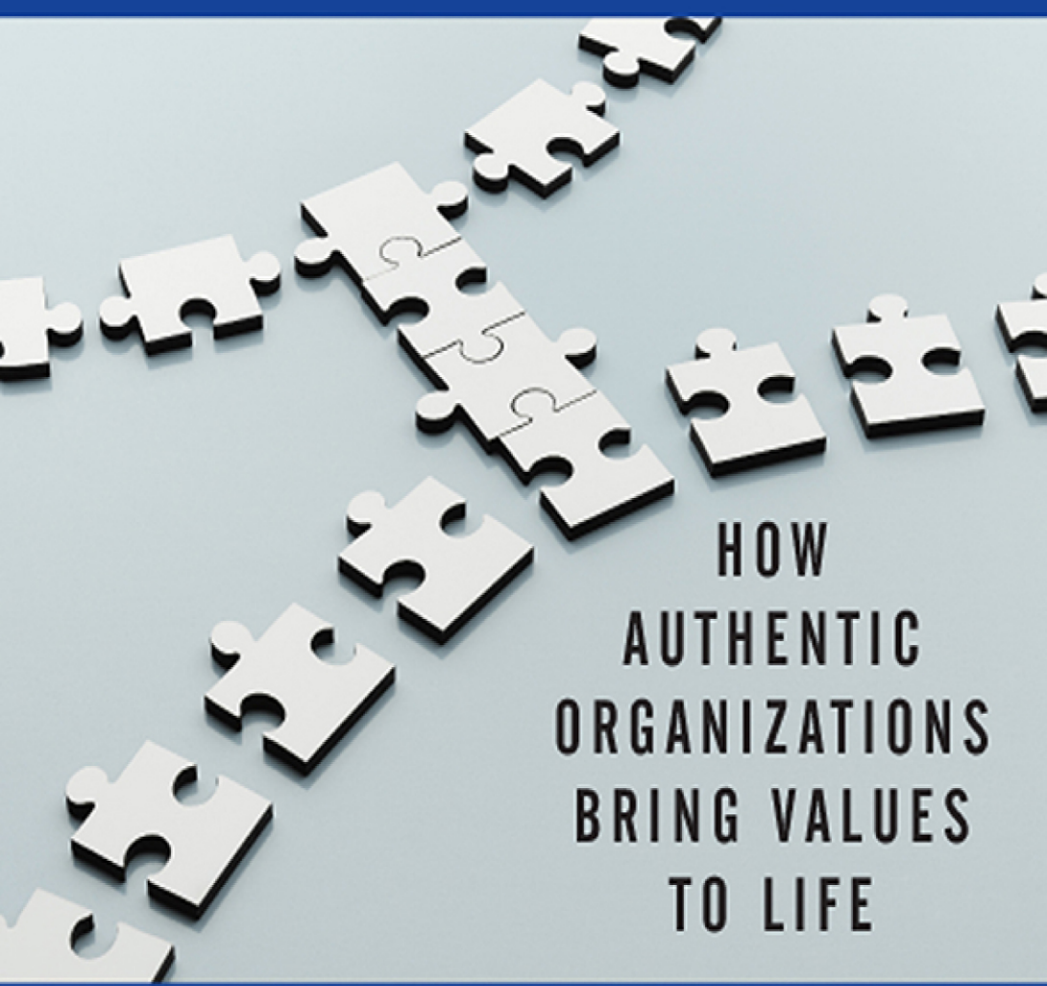


BRIDGING THE VALUES GAP



HOW
AUTHENTIC
ORGANIZATIONS
BRING VALUES
TO LIFE

R. Edward Freeman & Ellen R. Auster

Foreword by John Mackey and Raj Sisodia,
*authors of *Conscious Capitalism**

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Values Gap

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*How Authentic Organizations
Bring Values to Life*



R. Edward Freeman

Ellen R. Auster



Berrett-Koehler Publishers, Inc.
a BK Business book

Bridging the Values Gap

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*To the memory of my grandmother Ruby Odom Andrews,
who inspired me to think about the issues in this book and
who taught me more about values than I can ever repay.*

—R. EDWARD FREEMAN

*To my parents, Don and Nancy Auster, for their
eternal love and support and for being brilliant role models
and nurturers of how to lead authentic, inspired,
connected, and reflective values-centered lives.*

