TouchWood Ethics NEWSLETTER

Enduring success is based on ethics and values.

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TouchWood Ethics is operated by Glenn Martin and based in Sydney, Australia. It is a source of information, support, training and guidance on ethics in organisations, based on the concept of core human values.

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The narrowing agenda

A new CEO comes to town. The company is in deep trouble. Its revenue has not increased for several years, despite enthusiastic claims by the previous CEO that the company is on the threshold of something big.

Over the last year or two, attention had shifted to cost-cutting, and for the first time in its history, the company ventured into redundancies, sending dozens of employees out the door, many of them with 10-20 years' service and a vast store of accumulated know-how. The hope has been expressed that this will pave the way to a recovery of the company's fortunes.

The new CEO is obviously under a lot of pressure to make the company perform. So what is his first move? He tells the employees that he is removing all the leased pot plants in the building, and the coffee machines as well. Moreover, he tells them that this is "a symbolic act". One assumes he meant that cost-cutting would continue to be topmost on the company's agenda.

But what is the effect of this action? The employees know that cost-cutting does not extend to the executive suite – many of the executive team regularly take overseas trips for reasons that can only be described as spurious. They also remember that when the pot plants were introduced, they were accompanied by a fervent message from the HR department extolling the merits of plants in the office, particularly their role in replenishing oxygen in the air. Presumably it is no longer important that employees breathe.

The "benefits" of the CEO's action will clearly be seen in the short term. Monthly costs will be reduced by $x, and the executive team will experience greater pleasure in reading the monthly spreadsheets for expenditure. This is the narrowing agenda – managers and executives are reducing the range of their vision to issues that are easy to measure and control, and quick to show results. The problem is that actions based on this narrow vision seldom contribute anything positive to the business and, over the longer term, they actually diminish a company's ability to do business productively.

The company's ability to do business will diminish because its effectiveness depends critically on the commitment and innovation of its employees. The CEO's action was indeed symbolic, but not in the way he intended. The message employees have received is that:

- managers will continue to act as if cost-cutting will save the company, rather than intelligent and informed action to enhance the way the company does business,
- cost-cutting will be applied to employees but not managers, in effect punishing the employees for the managers' incompetence and fostering a climate of corruption (as if the executive were trying to get what they can for themselves before it all falls apart), and

- managers do not understand the importance of employees to the company's success, and they do not care about employees.

The latter point is usually made worse by managers who continue to bluster about how important employees are to the company's success. Employees are generally acute observers of the gap, or chasm, between rhetoric and reality. But managers defend their actions as being necessary and they say managers have to be tough, for the good of all. They are, after all, responsible for the bottom line.

Responding to the situation

Commentators and consultants on business and organisational behaviour have a variety of approaches to this kind of situation. Some would say the CEO lacks systemic thinking – the fifth discipline that Peter Senge talked about. The CEO cannot see that there is a connection between the cost-cutting measure and future outcomes such as higher turnover, lower morale and possibly an increase in industrial strife. Still less will he see that there is a connection with the level of innovation in the company.

Because these are all lag effects and may not become apparent for months, the CEO will miss the fact that he was the cause of these problems. They will be a mystery, and he will simply blame the employees – management literature will tell him that lack of commitment to the employer is a widespread problem today.

Other commentators may focus on trust and management style. The literature on knowledge management is one source for the view that most business today depends on the effective creation and flow of knowledge in the workplace. Over the last decade the emphasis in knowledge management literature has shifted from the establishment of technology and databases to the development of productive workplace relationships where people are rewarded (implicitly and explicitly) for sharing and innovation. Central to the development of this kind of environment is a non-authoritarian style of management and a high level of trust among employees and managers.

From this perspective, how is the above situation viewed? Clearly the CEO is not consultative – he arrives and immediately "lets them know who's boss". What has he done to assure employees that he has the capacity turn the business around? How could he move forward from this decision to create a climate where employees want to share their ideas and contribute to the company's success? So, what will be the effect of the CEO's decisions on the internal workings of the company over the next few months? As the CEO's agenda narrows, so will that of employees. They will focus on protecting themselves against the capricious and self-serving acts of managers.

