

## Project Team

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## 1.0 Introduction

Organisations are finding that it is increasingly important to have a well-defined and articulated set of values in their attendant area of business ethics. There are a number of reasons for this:

- the rise of ethical consumers demanding ‘ethical’ products;
- the growth of ‘ethical’ screening criteria by some investors;
- business practice which makes increasing use of codes of ethics, partly in response to industry-sponsored reports on corporate governance, such as those produced in the UK by Adrian Cadbury, Richard Greenbury and Ronnie Hampel;
- developing political and legal pressure, such as the 1998 Competition Act in the UK and the 1991 Federal Sentencing Guidelines in the US;
- and, the growing research interest into the theoretical and empirical links between ethics and economic performance.

This report begins by defining what is meant by ‘values’ and their importance as part of an organisation’s strategy, as well as their use in day to day management. It then proceeds to use practical examples which prove the importance of values, followed by a discussion on some strategies for putting values into action as well as how to maintain values in an organisation. A framework is then proposed which has been developed from careful examination of the values of five World Class Organisations. These organisations have been selected for their strict adherence to their founder’s values. These five organisations are written up as case studies and provided as reference material in the appendices of this report. Also included is a summary of a survey conducted which reflects the core Values terminology used by organisations within the UK.

## 2.0 The Importance of Values

Values may be defined as:

“The principles or moral standards of a person or social group; the generally accepted or personally held judgement of what is valuable and important in life”

(Shorter Oxford English Dictionary)

We can thus define corporate values to be “those qualities which a company holds to be most important in doing business.”

Our study highlighted that the four highest priority contributing factors to a firm's values make-up are *people, customers, product and business processes* (Figure 1). Values based on these factors tend to define what drives a company and the way it does business. For instance, if a company values ‘people’ then it can be expected to emphasise human resource management and develop good internal procedures for career development.

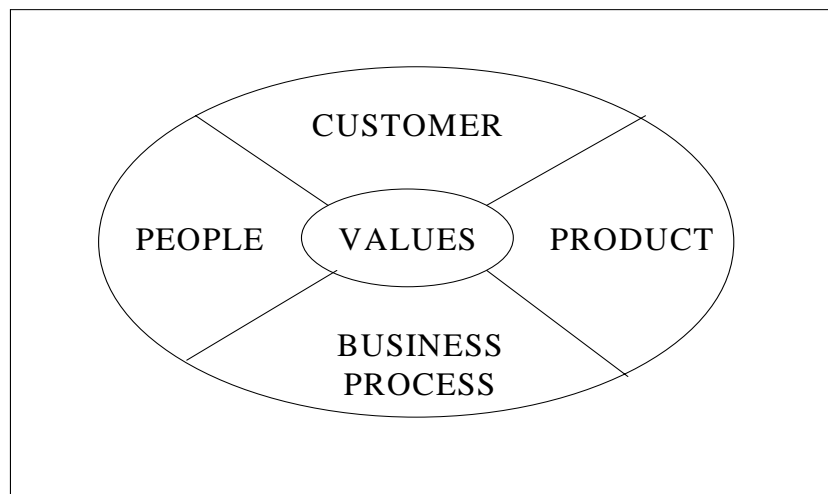


Figure 1. Values Make-Up

This observation indicates that values are closely linked to business ethics. Business ethics may be defined as the ‘rules of conduct according to which business decisions are made.’ If a company has a particular set of values then it should have a set of rules of

conduct which reflects its values. Thus when we speak of 'putting values into action' we are in the realm of business ethics. Poor values might imply poor business ethics. For example, a company which only has a value of 'short term profitability' would be under pressure to behave unethically to act consistently with its (rather simplistic) value.

### 2.1 Values as part of Corporate Strategy

Strategy is:

"The art of careful planning towards an advantage or a desired end"

(Shorter Oxford English Dictionary)

Thus, companies such as Body Shop explicitly use a value of 'passionate campaigning' on environmental, human and civil rights and animal testing as part of the definition of what the company does. The Body Shop can be regarded as engaging market positioning on the basis of its values and the ethics (such as no sales of products tested on animals) which follow from these values.

Such strategic use of values is clearly important for a class of companies engaged in supplying products to final consumers where being seen to be a value driven company is important for marketing purposes. However values may not just be part of the marketing strategy of the firm. Values may also play a role in emphasising the firms sources of long term competitive advantage. A value of 'innovation' may reflect the reliance that the company places on the continual development of new products for its long term survival.

### 2.2 Values in the day-to-day Management

Management is the:

"Administration of an organisation or commercial enterprise"

(Short Oxford English Dictionary)

Companies can use values to set the context within which the firm is administered. A value of 'integrity', which emphasises honesty of employees within the firm, is important in developing internal management procedures that improve the efficiency of the firm.

Values can thus be seen as underpinning the corporate culture, where corporate culture is defined as “that common understanding, purpose and way of doing things that may characterise a company and differentiate it from another.” Thus, a value driven firm with a well worked out ‘people’ value may be one where the employees enjoy a working environment where the rules of conduct are ethical and consistent with some well developed statements of what the company values.

The link to corporate culture also emphasises the important role of shared values in establishing “that common understanding...” which improves team effectiveness. Good values imply good ethics and good ethics is good management.

### 3.0 The Values Framework (what should be in Values)

Thomas J. Watson Jr., CEO of IBM from 1956 to 1971, identified the first elements of IBM's guiding philosophy; its core values and beliefs, and eloquently described its role in the life of an organisation:

*'I firmly believe that any organisation, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs. And finally, I believe the organisation must be willing to change everything about itself except those beliefs as it moves through corporate life.'*

Core values and beliefs are the organisation's basic precepts about what is important in both business and life, how business should be conducted, its view on humanity, its role in society, the way the world works, and what is to be held inviolate. In outstanding organisations, the values and beliefs are deeply felt and reinforced by key individuals at critical junctures in the organisation's history. Two powerful examples of this come from central figures at Hewlett-Packard and IBM. Bill Hewlett, the co-founder of HP described the "HP-Way" in the following terms:

*'I think fundamentally the HP Way is 'respect for the individual'. If you give him/her a chance, the individual will do a lot more than you think he/she can. So you give him the freedom...Respect the individual- not just employees but customers and the works.'*

Thomas J. Watson Jr., in his 1963 book on IBM, elaborated on the core values he held so dearly:

*'I want to begin with what I think is most important: our respect for the individual...this belief was bone deep in my father. Some people who start out in modest circumstances have a certain contempt for the average man when they are able to rise above him. Others, by the time they become leaders, have built up a unique respect and understanding for the average man and a sympathy for his problems.'*

These statements are not particularly revolutionary or unusual. That's not the point. The point is that these prominent business leaders believed deeply in these values and through their actions passed them on to the organisations they led. It was as natural to them as breathing. As Bill Hewlett noted: "the HP Way was never really written down...It really seemed built in and understood...[you keep the values alive] by example. Do as I do, and not do as I say."

Most companies – including IBM and HP – have more than one core value and belief. Tom Watson lists IBM's three most fundamental values as: respect for the individual, unparalleled customer service, and the pursuit of superiority in all that the company undertakes. Some companies like the Herman Miller Company, have specified a more extensive set of core beliefs:

- We believe in being a research and product driven company
- We believe in good design in every aspect of our business
- We believe that we should make a contribution to society
- We believe in quality in all parts of our business
- We believe in helping people realise their full potential
- We believe that profit, which is essential, is an outgrowth of making a contribution

Johnson and Johnson's famous "J&J Credo" not only covers multiple categories with its values, it puts them in a hierarchy. Robert W. Johnson Jr., who took over the business from his father, wrote the credo in 1943. In it, he specifies that J & J's first responsibility is to its customers; its second responsibility is to employees; its third responsibility is to management; its fourth responsibility is to the community and its fifth and last responsibility is to its shareholders.

Indeed core values and beliefs can span a wide range of categories, including; people, customer, products, management and business, society, ethical conduct and the role of profitability. But in all cases where the vision is effective as a guiding force, the values are clear and authentic. Some additional examples of core values and beliefs are given in Exhibit 1. The key questions to articulating core values and beliefs is not, "What values

and beliefs should we have?” Instead, the key questions, rhetorical statements rather than authentic value-driven result, and people will respond with justifiable cynicism.

There may be times when core values need to be balanced against each other, but under no circumstances should core values be breached in response to outside pressure. Paul Galvin of Motorola, provides an excellent example of how this principle works in practice. He believed fiercely in forthright honesty in all of the company’s dealings. During the early 1930’s, in the depths of the depression, it was common practice for radio manufacturers to misrepresent company financial health and product benefits to distributors. Pressured to do the same, Galvin responded that he didn’t care about standard industry practices. “Tell them the truth”, he said, “first because it is the right thing to do and second they will find out anyway.”

### Exhibit 1: Examples of Core Values and Beliefs

#### **About People**

**GE:** “A sound program should be designed to help everyone develop to their maximum capacity; it should not be designed to help only the chosen few.”

**Marriott:** “ See the good in people, and try to develop those qualities.”

**Telecare:** “ We believe in growth and building: we want to personally grow as individuals and we want to grow and build our organisation for the long term.”

