Is There an Ethics Dividend?

A Purpose-Values-Performance Approach to Leadership[1]

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Business ethics grab our attention mainly when there has been a serious misstep: a product defect left uncorrected, a market manipulated, or an executive who has misbehaved. In these cases, it is the costs of unethical behavior that are contemplated. In counterpoint, it has been posited by some corporate social responsibility advocates that there may be an ethics dividend analogous to the "green dividend" that has been much discussed in the press. Being good, they maintain, has rewards. To the extent that green activities are ethical, perhaps they are synonymous.

The green dividend results from any number of activities. Should a firm become more energy efficient or reduce waste, it can expect to lower costs. A dividend. Another firm may introduce products or services to help others increase energy efficiency or reduce waste and they will reap greater revenue. A dividend. Also discussed in the press but less easily quantified are dividends such as increased employee or customer engagement, regulatory advantage, or reputation enhancement. The value of these is largely anecdotal.

In a project for the Environmental Defense Fund in 2011[2], my research assistant and I interviewed executives from 16 public companies to ask them why they pursued green initiatives. Revenue opportunities were the most mentioned driver followed by risk reduction, cost savings, and brand promise. CEO passion also received multiple mentions. This was a highly qualitative study but it does provide some view into the motivations of executives to pursue socially responsible behavior.

What then does this tell us about a possible ethics dividend?

That depends upon how one defines ethics and ethical behavior. Is it the adherence to some moral code? Compliance with legal or professional standards? Those who hold that shareholder value is the ultimate responsibility of management might argue that pursuit of an increase in stock price is the only goal worthy – even ethical – to pursue.

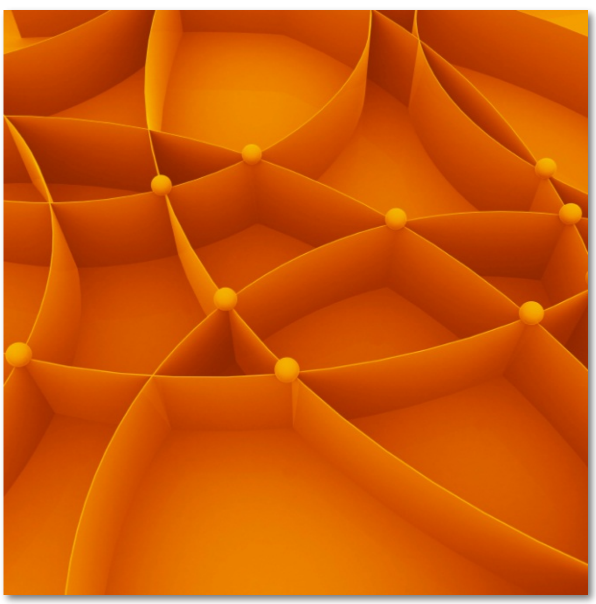
Given that we are seeking a potential dividend, I would argue that we should hew closer to the Aristotelian concept of ethics as practical wisdom on the quest for virtue as it comprises both actions and the motivation for those actions.[3] An ethics dividend would suggest a motive for tangible gain from certain behaviors and actions considered ethical.

The abundance of scandal and shame without accompanying collapses in stock price would suggest that anti-ethical behavior remains an issue: Wal-Mart's bribery in Mexico.[4] JP Morgan Chase's mysterious multi-billion dollar losses.[5] Barclay's Libor manipulation.[6] Johnson & Johnson and defective hip joints.[7] Thomas train sets with lead paint.[8] While two of these have led to executive resignations,[9,10] there has been little long-term impact on share price. The long ago implosion of Enron in 2001 and WorldCom in 2002 or the more recent Lehman Brothers and Bear Stearns collapses in 2008 are the too rare examples of significant social consequences of egregious activity.

In a recent survey of 500 senior financial executives in the U.S. and U.K. by Reuters, 26% of respondents reported having "observed or had firsthand knowledge of wrongdoing in the workplace" and 24% said that they felt "they believed financial services professionals may need to engage in unethical or illegal conduct to be successful"[11]. HSBC – accused of money laundering[12], and Barclay's have glowing values statements. HSBC's trumpets their commitment to be "dependable and do the right thing"[13]; Barclays calls for "a culture based on high performance and behavioral excellence."[14] One can be sure that so too do all of the other firms that have recently been accused of unethical actions. Statements do not necessarily correlate with actions.

