

# CHAPTER 1

## VALUES AND ETHICS

*Ethics and values are critical. Business can no longer get by saying one thing and doing another.*

Jackie Orme, CEO, Chartered Institute of Personnel and  
Development

Values and ethics have a vital role to play in the modern business world. Leaders and managers are faced with an increasingly complex and challenging business environment. They are battling to keep up with the pace of technological change, struggling to fend off growing competition and grappling with a difficult economic climate.

In the midst of this maelstrom, a strong set of values can serve to illuminate the way ahead. They are the foundation for strong leadership and management, the glue that sticks the organisation together and the unwritten code that helps managers make the right decisions about what they do and how they do it. Values help employees make sense of the new and constantly changing challenges they are being asked to take on and give them a clear picture of how the organisation wants them to behave.

There are some high-profile examples of organisations that have achieved outstanding results by putting values at the heart of everything

they do. Virgin and Pret A Manger, for example, are both highly successful businesses with a distinctive, ethical approach. This is not just tokenism, but a deep-seated ethos that permeates both organisations. Virgin, for example, places huge emphasis across its operations on being a responsible service provider, managing its impact on the environment and playing a role in the communities that it operates in. Pret A Manger has a strong tradition of developing its people, places a high value on encouraging diversity and actively raises funds and donates products to charities for the homeless across the UK.

The truth, however, is that many organisations are still struggling to get to grips with how they can effectively harness the power of values on an ongoing basis. They may well have a glossy values statement pinned to the wall in their corporate HQ, but their employees are not living and breathing those values on a day-to-day basis.

The pages of the national press are full of examples of what happens when organisations fail to approach business from an ethical standpoint – or when the actions they take are not congruent with the values they pretend to espouse.

Reputations that have taken years to build can be damaged by a succession of unfortunate media headlines. BP is the latest in a long line of examples from the corporate world. It is estimated that damage done to the business as a result of the Gulf of Mexico oil spill could result in losses of up to £15 billion. The recent MP expenses scandal in the UK, where MPs were exposed for unethical charging of expenses, has also graphically illustrated the importance that people attach to following a moral code rather than simply obeying the rules.

But what do we really mean when we talk about values? How do leaders and managers develop values propositions that support their business objectives? What do they need to do to ensure their employees buy into those values and demonstrate them in their dealings with stakeholders on a daily basis?

## Leader insights

*Ethics and values are absolutely essential for a successful business. Leaders must accept that they are being watched all the time. Businesses should not complain about transparency – they must deal with it.*

Steve Holliday, Chief Executive, National Grid

*Recession has reinforced the need for sharing values – to overcome adversity and build back faith in the future.*

Lord Richard, founder, Institute for Government

*Ethics and values have a central role. You need to be transparent in your decision-making and exercise a clear sense of propriety. You should have your limits, beyond which you will not go.*

Phillippa Williamson, Chief Executive, Serious Fraud Office

## Perception versus intent

It's important to recognise that most organisations do actually go about their business with honourable intent. Yes, they are there to make a profit and provide a good return for their shareholders, but they don't generally set out to rip people off, damage the environment or have a negative impact on the communities they operate in.

Despite their good intentions, however, organisations tend to get a pretty poor press. The media are quick to jump onto any misdemeanour and to bay for the blood of the leaders involved, even if there was no malicious intent or serious operational failing.

Trust and respect for business leaders themselves – with a few notable exceptions – is also generally low. Indeed, surveys have shown that

business leaders come second from bottom, just above politicians, in terms of public regard.

This negative perception is not just external – it's often prevalent inside organisations too. Endless rounds of cuts and re-organisations have left employees feeling insecure, initiative-wearied and, frankly, pretty cynical about the businesses they work for.

Organisations such as the Chartered Institute of Personnel and Development (CIPD) have been warning for some time that a lack of employee engagement is one of the biggest issues facing the corporate world right now. On the front line, the troops are becoming weary and are feeling disconnected with the battles they are being asked to fight. 'We're all in this together', even if it is true, has a somewhat hollow ring.

In this scenario, values are the secret weapon. They can help organisations protect their reputation and improve the way they are perceived by the outside world. Values can create cohesion within the business, ensure everyone is working towards the same goal and help employees make that all-important personal connection with the tasks they are being asked to perform.

## **The right time – or all the time?**

The V word has a tendency to rise to the top of the organisational agenda when things are going badly. It's often a bit of a knee-jerk reaction. The top team need something that will quickly bind the business together after a merger; HR want to re-energise people following a significant downsizing exercise; managers need an intervention that will help them focus on priorities and deliver their business objectives in a difficult climate.

There's nothing wrong with taking a fresh look at values at times of significant change and difficulty. They can play a valuable role when

there's an urgent need to boost morale, accelerate change or respond to a new business challenge. It's not necessary, however, to wait for the worst-case scenario. Becoming a values-driven organisation is an approach that's equally relevant in good times and bad. A values-driven approach can help keep the business on an even keel when times are good and can even help it get better at what it does.