#### **About Customers**

**Body Shop:** “Our female customers believe that we have a covert understanding of women, which is the company’s extraordinary edge and secret ingredient.”

**MIPS Computer:** “Once you make a commitment you keep it...You never stop trying to meet a commitment unless the other person releases you from it. All levels in this company, when you make a commitment, you keep it. It doesn’t have to be written down in a legal document. We’ve had a couple of situations where we’ve lost money on verbal commitments made by sales people, who didn’t have the authority to make such agreements, but we’ve kept the commitments.”

**L.L.Bean:** “Sell good merchandise at a reasonable price; treat your customers like you would your friends, and the business will take care of itself.”

**Jonhson and Johnson:** “We believe our first responsibility is to our doctors, nurses and patients, to mothers and all others who use our products, who use our services. In meeting their needs, everything we do must be of high quality. We must constantly strive to reduce our cost in order to maintain reasonable prices. Customer orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.”

### About Products

**IKEA:** “Too many new and beautifully designed products can be afforded by only a small group of better-off people. IKEA’s aim is to change this situation. We have decided to side with the many. We know that in the future we may make a valuable contribution to the democratisation process at home and abroad.”

**3M:** “The 11<sup>th</sup> commandment: Thou shall not kill a new product idea.” “many great product ideas come from stumbling, but you can only stumble if you’re moving.”

**Disney:** “There is no cynicism in me and none is allowed in our work.”

**Sony:** “We should always be the pioneers with our products – out front leading the market. We believe in leading the public with new products rather than asking them what kind of products they want.”

**Virgin:** “If you do something for fun and create the best products, the profits will come.”

**Merck:** “We try never to forget that medicine is for the people. It is not for profits. The profits follow and if we remember that, they never fail to appear.”

### About Management and Business

**Body Shop:** “When you take care of your customers really well, and make them the focal point, never forgetting that your first line of customers are your own staff, profitability flows from that.”

**Honda:** “...creating a technology driven enterprise that would always be a pioneer and never a follower.”

**Hewlett Packard:** “All levels should work in unison toward common objectives, recognising that it is only through effective co-operative efforts that the ultimate in efficiency and achievement can be obtained.”

**McKinsey & Co.:** “Every member of the Firm has a responsibility to question Firm decisions that he or she disagrees with.”

**Motorola:** “Everything will turn out alright if we just keep in motion, forever moving forward.”

### 3.1 How are values to be put into action?

Values and ethics are closely linked. However values on their own do not do anything. A company may have a value of quality but still produce sub-standard products. The rules of conduct which should follow from particular values may not be well articulated or even if articulated may be ignored. Thus putting values into action is much more of an issue than the issue of what values are. Many companies have thus gone down the route of articulating their values in a mission statement and many more have some fine sounding corporate values. However only a few companies are famous (in a good way) for their values.

Why might this be?

We suggest two reasons. First, values need to result in consistent and well articulated business ethics. This involves detailed code of ethics, company policies and procedures which are checked for their consistency with the company values. Such business ethics do not just happen. Second, even the most consistent set of written procedures are less than effective if not communicated properly throughout the organisation. For values to translate into the actions of individual employees those individuals need to be informed and trained. Indeed most of the reported unethical actions of firms nowadays result from actions of employees which contravene the companies stated policies.

Hence we pursue the issue of how to effectively put values into action. To this end we have identified a number of issues which are detailed in the following sections. We start with the importance of leaders in shaping business values. This is followed by a focus on the content of the statements of value which leaders implement. We then provide details of how firms might implement a decision making process which is consistent with ones values. This is then followed by five case studies of ethical decision making consistent

with organisational values: in Chevron, Levi Strauss, Marks and Spencer, SmithKline Beecham and Body Shop.

### 3.2 Gaining the Ethical Edge: Procedures for delivering Values driven management

Adding values to an organisation implies a culture change. However, mere policies and procedures alone will not bring about the change. What are the elements that will turn values into action? Here is a ten-point programme (Figure 2) to establish an ethical infrastructure in an organisation and to ensure that the institutional memory survives personnel and market upheavals.

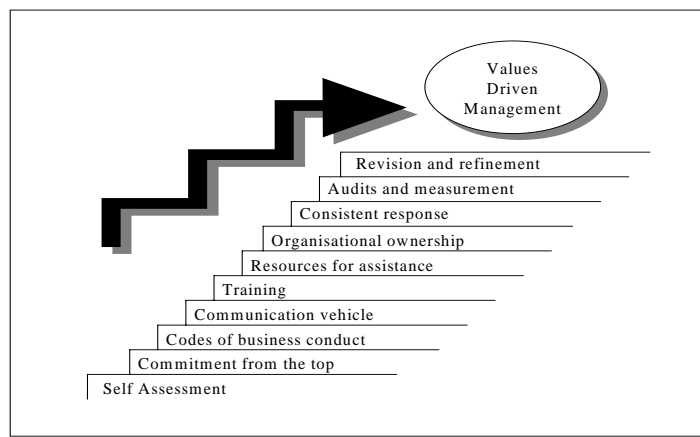


Figure 2. Procedures for Delivering a Values Driven Management

#### i. Self Assessment:

To determine what procedures are needed to address organisational risk and concerns. A comprehensive risk assessment will consider what ethical issues have faced competitors and partners, as well as where the company itself has had problems. Employee surveys and focus groups will determine how employees view management and the company; what situations, dilemmas and questions they face, and what might be the underlying cause of future problems. This is sometimes referred to as an ethical or value climate assessment.

### ii. Commitment from the top:

Before any value / ethics initiative can start, you need the explicit commitment of top management for long term success. Starting from the Board of Directors, they should appoint a senior officer to oversee the programme. The ideal qualifications for an ethics officer should be: holds a high level position within the company; operates with unrestricted access to the CEO/board of directors/committee; maintains a high degree of trust and respect amongst members of the senior management team; can assemble resources for effecting internal procedural changes; has access to information and support mechanisms that provide monitoring, measuring and detection; offers incentives and rewards for productively carrying out the compliance role; has the skills to operate effectively with the media, public forums and legal process.

### iii. Codes of business conduct:

This is a blue print for building a moral culture within a corporation. A good corporate code of values and conduct should include certain managerial and employee guidelines for making ethical decisions, including the principles and factors that one ought to consider when arriving at a decision. Comprehensive codes might also include sources, both inside and outside the organisation, whose advice could be offered. The employee should also know that he/she will be held accountable for their behaviour. This will place a greater sense of personal ethical responsibility on employees and send a clear message that corporate integrity is dependent on individual integrity.

### iv. Communication vehicles:

The best value program is worthless without a proper vehicle for communicating it to the masses. BellSouth, the telecommunications company, send to each of its employees a 40 page booklet containing BellSouth's code of conduct, information on over 20 different subjects and a resource guide for further questions. Employees are also given a wallet size card with toll-free numbers for the ethics line. But the communication was not a one-time event. Employees can submit values through the internet or human resource department.

### v. Training:

Values and ethics training seminars are critical, as such seminars allow employees to exchange views with each other about the importance of values and ethics and about issues that specifically relate to their daily work. Here are some suggested objectives for a training seminar in business values and ethics

- To clarify the ethical values and enhance the ethical awareness of employees
- To uncover and investigate ethical issues and concerns that directly relate to the organisation
- To discuss criteria for ethical and value based decision making within the organisation
- To examine and enrich the structures, strategies, resources, policies and goals which shape the ethical environment and guide the ethical activities of the organisation.

However the most effective training seminars must be individually designed according to the business issues of the industry and the organisation.

### vi. Resources for Assistance:

In the early stages of the business ethics and values movement, companies instituted reporting hotlines, toll-free telephone numbers, promoted as a way for employees to report wrongdoing. But as calls came in, managers realised that employees would not limit their calls to reporting actual illegalities, since, in some cases, not even lawyers can discern whether a particular set of facts constitutes a violation of law. Managers saw value in changing the label of the telephone line to 'helpline' or 'guideline' to serve as a source of advice and counsel on ethical and compliance issues. Today many ethics officers report that over 40% of their calls on helplines concern internal human resource issues and incidents.

### vii. Organisational ownership:

No programme to put values into action will be successful without the full involvement of managers across the organisation. For that reason, multi-departmental committees have become an effective supporting structure to any values initiative. With senior managers

drawn from diverse departments across the company, the values officer has a 'kitchen cabinet' to serve as a sounding board and to drive ownership of the program throughout all areas of the business. Such a committee also helps to bring to bear the resources available in participating departments. One risk of a corporate directed ethics initiative is that it will not take hold in the outlying areas and locations. To prevent this possibility, some companies have deputised specific managers in the field to be responsible for implementing ethics/values initiatives in their area. Depending on the industry, some companies have assigned responsibility for coverage for discrete risk areas, so that employees have a subject matter expert at hand when they have questions. These 'responsible officers' for each subject area developed an expertise in certain high-risk areas, such as environmental compliance, and may work in teams with a lawyer or manager for responsibility in the area.