How then might one pursue an ethics dividend in business?

The concept of an ethics dividend would seem to predispose a relationship between the firm and the broader society. The dividend, be it financial or less tangible, must be earned from someone. This notion of the firm as a node in a system rather than as a singular actor has gained greater currency in recent years. Porter and Kramer[15] wrote of creating value shared between corporations and communities and that the failure to do so could threaten the future of capitalism. IBM and Unilever are firms cited as doing this consistently well. Beer, Eisenstat, and their co-authors wrote about companies such as Cummins and Campbell's Soup that pursue a "higher ambition" to create social as well as financial value.[16] Meyer and Kirby[17] argued that the future of capitalism requires firms to begin to embrace externalities as their own responsibility. Kanter[18] wrote of "Super Corps": those that can create both profit and social good. Digitas and Cemex are but two of the divergent firms she cited. The list goes on.



This rediscovery of stakeholders beyond shareholders may stem from the acceptance that we now live in a networked world. The Internet and the many devices that allow people to connect through it have catalyzed a rapid evolution of expectations and norms around communication, collaboration, and connection. Applications like Facebook and Twitter reflect and help define the new reality of sharing, transparency, and engagement no matter which market one serves. Complex global communication and supply chains that allow service providers to meet the needs of millions of customers around the globe.

Connection to each other can also transform the network into a community. When one sells a service to a community, one becomes part of that community. Successful communities all operate based on values standards and norms that are remarkably similar no matter the geography or culture. They are conceptually simple and mirror the values one endeavors to instill in one's children: be honest and trustworthy; say what you mean and mean what you say; do unto others as you would have them do unto you; think before you act and then take responsibility for your actions. The challenge is that as commonly held as are these values, it remains a formidable task to instill them such that they guide the everyday actions of thousands of people across a complex global enterprise.

That same network that helps one connect with and understand one's customers also enables viral videos that expose call center problems in India, poor working conditions in China, and conflict mineral issues in Africa. The network in which the company and its customers are participants also includes the company's suppliers and the suppliers' suppliers as well as the vendors used by its customers to deploy and dispose of the products the company supplied as part of its service offering.

Economists long dismissed a firm's responsibility for such "externalities" as pollution – which one can consider to be issues of ethics – because businesses did not have to pay for them directly. The network has changed that. Not only have firms gone global, so too have the sensors that measure impact and the channels for finding and sharing the information about that impact. Stakeholders, influenced in part by that increased flow of information, have dramatically heightened their demand for companies to operate responsibly. Meyer and Kirby[19] call this "leading in the age of transparency" and lay out a realistic, practical framework for embracing rather than shunning externalities. In other words, ethics have come front and center along with traditional business concerns of profit and loss.

Taken together, these forces have sharpened the need for executive management in search of an ethics dividend to ensure that there is clarity about the answers to three questions:

