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Is There Financial Value in Corporate Values?

In spite of the ongoing commentary from critics who continue to insist that any corporate attention given to the needs of stakeholders who aren't shareholders is detrimental to financial performance, I remain convinced that good corporate citizenship does and will

continue to result in superior financial returns. A global research survey carried out by the Aspen Institute and management consulting firm Booz Allen Hamilton, titled "Deriving Value from Corporate Values," gives added evidence that strategic awareness of and commitment to social and environmental issues does in fact bring greater success to the bottom line. The study involved responses from a survey of 9,500 senior executives from 365 companies representing a broad range of industries in 30 countries around the world. The study defines values as "a corporation's institutional standards of behavior."

The increased focus on ethics and values may be a consequence of the business scandals arising after the dot-com stock market bubble burst. Another reason is the passage of the Sarbanes-Oxley Act of 2002 and subsequent implementation directives

from the Securities & Exchange Commission and the stock exchanges. Undoubtedly, yet another strong corporate motivator is the New York Stock Exchange requirement that all listed companies publicize their code of conduct, which must address ethical matters.

A fourth reason motivating greater corporate attention to ethical issues involves the 2004 changes made by the U. S. Sentencing Commission in the Federal Sentencing Guidelines for Organizations, which strongly recommend that companies maintain an ethical culture. These guidelines apply to all corporations, both public and private, profit and nonprofit. Against the backdrop of the ever-increasing corporate focus on values and ethical behavior, consultants like Booz Allen and many others have ramped up their expertise in this area and have engaged in considerable research on corporate

ethics and responsibility.

An earlier 2003 research study by Booz Allen Europe, titled "How Corporate Values Translate into Value at the Bottom Line," surveyed the top 150 companies in Germany, Austria, and Switzerland. It found that living corporate values pays off economically and that a values-based culture can benefit a company in many ways, including enhancing public image while maximizing profits, limiting business risks, and facilitating internal cooperation and communication.

The current Aspen Institute/Booz Allen Hamilton study found that many corporations are still skeptical of the role that values play in their own strategic operations. Compared to previous history, what appears different in the current wave of distrust of corporations is the feeling that many senior managers are questioning the ability of their structures to actually fortify and spread appropriate core values throughout the organization and then measure their impact. The study found that most companies are "not effectively measuring their Return on Values in areas important to their business strategy." Findings that financial and management information systems

need improvement should be of considerable interest to management accountants and financial managers.

Some of the key overall findings reported in the Aspen/Booz Allen study are:

- ◆ Ethical behavior is part of a company's license to operate in an increasingly complex regulatory and legal environment. Values-based language does more than set corporate expectations for employee behavior. Of the 89% of companies that have a written corporate values statement, 90% specify ethical conduct as a principle. Other values commonly set forth in value statements include commitment to customers (88%) and employees (78%).

- ◆ Most companies believe values influence two important strategic areas: relationships and reputations. The majority of respondents categorized employee recruitment and retention as well as corporate reputation as important to their business strategies and believe they are strongly affected by values.

- ◆ Tone at the top really does matter. Eighty-five percent of the respondents state that their companies rely on explicit CEO support to reinforce values, and 77% say it is one of the most effective practices for reinforcing the company's ability to act on its values. Yet management of values also requires what the study describes as a "virtuous circle of management where dispersed leadership, strategy, practice, and measurement are mutually reinforcing."

The overall findings mirror many other studies and replicate much of what has already been reported by others. But the Aspen/Booz Allen research also contains additional results of particular interest to management accountants and financial managers. These involve the link be-

tween ethical behavior and superior financial results with which critics of the corporate responsibility movement seem to always want to disagree. The Booz Allen descriptive release that publicizes the study ("New Study Finds Link between Financial Success and Focus on Corporate Values") states that "public companies that report superior financial results also report greater success in linking values to operations."

According to the release, "Among financial leaders—those public companies that outperform their industry averages—98% include ethical/behavior issues in their values statements, compared to 88% of other public companies." Differences between companies defined as financial leaders and others are even more pronounced on additional behavioral issues. More leading companies profess a commitment to employees (88% to 68%) and honesty and openness (85% to 47%) than other companies.

On the specific link between corporate responsibility and financial performance, nearly half of these financial leaders say that "both environmental and social responsibility have a positive effect on financial performance in the short run, compared to 34% for the other public companies." According to Judith Samuelson, executive director of the Aspen Institute Business & Society Program, "Clearly, many companies are successful in turning their corporate values into a competitive asset." Johnson & Johnson is perhaps the best-known example of a company that has successfully made its credo or values statement a primary driver of its business strategy.

Of significant interest to management accountants and financial managers is the seeming disconnect between the apparently few compa-

nies that actually do attempt to measure how values affect business performance. For example, the Aspen/Booz Allen study shows that nearly two-thirds of respondents agree that a corporation's values can strongly affect customer loyalty, but less than one-third use customer preference data to demonstrate how often it actually occurs.

This latest effort by a well-respected global consulting firm adds further evidence that ethics-related issues deserve considerable attention from all of management. In particular, financial managers and management accountants need to exemplify ethical leadership by aligning their behavior with their stated views. They should also develop mechanisms for analyzing the effect of values in their organization. The IMA Ethics Committee has been studying how the IMA Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management can provide a values-oriented approach more effectively and be more relevant in day-to-day operations. ■

Questions:

1. Does your organization have an up-to-date statement of its core values?
2. How effective is your organization's compliance and ethics system in ensuring these values are imbedded in the organization's DNA and constantly reflected in employee behavior?

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