster desired conduct and not foment further difficulties.

As mentioned earlier, a company's values are not necessarily the words listed in the company's values statement, though in the best cases the written values statement captures the company's true values. Fundamentally, a company's values are its employees' *shared* beliefs and behaviors. These are the organization's demonstrated, or operating, values. In the best situations, these values support its mission and other core business objectives and align with what is written in the values statement. An outside observer might identify these operating values in how employees treat customers and one another, represent and deliver the organization's products and services, and deploy and focus use of its resources in daily business. When executives *tell* employees what a company's values are via a values statement that does not

truly represent the organization's actual beliefs, this invites skepticism and cynicism.

What many business leaders don't quite understand is that an organization's operating values will emerge, whether or not leadership encourages this. Perhaps it's the local culture's influence on employees, such as a sense of passive/aggressiveness I was told was common in one client company's geographical region. Or it's how a founder reinforces a business strategy, such as Steve Jobs' much-discussed, incessant push for innovative product design. Maybe it comes about because of how a company responds to a marketplace challenge, such as a crisis. Whatever the source, every organization will adopt certain tenets in how it operates that then flow down and influence other employees' conduct. Even in an organization where leadership is mercurial, values emerge—that of inconsistency and unsteadiness.

What's more, these operating values need not always be constructive. For example, they may include a lack of focus on quality, protecting one's turf, avoiding risk, efforts to achieve strictly short-term gain, or just getting by. In this way, operating values can reflect unconstructive beliefs about doing business and, in turn, harm the organization's prospects. (And in these situations, perhaps it is best to refer to these as unconstructive beliefs instead of values.) For example, employees may find that dodging accountability and engaging in politics have helped them to keep their jobs. Such beliefs typically do not further the organization's mission and success, and leadership needs to know about these in order to discourage them. It's best to articulate and promote those operating values that foster the company's success and mitigate other beliefs and behaviors that thwart this success. Only those beliefs that are central to achieving a company's mission and success should be viewed as its core values.

Given the choice of allowing unconstructive beliefs to emerge through happenstance or creating a culture that promotes healthful values, it makes sense that leaders would prefer the latter. Taking the reins to identify, articulate, and reinforce values that best serve the organization's purpose and business objectives greatly helps the organization's leaders to, well, get the results they want. Many leaders do not understand that an unacknowledged force inhibiting their efforts to build a company is the invisible influence of its culture's operating values pushing against business strategies and plans. Of course, this force is not so invisible to the leader who recognizes this force.

For values to benefit any company, they must inspire and guide employees' actions. Employees must understand how they are expected to act to reflect a corporate value. For instance, a hospital that promotes "caring" as a core value, but does not have a reputation for its clinicians' showing concern for their patients, hardly can consider this truly to be a value. It is unlikely that the hospital's employees really believe in caring if they are not committed to practicing it. \*

*Part 2 of this article will address types of values and their role in ethics and compliance management.*

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