It's not about responding to a crisis with a quick fix. It's about setting the tone, establishing the ground rules, making it clear 'how we do things around here' and ensuring that employees know what kind of behaviours will be recognised and rewarded.

It's also important to recognise that becoming a values-driven organisation is not a one-off event. The business world never stands still; as the sands shift around them, organisations need to review their values constantly to make sure they are still fit for purpose. This doesn't mean starting all over again – it's just a case of recognising that the business may need to tweak the values occasionally to make sure they still fit the bill.

The stringent savings being demanded of the public sector right now are a case in point. As budgets are slashed, significant changes will have to be made to the way services are designed, packaged and delivered.

Values will provide the guidelines to make sure organisations act responsibly and in the best interests of the people they serve when they are faced with difficult decisions.

### **Leader insights**

*Ethics and values are right at the heart of any great management and leadership team.*

Martin Bean, Vice Chancellor, The Open University

*Ethics and values are absolutely critical to every successful business. In Magmatic, I have asked all my team to draw how they see the company values and to display these pictures in their own work areas. Somehow the visual representation really helps them understand the values that are most important in our culture.*

Rob Law, founder, Magmatic

*I believe ethics and values are critical to business, a bit like oxygen is essential to life. It's not about being puritanical, it's about inspiring trust, particularly during difficult or hard times.*

Jonathan Perks, Global CEO Leadership Coach

## Consultation, not coercion

The big question facing many organisations is how they go about defining what they stand for and what their values really are.

There's a tendency for leaders and managers to spend hours closed in boardrooms trying to thrash out some kind of statement that resonates with all. When the discussion and debate are over, what often happens is that a list of agreed values is printed on cards and posters and launched with much fanfare to the waiting staff.

The problem is that this kind of approach just doesn't work, because values can't simply be decided by the chosen few and imposed from on high. An organisation will only get buy-in to its values if they are developed in consultation with the people who will have to implement them on a daily basis and with the stakeholders who will be on the receiving end.

Organisations need to think about what they want to achieve, how they plan to get there, what messages they want to convey to the outside world and what obstacles might get in the way. They need to invite contributions and feedback from everyone involved and gradually paint

a picture of what makes the organisation tick, what needs to be done differently and what customers and stakeholders really want.

The most effective values statements are likely to be those that build on existing strengths and tackle areas of difficulty head on. They need to be intrinsically linked with the organisation's strategic objectives and fully endorsed and espoused by the top team.

### Leader insight

*What we are seeing is a broad shift in culture. We are seeing a global push towards more accountability. People need to make judgements all the time, but they need to be able to justify them. We need to enable business executives to be accountable and robust.*

Paul Idzik, Chief Executive, DTZ Holdings plc

## Living the values

If values are going to make it off the piece of paper and into something that becomes an integral part of how the organisation does business, they need to be communicated to employees in a way that makes it clear what they are required to do.

There's a tendency for organisations to describe their values in quite sweeping, general terms. 'Our people are our most important asset', 'We strive for continuous improvement' and 'We respect diversity' are the kinds of phrases that are often bandied around. These are all very laudable statements, but the problem is it's not clear to employees what they might need to do differently when they come to work on Monday morning.

In the command and control regimes of the past, this wouldn't have been a problem. Managers issued very specific directives and em-

ployees did exactly what they were told. It's now widely acknowledged that these old management styles just don't work in the new world. In the fast-moving, technology-driven, global reality of business today, organisations expect – and indeed need – their employees to take the initiative, respond rapidly, seize opportunities and deliver what the customer wants.

Leaders need their people to be fully engaged with what the organisation is trying to achieve so that they will generate the new ideas that will take the business forward and will be willing to go the extra mile when required.

As a manager, when you are creating your values statements, you should consider making them much more explicit so that they provide real guidance to the employee on the front line about how they are expected to behave in pursuit of the targets and challenges they have been set. Statements like 'We always go one step further for the customer', for example, would help employees connect in a much more meaningful way with a customer service-related value.

This more direct expression of values gives employees a shared purpose, a common goal and a benchmark against which to measure their behaviour. It provides a clear indication of the actions that will be rewarded and gives managers a framework for dealing with behaviour that is inconsistent with the values, should it arise.

Demonstrating that values are at the very core of the business and driving actions and decisions is a key requirement of the Investors in People (IIP) standard. To be awarded IIP status, organisations need to show that they are taking a values-led approach and that managers and employees within the business truly understand what this means and are applying it to their work.

Assessors explore whether this is the case through interviews with employees and by demonstration of evidence against some key criteria.



The following indicators of good practice, taken from the IIP framework, can help organisations judge how far down the road they are to becoming an authentic values-driven business.