Another aspect of this situation is the ethics it displays. Few employees would argue with cost-cutting if it were seen to be both judicious and applied fairly. But in the above situation, justice, decency and fairness are absent. Many managers seriously under-estimate the sustained impact that unjust and unfair acts have on the workplace environment. Nothing affects the feelings of employees more than being the target of injustice and lack of caring. Such feelings are not assuaged by compensatory acts, and the unjust incidents are not forgotten.

What does this mean for the CEO? Having saved an insignificant sum of money, he has taught employees that managers will be allowed to indulge themselves but employees will be treated harshly. The CEO was probably not even thinking about whether his managers were indulgent in their own expenditures; he was thinking about obvious ways of saving $x. However, a CEO has to be able to look at things from the employees' perspective before acting. Now it is too late, unless he acts quickly to communicate that the same standards of perspicacity will apply to managers too.

What effect does this have on the company? It has an impact every time an employee is faced with a job that needs finishing before they go home for the day. Should the employee put in the extra effort, or walk off? And it has an impact every time an employee has a good idea. Will the employee pursue it or not? Employees who feel that they are treated unfairly, and that managers apply different standards to themselves, are going to withdraw their discretionary effort over time, even if they are by nature conscientious. The cost of this to the business accumulates and it becomes a vicious downward spiral. The cost in hampered business productivity is far, far greater than any petty savings from the cost-cutting exercise.

Managing all the strands

CEOs and managers have to be aware of all the above factors. The three factors discussed are derived from the core human values model of the person – focusing on cognition, emotion and values. The capability of thinking systemically is an aspect of cognition; it is essential for managers to observe what is happening and to see the connections between things. However, by itself, systemic thinking is not sufficient. CEOs and managers also have to be aware of the emotional and values dimensions.

The emotional dimension concerns the quality of relationships in the organisation. Unfortunately there are still managers who act as if relationships are not a central aspect of organisational functioning. They would like to be able to issue edicts at will and have them carried out unquestioningly and without opposition. Generally their model is the military commander, although the behaviour is probably more like that of a slave owner.

However, the reality of business and society today is that success is founded on the productive and harmonious functioning of people in organisations, and this requires the building of trust and mutual respect between employees and managers. The emotional dimension is about building a positive climate characterised by qualities such as dignity, cheerfulness, discipline and humility. A commitment by employees to the success of the company will occur only when the emotional dimension is accepted and people's humanity is honoured. It doesn't matter how "tough" business is, this is always true.

The values dimension is an extension of the emotional dimension. People have all sorts of feelings, many of which are related to their personal style, eg there are things that I like doing and things that I don't, and this is different for each of us. Good managers will know their staff well enough that they can operate as much as possible in harmony with those differences. However, the incidents that bring out the strongest feelings of employees are related to values and ethics – am I (and the people around me) being treated decently, fairly and justly?

Thus the values dimension goes further than feelings. It addresses the overall organisational context. If CEOs and managers do not make themselves aware of the ethics of their company's operations, and strive to ensure fairness and foster positive ethics, the cleverest business strategies will come to nought. There is research evidence indicating that the values experienced by employees have an impact on company performance far outweighing the impact of strategy.

The core human values model asserts that when the three factors of cognition, emotions and values are being practised soundly, two other dimensions come into play – energy and identity. Energy refers to a sense of vitality about the company's business. We can also refer to this as spirit. When it is absent, a company's strategy may be appropriate or even clever, relationships may be respectful and polite, and fairness may prevail, but activity is still restrained and subdued.

When energy is present, there is a shared sense of enthusiasm and fun, a spirit of excitement about what the company is doing. This quality may occur in companies that do not manage the other three factors effectively, but not in a way that is sustainable. In Australia, One.Tel was an example of such a company – much enthusiasm, but serious flaws in its strategic thinking and its understanding of relationships and values.

Energy, or spirit, emerges when the three fundamental factors are in place, and the company acquires an awareness of the source of its strengths. This is when commitment begins to become a real force in the company and is seen in a sense of community, camaraderie, innovation and flow. Notably, this quality also results in managers and employees being finally able to establish a sustainable balance between work and the rest of their lives.

Identity, the fifth factor, is possible when the other factors are robust in the company. This is when a company has an enduring sense of the purpose it serves in the world – not just in terms of business but in society too, as a corporate citizen. Again, some semblance of identity may be expressed where the other factors are not in place, but unless those qualities are established, the expression of identity will be little more than rhetoric, a fond wish at best and, at worst, a pretence or a lie.