—ELLEN R. AUSTER

Contents

Foreword ix

Preface xiii

PART I

Understanding the Values Gap in Business 1

CHAPTER 1

The Values Gap in Business 3

CHAPTER 2

Just Be Authentic: Not So Fast, Not So Easy 17

CHAPTER 3

Authentic Organizations: Is Yours One? 31

CHAPTER 4

Do Values Right or Don't Do Them at All 47

PART II

How Businesses Can Bridge the Values Gap 65

CHAPTER 5

Introspective Values:
Reflecting on Self and the Organization 67

CHAPTER 6

Historical Values:
Exploring the Impact of Our Past 91

CHAPTER 7

Connectedness Values:
Creating a Sense of Belonging and Community 111

CHAPTER 8

Aspirational Values: Our Hopes and Dreams 137

PART III

Bringing the Conversation to Life 157

CHAPTER 9

Getting Started 159

Notes 169

Index 181

About the Authors 191

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Foreword

by John Mackey and Raj Sisodia

Ed Freeman and Ellen Auster have written the definitive guide to thinking about and implementing a values-based approach to business. They provide a wealth of compelling examples and offer very practical frameworks for companies to successfully navigate this rocky terrain.

As longtime proponents of conscious capitalism, we strongly believe that values are foundational for companies looking to embody a more conscious way of doing business. Values inform a company's purpose, which is one of the four key tenets of conscious capitalism, along with stakeholder integration, conscious leadership, and conscious culture. The collection of values that are core to a company compose its culture. The values of the company's leaders must be in harmony with the espoused values of the organization, which have to resonate with all stakeholders—so getting values right is essential to the practice of conscious capitalism. This book will go a long way in helping people think logically and comprehensively about values.

Shared values are a precursor to creating “shared value,” which is another way that people are starting to think about the evolution of business. At Whole Foods Market, we think of our core values as the guiding principles that we can use to realize our purpose. Our core values are very real to us; we share them with all of our stakeholders and continuously are in dialogue about them. The core values are: selling the highest-quality natural and organic products available, satisfying and delighting our customers, supporting team member

happiness and excellence, creating wealth through profits and growth, caring about our communities and the environment, creating ongoing win-win partnerships with our suppliers, and promoting the health of our stakeholders through healthy-eating education.

Core values are essential in helping leaders deal with dilemmas where they have to choose between multiple courses of action that each seems right from a certain perspective. In such cases, leaders can use a company's core values to make choices that are maximally beneficial to all stakeholders. Instead of simply choosing one approach over another, we strive to come up with a creative solution that can simultaneously fulfill multiple values.

For example, Whole Foods Market sells a full range of animal-based foods because 95 percent of our customers eat these foods. At the same time, we have a commitment to improving the health and longevity of our customers and to improving animal welfare. We need to reconcile satisfying and delighting our customers while also helping them be as healthy as possible. Research shows that reducing the consumption of animal-based foods is a key aspect of improving health. Our approach is to educate our customers about the benefits of eating minimally processed and unrefined plant foods while also working to provide them with the healthiest possible animal-based products and ensuring that those animals are humanely treated. This approach has allowed us to remain true to our values while also remaining viable as a business.

The real test of a company's commitment to its stated values comes when it faces an existential threat. If a company can hold steady and not sacrifice its core values under such conditions, it augurs well for its ability to thrive in the long run. For example, Southwest Airlines—a highly conscious business—has famously stayed loyal to its employees through numerous downturns in the airline market; it has never laid off any employees in its history.

During the great recession of 2008–2009, many companies faced extremely tough conditions and had to make difficult decisions. Truly

conscious companies rededicate themselves to their core values in such times, enabling them to survive with their culture strengthened and their humanity intact. One example is a company called Barry-Wehmiller, a \$2 billion privately held industrial machinery manufacturer based in St. Louis, Missouri. When the downturn hit, new orders for capital equipment virtually dried up. The company hoped it could get by on its backlog of orders as well as its aftermarket parts and services business. Soon, however, customers started to cancel existing orders, walking away from multimillion-dollar commitments. The situation was dire, and the board of directors was recommending that the company start looking at layoffs. CEO Bob Chapman, however, was guided by the opening line in the company's vision and values document, called its Guiding Principles of Leadership: *We measure success by the way we touch the lives of people.*