### viii. Consistent Response and Enforcement:

The most effective way to undermine an ethics/values programme is to discipline a low level employee or one who is not well liked while ignoring similar wrong doings by a senior executive or star performer. Yet some ethics/values officers have confidently stated that ensuring consistent response and enforcement to ethical issues is one of the toughest challenges. It is easy to understand why consistency is a formidable task, particularly in an organisation with thousands of employees located in many different sites. That is why careful co-ordination with human resource personnel or an ethics/values co-ordination committee that can review or hear appeals of disciplinary actions are useful tools for ethics/values officers and managers. Some organisations have even built in incentives, evaluations and rewards for ethical character, understanding that an employee can diligently follow all procedures but still be viewed as a person with questionable values.

### ix. Audits and measurements:

Managers should not establish ethics initiatives, training programs and other infrastructures without constantly measuring their effectiveness. On the process side, audits should reveal whether communication vehicles such as helplines or websites are working, whether employees have acknowledged receiving training and whether

employees are even aware of resources available to them. Substantive audits should include detailed investigations into potential violations of set values, law or regulation.

x. Revision and refinements:

Finally, a program to instil values into an organisation must be more than a precise model of ten points that sits on a shelf. It must be a dynamic, living instrument. Every month, every year, circumstances and situations change that require managers to re-evaluate the goals and contents of even the best values programme.

### 3.3 Ethical Behaviour Pays

Managers oriented to the bottom-line may find this a difficult standard to prove. The corollary may be a better test; unethical behaviour can be costly. A person needs only to read the headlines in the business sections of newspapers to understand that the price of misconduct is rising:

- Texaco. \$176 million racial discrimination settlement after tape recordings of improper conversations among its top executives were released (1996).
- Archer-Daniels-Midland. \$100 million anti-trust fine for price fixing (1996).
- Louisiana-Pacific corp. \$37 million fine for customer and environmental fraud, including lying to inspectors (1998).
- Laboratory corporation of America. \$187 million in fines and penalties for health care billing fraud (1998).
- Mitsubishi Motor Corporation. \$34 million to settle a government investigation of pervasive sexual harassment (1998).
- Royal Caribbean Cruises, Ltd. \$9 million fine for deliberately dumping waste off the coast of Florida (1998).

These are examples of real costs, but can you measure savings? One ethics officer confidently shared his frustration in reporting to his Board of Directors about the company's ethics and business conduct program. One director asked him how he could statistically measure the program's success. He had to explain that one cannot always measure preventive medicine, but that increased employee use of the confidential help

line, employee satisfaction surveys and the prompt resolution of festering problems were the distinct benefits that may ensure that the company would not become a newspaper headline in the future.

When Peter Drucker (the infamous management guru) was 13, a teacher asked him what he wanted to be remembered for. Drucker still prolific in his 80's, is still asking himself that question, "because it pushes you to see yourself as a different person to the person you can become". So too with our quest for the ethical edge. Managers should not want to be lauded for the good procedures they set in motion, but rather for the values these procedures deliver, ones that create a management culture that is always striving for excellence.

### 3.4 Towards a framework

Our understanding of values is based on the study of the world's visionary organisations. Companies which have excelled using their values as guiding principles over a long period of time. Their common value elements were distilled to form a framework for other organisations to utilise as a guideline for aligning their own visions.

The framework proposed also took into account the ethics needed by an employee in order to realise the company's values. As the employee digests the organisation's values, adherence to these principles also relies largely on what culture already permeates within the organisation. It is proposed that a *culture* which supports the *sharing* of information or knowledge, in an *open* and *trusting* environment within a *team* structure would most strongly support **values** which focus on **People, Customers, Products** and **Business Management**.

<i>Culture / Ethics</i>	<i>Trust</i>	<i>Openness</i>	<i>Teamwork</i>	<i>Sharing</i>
<b>Values</b>				
<b>People</b>				
<b>Customers</b>				
<b>Product</b>				
<b>Business / Process Management</b>				

Figure 3. The Values Framework

**4.0 The benefits of Personal and Organisational Values**

Business people love lists of rules, from The Seven Habits of Highly Effective People to 1001 Ways to Reward Employees. This love of rules extends to business ethics because those companies with ethics programs hinge them on codes of conduct-in the final analysis, a list of rules meant to engender ethical behaviour.

Still, despite an instinctive affinity for rules, human beings also know that being virtuous is more a matter of having the right values (appropriately flexible guidelines that treat ethical behaviour as a matter of general compliance and ethical intent) than it is a matter of following lists of rules.

Thus, most people facing ethical pressures at work don't, in the heat of the moment, consult rules, policies, or regulations. If they're truly concerned about doing the right thing, they consult their "gut" feelings about what they should do. Though an organisation's rules may play a role in forming the employee's sense of organisational values and expectations, rules leave holes and room for interpretation and often take a back seat to observed behaviour.

### **4.1 Four steps to ethical decision making**

Since rules have limitations and ethical outcomes are rarely definitive, the standard practice in business ethics "training" programs has become the introduction of a "decision-making model", no less than a short, step-by-step list of rules to help a decision maker reach an ethical course of action:

#### Step 1. Identify the facts and issues.

- a) Who will be affected by (who are the stakeholders of) my decision?
- b) What will be the short- and long-term consequences of possible courses of action?

#### Step 2. Identify applicable values.

- a) How will possible courses of action impact potential stakeholders?

- b) What considerations should I have with regard to:
- The rights of stakeholders?
  - Justice among stakeholders?
  - The (short and long-term) balance of good among stakeholders?
  - Stakeholders to whom I am justifiably partial?
  - My gut feeling about what is "the right thing"?
  - What I think those whom I respect for their virtue would judge to be "the right thing"?

Step 3. Seek help if needed.

- a) Which courses of action might keep me awake nights?  
b) Can my supervisor or the Human Resources department provide guidance?

Step 4. Reach the best decision based on the available information.

- a) Is my decision legal and within organisational policy?  
b) Do organisational values and my personal values support my decision?

However four steps (or rules) and eight questions can't lead a person in each and every ethical dilemma to the "right" decision. When a person reaches the end of Step 4 and the answers to the questions, respectively, are "yes" and "no" then the person merely knows what he or she already knew - that he/she has a serious ethical dilemma on his/her hands. In this respect, the Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management ominously state:

"If the ethical conflict still exists after exhausting all levels of internal review, there may be no other recourse on significant matters than to resign from the organisation and to submit an informative memorandum to an appropriate representative of the organisation."

The beneficial outcome of following a structured ethical decision-making process is less often the "right" answer and more often the ability to think clearly about the dilemma at hand. Being able to articulate your decision-making rationale and, where applicable, your rationale for wanting to break a rule or practice is a valuable quality that can lead to

decision-making progress. Possessing this quality can help an employee ascertain whether or not he/she works for an employer that shares his/her ethical values.

### 4.2 The 'I' in Ethics

There is no such thing as business ethics, only people ethics. Ethics is a subset of morality that exists only among people, not among institutions, not among systems, not among organisations. So the 'code' must be within every employee. If the people don't behave ethically, neither can the company.

We tend to point to our nicely framed codes of conduct rather than to ourselves when asked about ethics. We reserve discussions of ethics for big problems - ethics with a capital "E." But there is an "I" in ethics. To ensure that we consistently act with integrity in an increasingly complex and diverse world, we must develop personal rules of engagement. And we need to recognise that we make ethical decisions every day.

Ethics isn't just something we devise in a strategic planning session and post in our headquarters' buildings. It involves a daily examination of our actions - and inaction - around the multitude of decisions we make, both large and small. Being ethical means that we never abdicate our personal responsibility for outcomes.

To be effective, ethics must be internalised. Leaders of organisations must push that process down through all levels of their organisations. To be truly ethical, we must:

1. Know our values and consistently commit to them;
2. Be willing to stand up for what we believe, especially when it might be personally painful to do so;
3. Share our world view with others;
4. Ensure that our personal values and organisational values are in synch and be prepared to act if they are not;
5. Develop our own rules of engagement to direct our daily organisational and personal lives; and

6. Demand that those around us also act ethically and build an environment that allows them to do so.

### 4.3 Ethical Figures

According to a 1998 survey by the Society for Human Resource Management, Alexandria, Virginia, and the Ethics Resource Centre, Washington, D.C., more than half of respondents had observed workplace conduct that violated the law or the organisation's standards of ethical business conduct. From lying to supervisors (witnessed by 45%) to lying on reports or falsifying records (36%).

Nearly half of respondents said they felt pressured by other employees or managers to compromise their organisation's standards of ethical business conduct to achieve business objectives. The top five pressures identified were meeting overly aggressive financial or business objectives (50%), meeting schedule pressures (38%), helping the organisation survive (30%), rationalising that others do it (22%) and resisting competitive threat (18%).

However, more than 20% didn't report the misconduct to management. The top reason cited for not doing so was fear of not being considered a team player (96%). Others didn't believe managers would take corrective action (59%), feared retribution (41%), and didn't trust managers to keep reports confidential (38%). Yet, isn't it unethical not to report unethical conduct?

Although three quarters of organisations have a written code of ethics, nearly half of workers had engaged in unethical and/or illegal acts in the past year, according to a 1997 survey by the Ethics Officer Association, Belmont, Massachusetts, and the American Society of Chartered Life Underwriters and Chartered Financial Consultants, Philadelphia. The most common behaviours reported involved cutting corners on quality (16%), covering up accidents (14%), abusing or lying about sick days (11%), and deceiving customers (9%). Some 4% of workers reported taking credit for a colleague's idea, and 5% lied to or deceived superiors on a serious matter.