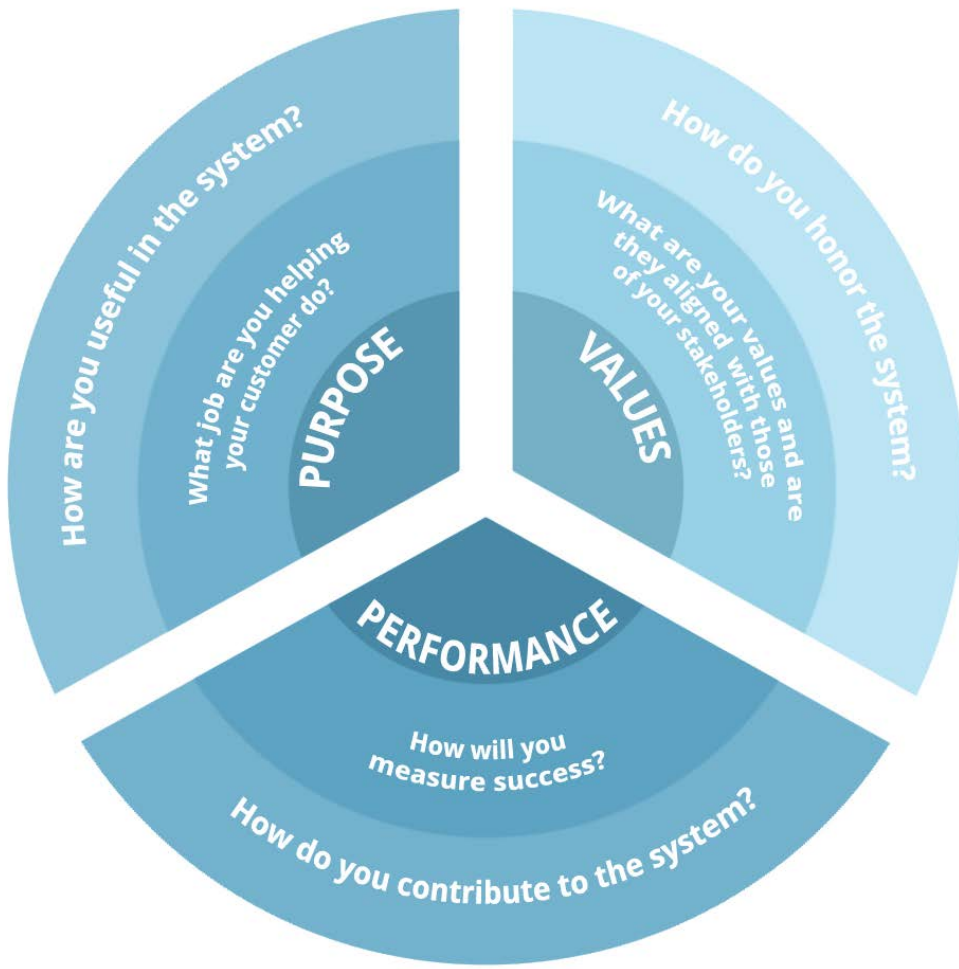
- Who is the customer, what precisely is the job the firm's product or service is helping them do, and how is the product or service superior to others in doing so?
- What are the company's values and are they aligned with those of the other stakeholders?
- How are the firm and its stakeholders measuring success – over the long term as well as the short?

When there is clarity about the answers to these questions, I argue that it is not only possible for a winning strategy to emerge but it is also possible for the organization to successfully execute that strategy and derive a tangible ethics dividend. It is possible for an organization to bring as much of its collective energy to bear to creatively solve problems, meet challenges, and seize opportunities. It will create shareholder value by better meeting the needs of its stakeholders. Customer understanding, the passion to solve problems, and values that bring meaning to one's work cannot be commoditized and thus can be sources of sustainable, and profitable, competitive advantage.

Clarity, however, is not a static state. The daily comings-and-goings in the organization, changes in markets, and external events can begin to put the purpose, values, and strategy of the organization out of focus. The job that customer is trying to do will change over time as will the capabilities of one's own organization. It takes concerted effort to build feedback loops that create and reinforce clarity through the people, processes, and procedures across the organization and, where possible, across the network. This is the job of leaders.

The Purpose, Value, Performance Leadership Framework

I argue that the first step for leaders to take toward such clarity and an ethics dividend is to think of the firm's activity in the context of its relationships in this complex system of broadly drawn stakeholders. The model that I have developed for such examination is PVP: Purpose, Values, Performance.



Purpose, in this model, speaks to a firm's usefulness in the system. Why does this firm exist? What jobs is its service helping its customers do? What value is it creating for those who use its services? What void would be created by its absence?

Values are those lasting commitments that guide how the firm pursues its Purpose. In aligning its values with the shared expectations of the various stakeholders with which it interacts: customers, employees, neighbors, suppliers, investors, regulators, and even competitors, the firm honors the system.

Performance speaks to the metrics by which success is measured. Performance tells us how much the firm is contributing to the system. These measures will always in a capitalist society have a financial component – revenues, profit, share price – but should also have measures of purpose and values.