This document was deeply meaningful to everyone in the company and had been a touchstone for decision making since it was formulated six years earlier. Every major decision was looked at through the lens of the impact that it would have on all the lives that the company touched. As Chapman thought about the consequences of laying off a significant proportion of his workforce, he decided that he simply could not do that and remain true to the company's highest values. In that economic environment, there were simply no manufacturing jobs to be had. Numerous families would lose their homes, their children would have to be pulled out of college, and marriages might crumble. Bob thought, *How would a caring family respond to this kind of crisis?* The answer came to him: the family would pull together, and everyone would make sacrifices so that no one family member had to suffer excessively.

He came up with the creative idea of instituting a furlough: everyone in the company would take an average of one month off without pay. The company froze contributions to the 401(k) plan, lowered some executive salaries, and cut back on expenses such as travel. This enabled the company to save enough money to stay in

compliance with its banking covenants and ensure that no layoffs were needed. The action resulted in an outpouring of goodwill, even altruism; some employees offered to take additional time off so that their colleagues who could not afford to take a month off could take less. By the time the recession ended, the culture had been strengthened and morale was higher than ever. The company's business recovered far ahead of the industry, and it gained significant market share, as it had experienced staff ready to work while other firms were scrambling to rehire people.

One of the powerful tools that is presented in this book is the idea of values through conversation. Barry-Wehmiller uses a version of this approach that it refers to as "mind the gap." After a team of people from across the company had drafted the Guiding Principles of Leadership, leaders across the organization sat down with small groups and shared the document with them. The leaders said, "These are the values that we say we live by. Please tell us where we are falling short." This resulted in numerous instances in which team members pointed out policies and practices that were inconsistent with the Guiding Principles of Leadership. The company immediately changed each of those policies. Over time such gaps virtually disappeared, and the company now has a remarkable level of consistency in being true to all of its stated values.

The values that a company chooses to live by can also be thought of as virtues. Just as all of us as individuals should strive to embody the essential human virtues, our organizations too should reflect them. But until now this has seemed an impossibly complex undertaking. This book helps resolve that complexity and enables organizations of any size to implement a values-centered approach to business. This in turn will spawn many more conscious businesses in the world, which will contribute greatly to human flourishing. We commend and thank Ed and Ellen for this valuable contribution.

Preface

Much has been written about the role of values in business. There is, however, a real gap between the writings of business thinkers and pundits and what executives actually have the capability to do. Collectively, we have worked with organizations on values issues for more than 50 years, helping executives build the capability to understand and act on their values. Given the realities of the business world in the twenty-first century, we believe it is time for one more book—one that goes beyond platitudes and acknowledges how difficult it is to know and act on one's values consistently. Values are the wellspring—the foundation—of building a great company.

Business today is inarguably global. There are clashes of values and culture that go on continuously both inside and outside most companies, large and small. We believe that the idea that values are the most important component of how any business creates value is the most important insight in twenty-first-century capitalism as it is practiced around the globe. And there are many misunderstandings about how values work that lead to expensive mistakes. We need a more robust and realistic perspective about values in business, and this book provides such a view. We wrote this book to help executives think through how to be more effective in articulating and acting on their values both personally and in their business lives. We call this view *values through conversation* (VTC).

What is a value? We will start the conversation here and elaborate in chapter 2. We take a very pragmatic view about values. They represent what is most important to us. Values necessitate a shared understanding of how we are going to behave. When we say that one of our values is *integrity*, it means that being honest with each other is very important to us. It also means that we need a common understanding, which is often a work in progress, about appropriate behaviors that bring that value to life. Of course, our own values can conflict with one another as well as with those of other people; and the business world constantly produces new situations that demand one think about the values that are appropriate. All of these reasons, and others, are important if we are to bridge the values gap in business.

Structure of the Book

The argument of the book works like this: In part I (chapters 1 through 4), we explain why many businesses have a values gap, and we give many examples from our experience. In part II (chapters 5 through 8), we focus on how to bridge these values gaps and suggest that creating a living conversation about a company's values is the key to success. In part III (chapter 9), we briefly summarize our conclusions and then explore three examples of values gaps and offer specific suggestions for next steps in bringing values to life.

