Values based decision-making
Establishing a cultural DNA

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effective learning for improved performance

The financial crisis prompted boardrooms to reevaluate their view of reputation and in particular the values and ethics that feed it. Since then the world has moved on, however, it's not been without corporate scandals and it seems every sector has been affected from multi-national drug companies, through technology giants to international car manufacturers. But no matter the industry, the way in which decisions are made and the values that support them remain in the spot light.

This whitepaper explores these complex dynamics and how they can lead to weaknesses if not properly managed. It also assesses how to overcome barriers to 'doing the right thing' and how best to establish a cultural DNA of ethical behaviour.

Fuelling the organisation

Cultural dynamics is the fuel of the organisation. Create an environment to thrive and your people inject knowledge, energy and collaboration into the strategic imperatives. However, fail to harness their potential and your competitive edge and reputation will slide away.

It may seem a stark scenario, yet in the past few years we've seen brands tumble because their culture, especially the judgments that underpin their decision-making, have faltered.

Protecting ones reputation has never been so fierce a battle. Consumers now define your brand by product, service and the intangible attributes of your brand. No longer can you assume the product is enough.

In fact, research by *The Reputation Institute* shows that 60% of people's willingness to engage with an organisation is driven by their perception of who they are and only 40% by the products they produce. It's one of the clearest indicators to the boardroom that what you stand for as an organisation matters more than what you do.

This naturally brings challenges. How do you ensure consistent representation of your brand? And more particularly, how do you ensure it's from the inside out?

Values for business behaviour

There's no denying that organisations are significantly more complex than they used to be. The rapid acceleration of technology, government investment and exporting programmes, through the ability to more readily diversify and live an entrepreneur's dream, mean that there is no such thing as a traditional company anymore – just look at Uber.

But no matter whether you are a family run multi-national like Laing O'Rourke or a rapid scale-up like AirBnB your business values are still scrutinised by the discerning consumer. Not to mention subject to an ever evolving compliance landscape.

At the heart of it, these businesses face the same obstacles: many layers of decision making, spread across geographic boundaries and time zones, a constant flow of trading and regulatory pressures, with the complexity of cultural nuance.

While much emphasis is placed on managing these dynamics, cultural diversity and its influence on ethics is often underestimated. But since Volkswagen's admission on emissions, Reckitt Benckiser's Nurofen scandal and Cambridge Analytica's Facebook revelations public sentiment is changing and there's a broadening awareness in business that how we do things matters.

It's uncovered that it's the behaviours unique to a culture, those that are condoned or hidden away that pose a significant risk.

It calls for a rethink on the deep-rooted fabric of the organisation's make-up in totality, and an approach that can embed the right cultural behaviours for perpetuity.

Understanding the risk

Today, organisations operate in a society where information is more readily available to a wider audience and decisions that might previously have remained 'behind closed' doors are exposed. Corporate whistle blowers have highlighted the vulnerabilities. Likewise The Freedom of Information Act has prompted many a Government agency to consider its position – though often after the event.

No matter the type of organisation, the over-riding concern is that when a company and its management is seen to be failing in its wider obligations, people can and will take matters into their own hands, either directly or indirectly. And of course, the public holds cards in this game of poker too.

Take for example Starbucks. Following the publicity around the company's tax affairs for the first time in 16 years the company witnessed a downturn in its results. The direct result of a boycott related to its tax practices. It cost the business £14million – the outcome of people voting with their feet on what was deemed an 'ethical' issue.

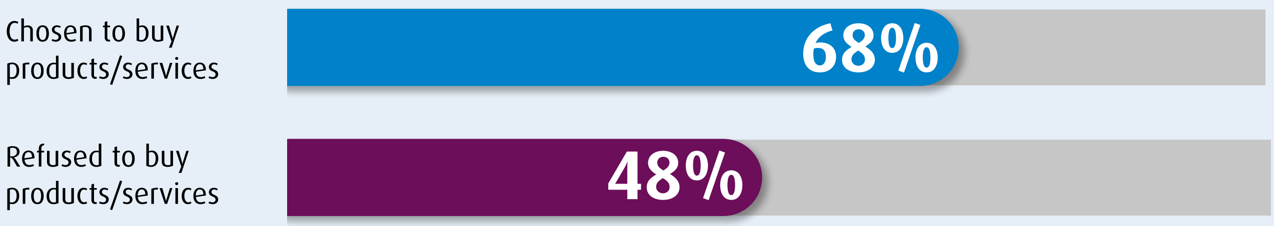
Similarly the Volkswagen emissions crisis hit hard. The company posted its first quarterly loss in 15 years and in turn the share price dropped by almost 10%.

As if that wasn't brutal enough, Volkswagen fell from 14 (2015) to 123 (2016) in the *Global Reptrak survey of Most Reputable Companies*. The years spent building brand equity and the millions of dollars invested in positioning the manufacturer as reliable and trusted were washed away. It's ranking in 2017 was 100 which means if things improve at the same rate it could take another 4 years to get back to its previous ranking.

The impact of losing trust, a fundamental part of its brand essence, was acknowledged by the new Chairman, Mr. Mueller, who said "My most urgent task is to win back trust for the Volkswagen Group – by leaving no stone unturned."

How consumer trust impacts on sales

In the last 12 months have you taken any of these actions in relation to the Companies you previously trusted?



If boardrooms needed a reminder that the actions of a select few can bring a company to its knees this was it.