More than 56% of workers reported pressure to act unethically or illegally on the job, said the survey. Yet at the same time, firms with ethics codes of conduct jumped 13% to 73% since 1994, while firms with training programs rose 7% to 40%, according to another recent survey by the Ethics Resource Centre, Washington, D.C.

### **4.4 Beyond Figures**

Even as we develop ethics programs for our organisations, ethical misconduct continues. Something is missing.

Most organisational ethics codes are of two types, they are either 'stay out of jail' codes, or they are statements of an organisation's values. The former are legalistic; the latter are platitudinous. Though these latter codes express the proper sentiment, they lack an important level of specificity and invite little if any self-examination. They restate values at a level that makes it possible to read them and never be touched by them. We need to go beyond that to another level that forces a greater degree of self-review.

"The ethics of choice" goes beyond legality and platitudes to define in behavioural terms what is and is not ethical and clears the way for considerable self-review and self-examination. It is action oriented and it focuses on daily choices we make in our workplaces and with others.

### **4.5 Values are at the Heart**

A mission statement says what you do. A code of ethics states how you do it and is based on personal and organisational values. Robert Haas, chairman and chief executive officer of Levi Strauss & Company, San Francisco, talks about values in a recent Harvard Business Review: "We've learned . . . that the soft stuff and the hard stuff are becoming increasingly intertwined. A company's values - what it stands for, what its people believe in are crucial to its competitive success. Indeed, values drive the business."

A recent survey by the American Management Association, New York City, reveals that when people's personal values are congruent with their company's values, their personal lives are better and they feel more optimistic about their jobs, as reported by Dennis Jaffe and Cynthia Scott ("How to Link Personal Values with Team Values," Training & Development, March 1998).

Values are organising principles for our lives. Consider the following processes for exploring them.

Ask yourself: What are my core values, and where did I learn them?

Most of us learn our personal values from family members. Hearing as a child, "If you're going to do something, do it right," "patience is a virtue," or "honesty is the best policy," is among the ways we acquire personal values.

The Los Angeles based consulting firm Gardenswartz and Rowe suggests the following exercise to identify your values: Draw six circles and in each one list one source of your values (mother, teacher, church, and so forth). Then write the most important rules and values you learned from each of those sources. How do these values compare with those of others in your organisation? You might find great values similarity, even among disparate groups of employees and members. Do any of these values ever come into conflict with one another? When there is a conflict, what influences your choices? How do your core values affect your behaviour?

Business analyst and writer Noel Tichy asserts that great leaders have an articulated world view that is concise, memorable, and teachable to others. To be ethical, we must know our own values.

Ask yourself:

- Do the people in my organisation know what I stand for?
- How can my employees and members tell that I'm ethical?
- Do others around me know that these are my core values?
- Do my actions reflect my core values?

What are my organisation's core values? If you can't answer this question without looking in a board book or policy manual, you are not truly living the values of your organisation. Like personal values, these should be intentional, conscious, teachable, and actionable. If you are exploring employment with another association, ask about their core values to ensure that they fit with your own.

The ethical organisation's systems also reflect its core values. Jaffe and Scott report that "one company placed value on teamwork, but rewarded managers for individual results." Review your values and policy statements to be sure they complement, not contradict one another. For instance, do you value diversity but have inflexible human resources policies?

### 4.6 The Organisational Value's 4 Step Process

Jaffe and Scott recommend a four-step process to articulate the organisation's values:

1. Define personal values: Articulate your own personal values and determine which are most important.
2. Share values with the team: Understand others by learning about their key personal values.
3. Create a team values credo: Define values on how to work together.
4. Create a charter of team values: Translate values into behaviour.

These "rules of engagement" can serve as a model for the creation of an organisational ethics code that incorporates personal and organisational commitment to values.

### **4.7 Return on investment**

Focusing on a personal ethics of responsibility and values, will result in:

- increased awareness of what influences personal and organisational growth;
- increased willpower to overcome inertia and act in accordance with the organisation's mission as well as your own; and
- increased ability to imagine and create solutions.

The Japanese define ethics as "human logic," the logic by which we become human. We become more fully human and effective by developing personal rules of engagement, consistently living authentic and values driven lives, risking personal pain to do so, and recognising that not only is there an "I" in ethics, but also in innovation, opportunity, responsibility, and integrity.

## 5.0 Sources of Corporate Values

*“The absence of a generally accepted and unambiguous system of standards and values confronts internationally operating companies with a fundamental question: What should we be guided by in our corporate behaviour?...A company will have to formulate its own standards and values to supplement the laws and regulations in the various countries. It will have to ensure that these are accepted internally and complied with.”*

Morris Tabaksbuld, Chairman & CEO Unilever NV

*“Shell companies have as their core values honesty, integrity and respect for people. Shell companies also firmly believe in the fundamental importance of the promotion of trust, openness, teamwork and professionalism, and in pride in what they do. Our underlying corporate values determine our principles. These principles apply to all transactions, large or small, and describe the behaviour expected of every employee in every Shell company in the conduct of its business.”*

Chairman, Royal Dutch/Shell Group of Companies

### 5.1 Top Priority Value Words

In a survey of opinion about ‘what constitutes business values’ conducted in 1991 by John Humble in the UK. The 5 ‘top priority values’ were identified as:

- People
- Competitiveness
- Customers
- Quality
- Productivity

The 2 lowest were:

- Social responsibility
- Short term profitability

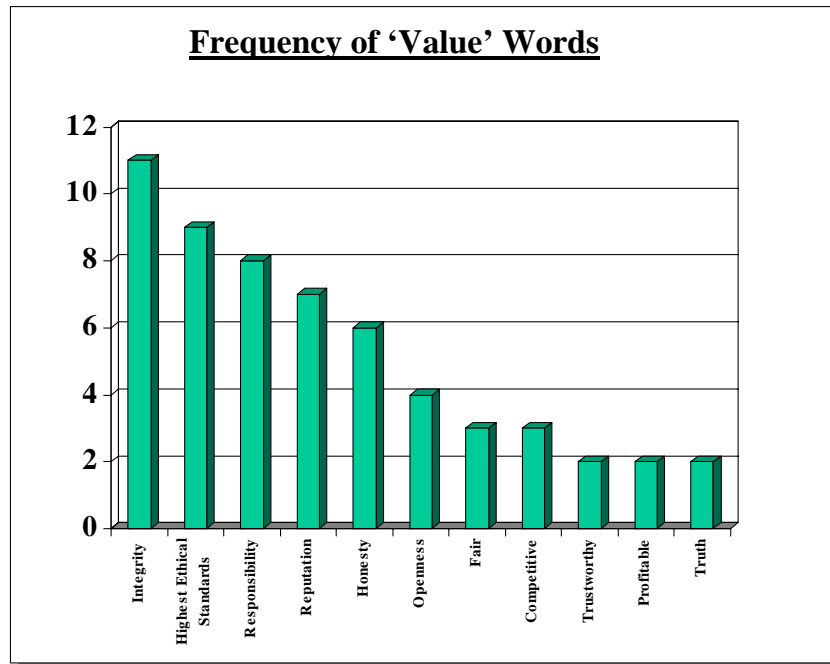
In 1992 another survey by the Institute of Business Ethics in the UK refers to returns of investments as ‘fair’, ‘acceptable’ and ‘satisfactory’. Whereas in the US more expansive

## Impact of Organisational Values on Business Performance

words like reasonable, progressive, worthwhile, attractive, competitive and adequate are used to describe the desired returns on investments.

Frequency of mention of 'value' words in introductions or preambles to selected corporate codes:

Integrity	11
Highest Ethical Stds	9
Responsibility	8
Reputation	7
Honesty	6
Openness	4
Fair	3
Competitive	3
Trustworthy	2
Profitable	2
Truth	2



*“We believe in and obey the letter and the spirit of the law is the minimum and no set of rules can provide all the answers or cover all questionable situations. While it is the responsibility of top management to keep a company honest and*

*honourable, perpetuating ethical values is not a function of the chief executive or a handful of senior managers. Every employee is expected to take on the responsibility of always behaving ethically whatever the circumstances. Beliefs and values must always come before policies, practices and goals, the latter must be altered if they violate fundamental beliefs.”*

United Biscuit's Introduction to its Company statement on Ethics and Operating Principles.

## Appendix

## **The Body Shop**

### **What the Body Shop believes in**

The Body Shop is a stake-holding company. It believes its success is dependent upon its relationships with all its stakeholders: employees, franchisers, customers, communities, suppliers, shareholders and NGOs. In 1995 the company put its belief to the test when it developed the concept of stake-holding by introducing an independently verified audit of its own performance (Values) promises on social and environmental issues – The Values Report.