The idea of “values” that has gained some currency in business in recent years is more complex than it first seems. Overall, we need to see acting on values as ongoing conversations in companies that shape options, choices, decisions, and actions as opposed to words that have been carved into stone or embossed on a “values card.”

In chapter 1 we set out our view of the values gap that exists for many businesses. In chapter 2 we show how values work in our personal lives, leading to a lifelong project of self-discovery and creation; the chapter focuses on conversations that we have, often with ourselves, about who we are and who we can become. Chapter 3 looks

at organizational values and the challenges associated with a business that wants to act on its values. Chapter 4 is a collection of mistakes that we have seen from our experience working with companies on these issues; we show how organizations limit their possibilities for growth and undermine their good intentions by making mistakes that could be avoided.

Chapters 5 through 8 give a detailed account of our method for bridging the values gap, with four different types of values through conversation. Each of these chapters starts with an At a Glance that captures the benefits, principles, and practices of how authentic organizations bring values to life through that form of VTC.

First, there is introspection, the subject of chapter 5. We cannot say much about our values if we are not willing to seriously probe and question our own motives and behavior. Second, there is our history, explored in chapter 6. We are at least partially products of our upbringing, our environment, and our experiences. Understanding different views of our history helps us figure out how to refresh and reinvent what we do while preserving legacy and continuity. Third, we are connected to others, as discussed in chapter 7, which explores and offers insights from companies on how to bridge the values gap through relationships with stakeholders and how to interact, lead, follow, and work together. Finally, we have aspirations—things we want to accomplish, ways we want to live, and our hopes, dreams, and fears—the subject of chapter 8.

Our argument is that by understanding introspective, historical, connectedness, and aspirational aspects of our values, we can bring values to life in our organizations through our conversations; this leads to decisions and actions that bridge the gap between the “talk” and the “walk.” And, we argue, if these conversations are authentic, the possibilities for that organization are unlimited. We close with chapter 9, where we summarize our approach and point the way forward.

Method and Sources

Throughout this book we have relied on a number of sources. The first and most important is the broad group of business leaders whom we have had the privilege to work with over the past 25 years. To protect their anonymity, we often refer to them and their companies in a generic manner, such as “Mark was an executive in a multinational corporation.” Such examples come from our personal observations and experience. When you see an actual company name, we have either a published source or permission from the company to use that example. Please note that all of our examples are real, and they represent our interpretations of the 50-plus years of our experience helping companies and executives, as well as our own interpretations of the business press, case studies, and other business writing. We are grateful for the experiences and conversations that have so profoundly shaped our thinking.

A second group of businesspeople who have molded our thinking is our students. Both of us teach seasoned executives with many years of experience and wisdom, as well as MBA students with just a few years of experience and a millennial point of view. We have learned a great deal from our students, and we hope that they will recognize some of the ideas, stories, and material in this book as emerging from the discussions and conversations in our classes.

A third set of sources we have benefitted from greatly comprises colleagues around the world, who have spent their careers trying to understand how values in business really work. These thought leaders are consultants, academics, and executives who will recognize what we have learned from them and see their influence on our thinking.

Acknowledgments

The ideas in this book were originally developed in two academic articles, as well as many other things we have written over the course of our careers. These are the main influences on this book: Ellen R.

Auster and R. Edward Freeman, “Values and Poetic Organizations: Beyond Value Fit toward Values through Conversation,” *Journal of Business Ethics* 113, no. 1 (2013): 39–49, doi: 10.1007/s10551-012-1279-5; and R. Edward Freeman and Ellen R. Auster, “Values, Authenticity, and Responsible Leadership,” *Journal of Business Ethics* 98, no. 1 (suppl.) (2011): 15–23, doi: 10.1007/s10551-011-1022-7. We are grateful to publishers and editors for giving us permission to recast and reuse this material.

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Ed Freeman

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Ellen Auster

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P A R T I

Understanding the Values Gap in Business

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CHAPTER 1

The Values Gap in Business

There is a values gap in business, and most businesses underperform because they cannot bridge that gap. The gap is not straightforward, and it is not as simple as *live your values and be authentic*.