- Top managers make sure the organisation has a clear set of core values that support its purpose and vision.
- Top managers make sure the core values are at the heart of the organisation's strategy and govern the way it operates.
- Managers can describe the organisation's core values and what this means to the way they are expected to manage.
- Managers can describe how they make sure the core values are at the heart of the way that the organisation operates.
- People can describe the organisation's core values and what this means to the way they are expected to work.
- People believe in and share the organisation's vision and values.
- Managers can describe how they play an important role in recruiting and selecting people with values that match the organisation's values.
- Top managers can describe how they define the current and future capabilities managers need in line with the organisation's purpose, vision and values.
- Top managers can describe how they act as role models when demonstrating the leadership and management capabilities in line with the organisation's values.
- Managers can describe how they lead, manage and develop people in line with the organisation's values.
- People can describe how their manager leads, manages and develops them in line with the organisation's values.

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## Personal values and ethics

As a manager, it is of paramount importance that you understand the connection between the personal values of the individual and the values adopted by the organisation they work for. Employees will only buy into corporate values if they can see how those values align with their own personal value set. To take an extreme example, a virulent anti-smoker wouldn't feel comfortable working for a tobacco company.

The mismatch isn't always quite so obvious. There can be more subtle nuances around the qualities that an organisation might hold dear among its managers – a hard-nosed, commercial, thrusting approach, for example – and the way that an individual might prefer to go about their work.

The reality is that in many cases where this occurs, individuals will 'self-select' and make a decision to leave. This is not necessarily a negative – someone who is deeply uncomfortable with the way an organisation goes about its business is unlikely to perform well anyway, regardless of how talented they might be. It is when the values of the individual are a close match with the values of the organisation that people perform at their peak.

Many of the leaders who have contributed to this book have talked about how strong personal values are at the root of their effectiveness in their role. As a good leader, you truly have to wear your values on your sleeve, because before people will follow you, they have to be clear about what you stand for.

One example is Peter Ayliffe, President and Chief Executive of VisaEurope, who believes strongly in the importance of openness and trust between managers and leaders and the workforce. He has personally dedicated a great deal of time and effort to make the strategy of Visa a document that is well-thumbed and easy to read and access. Aligning individual and organisational objectives really helps the organisation to succeed and creates a win-win situation. His views on the importance of ethics and values are that: 'Nothing is more important. You can't be a

leader without qualities of integrity and honesty. Short-term pressures make these values even more important.’

At Cadbury, the ethos and values of the Cadbury family endured long after the company became public. The care of employees in the provision of housing, welfare and education, in addition to employment and the general concern for all stakeholders, remained in the company’s genetic structure. In the modern company there was a strong sense of straightforwardness in communication, of honesty being the best policy. Politics were not part of the culture and long-term thinking versus short-term expediency was encouraged. ‘Cadbury values pervaded the business and underwrote employee loyalty and the culture of long service,’ explained Sir John Sunderland, until 2008 the Non-executive Chairman of Cadbury Schweppes.

Sir John describes a strong cultural fit with his own ideas on management and leadership. He believes in doing any job to the fullest extent of one’s ability and feels this can apply to any generation or individual. Without this level of commitment, work is less satisfying and perhaps progress more limited.

When the path gets tough, the importance of strong values and shared beliefs cannot be overstated. It’s what binds people together and keeps the wheels turning when everything comes crashing down around you.

The most graphic recent illustration of this was the ability of the Chilean mine shift supervisor Luis Urzua to provide strong leadership for his men during their long incarceration underground. The belief and respect the miners held for him meant he was able to maintain control, keep hope alive and spirits high, particularly during the dark days before there was any contact with the outside world. He maintained his strong values-driven approach to the very end by volunteering to be the last one out.

Of course it’s not just during the bad times that you have to demonstrate as a leader a strong personal value set. It’s important in good times too that you behave in a way that is consistent and upholds and reflects the ideals on which the business operates.

## Leader insights

*Values should underlie your actions. You cannot then fail yourself.*

Sir John Sunderland, former Non-executive Chairman, Cadbury  
Schweppes

*Ethics are absolutely critical. You can't lead without trust and integrity. Increasingly, the market values integrity as well as profitability.*

Penny de Valk, Chief Executive Officer, Institute of Leadership  
and Management (ILM)

## Values in the public sector

Values and ethics play an even more important role in the public sector, where the emphasis is on delivering a service rather than the bottom line.

According to long-time civil servant Lord Bichard, it is often adherence to values that is one of the primary motivations for talented individuals choosing to work in the public sector. Recent events have undoubtedly drawn attention to the importance of values provided they are 'real' and not just espoused.

'Often in the public sector there is a gap between aspiration and result – frustration sets in, which can of course be counter-productive. Managers in the public sector must adapt and change; keep their values, but but be flexible about virtually everything else,' he says.