The report, three independently verified statements on the company's environmental, animal protection and social/stakeholder performance, was hailed as trailblazing by UNEP (the United Nations Environmental Programme). The subsequent Values Report 1997 was also recognised by UNEP, again scooping its top award for social and environmental reporting. The Body Shop approach to ethical business operates on three levels:

1. Compliance: opening up to defined standards of human rights, social welfare and worker safety, environmental protection and, where relevant, wider ethical issues like animal protection
2. Disclosure: only through public disclosure can a real process of dialogue and discussion with stakeholders be achieved and the right direction charted for the future
3. Campaigning: to play an active part in agitating and campaigning for positive change in the way the business world works, with the ultimate aim of making a positive impact on the world at large

### **The Body Shop approach to social auditing**

The methodology development work for The Body Shop social audit first commenced in 1993 and was formalised for the first audit cycle of 1994/95. The aim was to synthesise some aspects of environmental management and auditing, quality management and the long tradition of academic and practical work in social auditing. The commitment to social auditing followed successful experience in implementing audit programmes for

environmental protection and health and safety at work, as well as ingredient monitoring programmes for animal protection. In the case of environmental audits, The Body Shop elected in 1991 to follow the European Union Eco-management and Audit Regulation (EMAS) as the most rigorous framework available (Wheeler, 1992). Since 1992, the company has published five independently verified environmental statements (The Body Shop International, 1992, 1993, 1994, 1996, 1998).

In January 1996, The Body Shop published its first integrated document of its ethical performance called The Values Report 1995. The report comprised of three statements on the company's performance on environmental, animal protection and social issues. Each statement had an element of independent verification in line with established best practice. The publication also included a paper "The Body Shop Approach to Ethical Auditing" describing the methods underpinning the three reports. In January 1998, the company published its second integrated Values Report.

However, since the focus of this paper is on the Social Statement, the framework presented below outlines the different components of the social audit methodology as implemented by The Body Shop. The audit cycle consists of ten key components, namely: policy review, determination of audit scope, agreement of performance indicators, stakeholder consultation, internal management systems audit, preparation of accounts, agreement of strategic and local targets, verification, publication of statement and internal reports, and follow-up dialogue with stakeholders.

The following describes each step briefly in general terms and provides examples on how these steps relate to the company's first two audit cycles of 1994/95 and 1995/97.

### **Commitment and leadership**

The Body Shop committed itself to a formal social audit process in 1993. This followed publication of Anita Roddick's autobiography in 1991 in which she wrote: "I would love it if every shareholder of every company wrote a letter every time they received a company's annual report and accounts. I would like them to say something like, 'OK, that's fine, very good. But where are the details of our environmental audit? Where are

the details of your accounting to the community? Where is your social audit?" (Roddick, 1991)

There is no doubt that had it not been for the commitment of the founders of the company and the development of an "accountability ethos" within The Body Shop in the early 1990s, the company would not have been in a position to publish a statement of its social performance in 1996. As with environmental management and auditing, clear leadership is probably the most important single factor in driving a process of social auditing and disclosure to a successful conclusion.

### **Policy review**

In every company there will be a variety of formal and non-formal policies which prescribe the organisation's intentions with respect to its stakeholders. These may range from occupational safety and health at work for employees (usually very well documented) to customer service (frequently expressed more through a company's culture than through any formalised system). There may be dividend policies for shareholders, payment terms for suppliers, codes of ethics for company representatives working overseas, and so on. Clear policies help provide a framework for assessing the quality of a company's relationships with its stakeholders. Before any assessment or audit of social relationships, a company should be aware of its explicit and implicit intentions with respect to each stakeholder group.

For The Body Shop's first social audit, the main policies against which performance was judged were the company's Mission Statement and Trading Charter (Insets 1 and 2). More specific policies and guidelines existed for health and safety at work, human resources (managers' and employees handbooks) and Fair Trade (Community Trade programme). These were also used as the basis for assessing the ability of management systems to deliver on policy commitments.

#### **Body Shop's Mission Statement (Inset 1)**

To dedicate our business to the pursuit of social and environmental change

**To** creatively balance the financial and human needs of our stakeholders: employees, customers, franchisers, suppliers and shareholders.

**To** courageously ensure that our business is ecologically sustainable: meeting the needs of the present without compromising the future.

**To** meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.

**To** passionately campaign for the protection of the environment, human and civil rights and against animal testing within the cosmetics and toiletries industry.

**To** tirelessly work to narrow the gap between principle and practice, whilst making fun, passion and care part of our daily lives.

### **Body Shop's Trading Charter (Inset 2)**

We aim to achieve commercial success by meeting our customers needs through the provision of high quality, good value products with exceptional service and relevant information which enables customers to make informed and responsible choices.

Our trading relationships of every kind – with customers, franchisers and suppliers- will be commercially viable, mutually beneficial and based on trust and respect.

Our trading principles reflect our core values.

We aim to ensure the human and civil rights, as set out in the Universal Declaration of Human Rights, are respected throughout our business activities. We will establish a framework based on this declaration to include criteria for workers rights embracing a safe, healthy working environment, fair wages, no discrimination on the basis of race, creed, gender or sexual orientation, or physical coercion of any kind.

We will support long term, sustainable relationships with communities in need. We will pay special attention to those minority groups, women and disadvantaged people who are socially and economically marginalised.

We will use environmentally sustainable resources wherever technically and economically viable. Our purchasing will be based on a system of screening and investigation of the ecological credentials of our finished products, ingredients, packaging and suppliers.

We will promote animal protection throughout our business activities. We are against animal testing in the cosmetics and toiletries industry. We will not test ingredients or products on animals, nor will we commission others to do so on our behalf. We will use our purchasing power to stop suppliers animal testing.

We will institute appropriate monitoring, auditing and disclosure mechanisms to ensure our accountability and demonstrate our compliance with these principles.

### **Determination of audit scope**

Because parallel systems exist at The Body Shop for auditing and reporting on ethical performance with respect to animal protection and the environment, the subject area of the social audit was restricted to people: human stakeholders who may affect or be affected by The Body Shop. The number of individual stakeholder groups could theoretically be quite large and a decision had to be taken as to which groups should be included in the first and subsequent audit cycles. The Body Shop took the view that in the first cycle, the net should be cast as wide and as deep as possible. But inevitably some groups and sub-groups could not be reached for practical reasons.

Another important factor in the scoping of a social audit is geography. Where a company has wholly or majority-owned operations in different countries, a decision has to be taken as to whether one or all countries are to be covered in each cycle. For The Body Shop this meant choosing to concentrate mostly on U.K.-based groups in the first cycle. So although some information was gathered with respect to U.S. franchisees and customers it did not constitute the systematic effort that was devoted to the U.K. social audit process.

The last factor to be taken into account in scoping a social audit is the level to which indirect stakeholders may be embraced. For The Body Shop this required a decision about whether, for example, staff of franchisees or non-governmental organisations in franchised markets should be consulted. It was decided that such stakeholders were better consulted directly at such a time when franchisees were able to conduct their own audit processes.

The stakeholder groups for The Body Shop's first social audit included:

- Directly employed staff by The Body Shop International
- International head franchisees
- U.K. and U.S. local franchisees

- U.K. and U.S. customers
- Suppliers
- Community trade suppliers
- Shareholders
- Local community (Littlehampton)
- U.K. non-governmental organisations
- Foundation applicants.

### **Agreement of performance indicators**

There are three types of performance measurement in The Body Shop's approach to social auditing. They are:

1. Performance against standards (performance indicators). These should reflect nationally and internationally available information on best practices for activities and policies that describe the organisation's social performance. Measures may be both quantitative and qualitative. Standards are agreed with relevant departments which then have the responsibility for collecting relevant information. Data are submitted by the departments and validated by the audit and verification processes. Where appropriate, departments are encouraged to set internal benchmarks/ targets relating to individual standards, and to collate information on external benchmarks. Therefore, the ideal set of reported information relating to individual standards should evolve towards the following format (see Table II). Where data is available, historical data on performance indicators should be reported at least for the preceding audit cycle.
2. Stakeholder perception of performance against core values (i.e. The Body Shop Mission Statement and Trading Charter). These core values are essentially defined by the organisation itself. Each stakeholder group is consulted to establish their perception of how closely the organisation's performance matches its stated aspirations.

3. Stakeholder perception of performance against specific needs of stakeholders. These needs are particular to individual stakeholder groups. They are identified as salient through consultation with stakeholders in focus groups and measured in anonymous and confidential surveys of opinion.

### **Stakeholder consultation**

Qualitative measures are arguably the most important barometer of human relationships. An employee who feels he or she is treated fairly may tolerate quite severe challenges in the workplace but retain his or her loyalty and commitment. A customer whose complaint is fixed without quibble or debate may feel even better about a company than if the product never disappointed in the first place. For effective stakeholder inclusion, perceptions are reality. A misunderstanding is no less damaging to a relationship regardless of whether the company or the stakeholder is to blame.

Few major companies eschew market research with customers. Indeed for many organisations this is their most significant investment in stakeholder inclusion. In order to systematically measure the perceived quality of relationships between other stakeholders and the firm, techniques similar to market research need to be deployed. In our experience, focus groups and large scale confidential surveys of opinion where the questions themselves are co-designed in focus groups with stakeholder representatives can be applied to almost any relationship.