First, all over the world there is a high degree of mistrust in business and its executives. Tell someone that you teach business ethics, and they have to manage not to laugh, or they say, “Oh, I didn’t know business had any” or “Must be a short course.” Public trust in business is at a low point around the world; and while a new story of business is emerging, it is dangerous for business as an institution to occupy the moral low ground in society.

Second, there can be a great deal of individual conflict around the idea of values. Values represent what is most important to us, and we often can be confused about these issues. In today’s interconnected world, we encounter many difficult values issues that we have never before confronted. And sometimes we expect that values issues are simple and that if we just act on our values, our problems will be solved.

Finally, individual businesses have problems with making their values come alive in the organization so that executives and employees can act consistently in accordance with those values. And while many businesses have values statements, often they do not translate

into living documents. Sometimes the business values conflict with one another, and sometimes they conflict with individual values of employees. Often the world changes, and companies encounter new situations that require rethinking how their values are relevant. The result of these forces is a values gap for many businesses.

Why Trust in Business Is at an All-Time Low

Enron was known for its innovative spirit and its commitment to a set of values called *RICE*, which stood for *respect, integrity, communication, and excellence*. Enron won *Fortune* magazine's America's Most Innovative Company award for six consecutive years, from 1995 to 2000. According to *Fortune*, "Famous for innovative thinking, Enron has led the charge for deregulation and consumer choice, and has created new businesses such as electricity trading, in which kilowatts are bought and sold like pork bellies."¹

Yet even as Enron was reaping kudos on *Fortune's* Most Innovative Company list, there were allegations of massive fraud. In the businesses where the company was supposedly innovative, the numbers were misleading. There were also accusations of Enron's manipulating the electricity market in California. The board allowed the chief financial officer exceptions to the company's ethics policy so that debt could be moved into off-the-books special-purpose vehicles. The chairman and the chief executive officer (CEO) were convicted of criminal wrongdoing. Enron's accounting firm, Arthur Andersen, which shredded key documents, went out of business. Clearly, Enron had a values gap—and many have argued that Enron epitomizes what is wrong with business and capitalism.

Although Enron may be an outlier, there has been an unending cycle of business scandals, from the Teapot Dome scandal in the 1920s to the most recent financial sector meltdown. This cycle leads to a public perception of business as occupying the ethical low ground in society. Many people simply do not trust business as an institution

that is able to better our lives. In fact, the surveys are pretty clear: public confidence in the institution of big business reached an all-time low in 2009, and in 2014 it remained at the bottom of the list, somewhere between organized labor and the US Congress.²

Think about recent history. Recall the headlines and news coverage of Enron, WorldCom, Parmalat, the United Nations Oil-for-Food Programme, Long-Term Capital Management, Bear Stearns, the tainted milk and meat scandals in China, the child labor of Nike, the Zimbabwe diamond scandal, and the raft of banks and former financial institutions that felt the pain of the global financial crisis.

One conclusion that some draw from stories of companies such as these is that business is not a trustworthy institution. After every scandal, critics cry for more integrity in business. After Enron both the *New York Times* and the *Wall Street Journal* urged President George W. Bush to support legislation to encourage auditors to be the primary guardians of business integrity to prevent fraud from occurring in the first place. These pundits have an underlying story about business that we call the “business sucks” story. They believe that business is an untrustworthy institution that drives the unrelenting pursuit of profits and self-interest and lacks any sense of values and ethics. They also believe that such greed and rapaciousness can be curbed only by greater forces such as government regulation.

What this point of view misses is the thousands of businesses that have never been tainted by scandal. For every Enron there are at least 10,000 companies employing ordinary human beings who are trying to do the right thing, creating value for those people the company can affect. It also does not account for the tremendous progress that companies have made in the past 35 years or so, paying attention to the communities where they are located, their effects on the environment, and their overall societal responsibilities and obligations.

A second and opposing reaction to the business scandals in the headlines is that our view of business is distorted by the media’s

penchant for sensationalism. After all, bad news sells. Some have reached this conclusion and suggested that we need to celebrate that business is devoid of emotion and rests on economic logic alone. They say that the emotional response of the media affects the average citizen but really has little effect on the real competitive world of business. This second conclusion is often hurled by those who want to agree that business is about the pursuit of profits but that if we have less intrusive roles than these other societal institutions, the search for profits will generate a better society. We call this underlying story the “business is great” story. Leave competitive markets alone, and everything will work out for the best over the long term.