And then of course there is Facebook, which was said to have influenced voting in the US 2016 election with the help of Cambridge Analytica. The #deletefacebook campaign took off immediately and it lost users overnight. It also saw 18% shaved from its share value. Though Cambridge Analytica didn't survive the media storm that ensued, remarkably the Facebook share price bounced as the public's threats to leave Facebook in their millions never actually materialised. That said it has had an impact and certainly Gen Z who place values very highly in the purchasing decisions are moving away.

Turning to regulation is a misnomer

Empowering people to make decisions is what makes bold, brave companies. Yet failing to provide them with the frameworks to assess how their conduct will harm or enhance reputation and financial stability is nothing short of misguided.

After the fall out at Volkswagen, many called for regulation. It's an easy solution to turn to, after all it's been applied to the banks so why not the manufacturing sector? However, as with so many parts of working life, the grey areas, caught up in how we make decisions and assess the risk and consequences of the decisions, will undoubtedly slip through. And in the same way, many argue that regulation would grate with the very fabric of what makes every company unique, and its ability to succeed.

Ultimately though, the latest thinking infers that regulation fails to deal with a critical element of decision-making. Namely discretion, with many believing that discretion is invariably where regulation ends and ethics begins.

Building a framework for change

In a report by the ICAWE *'Critical success factors for tomorrow's business leaders'*, one participant summed the challenge up succinctly: 'Our businesses are not sustainable if we're depending on regulation to make us ethical. Ethics is about the soul of the organisation. It's not a matter of compliance and it starts at the top in the boardroom.'

This prompts three over-riding principles that a CEO and his team setting out to change standards needs to pursue:

1 **No one should have to rely on regulation to make the right decision** It's a strong reminder that instead of relying on greater regulation we need to give people the skills to recognise the impact of the choices they make so they can make better decisions. Higher standards driven by strong values will help prevent poor choices.

2 **Long term sustainability is derived from better decision making** We cannot ignore the need for an organisation to be profitable. But it is not enough to say 'this is the right thing to do' we need to demonstrate that not only is it the right thing to do but the right way to do it. This instills the behaviour that taking a different approach leads to a better long-term outcome.

3 **Your audience must be engaged by a relevant and compelling argument to do the right thing** Real cultural change does not come from online learning assessments and tick box questionnaires. It comes from a passionate leadership that sets examples, combined with ways of learning that leave the student in the same passionate frame of mind.

Instilling a common purpose

With complex corporate structures to navigate, and an overwhelming need to succeed in cultural change many businesses are turning to business simulations to help embed an organisation's values and ensure they are fully understood and applied in a consistent manner. It's a methodology that promotes lasting behavioural change and is a concept that can be rolled from one part of the organisation to another with confidence.

Take for example, a business game from Chris Elgood Associates and developed in association with The Institute of Business Ethics. It provides those tasked with developing good corporate governance practices, enhancing an organisation's reputation with its stakeholders, embedding corporate values and a high standard of decision making, and minimising risk, with a vehicle that will really engage their audience.

The business game does this by:

1 **Creating a strong link between how the decisions made impact on the long term sustainability of an organisation**

This is achieved by using a cycle of decision-making and consequences. The decisions result in consequences for the business providing a clear link between the core values, the business decisions and business performance.

2 **Demonstrating that good financial performance is not the only determinant of long term sustainability**

This is achieved by focussing on other key factors which directly affect the overall financial performance including an organisation's wider corporate reputation and the level of trust senior managers inspire within the wider employee population.

The business game uses three performance measures, financial performance 'Return on Capital Employed', external perception 'Corporate Reputation' and internal perception 'Leadership Trust', to create an overall measure the 'Most Admired Company'.

3 Using subject matter that is meaningful to all managers and shows how their decisions matter

The focus for the activity is the business and the decisions that need to be made to make it successful. It is not specifically about one area. It's a business debate where the 'how' decisions are highly important.

The activity centres around a series of business dilemma's, which can be customised to fit specific industry or company challenges making it even more relevant to an audience.

4 Introduces a framework to help drive consistent decision making supported by an organisations values

In large organisations where decision-making is devolved down the management chain, and where culture adds complexity, it becomes increasingly difficult to ensure decisions are made consistently.

The business game introduces a decision making framework in which participants are encouraged to think decisions through from the perspective of multiple stakeholders and with reference to organisational values.

The decision making framework can be adjusted to reflect an existing decision making framework and values and as a starting point for developing an in-house set. Where there are legal requirements (e.g. Bribery act) evidence of a framework that is applied within the business is one way to demonstrate a company's commitment to fulfilling its obligations.

A cohesive approach for cultural DNA

Of course, there is no short cut. The constituent parts of the simulated game illustrated above will not create a mindfully ethical organisation alone. Only when they are combined can they become a powerful force for change and way to mitigate risk.

That's because to truly instigate a cultural shift it's imperative that there is a consistent DNA running throughout the company. Without one, the risk of repeating the mistakes of others is too high.

Taking a considered simulated approach gets under the skin of the organisation and provokes debate, which can flush out the behaviours that are at odds with the strategic goals. It focuses the mind and influences the way individuals consider their options and take the decisions they do. But ultimately it will change the way they behave both now and into the future.

Why Elgood?

Elgood has been developing business games and simulations covering a wide variety of topics from Sales Management, Business and Commercial Acumen, Business processes and Health and Safety for over 30 years. It has worked across Industries, the Public Sector and across Continents to enable change in some of the most influential companies and organisations in the world.

The business game mentioned in this paper was developed in association with The Institute of Business Ethics a charity set up in 1986 to encourage high standards of business behavior based on ethical values.

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