While managers and leaders in the public sector and private sectors need access to the same skills, the private sector is less overtly political and may feel less accountable for values and behaviours. 'Against this, little gestures from leaders can make a massive difference. Personal acknowledgement, saying thank you, being open to challenge and

management by walking about are not just questions of style – they can make a substantial difference,’ explains Lord Bichard.

The public sector is under unprecedented pressure to cut costs. Managers will face difficult decisions about what stays and what goes, and will have to find new and innovative ways of delivering services. Some of these decisions will be unpopular and there is a danger that employees may start to feel demoralised and under siege.

Values will play a key role in helping managers make appropriate choices and ensuring the needs of some of the most vulnerable sections of society continue to be met.

The public sector has, of course, always been populated by people who want to give back to society and make a difference. The desire to do something meaningful underpins the whole purpose of the public service being provided, whether it is in the field of defence, education, health or public utilities such as transport and energy.

High degrees of trust are vested in the managers and leaders of essential public services; however, very little is made these days of the concept of ‘public service’. Perhaps it is due for a renaissance as David Cameron’s ‘Big Society’ idea begins to crystallise.

Cameron’s vision is to encourage more ‘people power’, giving communities and individuals the support and resources to run some of their own local projects and services. Early pilot projects have included local buy-out of a rural pub, recruitment of volunteers to keep museums open and giving residents more say over public spending.

There has been some cynicism that this is just a euphemism for less public investment or another way of reducing the tax burden on the working population. It will be interesting to watch the experiment develop and to see if communities respond to the challenge. The evidence certainly suggests that people are highly motivated to volunteer, particularly when it has a direct impact on the area they live in or on projects that they have a personal interest or stake in.

Clearly, political views vary about the way public goods and services should be funded, or indeed managed – but the idea that we will always

need to produce and consume them is not in dispute. The story of how success in public service delivery will be measured in the future, however, is still unfolding.

The evaluation of how services are provided is partly economic but also partly a reflection of our social and political values. In the past, success has often been measured to a large degree in financial terms, but we are now moving towards a deeper understanding of the social cost benefit of our goods and services. As the new face of public service begins to emerge, we are likely to see less emphasis on searching for the lowest cost provider and more focus on measuring the real social outcomes on the ground.

As this approach becomes more prevalent, we will hopefully see more longer-term contracts being awarded that take into account the bigger picture of the social and economic benefits to everyone involved.

### **Case study: Using values to drive prison service reform**

The work done by Serco at Doncaster Prison and Youth Offenders Institute is an excellent illustration of how values can be used to drive improved performance and better social outcomes.

Serco is one of the world's leading service and outsourcing companies. It has contracts with a wide range of local authorities and public sector organisations, and delivers services across justice and healthcare to education and defence on their behalf.

The business currently employs 70000 people, is a member of the FTSE 100 and has a corporate vision of becoming one of the top 750 global companies by 2020.

For the past 16 years, Serco has been responsible for the management of HMP and YOI Doncaster – a category 'B' remand centre in South Yorkshire that holds up to 1145 remand or sentenced male prisoners over the age of 18. There are 600 staff who provide cover 24/7, 365 days a year.

The prison's vision is to promote innovative solutions to produce significant benefits for the prisoners, their families and the communities of South Yorkshire. It has won a number of awards, including the Charter Mark for excellence in the provision of public services, and has been described as being 'among the best' local prisons for resettlement and outreach support for prisoners and their families.

HMP Doncaster has, however, faced a number of challenges in recent years – highlighted by prison inspection reports that identified a number of significant weaknesses. It was rated at Performance Level 2 (Level 4 is the highest, Level 1 the lowest). Staff morale was low and there was a high turnover of first-line managers at the start of their prison management careers. Other areas of weakness highlighted by the report included an increase in incidents of violence and self-harm, and a lack of purposeful activity for prisoners.

John Biggin, director of HMP and YOI Doncaster, explains the challenges he faced when he joined Doncaster in 2010:

*The inspection reports had highlighted some shortcomings at Doncaster and we realised that overcoming these issues would require a high level of strategic planning from our managers. Direction from prison management needs to be strong, with a clear vision and set of values. To change Doncaster into a successful, high-performing prison, we needed to get the best out of every single manager on our team, at every level.*

*We knew the key areas for improvement in the prison, and we had to ensure our managers were in a position to take on these issues independently and come up with solutions to bring about change.*

Biggin decided to use CMI training to help managers respond to issues at Doncaster more flexibly and imaginatively, and he encouraged them to put their ideas into practice and to 'make a difference'.

Some managers at HMP Doncaster were already working towards CMI qualifications, but a decision was taken to open the training up to all management staff, providing them with increased opportunities for professional and career development.

As the training progressed, staff morale and confidence grew as they started to apply what they were learning to the workplace, and began to think more strategically about how to overcome challenges.

This led to a number of innovative changes to help reduce re-offending. This included putting on a play for prisoners' children to help form closer bonds between families. A printing workshop was also introduced, with the dual purpose of employing and developing the skills of around 50 inmates while also meeting the needs of the local community.