Engaging stakeholders in direct dialogue is one of the most important and sensitive processes in social auditing. It is especially important to identify salient issues for each group in face-to-face conversation before conducting wide-scale surveys of opinion. The Body Shop's first social audit engaged stakeholder groups in focus groups to explore specific stakeholder needs and to allow stakeholder views and concerns to be expressed. To ensure open dialogue in the discussion, it was considered important, especially for the initial stages of the process, that the verifiers had access to the process as observers.

Following the focus groups, when specific issues had been identified as salient or of particular interest to stakeholders, questionnaires were designed to measure more wide-scale opinion. These questionnaires were intended to capture perceptions of the

company's performance against both stakeholder-specific needs and core values articulated by the company.

Questionnaires were designed with professional assistance to avoid inadvertent introduction of bias. Space was also allowed on the questionnaires themselves for open-ended commentary on the company's performance.

Surveys were done using the largest manageable sample size; respondents completed the questionnaires anonymously and returned them to an independent organisation for confidential analysis. Only summary information and lists of comments were submitted to The Body Shop for inclusion in the audit process.

Following publication of the results of the social audit, it was considered vital to obtain feedback from stakeholders and engage them in follow-up dialogue about how they reacted to the findings presented in the Social Statement. This process of dialogue helps shape future audit cycles, enables indicators and data presentation to be fine tuned for future cycles and helps set priorities for future action by the company.

### **The internal management systems audit**

There were three main sources of information for The Body Shop's first audit process:

- i) the results of the focus groups and surveys described above;
- ii) the documentary information provided by departments which had agreed quantitative and qualitative standards; and
- iii) the output from confidential internal audit interviews with staff and managers. This latter source of information was based on the kind of "management systems" structured interviews used in environmental and quality management auditing. Checklists were developed specifically for the purpose of the interviews and results used to build up a dynamic picture of departmental handling and knowledge of issues and company policies relevant to social performance.

During 1996/97 the internal management systems audit was further developed toward an integrated methodology whereby individual departments were audited on management

systems relating to the company's policies on environment, animal protection, human resources, communications, occupational health and safety, information management and other relevant ethical issues.

The audits result in time framed action plans prioritising recommendations for proposed improvements. The audit reports as well as documentation relating to the auditing procedures are made available to external verifiers. The management systems audits are conducted by a semi-independent audit team which reports direct to the company's Executive Committee.

Management audits are sometimes based on professional codes and standards; this is especially true of financial audits. With stakeholder relationships and social performance there are as yet no professional or accredited international standards, although groups such as the Institute for Social and Ethical Accountability are working towards them.

### **Preparation of accounts - the Social Statement**

The format chosen for The Body Shop's first Social Statement was based on a stakeholder model, with each group given its own section within the report. An introductory section gave a general explanation about the scope of the social audit and how the information had been compiled and what assumptions were used. The company founders also gave their overview in a Foreword thereby setting a tone to the document. Each stakeholder section then followed a common format:

1. The basis for the company's approach and aims for each stakeholder group (with reference to relevant policies etc.) as well as basic information about the stakeholder group (e.g. size, structural/contractual relationship to the company).
2. The methodology used for each consultation process (i.e. what combination of focus groups, surveys and discussions were used to capture stakeholder perceptions).
3. The results of stakeholder consultation with perception surveys described in as even-handed and a neutral a way as possible so as to avoid premature interpretation, together with direct quotations from stakeholders selected in an independent fashion.
4. Quantitative and qualitative standards of performance where these existed.

5. A company response in the form of a quote from a board member or senior manager setting out their reaction to the audit results and noting where progress is already being made and/or where improvements were clearly required ("Next Steps").

The above format was based on the assumption that by setting out the accounts in this way promotes the dialogue process and allows stakeholders to take a view on the adequacy or otherwise of the company response. In order to make the follow-on dialogue process efficient, stakeholders receiving the Social Statement were encouraged to complete a response card and attend a discussion with representatives of the company.

The final components of The Body Shop's first Social Statement were a verification statement and a summary chapter on those stakeholders who could not be included in the cycle, but should be in future cycles. The external verification process should have an influence on the tone, format and style of the Social Statement. The extent of this influence is guided by the verifier.

The Values Report 1995 consisted of three separate statements on the company's social, environmental and animal protection-related performance respectively. In an attempt to develop the companies reporting towards greater integration, the 1997 report comprises of a single document, structured throughout in a stakeholder-driven way, each stakeholder section reporting on those aspects of environmental, animal protection and social performance most salient to a particular stakeholder group. Each stakeholder section took the following format:

1. The basis for the company's approach and aims for each stakeholder group (with reference to relevant policies with special reference to policy developments within the audit cycle).
2. A report on progress toward social audit strategic targets and "Next Steps" commitments made in the Social Statement 1995 and progress toward environmental and animal protection strategic targets set in respective statements.

3. The methodology used for each social audit consultation process (i.e. what combination of follow-up dialogue, focus groups, surveys and discussions were used to capture stakeholder perceptions).
4. The results of stakeholder consultation, including: information on follow-up dialogue; results of consultation exercises; and, results of perception surveys where applicable.
5. Quantitative and qualitative standards of performance relating to environmental, animal protection and social performance.
6. A company response in the form of new targets in response to audit results. Agreement of strategic and local objectives

As with environmental auditing and reporting, a very important part of the process is to set strategic objectives for the business which can help clarify the future priorities of the company and unite all stakeholders behind a common purpose. Setting strategic objectives and placing these in the public domain requires a significant amount of internal discussion, management commitment and senior "sign-off".

Target setting provides perhaps the key leverage for continuous improvement in any auditing and public reporting context. The Body Shop has had a formal target setting programme within its environmental management system since 1992. Both local and strategic targets have been set based on audit findings and progress reported on in public statements. Similar target setting programmes were established for animal protection and stakeholder-related performance respectively when audit methodologies were established for these during 1994/95.

Strategic objectives must also be underpinned by subsidiary or localised objectives which apply more specifically to individual stakeholder groups. The latter are in some ways simpler to negotiate because they involve fewer decision makers at the corporate level. However, the endorsement and support of the company board and central management committee are essential if more localised objectives are to be executed speedily and efficiently and kept in line with wider business goals.

As mentioned earlier, the Social Statement 1995 included a response from the relevant board member or senior manager to each stakeholder section. All in all, 89 specific "Next Step" commitments were made together with seven company-wide strategic targets. The Values Report 1997 reports on progress towards these targets. The external verifiers assessed the company's claims towards these targets. The 1997 statement includes 97 new targets relating to the company's stakeholder/social performance as well as 10 integrated targets where stakeholder/social performance forms a component part.

### **Verification**

As noted earlier, independent verification is now accepted practice in financial accounting, environmental management and quality. Based on The Body Shop's experience it is also of enormous value in assessing and improving the quality of relationships with stakeholders. Organisations such as the U.K.-based think tank New Economics Foundation have pioneered techniques of "social audit" verification with some success. It involves, for instance, documentation review, testing the veracity of numerical accounts, examining the integrity of internal management and audit systems and ultimately signing off on the accuracy of published reports as "true and fair" accounts. It has also proven useful for the verifiers of a social/stakeholder audit to convene advisory panels of experts in particular stakeholder perspectives to comment on the scope and adequacy of draft public accounts.

### **Publication of statement**

The Social Statement needs to be a true and fair picture of the social impacts of the organisation, in so far as the defined scope of the audit allows. It needs to be comprehensive and systematic, but above all be understood. Because of the complex nature of a social audit and because of the variety of stakeholder needs for information, a multi-tier approach was adopted for the publication of The Body Shop's first Social Statement. The full statement was published based on the approved, verified accounts and made available to all stakeholder groups.

In addition, more detailed information was provided to employees on specific results relevant to them and their part of the company. A summary document of all the ethical

statements was produced for wider scale distribution alongside even briefer material appropriate for customers and other large audiences. In each case readers were made aware of how they could obtain more detailed information. The full Values Report was also launched on the Internet.

Similarly, in 1997 a summary report - The Road Ahead - was published aimed mostly at general audiences. A special broadsheet has also been produced for employees on the social audit results relating to them.

### **Follow-up dialogue and internal reports**

Following publication of the results of the company's first social audit, stakeholders were invited to engage in follow-up dialogue in order to obtain feedback on how they reacted to the findings presented in the Social Statement. The aim of this process is to help shape future audit cycles, enables indicators and data presentation to be fine-tuned for future cycles and help set priorities for future action by the company.

The departments responsible for specific stakeholder relations were encouraged to enter into direct dialogue with stakeholder representatives. In some cases this dialogue has been facilitated and/or attended by the audit team. The Values Report 1997 includes details of this process as it related to different stakeholder groups as well as key resulting actions taken as a result of this dialogue.

### **Conclusion**

This paper has discussed The Body Shop's approach to social auditing as a practical tool for increased social accountability and transparency as well as a strategic management tool with significant potential to facilitate continuous improvement in corporate social performance and stakeholder relationships. The paper placed social auditing in the context of stakeholder inclusion and argued that the emergent practice of social auditing is consistent with the key principles and best practice in environmental and total quality management as well as the philosophy of learning organisations and employee empowerment. The key premise of the paper was based on the argument that a systems-

based approach to stakeholder inclusion as reflected in the practice of social auditing will become an increasingly important component of corporate strategy in years to come.