Being human in business

The most difficult issue for CEOs and managers is to embrace the human aspects of their company when they are under pressure to perform financially. It may be difficult at first to see that good financial performance is only achievable – sustainably – *through* the honouring of people. It is not an optional extra, it is not a matter of a choice of personal management style.

Financial gains may be made by narrowing the agenda to matters where the link between actions and results is shortest, as in cost-cutting, but the gains are likewise short-term. More importantly, most cost-cutting results in damage to people and relationships, and the effects of this are much harder to heal.

Once a CEO engages in cost-cutting tactics, what does he or she do then? More of the same? This is the time to consider whether such actions are desperate. The central question to be addressed is, what is the source of company's success? This question can be asked in the past, present and future tense. In any case, the answer lies in the realm of what a group of people (the company) create and provide of value to another group of people (customers or clients).

This is to say that the most important questions a CEO has to address concern people, not dollars. The dollars follow the answers to the people questions. This point was made a long time ago (by Peter Drucker in 1955 in *The Practice of Management*) , but in the flurry and urgency of business today, it is often forgotten. However, if CEOs and managers are to fulfil the responsibilities of their roles, they need to stop and reflect on their business from this broad perspective. They do no service to their companies if they cannot resist the constant, mindless pressure to narrow their agenda to reactive measures that actually damage their companies' longer-term viability and the people that embody the ultimate purpose of the company.

Ethics and aspiration at Woodford

The end of the year is a time when we are inclined to take stock of where we are in our lives and work. We consider whether we are satisfied with our jobs and our relationships, and what we would like to aspire to in the year ahead. Aligning with this thought, Glenn made a presentation at the Greenhouse at Woodford Folk Festival on New Year's Eve, 2005 on "Ethics and aspiration in the workplace".

The presentation looked at how we can make room at work for a conversation about ethics and values. The business environment for all of us, whether in the public or private sectors or in education, is focused on money. The Vice President of Microsoft was once captured on video at a gathering of employees shouting to them, "What are we here for?" and answering, "We're here for the money!" In the film, *The Corporation*, this kind of one-eyed focus is described as "the pathological pursuit of power and profit".

One of the central messages of the presentation was that we have all been pressured into thinking that people and their concerns (culture, society, dreams, contentment) are a subset of the economy, which is the overarching framework. The truth is just the reverse – the economy is one small subset of people and their concerns.

Before there is any economic life, before any commercial transactions occur, there are simply people, and the essence of people is to experience and enjoy life – tasting water, feeling a sense of wonderment about sunsets, trees and ordinary things, and being buoyed by the presence of other people. Money is only ever legitimate as a means to human ends, and those ends are measured at the end of life – at that point, having experienced, enjoyed and understood life is the only true source of contentment and peace.

We have been swamped with the message of the stock market and its imperatives, but why should we listen, when it is only serving its own goals? The message of core human values is about reclaiming work for human purposes. The irony is that organisations are more successful when they place economic plans within the higher framework of human purposes. Employees are happier, customers are happier, managers are happier.

Currently, over half of all employees and an even higher proportion of managers are unhappy in their jobs and are looking to find a better place. Fostering human values in the workplace is about making *this place* into the better place.

A copy of the slides from the presentation is available on the website at www.twethics.com/events.

Thank you to all who came along to the presentation and to those who engaged in conversation with Glenn subsequently.

Core human values

The logo of TouchWood Ethics represents the various dimensions we need to take into account when working or managing in organisations. The logo depicts five lines, to indicate that there are five dimensions to consider:

- **Cognition –** dealing with objective facts about situations and reasoning logically
- **Emotions –** dealing with the psychological aspects of people, their feelings and well-being
- **Valuing –** the function of evaluating actions in terms of right/wrong, good/bad (ethics)
- **Energy or spirit –** the energy that is generated within and among people when cognition, emotions and ethics are functioning healthily
- **Identity or psyche –** the deeper sense of insight into personal and collective purpose that comes from the positive experience of the other dimensions functioning well.

This model, which we call the **Core Human Values Model (CHV Model)**, can be applied to both organisations and individuals.

The values associated with each dimension are as follows.

Cognition	**Truth**
Emotions	**Peace**
Valuing	**Right Action (ethics)**
Energy or Spirit	**Love**
Identity or Psyche	**Insight**