The effect on performance has clearly been felt. HMP and YOI Doncaster recently moved from Level 2 to Level 3 in the scale of prison performance – a significant step that John Biggin credits to his management team.

*I gave my managers some extremely challenging briefs to improve standards. CMI's management training has encouraged them to think outside the box and to feel less constrained by the way things have always been done. We've had to be creative and come up with ways to improve standards on a lean budget. There is now a real belief among the management team here that no job is too hard for them.*

This case illustrates the importance of reflecting social values and measuring social outcomes when projects or services are outsourced to private providers. Providers such as Serco must subscribe to the ethos of crime prevention – in the widest possible sense – if they are to be successful not only in reducing the prison population but in creating models of rehabilitation for ex-prisoners and offenders that actually work.

The social benefits of the approach taken at Doncaster are very clear, although as yet unquantified. However, we do know that it costs more



money to keep someone in prison than to send them to university. In particular, if the case of Doncaster could be replicated, prisoners can learn and earn a living wage in prison while also contributing goods and services to the community.

They can also lead worthwhile, self-supporting lives as soon as they come out. Through being integrated with their families during their period of incarceration, they are also able to regain their own self-respect.

Even somewhat cynical hardened criminals, as well as prison warders who have worked for many years in the prison service, have been impressed by the success of the Doncaster experiment and are convinced that many of the lessons are applicable elsewhere.

## Making the link to CSR

Many organisations seek to demonstrate their values to the outside world through corporate social responsibility policies (CSR) or initiatives.

Definitions of exactly what CSR encompasses vary, but put simply, it's the deliberate inclusion of the wider public interest in corporate decision-making. Companies that place a strong emphasis on CSR measure their success against what is often referred to as the 'triple bottom line' – people, planet and profit.

So a CSR-focused business would proactively encourage the growth and development of the communities that it affects or operates within. It would also look to voluntarily eliminate practices that might harm the planet or have a negative impact on consumers, regardless of whether those practices were legal and profit-generating or not.

UK company law now requires organisations to provide information on their CSR initiatives in their annual report to shareholders. There is also now a recognised international standard for CSR (ISO 260000).

The CSR agenda has been driven to a large degree by consumers, who are increasingly demanding that organisations take a more ethical approach to business. People have become more aware of the

environmental and social implications of their actions, and are beginning to think much more closely about what they buy, where they go and what activities they engage in.

Thanks to the explosion in online news and Internet discussion forums, consumers also now have much more opportunity to publicly voice their concerns about any organisational behaviour that they perceive to be unethical. Organisational misdemeanours that in the past may never have been uncovered can now be in the glare of the media spotlight very quickly.

## The business case for CSR

It should be recognised that CSR is not just about establishing ethical credentials and creating a corporate glow of satisfaction. There is a strong business case for adhering to the triple bottom line, with multiple pay-offs for organisations.

An ethical approach to business can help organisations recruit and retain the talented employees that will drive their future growth. Research conducted by the Chartered Management Institute (*Generation Y: Unlocking the Talent of Young Managers*) shows that the emerging generation of managers place a strong emphasis on working environment and values. In the survey, 90% of respondents agreed that they wanted to work for an organisation that did something they believed in, regardless of whether it was in the public or private sector. Just over half (56%) said they would only work for an organisation that had strong values.

A genuine culture of 'doing the right thing' can also help to offset risks and lessen the likelihood of corruption scandals or environmental accidents. Would the MP expenses fiasco in the UK have happened if MPs had placed more value on acting appropriately rather than following the rules?

A strong emphasis on CSR can also help to build customer loyalty. The Body Shop and The Co-operative Group are examples of businesses that have made an ethical approach an integral part of their brand.

Organisations that take a socially responsible approach will also reap the rewards in terms of improved employee engagement. Impact International is a consultancy that brings together corporate and community partners. In a recent edition of the CMI's magazine *Professional Manager*, MD Andy Dickson points out that 'employees are people who have interests outside of work and strong values, and they do things in their own time because they are passionate about them. If they are able to work with the community at work as well, it taps into their personal motivators, creates a bond between the employee and the business, and makes them proud to be part of an ethical organisation.'

There is inevitably some cynicism about the growing emphasis on CSR. Some critics claim that organisations engage in these initiatives to distract the public from ethical questions posed by their core operations. There's a suspicion that their motives are not entirely altruistic and they don't always 'walk the talk'. Some may claim they are committed to sustainable development, for example, while at the same time engaging in harmful business practices.

The debate about whether government and regulatory enforcement would be better than voluntary measures in ensuring that companies behave in a socially responsible manner will no doubt continue. As a leader, what you need to bear in mind is that unless CSR activities are purposeful, they won't be sustainable.