Each of these has an ethical dimension when so stated. Usefulness can generally be considered more virtuous than non-usefulness. Values are at the heart of any discussion of ethics. Performance, to the extent that it measures delivery on purpose and values, helps inform an evaluation of whether or not a firm's behavior is ethical.

Performance has long been the focus of firm managers. Almost 50 years ago, Peter Drucker proclaimed that "businesses exist to produce results."[20] The capitalist system has been particularly adept at measuring performance with ever greater speed and granularity. Barton[21] maintains that as much as 70% of U.S equities are now traded by "hyper speed" traders who may hold a stock for only a few seconds. Retailers who once received sales figures daily can now analyze them by quarter hour. Reams of data gleaned through sophisticated analytics tell us exactly which widgets are making their way through the various parts of a global supply chain. Service providers have exact portrayals of the preferences and usage patterns of their customers.

However, the expanded use of management tools and techniques has not led to a broad improvement in corporate results. According to an analysis of large U.S. corporations over the period of 1965 – 2008 by Deloitte[22] showed a decline of 75% on overall return on assets. This drop corresponds to the wide acceptance of management science as well as the explosive growth of MBA degrees. While correlation may not equal causation, it can be inferred that a focus on performance has not necessarily led to an improvement in performance.

Further, the problem in terms of a possible ethics dividend is that this proficiency for traditional measures of performance has led us to underappreciate Purpose and Values. It is common to hear goals for increased sales or market share. When is the last time that any of us were called to a meeting to discuss our shared purpose or values?

Montgomery addressed this very issue in her recent book, *The Strategist: Be the Leader Your Business Needs*[23]. Here, she lamented that strategy has become focused on analysis and performance, not examining the fundamental reason for a firm to exist. She cited IKEA as one company that has not lost its way in this regard. It is not unexpected then that IKEA is also highly rated in terms of social responsibility and ethics[24] (Llopis, 2011). It has routinely appeared on the list of the "Top 100 Companies to Work For" which should offer a dividend in terms of employee recruitment and retention. It has also been named one of the world's most ethical companies which offers a potential dividend with employees, customers, suppliers, and investors.

It is not simply that Purpose and Values must be considered alongside Performance, they are interdependent with it and certainly with any potential ethics dividend. As systems theory tells us, it is not the components in a system that are most important but rather the relationships between the elements.[25] A heroin dealer or manipulator of the Libor may reap abundant profits yet operates outside the values of most of society. Whatever usefulness he or she provides is outweighed by the negative consequences of the activity.

A performance problem may not require a performance solution. The first places to look are Purpose and Values. Be more useful or have a deeper relationship with those to whom you provide services and profitable performance should follow so long as the business model is reasonably coherent. There should not be a need for Performance tricks or gimmicks when a firm gets Purpose and Values right.

These three – Purpose, Values, and Performance – are interdependent. They must be taken together and balanced in the dynamics of operation within society. Only then may an ethics dividend be possible.

Clarity of Purpose, Values, and Purpose in Action

What might this look like in practice in services? Premier Farnell is a UK-based global firm that sources and delivers specialty electronic parts, primarily to electronic design engineers (EDEs) during the concept and prototype stages of product development. Their service is locating any of millions of components at the lowest possible cost and no minimum order size from more than 3,500 suppliers and deliver them anywhere in the world quickly, often overnight. It is a time- and price-sensitive business yet rather than seek to compete through ever-lower costs or even faster delivery, the firm looked to purpose and values to drive performance.

The firm was founded in the early 20th century. As it entered the 21st, it had grown stagnant. Performance was moribund. It had difficulty attracting top talent. It was failing to keep up with the latest technology for its operations.

At the core of this has been what Green called its Trust Agenda[26]: to be the most trustworthy firm for each of its stakeholders. It has been built upon the principles of Purpose-Values-Performance. It identified electronic design engineers (EDEs) as its primary customers. The jobs they do – whether prototyping a breakthrough new product or retooling an existing system – require specialized components in small quantities. Premier Farnell has responded by focusing on providing access to an enormous array of products available for rapid delivery without minimum order quantities. It is helping the customer do his or her job by being the most agile and responsive supplier of the widest variety of components.

