

Why are values, morals, and ethics important? V2

What is the purpose of this article?

Help founders, corporate leadership, investors, and their coaches and advisory boards begin a discussion regarding VME (values, morals, and ethics).

What are the critical learnings in this article?

- 1) You need to have a shared and commonly understood definition of values, morals, and ethics.
- 2) You need to define how VME is used in decision making and to guide the behaviour of everyone in your company.

What are VME?

People often use these terms interchangeably. The concepts are different, which can result in confusing sets of expectations. E.g. many board of director's mandates mention meeting "highest ethical standards", but what does that actually mean? Many in corporate leadership¹ believe ethics means compliance with laws, regulations, and company policies. Many in the broader public associate ethics with morals and doing what is right.

To illustrate the confusion: for a few years Apple Computer only paid .005% income tax on billions of Euros of profit in Ireland. The CEO stated that what Apple did was OK because all the laws were followed. Many people felt that paying .005% income tax was "not the right thing to do."

The following are my definitions. You should have your own definitions. You cannot have a discussion about VME if everyone has different definition of what the words mean.

Values: Values are the rules by which people make decisions about what they should or should not do. Values have different importance's, which is helpful when needed to trade off or balance one value versus other values. Values are what someone thinks and feels internally.

Morals: Morals are decisions, actions, and behaviours which other people feel are right or wrong, good or bad. Morals are actions and behaviours arising from one or more values. Not all values are related to morals. You are judged by others as to whether or not your actions and behaviours are moral or immoral.

Ethics: Ethical decisions, actions, and behaviours are based on following a documented set of standards or principles. Many companies and professions have a Code of Ethics.

VME should also tie back to the purpose of the corporation.¹ Is the sole purpose to make as much money as possible, constrained by laws, regulations, and company policies?

How are VME used?

VME are used by the board of directors, CEO, C-Suite and major investors when making decisions and taking action within the company's ecosystem.² Ecosystem members (such as employees, the public, customers, suppliers) may have major differences in their individual VME. Corporate leadership uses their personal VME to manage the conflicts of interests within corporate leadership, and with ecosystem members.

Lawyers would point out the fiduciary duty e.g. in Canada to act in the best interest of the corporation (fiduciary duty varies by country). But is that the right thing to do? Professor Didier Cossin makes the following observation, "The doctrine of maximizing profitability may be used as justification for deceiving customers, polluting the environment, evading taxes, squeezing suppliers, and treating employees as commodities. Companies that operate in this way are not contributors to society. Instead, they are viewed as value extractors. Conscientious directors are able to distinguish good from bad and are more likely to act as stewards for safeguarding long-term, responsible value creation for the common good of humanity. When a company's purpose is in conflict with the interests of society, board members need to take an ethical stand, exercise care, and make sensible decisions."³

Documented ethics arise from interactions between your company and its ecosystem members. Your company, and others, may be lobbying the government to change laws and regulations to benefit what they believe is important (i.e. their values and morals). How should corporate leadership deal with the conflict of interest regarding laws and regulations which provide value to society vs providing value to the corporation? Some people believe laws and regulations exist to protect the interests of society as a whole or protect those who cannot protect themselves. Some companies have Codes of Ethics written to minimize legal risks to corporate leadership.

Some companies use values, morals, and ethics play in hiring, promotions, and terminations. Warren Buffet said “You’re looking for three things, generally, in a person: intelligence, energy, and integrity. And if they don’t have the last one, don’t even bother with the first two”.

How do values, morals and ethics impact company value growth and preservation?

Positive or good values, morals, and ethics are not a pre-requisite for company value growth and preservation. I sure you can think of some example – I know I can.

Poor VME can lead to the following major company risks;

- 1) Company leaders may engage in fraud or illegal actions.
- 2) In 2002, Arthur Andersen was found guilty of a criminal act, based on one single email. (Incredible but true). As a result, this large global audit firm went out of business.
- 3) Companies may lose their social license to operate. In 2022, the European Union, Australia and other country government were actively seeking laws and regulations to restrict the activities of major high tech companies. Governments felt that the companies were not acting in the best interests of society.
- 4) There can be challenges in recruiting and retaining the elite talent necessary to grow in the intensely competitive global ecosystem.
- 5) The value from mergers and acquisitions can be threatened when companies have different sets of VME. It can be extremely hard to change the VME of people. Even ensuring compliance with a new set of documented ethical standards may be a challenge.

What are the challenges of VME?