This conclusion tends to ignore the fact that while many companies are out there trying to do the right thing, there are others that have caused some real harm in the name of “this is business.” Of course, there are some bad apples like in any institution, but much of the harm done by the global financial crisis was in the name of finding innovative ways to conduct business and manage financial tools.

We are distrustful of both of these conclusions. Some businesses really do suck and some are great, but these politically motivated positions do not help us address what we believe is an even deeper problem that is much more difficult than a discussion of business scandals.

Business in the Twenty-First Century

Over the past 50 years, business has undergone significant shifts from its modern origin in the industrial age. Technology and globalization have radically changed the way we work. Many have argued that the physical routines that defined the industrial age are now irrelevant, at least in the West. Routine labor has been automated or contracted out to low-wage countries. There has been a well-documented shift from physical work to knowledge work, leaving many people behind. Companies have less loyalty to their workforces, and employees reciprocate in the face of layoffs and outsourcing. Globalization entails that

companies think about their strategies in a worldwide context, complicating the nice, rational bureaucracies that emerged to run stable, domestic, industrialized companies that could engage in planning for a fairly predictable future. Those days are history for most companies.

The combination of incredible information technology and globalization has led to multiple disruptions in most companies. Often management responds by favoring the interests of one important stakeholder—the shareholders—over all others. Companies now live in the fishbowl of a 24/7 news cycle in which all of their actions are scrutinized. It's small wonder that public trust in business and its executives is at an all-time low.

Globalization also leads to exposure to many differing cultures that may interpret the same values in radically different ways; or they may be at very different stages of development, so issues long thought solved by the West become hot buttons in other parts of the world. Most Western societies have enacted prohibitions around child labor, believing that children must focus on their education, growth, and development.³ Yet, as Nike and others have found, this view is not always shared around the world. Nike and its critics found plenty of evidence of child labor in the factories of its suppliers in Southeast Asia. And even though these were not Nike employees, the global news cycle ensured that Nike felt pressure to change the labor practices of its suppliers and its suppliers' suppliers.

Such cases are now commonplace, especially for businesses that have become iconic global brands. They are held accountable for everything that goes into the product, as well as the uses of the product and its disposal. The transformation of a global “value chain” into a global “responsibility chain” has occurred only within the past 25 years. Companies that try to manage this responsibility chain without a sense of what they stand for are headed for trouble.

Combine these effects of technology and globalization with the recent global financial crisis, and it's no wonder that trust in business

and executives is at an all-time low and that many businesses are facing a values gap. Business neither sucks nor is great. Most businesses fall somewhere in the middle of that spectrum. Business leaders are struggling with navigating the complex world of technology and globalization and the recent global financial crisis amid negative portrayals of some of the companies that have derailed.

Business is too often seen as amoral, having nothing to do with morality and ethics. The common perception is that business is about only money and profits. Businesspeople are viewed as narrowly self-interested, unconcerned with anything but how much money they are going to make for themselves and their companies.

We believe that most of us want to lead and build businesses that are both inspiring places to work and beneficial to society. That means we need a more robust view of how individual human beings experience their business lives.

Business Is Also about Individual Human Beings

Angela got a phone call from Pierre, her boss's boss, asking her to come to his office immediately. When she arrived she found a few other members of the senior management team. Her boss, Jacob, was noticeably absent. Pierre asked Angela some sharp questions about Jacob and his top priorities for the team. Angela and her boss had their differences, but they had talked about them in a fairly open way, though Angela continued to believe that her boss had the organization heading in the wrong direction. She wanted to be true to her values. She wanted to answer truthfully, but she did not want to be a tattletale and disrespect her boss. She wanted to be authentic, but she was not sure what that meant in this circumstance. Angela experienced a real conflict in values. Her value of truthfulness and her value of privacy (not being a tattletale) were at odds with each other, and she did not know how to respond.

This case is typical of issues that nearly all of us face every day. We have values-related conflicts between work and family life and between our obligations and what we would prefer to be doing. Conflicts also arise when we are in novel situations. We may have a great set of values that we learned from our parents, but we have little idea how to apply them to twenty-first-century business situations inside companies.