The Body Shop has found that its social auditing has led to an increased understanding of the company's identity, with massive votes of confidence by stakeholders in its values and mission. Greater understanding of stakeholder needs and aspirations is already leading to improved communication and business decision making by those departments responsible for looking after individual stakeholder groups. The Body Shop also believes that, in the future, fewer mistakes will be made and less effort and resources expended on inappropriate business and stakeholder specific initiatives. In short, social auditing and reporting, is not just an ethically desirable activity, it is also a driver for improved effectiveness for the organisation and enhanced inclusion and thus support from stakeholders.

### **Chevron**

#### **Chevron Today**

Founded in 1879, Chevron is a publicly held, worldwide petroleum and chemical company headquartered in San Francisco, California. One of the world's largest integrated petroleum companies, Chevron is involved in every aspect of the industry, from exploration and production to transportation, refining and retail marketing, and including chemicals manufacturing and sales. It is active in more than 90 countries and employs about 34,000 people worldwide. In the United States, Chevron is a leading marketer of petroleum products and the third largest producer of natural gas.

#### **Primary Businesses**

Chevron is involved in all aspects of the petroleum business: exploration, production, refining, marketing, transportation and research. Chevron also has a significant chemical

business. The company is a leading U.S. jet fuel supplier and gasoline marketer, and owns one of the largest oil tanker fleets.

### **More than 100 Years of Growth**

Chevron Corporation started business in Los Angeles in 1879 as the Pacific Coast Oil Company. In 1900, the company was acquired by John D. Rockefeller's Standard Oil Trust. The breakup of the trust in 1911 led to the formation of the Standard Oil Company of California. In the 1920s and 1930s, the company invested in international exploration and made the first major discoveries in Bahrain and Saudi Arabia. In 1936, in partnership with Texaco, it formed Caltex, bringing in new markets in Asia, Africa and Europe. Following World War II, continued expansion led to major discoveries in Indonesia, Australia, the U.K. North Sea and the Gulf of Mexico.

In 1984, the company nearly doubled its size by acquiring Gulf Oil Corporation in what then was the largest corporate merger in U.S. history. That same year, Standard also changed its name to Chevron, the well-known brand name of many of its products.

In 1993, Chevron achieved another industry milestone when it joined with the Republic of Khazakstan in the largest joint venture between a Western company and a member of the former Soviet Union. A new company, Tengizchevroil, was formed to develop the Tengiz Field, the largest discovery in the past 30 years.

### **The Chevron Way**

Chevron takes pride not only in its products and services, but also in the way it conducts its worldwide operations. The company's principles and values are embodied in The Chevron Way, which provides an integrated framework for its strategies and goals. The company's Mission and Vision statements are part of The Chevron Way.

"These statements sum up who we are, what we do, what we stand for, what we believe in. They provide an integrated framework for the many initiatives underway throughout the company. The real challenge is making the goals, values and principles integral parts of everything we do."

Chairman Ken Derr

### **Mission**

We are an international company providing energy and chemical products vital to the growth of the world's economies. Our mission is to create superior value for our stockholders, our customers and our employees.

### **Vision**

#### **Our vision is to be Better than the Best, which means:**

Employees are proud of their success as a team  
Customers, suppliers and governments prefer us  
Competitors respect us  
Communities welcome us  
Investors are eager to invest in us

Our primary objective is to exceed the financial performance of our strongest competitors. Our goal is to be No. 1 among our competitors in Total Stockholder Return for the period 1999-2003. We will balance long-term growth and short-term results in pursuit of this objective.

### **Committed Team Values**

Chevron people working together as a team are the key to success. The following values guide our decisions and behaviour.

#### **Principles**

##### *Honesty & Integrity*

We are honest with ourselves and others. We demonstrate the highest standard of ethics in all business dealings.

##### *Trust*

We trust, respect and support each other. We treat each other as we expect to be treated.

##### *Diversity*

We value the uniqueness of individuals and the varied perspectives they provide. We promote diversity within our work force and have an inclusive environment that enables each of us to fully participate and contribute.

### *Communication*

We have open, honest and effective communication in all directions.

### *Recognition*

We can proudly make our maximum contributions, which are valued, recognised and rewarded.

### *Achievement*

We continually seek opportunities to improve and gain competitive advantage by promoting and effectively managing change.

### *Partnership*

We accept individual responsibility, in partnership with the company, for the success of the business, for our personal development and for balancing work and family responsibilities.

### *Alignment*

We clearly understand how our goals are aligned with corporate and our own organisation's strategies.

## **Levi Strauss**

Ten years ago, Levi Strauss & Company's chief executive, Robert Haas, decided that the company's values needed to be made explicit. The result was the Aspirations Statement, a brief summary of where Levi's stands on the issues of diversity, teamwork, recognition, ethics, communication, and empowerment. The language of the statement has special relevance to leadership: The statement asks "What kind of leadership is necessary to make our aspirations a reality?" and goes on to explore the leadership issues associated with each of the aspirations.

The Aspiration Statement now poses a special challenge to the leadership development effort at Levi Strauss. The company has always been a business run by relationships. Long tenure at the company has meant that decisions were made through informal

networks more often than through a formal process. The leadership process was no different. Though the company's aspirations were explicit, the process for identifying and developing leaders was not.

Wisely, those responsible for developing the new leadership development process have piloted it in different areas, allowing them to tweak and improve it prior to rolling it out company-wide. The new process also relieves the Global Leadership Team-the company's most senior executives-of some of their responsibility for identifying leadership talent and transfers it to business unit heads, who are in the best position to spot talent as it rises through the ranks.

While the new process certainly creates a structure, perhaps its more important achievement is to make transparent and consensus driven what was previously secretive and determined by the preferences of a few.

### **Mission, Vision, Aspirations and Values of Levi's Strauss**

#### *Mission*

The mission of Levi's Strauss is to achieve and sustain commercial success as a global marketer of branded apparel.

#### *Vision*

Through a relentless focus on consumers, innovation and people, Levi's Strauss will be the world's foremost authority in casual apparel.

#### *Aspirations*

All Levi's Strauss employees aspire to be part of a winning organisation built on the strong foundations of accomplishments, traditions and values that we have inherited and that continue to lead us to commercial success.

#### *Values*

Our values guide our success, unite us and makes us unique.

### Integrity and Ethical Behaviour:

Honesty, promise keeping, fairness, respect for others, compassion, and integrity guide our conduct and actions, even when we are confronted by personal, professional and social risks or economic pressures.

### Commitment to People:

We want Levi's Strauss to be known as a great place to work – a place where satisfaction grows out of the contributions we make and that offers opportunities for professional growth.

### Diversity:

We value and utilise the varying backgrounds, experiences, knowledge and talents of all our employees. Our global workplace will reflect the ethnic, cultural and lifestyle diversity within the communities where we do business.

## **Behaviours at Levi's Strauss**

Our behaviours will support the achievement of the company's Mission, Vision, and Aspirations.

### Be Innovative

We will be innovative and embrace new and exciting ways of thinking. Innovative products, marketing programs, and business practices are the keys to our success.

### Take Informed Risks

We will take informed risks that enable each of us to create new opportunities and to challenge established business practices.

### Be Decisive and Results-Oriented

We will act decisively to assess and act swiftly on opportunities that will contribute to our commercial success. Our decision making will be results-oriented and guided by our strategic business vision and our values.

### Seek Leverage

We will work together, actively exchanging ideas and information throughout the company, in order to achieve our business goals. Successful teamwork involves using the knowledge and opportunities created by our global presence.

### Be Accountable

We will set clear and measurable responsibilities for individuals and teams, and will hold each other and ourselves accountable for the success of the company.

### Recognise Results

We will recognise and reward superior contributions to our business success. We will also acknowledge our failures and shortcomings, and respond quickly with any necessary corrective actions.

## **Marks and Spencer**

An outstanding characteristic about the Marks and Spencer corporate culture is the way that it forges an identity of interests among the company and its employees, customers and suppliers. Its whole value system is based on the fostering of good long term relationships among its main stake holders. It is a philosophy which set out from the beginning to build the business on three 'great assets', the 'goodwill and confidence of the public', 'the loyalty and devotion of management and staff throughout the system' and 'the confidence and co-operation of our suppliers'. It is also a business philosophy which is clear and continually communicated to all the interests involved, and is seen to be lived by the company in all of its commercial activities.

These three great assets, the 'social capital' of Marks & Spencer, have helped the company fulfil its economic mission of providing high quality, well-designed merchandise at prices that few competitors can match. Customers know that the company is interested in a mutually satisfying, long term relationship with them because it is consistent not only with their own experience but also with the way that they see Marks and Spencer treat its staff and suppliers. The company has from the beginning been seen to treat its staff and suppliers as full partners in wealth creation. Staff have always enjoyed levels of job security and benefits that were well above the norm. Suppliers have rarely been dropped, except when they have consistently failed to meet the company's quality standards, and Marks and Spencer has always worked in close partnership with its manufacturers to ensure that value to customers can be relentlessly improved while protecting the company and supplier margins. The powerful message communicated to consumers through the company's principles and actions is that 'we never exploit our staff of suppliers, and we won't exploit you.'