They also need to be rooted in genuine care and concern for the wider community. Thanks to the Internet there is nowhere to hide: organisations who fail to live up to their promises and pronouncements will soon be uncovered. Consumer confidence in the business will plummet and those valuable Generation Y employees will vote with their feet. The CMI's research clearly showed that if organisations failed to live up to their values and the claims made during recruitment, talented young individuals would quickly start to look elsewhere.

## CSR in practice

Organisations put their CSR policies into practice in a number of ways. Some take a philanthropic approach, donating money to local organisations or giving aid to impoverished communities. This is very laudable, but it doesn't help to build the skills of the local people or improve their lives over the longer term.

Voluntary sector practitioners tell us they would like to see organisations looking beyond just giving money to projects that will then die without further funding. A more sustainable approach might be to set up 'evergreen' funds, where donations are reinvested and payments continue to do good year after year.

A more common approach is for corporations to work directly with local communities and voluntary organisations, to help them build skills and improve themselves. *Professional Manager* has recently reported on a number of such projects, ranging from bankers helping to construct a local adventure playground to managers acting as mentors for prisoners who are coming up for release and need support rebuilding their lives.

The idea of a 'time bank' appeals to many of the large companies that CMI comes into contact with – that is, they make their own talent available as a resource to help local charities develop expertise in areas such as HR, marketing, IT or finance. KPMG is one organisation that has been successfully using this approach for some time.

Other organisations have found ways to engage less senior employees in CSR activities too. A good example of this is the Reading for Schools programme, where junior staff are encouraged to work with local schools on a regular basis, helping pupils who may be struggling with their reading.

There is also an increasing trend to link CSR activities directly to organisational learning and development. Businesses are constantly looking for new and efficient ways to develop their staff and are realising that they can bring about a 'win-win' situation if they couple this with opportunities to partner with the social sector. Managers who are de-

veloping their marketing expertise, for example, might be charged with going into a charity and helping it overhaul its promotional materials. Fledgling executives who need project management experience could be given the task of developing a new IT infrastructure for a voluntary organisation.

Managed well, these kinds of initiatives can reap enormous rewards for everyone involved. The key is to find a compatible partner that the organisation can work comfortably with over time. Projects need to be carefully chosen and planned so that they meet the needs of the charity and deliver the desired learning outcomes for the organisation involved.

What makes these CSR initiatives work so well is that we are digging deep into the human psyche. At the CMI itself, it is great to see many of our employees' natural instinct to be generous, giving time as well as money to charitable causes. When asked why they do this, the answer often comes down to a personal story: the recipient is worthy, well-known in the locality of CMI's offices in Corby, or a member of staff has a relative who currently needs a vital service.

The National Council for Voluntary Organisations (NCVO) estimates that as many as one in five of us is currently a volunteer, demonstrating that people are very motivated to do something altruistic and give back to society.

As a leader or manager, you need to find ways of channelling this enthusiasm and energy for getting involved. Managed carefully, it can help to create a feel-good factor, fuel new ideas at work and develop new skills that the individual can bring back to their work.

## **Social entrepreneurship**

Of course, socially responsible approaches don't have to just be add-ons to other corporate activities – they are quickly moving into the mainstream and becoming an alternative business model.

Many businesses are now set up purely as social enterprises, trading to generate income that is 'put back' into society rather than existing purely to create wealth for their shareholders. The Fifteen restaurants founded by Jamie Oliver, *The Big Issue* and the fair trade chocolate company Divine Chocolate are among the best-known examples.

There are also micro-credit businesses, such as the Grameen Bank, set up by Professor Muhammad Yunus. The bank has loaned more than \$8.86 billion to 8.1 million borrowers, 97% of whom are women, to help build 640 000 homes. It has also sponsored more than 50 000 scholarships and student loans, and changed the lives of hundreds of Bangladeshi families ([www.grameen-info.org](http://www.grameen-info.org)).

There are in fact around 62 000 social enterprises in the UK, operating across a wide range of sectors. Health and social care is the largest category of trading activity, followed by education. Renewable energy, transport, recycling and fair trade are other common markets, although social enterprises can be successful in almost any sector. Already these organisations have a combined turnover of at least £27 billion, accounting for 5% of all businesses with employees and contributing £8.4 billion per year to the UK economy.

The difficult economic climate has presented real opportunities for these social enterprises. Increasing pressure on public sector spending means the government is constantly looking for new and effective ways to deliver mainstream services. As budgets dwindle, it is predicted that many local authorities will increasingly look to outsource services. Social enterprises, which often have their roots in the heart of local communities, will be ideal partners.

Business commentators have suggested that the social enterprise 'way' of doing business could soon become the norm rather than the exception to the rule. So a business that is struggling, for example, could be repacked into a social enterprise model, where the emphasis is perhaps on providing employment in a disadvantaged area rather than on purely making profits for shareholders. Or a company that manu-

factures soap might have employing visually impaired people as one of its key objectives.