Alternatively, we may be confused about what we really believe, or we may be at a transition point in life, where the waters ahead are very murky in terms of which values will persevere. Sometimes we have to rethink the purpose and meaning of life and decide whether or not to change course.

People are complicated. It is not so easy to just “act on our values,” the cornerstone of living an authentic life. There are many barriers to living one’s values, and being part of a complex company does not make things any easier. These conflicts contribute to the values gap for the organizations in which we work.

Taking Values Seriously

Sophie’s first job after university was with a food distribution company in New Jersey that supplied products to boutique grocery stores in nearby New York City. She was excited and enthusiastic about her new position working in the human resources and organization development department. Sophie and her boss worked hard to build better relationships with unionized truck and forklift drivers in the factory where their offices were located. They believed that people should be empowered, and they thought that the company held this belief as one of its basic values.

Sophie and her team introduced progressive initiatives for the factory, such as increased flexibility in choosing shifts and the ability to bank two hours of time off for every hour of overtime worked. They renovated the lunchroom to be bright and cheery, with picnic

tables and a patio outside. Shop stewards and the other employees were beginning to work with Sophie and her boss to solve other long-standing issues in the plant, providing creative input and suggestions for improving efficiency. Better protection for people working in the freezer department was also moving forward.

About that time Sophie was asked to hire 50 new truck drivers. She poured her heart into convincing folks that working for her company would be great, and she showcased all of its progressive initiatives. She was so convincing that many drivers left other well-paid jobs to join the company. Sophie oriented and welcomed these newcomers into the plant and worked hard to integrate them into the team. On the day before these employees would become union members, her boss's boss told her boss to tell her to fire every one of them. Clearly, there was a disconnect around the idea of employee empowerment that Sophie and her boss were developing and the firings that happened. There was a real values gap in this business.

Regardless of whether Sophie's company had a values statement about employee empowerment or a website that trumpeted the idea, the company was acting through Sophie and her boss as if this was an important value. Once the decision to fire people was made, however, the company's values were undermined.

Steeped in the old story of business, individual companies, executives, and employees often misunderstand how their business models are values-laden through and through. If we cannot bridge the values gap for individual businesses, it is highly unlikely that we can change the overall societal narrative about business and industry. And because much of our individual lives are spent in organizations, we need to address this business values gap if we are to deal with our own individual conflicts. It is more difficult than it appears for individual companies to get values right. Nowhere is this more apparent than in new studies of employee engagement.

In a recent worldwide survey of 142 countries, only 13 percent of employees said that they were engaged in their work.⁴ Regardless of your political views of whether business sucks or is great, think about a business in which the vast majority of employees find little meaning and fulfillment in their work; they are unlikely to make contributions to their organizations beyond what is necessary to keep their jobs. Things are a little better in North American companies, where the engagement number stands at 29 percent, but that leaves 54 percent of workers not engaged and 18 percent who are actively disengaged.⁵

For many companies this means that more than half their workers just go through the motions. For another nearly 20 percent, they are not just hanging out but are actively checked out. Imagine getting up every morning and that is what you face: a job that is not engaging, day after day, week after week, year after year. This results in companies in which underperformance, waste, and human tragedy loom large.

Lest we paint too dark a picture, it is worth remembering that the story of business is rapidly changing. We see several important and simultaneous trends:

- The emergence of many values-based companies, such as Whole Foods Market, Google, Amazon, Facebook, Berrett-Koehler, The Container Store, and Novo Nordisk
- The rise of social entrepreneurship and the creation of innovative solutions for some of our most pressing societal problems through new social-sector organizations and by engaging employees and other stakeholders
- The push by traditional companies such as Unilever and others to remake themselves for the twenty-first century

As these trends accelerate, we need to be mindful about the temptation to think about companies in terms of saints and sinners. Inevitably, these “good” companies will make mistakes. It is tempting

to invoke the old story and relegate them to the sinners category. Oscar Wilde is purported to have made the point quite succinctly: “Every saint has a past, and every sinner has a future.”