That, however, is necessary but not sufficient for success. Speed and assortment can be matched. Premier Farnell has no proprietary lock on “no minimum” ordering. Should competitors choose to engage on those terms, price will increase in importance and there will be pressure on margins.

Clear values that are aligned with those of the network and that permeate the organization and its interactions with the network make it much more difficult to disrupt the relationships between Premier Farnell, its customers, and its employees. To be the “most sustainable supplier" – one of its stated goals – is to be honest, trustworthy, transparent, and responsible. It can make Premier Farnell not only the preferred supplier but also a preferred employer. An engaged, informed, and capable team is critical for a service business. Clear, compelling purpose and values will attract the top talent who will divine new and better ways to help the customer get the job done -- which will in turn reinforce the company's position as the preferred supplier. So too when the company is a preferred neighbor.

It is clarity of purpose and values that have led the company to venture beyond delivery of components to offer software and design tools as ways to better help EDE's accomplish their objectives. This is done to tap new pools of profitable revenue and also as an expression of shared passion for the products that those EDEs, working in established high-tech labs and garage start-ups, will create. These are products that can change the world. One is only invited into intimate relationship in the creative process of one's customers, however, when one is a trusted partner.

Premier Farnell has tackled this challenge straight on with its Trust Agenda. Though articulated differently, it hews closely to the spirit of Porter and Kramer's concept of shared value. The Trust Agenda comprises commitments to exceptional standards for ethics and governance, the development of its people both through their work and volunteer opportunities, and reducing the company's environmental impact that are all integral to its commitment to superior financial performance.

Additionally, it makes an explicit acknowledgement that all stakeholders indeed have a stake. Looking beyond its own activities, this is an effort that is inclusive of suppliers, customers, and communities. The company is proactive in ensuring supplier compliance with government regulations and Premier Farnell's own standards. It has an aggressive program of supplier survey and audits with a goal of having all private label suppliers pass a workplace standards audit by the end of FY21 as a condition of participation in its supply chain. It has taken on an educational mission to help customers understand legislative initiatives and industry best practices related to the products it delivers including conflict mineral regulations, RoHS, and other relevant matters. Premier Farnell actively pursues community investment opportunities as vehicles for the personal development of its employees.

Premier Farnell has embraced sustainability with a stated vision of being "the most sustainable provider of products and services to EDEs in the world." This was in part because "we needed a cause in addition to a mission" to drive strategic revitalization, according to then-CEO Harriet Green[27]. Tying a cause to core strategy speaks directly to values and the need to align company values with those found across the network of stakeholders.

This is not a matter of simply finding something that everyone finds agreeable – a least common denominator approach – but rather identifying and building upon values that are both meaningful and useful to the business as well as customers, employees, suppliers, communities, and governments in markets where Premier Farnell operates. Most important, this commitment is one that the company can demonstrate as well as express and in doing so improve its business performance. Yes, one can do all of this and make money: There are enormous market opportunities in green tech and related fields as EDEs look to design the technologies that will make possible truly sustainable cities, feed a global population that is expected to shortly reach 9 billion, and deliver health care to underserved populations.

Premier Farnell has chosen to engage deeply with the network through the creation of element14, an online community for engineers that facilitates interaction across the network. Through this activity, Premier Farnell creates value for its customers – and enables them to create value for each other – while fulfilling the promise of its brand. In the end, a brand exists only as a relationship.

The logo and marketing are not the brand, they are only expressions of the relationship. Activities such as element14 make that expression richer and more meaningful because they clearly show that purpose and values of the company are aligned with its stakeholder community.

Through participation in the community, the company has the potential to glean insights on customer challenges and issues, spot and attract talent, educate, and obtain competitive intelligence: all excellent avenues for achieving clarity about both purpose and values. It even gets feedback on itself: while Premier Farnell facilitates the community, it does not censor it. Participants are free to criticize as well as praise the firm. The element14 community is just one part of a Web-based strategy that takes greatest advantage of the dynamics of a vibrant global network of customers and suppliers.