Danish IT firm Specialisterne is another good example of how social needs can sit at the heart of a business. The firm's business concept centres on using the special skills of people with autistic spectrum disorder (ASD). It tests software and conducts quality controls for companies such as Siemens, Microsoft, Cisco and CSC. In her book *The New Pioneers* (Wiley, 2010), Tania Ellis describes how the company's social business model was so successful that it became a Harvard Business School case study just four years after its inception. Founder Thorkil Sonne's long-term goal is to create one million jobs worldwide for people with ASD and similar challenges, and to change society's view of people with this disorder.

Funds are being set up to encourage this kind of approach – and although it is early days, the results are promising. Community Action Network Chief Executive Andrew Croft says: 'I think there could well be a time when every major corporate organisation is running a social business alongside its existing business, using its skills to create significant social value. There are some huge opportunities, which will also help mainstream businesses achieve far greater social credentials.'

Croft points out that when companies start to look at taking a more socially responsible approach, they often realise it can be a route to business transformation.

Take the example of the waste management company that started looking at ways to increase recycling. It found a way of turning some of its waste into a soil conditioning product that could be sold to garden centres. It has since gone on to look at how it could produce energy from the by-products of its waste. So by trying to take a more environmentally friendly approach, it has been able to identify new products and income streams.

Board directors who are looking for the next source of innovation might be well placed to look at the CSR section of their annual reports

and see if there is something in there that could transform the way they do business.

Graham Bann, Executive Director, Talent & Skills, Business in the Community (BITC), believes that CSR is not just a two-way street where corporates and individuals benefit; it is starting to redefine the way business is done and to redefine business itself in terms of social and cultural community objectives.

CSR helps to overcome tunnel vision in companies and get managers out of the silo mentality. It also helps aspirant leaders tap into their emotional intelligence and develop a rapport with staff and customers that is durable. At BITC, Graham Bann is passionate about another way of doing business – engaging with the community to deliver a better outcome. He sees the power of business mentoring on a daily basis. He has also witnessed major changes in CEOs as a result of their community involvement.

Marks & Spencer Chairman Sir Stuart Rose gave his personal support to ‘work inspiration’, which helps businesses provide meaningful and valuable work experience for young people. Steve Holliday at National Grid is never more relaxed than when he is working with BITC, involving National Grid employees in community projects and providing first-rate development opportunities for unemployed young people.

We still have a long way to go to make sure we use the whole talent pool, and both Sir Stuart Rose and Steve Holliday have become sensitive to and proactive on this issue as a result of their BITC involvement.

## Support from professional bodies

With the recent spate of government cuts to the quangos, we will rely more on professional bodies to set standards and ensure that they are met.

As bodies such as the Financial Services Authority (FSA) are reformed, there are hopes that there will be more emphasis on the skills,



competencies and values of those who are entrusted to make decisions. We may then have more real accountability in the system. No one can be held accountable for breaches of trust unless we are more explicit about the ethical code itself and make it a requirement, for example, for big financial institutions to uphold and enforce ethical behaviour.

It is in the interests of all businesses that we do 'good business' and that some of the excesses of recent years are not quickly reinstated. This is the inspiration behind a recently established body called Professions for Good, which represents professional bodies and is fundamentally concerned with more effective standard-setting.

Of course, throughout the professional bodies you have the issue of who represents our managers and leaders? What code are they following? When no one is looking, how do we make managers and leaders accountable for ethical management and leadership behaviour and practices?

Professional codes of conduct are perhaps a better way of regulating than the box-ticking approach where people become frightened to exercise independent judgement. One hopes that by encouraging people to use their own sense of right and wrong, advised and supported by a professional body, some errors of judgement could be avoided altogether. This also means that where errors are made, corrective action can be taken.

The CMI has responded to these issues with the introduction of the CMI Code. The code encapsulates what the Institute and its members stand for in terms of their professional conduct, behaviour and ethics. All members sign up to it on joining and reaffirm their commitment annually. The overall ethos of the code is captured in the following statement:

*As a professional manager and member of the CMI, I will behave with honesty and integrity in my own actions as a manager and in my interactions with colleagues, my employing organisation, those with whom I come into contact in fulfilling my management role, the wider community and the Institute.*

The code sets a high standard and the CMI provides support and advice to members as they seek to follow it in their personal management practice and their management of others. It also sets out their responsibilities to the organisation that employs them, their duty to deal appropriately with customers, suppliers and other stakeholders, and the way they should approach their dealings with the wider community.

The CMI would like to see the code included in the management and leadership development courses delivered at universities, colleges and business schools, and hopes that it will also be embraced by employers and other professional bodies. The CMI believes that the code should also be included in public-sector commissioning processes and should equally be applied to the consultancy profession. The vision is that professionalism in management should become much more widely accepted and practised, and that it should increasingly mean something to everyone.

The CMI is involved in other initiatives that will also support organisations in taking a more values-driven approach. It has been involved in researching and developing tools, for example, to assist organisations in implementing CSR.