The challenges of VME include:

- 1) What do you do when VME could reduce long term profits? Some companies consciously decided to take actions which they believe is better for the broader society but may result in lower profits. E.g. Vancity Credit Union (in Vancouver, British Columbia) pays its workers a living wage and expects its suppliers to pay their workers a living wage. On the other hand, Loblaw's shareholders, in an early 2018 Annual General Meeting, voted not to pay workers a living wage.
- 2) Shareholders trust the board of directors to make the right decisions. The board, in turn, delegates the bulk of authority to the CEO. The board and the CEO must be able to manage a broad range of conflicts of interest, especially personal. E.g. with average CEO tenure below 4 years, it can be a challenge for the CEO to focus on the long-term, rather than maximizing the value of short-term bonuses and stock options. Directors have been known to question a merger when their own director roles are in jeopardy.
- 3) If the board and CEO have different sets of VME, then the CEO's decision making, and tone setting for the company, will not be aligned with the board.
- 4) Corporate leadership, through their actions and behaviours, communicates what the acceptable VME are. It is important that the leadership, when making difficult decisions, communicates how those decisions are related to VME. Children by the age of seven have already developed a set of values and morals.⁴ They observe their parents and learn from their parents.
- 5) The most difficult decisions made by corporate leadership (e.g. times of crisis, cost-cutting, re-organization, major merger, major change in strategy, CEO appointment or termination, etc.) often reveal what the true VME are. It's easy to talk about VME when it does not take major personal courage to make a difficult decision.

What are your next steps?

You need to customize the following generic plan for your specific company.

- 1) Survey the board of directors, C-Suite, and a sample of employees, asking what they observe the purpose of the company is and what the purpose should be.
- 2) Survey the board of directors, C-Suite, and a sample of employees, asking what they observe the companies values to be. In the case of the employees, asking them what they observe the values of the board of directors and C-Suite to be.
- 3) Survey the board of directors, C-Suite, and a sample of employees, asking what whether of not the leaders are following the documented code of ethics.
- 4) Survey the board of directors, C-Suite, and a sample of employees, asking what they observe the purpose of the company is and what the purpose should be.
- 5) Look back over the past 5 years. How have VME guided critical board and CEO actions? E.g. during crisis, making important one-time decisions such as appointing or terminating a CEO.
- 6) What questions, if any, are asked of director candidates and CEO candidates to assess their understanding and commitment to the company's VME? Which VME, if any, are a prerequisite for hiring? Which violations of VME result in immediate termination or hold back promotion?

- 7) Analyze the above data to identify things such as: differences among your company leadership, differences between your employees and your company leaderships, differences between what is documented vs actual behaviours and actions.
- 8) What are the definitions of VME used by your corporate leadership? If your company has documented values, how are they used? What are employees supposed to do with the values? How do you know how the employees are using the values, if at all?
- 9) Read and discuss the values of the United States Army. What are the differences between your company values and morals relative to the U.S. Army. The Army explicitly identifies morals – do your company values identify morals? The Army values guide individual conduct 24 hours a day. Are your VME intended to guide decision making, actions and behaviours only during working hours or 24 hours a day? Some would argue that the company has no business in what an employee does in their non-working hours.
- 10) Prepare a short collection of stories describing how corporate leadership and employees should make decisions and behave in key situations.
- 11) Revise your company values and code of ethics to reflect those stories.
- 12) Put in place processes to communicate and use the company values and code of ethics e.g. prior to each board meeting, every attendee reads the company values and code of ethics. As each key board decision is being made, briefly discuss how the decision reflects the company values and code of ethics. The board should also consider the degree to which the members of the company's ecosystem would view the decision as moral.

Footnotes

¹ Purpose of the corporation definition: What is the purpose of the corporation and why does it exist? Is the only purpose of the corporation to create wealth? Is there a higher purpose, either to a community or to society? Or you may conclude the only purpose is to create wealth for shareholders and the C-Suite. Peter Drucker said: "Because the purpose of business is to create a customer, the business enterprise has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business."

² Ecosystem definition: A business ecosystem is the network of people and organizations, including stakeholders and third parties directly and indirectly involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving set and nature of relationships in which each entity must be flexible and adaptable in order to survive, as in a biological ecosystem. Stakeholder definition: Stakeholders have an economic interest in the corporation: Shareholders, Non-equity capital, Customers/ users, Employees/ unions, Suppliers, partners

Third party definition: Politicians, Regulators, Third party standard setters (e.g. Proxy advisory firm, accountants, lawyers), Society

³ "The four tiers of conflict of interest faced by boards of directors", Professor Didier Cossin and Abraham Longze Lu, IMD Global Board Centre <https://www.imd.org/research-knowledge/articles/the-four-tiers-of-conflict-of-interest-faced-by-board-directors/>

⁴ "Teaching young children morals", Meri Wallace, Psychology Today, April 6, 2018 <https://www.psychologytoday.com/ca/blog/how-raise-happy-cooperative-child/201804/teaching-young-children-morals>

Further reading

"Society's trust in corporate leadership and political leadership is low" koorandassociates.org [Society's trust in corporate leadership and political leadership is low.](#)

"Values – U.S. Army" koorandassociates.org [Values – U.S. Army](#)

"Why is trust critical for transformation" koorandassociates.org [Why is trust critical for transformation success?](#)

Leaders eat last University of California – Davis, Center for Student involvement <https://csi.ucdavis.edu/leaders-eat-last/>

What is the purpose of your company?

<https://koorandassociates.org/corporate-governance/what-is-the-purpose-of-your-company/>

Tools

"What are your values and morals? Survey Tool", koorandassociates.org [What are your values and morals? Survey Tool](#)