Taking values seriously in a business is no guarantee of not making mistakes. The world is complex, and we need to be humble as human beings who cannot possibly know or predict what is going to happen. We can, however, figure out how to bring our values to life, how to infuse our companies and our business lives with what we stand for, and how to do values better. In short, we can bridge the values gap.

Toward a New Narrative for Business

In working with executives and businesses all over the world, we have learned that there are few truths that work everywhere for everyone. We have noticed that there is a growing movement to put values in the center of the way we think about business, and this is leading to a new story, a new narrative, about the purpose of business and how to be successful. Such a new narrative is integral to bridging the values gap.

Every business must create some value for its customers, suppliers, employees, communities, and financiers (the people with the money). These groups are a company’s *stakeholders*. More businesses are recognizing that they must create value for *all* their stakeholders if they are to survive and thrive. Competition in a free society is very important because it gives everyone more options, but the basic question for any business is how it is going to make people’s lives better so that they are willing to pay for its products and services.

This idea of stakeholders is often juxtaposed with the idea that business should be concerned only with profits and returns to shareholders. As every businessperson knows, however, this is a false dichotomy. Even if all you care about is creating value for your shareholders, how are you going to do it? You will need great products and

services that create value for your customers (so they will pay you for them). You will need suppliers who want to innovate and improve your products and services or make them faster or cheaper or greener (so you will pay them for those products and services). You will need employees who are engaged in helping you understand how to grow your business successfully. You will need to be a good citizen in the community if for no other reason than to escape community regulation that might take value from your business model. And if you do these things well over time, you are going to make money. However you parse it, business is about creating value for its stakeholders.

We believe that values create value for stakeholders.⁶ Doing values right energizes employees and other stakeholders as well. Great companies create value by relying on values. They figure out how to treat all of their stakeholders with respect and dignity, just like all of us want to be treated. And they infuse their business models with the very ethical values that we try to teach our children.

Entrepreneurs start companies because they want to somehow change the world. They have an idea that they want other people to benefit from. There are very few entrepreneurs, in our experience, who start a business solely to make money. Most of the great ones are fanatical or consumed with an idea. It is really pretty simple because the passion and purpose of entrepreneurs stem from their values. Great companies are built on passion and purpose and a set of underlying values in which people can believe. Much of the old narrative of business has forgotten this idea and has relied on the canard that making money is good enough. Even if that were true at some point in our history, it is not enough to sustain a business today.

Success in the twenty-first century requires that we avoid making tradeoffs among stakeholders. Instead we must deliver creative solutions to the difficult problems where stakeholder interests conflict and where there are conflicts in values. For example, great companies do

not cut employee benefits to raise their stock price or screw their suppliers to keep prices low for customers. They figure out how the interests of employees, suppliers, customers, communities, and financiers converge in some kind of harmony over time. Of course, sometimes tradeoffs must be made, but great companies do not continuously make one group better off by making others worse off. Business is fundamentally a collaborative and cooperative enterprise. Indeed, we believe that business is actually the greatest system of societal cooperation that humans have ever invented. We simply misunderstand the underlying values that make capitalism possible.

One such value that we are increasingly becoming conscious of is that business is a deeply human institution, embedded within society rather than existing above it in some mythical free-market land where everyone is a short-term, purely economic maximizer. We are not merely economic beings but rather fully complicated humans with families, love relationships, and aspirations. We are economic and political and spiritual and more. To understand how business really works, we have to understand human beings and their hopes, dreams, and abilities to do great harm as well as good. Human beings are at least partially driven by their values—their sense of what is important for them to lead a meaningful life. There is no magical transformation of people into one-dimensional, greedy egotists when they walk into their workplaces. They do not check their values at the door and pick them up when they clock out.

The emergence of this new narrative prioritizes bridging the values gap. It will take a generation for the entirety of this new story to be worked out and realized. We are going to concentrate on one part of this new narrative: how to understand and bridge the values gap. If we can transform our businesses into places where we have an honest conversation about what is important to us, we can make our businesses fit for the twenty-first century. This requires a great deal of

introspection and reflection. It also requires some frank assessments about the importance of our history, our connections with others, and our aspirations. Having these values conversations is precisely how to create an exciting, dynamic workplace in which people want to contribute and succeed.

In chapter 2 we further explore the individual conflicts in values because that is what all of us know best.

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