One example of this is the work done in partnership with Business in the Community to add a management and leadership aspect to their BITC index. The existing BITC index measures the extent to which organisations are investing in CSR activities; the CMI believes that it is important they also measure the management and leadership capability that will support these initiatives, and has worked with them to develop an appropriate benchmarking tool.

## The future

Trust and confidence march together and the capitalist economy depends on a large number of people trusting each other. This fundamental of business life is unlikely to change and will be a critical factor in

getting the economies of the world moving forward onto a sustainable growth path.

The challenges to our institutions are already very visible, but we also need to spell out the implications for attitude and behaviours. Grooming managers and leaders for stardom will be increasingly difficult without an acknowledged ethical code.

The general trend across business now is to focus more on outputs rather than processes. Organisations are increasingly working with consumers to see how they can improve their products and services, and are seeking to forge strategic partnerships with others who can help them develop and deliver what the customer demands. The lines between the public and private sectors are becoming more blurred as a growing number of services are outsourced to contractors in a bid to save costs.

This means that it will become even more important for organisations to be outwardly focused and to be able to exhibit values and ethics that have broad appeal to their range of stakeholders. More companies will need to learn the lessons of the past two years, and exercise constraint and restraint in their public behaviour.

The values and ethics of managers and leaders themselves will need to be increasingly open to scrutiny. Senior pay is just one example of where values and ethics are most publicly displayed, and where there is a growing unease about both rewarding poor performance and pay inequalities. Accounting conventions now require full disclosure of senior pay and rewards. Public sector pay in the UK will also come under the spotlight with the new review body being chaired by Will Hutton.

It has already become apparent that some basic concepts of fairness, equality and justice are being overlooked – partly because they have never been articulated properly.

Because of historic difficulties with pay regulation, it is going to be doubly difficult to regulate pay in the public sector. There are also ongoing issues of low pay and about the affordability of pensions.

In setting top reward strategies, organisations need to make sure they reward and encourage the behaviours that are consistent with the organisational vision and values. The way we value people at the top has never been more important – and avoiding the issue will be impossible.

The following checklist will help organisations put their pay and reward strategy under the spotlight and ensure that it is both appropriate and fair.



### Checklist on senior pay and reward strategy

- Are you aware of the benchmark pay increase for senior managers in your industry/service?
- Does the benchmark pay include a bonus for performance with a percentage of basic pay, or is the bonus genuinely for exceptional performance?
- How is performance assessed?
- At any time in the past ten years, has there ever been an instance in which the bonus has not been paid (in full or in part)?
- Does the organisation have an explicit reward strategy that includes senior pay?
- What constraints are there (e.g. budget limit for pay settlements)?
- What measures are applied to evaluate the behaviour that underpins performance?
- What long-term plan do you have to keep pay and productivity in line with each other?
- Who is accountable for the pay and reward strategy in the organisation and for decisions on senior pay?



## Key points

- Values and ethics are integral to managing and leading. However, they need to be clearly expressed, particularly at an organisational level, and there needs to be evaluation and follow-up to see whether values and ethics are being consistently displayed.
- Values and ethics need to be continuously reviewed. Are they fit for purpose? For example, as the impact of recession and government cuts is felt, we must all act responsibly. How is responsibility allocated? Who sets the framework? Organisations need ethical codes – without them, it is difficult to rule on behavioural issues.
- Styles of leadership are changing. Regulation and rule-setting is likely to be less dominant. More engagement and empowerment is needed.
- The direct delivery role of the state is reducing, meaning that the private and voluntary sectors will need to do more.
- Values and ethics are even more important in the public sector, where there is more emphasis on delivering a service and the ‘profit line’, as such, doesn’t exist. The ‘Big Society’ experiment will be an important part of engaging with values and ethics as a way of improving our communities.
- We need better measures of social cost benefit as we transform public services, and we need better mechanisms for recruiting, developing and evolving volunteers.
- CSR is an important part of business life and has benefits both ways. More and more managers and leaders are looking for ways to make a difference and to develop their skills at the same time.

- Scaling up investment in management and leadership makes sense, even in times of retrenchment. There are lots of cost-effective ways to provide individuals with opportunities to learn and develop, e.g. CPD or ManagementDirect (the CMI learning portal).
- Professional bodies are a great resource for setting standards and codes of ethics, and for creating the right culture within organisations. The standards and codes of ethics are accessible to our members but could also help to underwrite both individual and organisational commitment to good practice.
- Top pay is a big issue that needs to be dealt with rationally and fairly.
- Values and ethics are important from a corporate governance perspective.

In this chapter we have looked at how values and ethics are the bed-rock of good management practice. As you have read, in turbulent times a strong set of values can act as a guiding light for managers and leaders who must make difficult decisions. In Chapter 2 we will describe how managers can take a values-driven approach to managing themselves and others.