The trust created by this values-driven approach tends to give rise to a business model whose competitiveness in the market place is self-sustaining. It helps the company to generate higher levels of sales per square foot than its rivals, with much lower levels of advertising and promotional expenditure as a percentage of the sales than the industry average. It also gives rise to higher levels of co-operation and teamwork within the company, and between the company and its suppliers, in the critical operational task of co-ordinating the overall flow of merchandise and marketing information. The result is a retailing system which is more responsive to changing customer preferences, with higher levels of productivity, and lower levels of transaction costs and bureaucratic overhead, than the industry norm. Lower levels of stock outs, fewer mark-downs and higher levels of throughput per pound invested allow Marks and Spencer to offer attractive returns to employees, supplier and stockholders alike. In sum the trust premium generated by the strong corporate culture leads to economic effectiveness and economic effectiveness affirms and reinforces the culture: this is the virtuous cycle of a values driven organisation.

A further benefit of strong corporate identity is the opportunity that it creates for brand extension. The trust that Marks and Spencer enjoys with the community in general, and its own customer base in particular, has allowed the company to extend its activities successfully into totally new commercial areas such as financial services. Robert Colville, director of financial services at the company, explained the rationale for this diversification as follows:

“It is not so much the Marks and Spencer label as it is the M&S culture. The public trusts M&S people and co-owns the culture. They believe that we are straight and fair dealers. They know that they only have to raise a point with us and we will address it. We wanted to carry this relationship into financial services.”

However a word of caution. Strong corporate culture and the values driven approach to management and marketing are not without their own dangers and drawbacks. Companies with strong corporate cultures can be difficult to transform, when major discontinuities in the technology and market place require a totally new business model. Marks and Spencer found this out when they tried to replicate their success in Britain in the Canadian and American market. This is due to the trust premium not being easy to recreate in new markets with different cultural values.

### **From promise to compliance:**

#### **The development of ‘Integrity’ at SmithKline Beecham**

As the statement from the Annual Report of SB makes clear, values define what an organisation claims is important and the sort of image it is trying to project to the outside world. The real challenge is how to make such claims part of the way in which a company does business and how to ‘walk the talk’ – match public statements with internal reality. The SB statement and the definition of its values both emphasise that values are wide ranging in scope. They encompass everything from the hard values of ‘performance’ and ‘customer’ through to the softer values of ‘people’ and ‘integrity’.

#### **The SmithKline Beecham Values**

*Customer: to achieve full customer satisfaction*

SB is customer driven. We strive to provide products and services of superior value to meet the expectations of our internal and external customers.

*Innovation: to be one step ahead of the competition*

SB constantly strives to be creative and innovative in all its endeavours. All SB employees are encouraged to bring forth new and better ideas for improved performance, whatever our responsibilities.

*Integrity: To be a team people trust*

SB demands openness and honesty throughout its operations to engender trust, and integrity underscores everything we do. We believe that every activity must be able to pass the test of public and internal scrutiny at all times.

*People: to be the best place to work for the best people*

SB employees are all partners, working together in the pursuit of the SB mission and strategy. We strongly value teamwork, and we want every employee to be motivated to succeed.

*Performance: To be the benchmark for success in our industry*

SB is performance driven. We continuously aim to improve in all that we do: scientific excellence, commercial expertise, operating efficiency, developing and delivering products and services that add value, in global healthcare and for our shareholders.

### **“Culture by design”**

The history of the development of the values at SB starts with the background to the merger of SmithKline Beckham and Beecham Group. In 1988 Bob Bauman, Beecham chief executive, contacted Henry Wendt, CEO of SKBeckham, with a view to create a genuine merger of equals. The two men appear to have shared the same vision of where the healthcare industry was going: towards globalisation and large scale R&D. They designed the merger of the two companies to be such that it was a 50:50 merger from the point of view of share holders and they agreed a division of top jobs. Wendt devised the ‘promise of SB’. This expressed the underpinning logic for the merger and the foundation of the new corporate culture which combined the best of the old but established a new one which reflected current best practice. Wendt was to become the chairman of SB and Baumann, the chief exec.

The merger was finalised in July 1989 and Bauman and Wendt set about establishing a new corporate culture. The first management conference in July 1989 was under the slogan “Now we are one”. It soon became clear that there were different cultures within the diverse company. The first step to designing the values took place in early 1990 when the Executive Management committee of 15, including Wendt and Bauman, spent 6 weekends designing the core values and leadership practices of SB. There was a debate about whether to include the ‘integrity’ value, with some of the ECM thinking that it was so obvious that the company should have a value of integrity and should not have to express it explicitly. The values were about ‘who we are as a company’. In July 1990 the EMC went on to design nine leadership practices which were measurable, accountable, limited in number but widely applicable and which gave guidance for implementing the values. There was to be two practices per value, except for integrity which was to have only one.

In the autumn of 1990 came the cultural breakthrough with the development of the *simply better* concept which has come to characterise SB. *Simply better* was conceived of as “a sustained effort to create a culture that would embody the five values”. Its aim was to establish SB as the sort of company which could aspire to achieve industry leadership—something that was thought to be impossible given the previous culture of SmithKline Beckman or Beecham. Employee behaviour had to be measured with respect to these values and practices to make a difference. Performance in adhering to the leadership practices was made to constitute 50% of the top 250 managers assessment for 1991. In November 1990 Bauman announced that “Every organisation has a culture. A culture which happens either by accident or design...and we are going to design ours!” Initially the roll out of *Simply Better* from the early part of 1991 met with mixed success. To spur it on Bauman took the EMC to Japan for nine days in Jan 1992 to view best practice in change management and continuous process improvement.

The EMC trip to Japan was a turning point in the thinking of the EMC. The trip took the executives to see the Japanese process working – in canon, FujiXerox, NEC, Esai and Nissan – and they came back committed to developing a culture of fostered continuous improvement. They developed the *Simply Better Way* which involved a programme of

worker education to build effective work practices on the foundation of values and leadership practices. *The Simply Better way* embodies a number of principles; first, it is management led, done in parallel across the company, provided just-in-time and as hands-on training, delivered by insiders (as opposed to external consultants) and fully aligned with strategic business priorities. This programme of change was rolled out as the ‘Simply Better way’ management conference in early 1993. The Corporate Personnel Director commented on it:

*The Simply Better Way will succeed only through an unwavering commitment to leadership practice number 9 – communicate with all constituents openly, honestly, interactively and on a timely basis.*

The management review of the new programme concludes with:

- What you can expect from management ...
- We will be champions – role models for the Simply Better way
- What management expects from you ...
- Enthusiastically lead and sincerely promote the values and principles of the Simply Better Way ... we want you to be players not spectators.

The simply better way concepts are also incorporated into the annual Leadership and Planning Process which develops managers via a detailed one-to-one appraisal. Leadership competency, under SB’s LPP and its associated Leadership and Development Review is assessed with respect to the five core values. Under the integrity value managers are expected to lead courageously, foster open communication and act with integrity. The detailed behaviours they are expected to demonstrate under Act with Integrity are:

Demonstrates principled and sound business ethics; shows consistency among principles, values and behaviour; builds trust with others through own authenticity and follow through on commitments. Key behaviours; Protects confidential information, Maintains professional conduct which passes the test of public and internal security, shares credit with others. Follows or applies company policies consistently and fairly. Admits personal mistakes. Communicates openly and honestly to employees and customers. Represents information and data accurately and completely. Demonstrates personal commitment to employee health and safety.

There is a Simply Better Way unit within the company responsible for developing the corporate values and training in the Simply Better Way and the bi-annual SBW awards for successful improvements. By the time the new culture was being rolled out, most of the senior managers in place at the time of the merger had left and the new appointments included the human resource director and current chief executive, Jan Leschly.

For SB the value of integrity is closely associated with open communication. As part of the blood-streaming of this value top managers have continued to emphasise integrity at management conferences and in corporate communication. The bi-annual values survey includes a number of questions on each of the values and the core concepts of the SBW together with up to 10 added questions on the particular business. The questions on integrity relate to employee satisfaction with:

- Personal integrity (the things I am asked to do at work are consistent with my perception of integrity)
- Co-workers integrity (people I work with act with integrity)
- Business ethics (SB takes an honest and ethical approach in how we do business)
- Extent to which managers share information (my managers share information on issues that are important to me in a timely way)
- Open communication (SB communications are open and honest)
- Actions match words (senior management is consistent in words and actions)
- Being open about failures (people at SB talk about their failures as well as their success)

Employees are asked to indicate whether they are favourable about the statement. Data are produced at a corporate, departmental and market level and fed into the planing. The company also has a magazine – Communique- distributed to managers world wide and new employees receive a half-day induction programme which include a video presentation showing an overview of the core values and the SBW.

1993 was a key year for SB as Tagamet came off patent in the US and as the new values were being rolled out across the company. It was an extremely profitable year and this helped to reinforce employee commitment to the new values. Henry Wendt and Bob Bauman announced that they would step down in 1994 giving a year to train the chosen Sir Peter Walters and Jan Leschly. Bauman spent 40% of his last year working on the SB way and its implementation.