One great benefit of clarity around purpose and values is that it can build organizational resilience. In the face of the 2008 financial meltdown some retrenchment was required but the company was actually able to accelerate several critical initiatives around the transition to a Web-based enterprise and international expansion. In the truest ecological sense of the word, the organization was able to absorb the shock and alter its form in order to continue, indeed improve, its function. The firm was able to remain proactive and intentional in the execution of its strategy. Success through adversity is testament to a high performance culture.

Continuing to build that resilience shall require that the company tap as many knowledge flows around values as it does on technical issues. Diverse perspectives woven into shared values result in remarkable hardiness. The more that the company itself reflects the diversity of its stakeholders the more likely it is to be attuned to the nuances of how its values, initiatives, and performance are perceived; the better it will reflect back the values and aspirations of its ecosystem rather than merely projecting the company's own onto the network. The more the diversity of contributors to the development and execution of strategy, the clearer, richer, and more meaningful will be the output and the greater will be the firm-wide commitment to success.

The company has set rigorous metrics for all of its initiatives including the Trust Agenda. Shared value is measured as carefully as is shareholder value. Goals have been set for the next 1000 days and 10 years hence demonstrating that the commitment to governance, people, and planet are no more passing fancies than is the dedication to superior financial returns.

Consistent with the principles espoused by Porter, Kramer, Barton, Meyers, Kirby, and its own Trust Agenda, Premier Farnell shares all of these metrics with the full community of stakeholders. Customers, suppliers, and investors are as clear about how success is being measured as are management and employees ensuring that high-performance is a fact-based achievement and not something reached through selective presentation of whichever measure looks best in any given quarter. It is only because of the company's deep belief in the metrics that it can be so transparent.

Leadership and the Ethics Dividend

What kind of leadership is required to harvest an ethics dividend? Examining the companies citied here, one can find a common commitment to something larger than standard firm performance measures. They embrace purpose and values. The CEOs of IKEA, Premier Farnell, and Unilever, for example, have all made environmental and social metrics as central to their success as financial measures. They have embarked on strategies in which this ethical behavior is integrated with enhancements to the usefulness of their products and services. Further, they have not seen social impact in opposition to profitability – as one would find in firms that view corporate social responsibility as a necessary evil – but rather as integral to it.

This is not radically new thinking. Rather it harkens back to a time before the rise of shareholder capitalism. In 1951, the chairman of Standard Oil of New Jersey stated, "The job of management is to maintain an equitable and working balance among the claims of the various directly affected interest groups…stockholders, employees, and the public at large."[28]

Today, these efforts to enlist the hearts and minds of employees and managers toward goals larger than narrowly defined, short-term shareholder interest would be called leadership.

Conclusion

An ethics dividend is possible but only when ethics permeate a firm's view of itself and the world in which it operates. Ethics must not be relegated to values statements or corporate social responsibility reporting. The Purpose, Values, and Performance framework provides pragmatic guidance for such an undertaking. Purpose, Values, and Performance are interdependent factors through which multi-stakeholder perspectives can be integrated to drive performance and not simply reflect it. The task for leaders of firms seeking an ethics dividend is to achieve and maintain clarity of Purpose, Values, and Performance throughout the firm. Premier Farnell is but one example of how a service company can reap dividends in shareholder value as well as employee, customer, and community engagement. IBM, Unilever, and others can be seen to be pursuing profits as a natural outgrowth of clarity around Purpose, Values, and Performance.

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About the RoseMont Institute for Transformational Leadership

The world faces a leadership crisis. Confidence in leaders has declined significantly in recent years resulting in what many leadership experts are now saying are significant threats to our economic and social systems. What we believe is needed is fresh thinking about the challenges leaders and organizations face as well as about the leadership that must be demonstrated in order to meet them.

The RoseMont Institute for Transformational Leadership provides a platform for a variety of compelling voices to engage in dialog and debate topics related to transformational leadership. We believe that the thinking is there – much of it with front line leaders – and the Institute endeavors to surface it, aggregate it, and catalyze conversations. Our outlook that is global, challenging, real-world based, and forward-looking.

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