

## Acting on Values in Business.

*To value oneself and, at the same time, subordinate oneself to higher purposes and principles is the paradoxical essence of highest humanity and the foundation of effective leadership.*

*Stephen R. Covey*

*Simplicity is the ultimate sophistication.*

*Leonardo da Vinci*

*Nothing is as powerful as an idea whose time has come.*

*Victor Hugo*

The contemporary world is in need of good leadership more than ever. Good leadership has two components: the spiritual and the economic. It's both ethical and effective. Any other combination produces bad leadership. We don't need leaders who win votes through populist slogans. We don't need leaders whose power-hungry rule is just a show in the theatre of mass media where the problems of citizens and economy occupy the last ill-lit rows. We don't need chairmen who ruin their companies for private gain. We don't need bosses for whom long-term prospects play second fiddle to short-term profits which up their salaries and bonuses. We don't need celebrities to run our countries and firms; all they care about is their fabricated image, not the interests of ordinary people or employees. Myriad new acts, codices, rules and regulations won't straighten out the current political and economic difficulties. They won't guard us against the guile, calculation and obstinacy of those who flout them.

*We need new leadership that will remove dishonest and incompetent leaders. We need to replace them with individuals who are ethical, moral, and who openly declare the universally accepted values. We need principles-based leadership.*

Essentially, it's not a novel idea, but it requires changing the contemporary thinking about leadership and how leaders should be educated. It's so easy and yet so hard. Easy, because everyone agrees that being a moral person is a necessary condition to lead. The reality, however, painfully reminds us that the opposite is the case in business and politics. Lamentable though it may be, it's difficult to improve this state of affairs. In the world of democracy and free competition, it all seems to be counter-intuitive. Some explain this phenomenon using Copernicus-Gresham's law which states that "bad money drives out good." The truth is that good leadership starts and ends with values – for better or for worse.

## Values in Business

*In fact, we wonder whether it is possible to be an excellent company without clarity on values.*

*Thomas J. Peters, Robert H. Waterman*

*Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world.*

*James C. Collins*

Values are as important to people as they are to companies. They allow people to live with dignity and die with a sense of fulfilment. They give companies a chance at eternity and entice top talent. Values let firms grow in unison with employee preferences as well as expectations of their shareholders and owners. Great companies are created by ordinary people and guided by values. At first glance, claiming that values in life and business are the same may seem controversial. While everyone agrees that morality is the best personal compass in life, business is seen as a brutal realm of free competition dominated by the survival of the fittest. This obvious dichotomy leads to confusion, dulls ethical sensitivity, weakens motivation and kills respect for work. When you go to work, you cannot leave your values at home. The only hope is that people's and firms' values are identical. Sticking to principles is what distinguishes outstanding companies. Research shows that, as James C. Collins famously wrote, "We've never encountered an organization, even a global organization composed of people from widely diverse cultures, that could not identify a set of shared core values."<sup>1</sup> While their strategy and practices might alter according to circumstance, the cream of the crop of companies have an enduring set of principles and an overriding purpose, a mission which is unchangeable.

Fundamental values, also referred to as a company's code of values, have become part of the business canon of mission, vision and values. Indeed, most firms in developed market economies declare to have their own sets of values.

This fact has been confirmed by the 2009 Corporate Values Index Report which sums up the second edition of research conducted by the ECCO international network of companies. It shows how often values are applied in business and how trends in this area have changed over the last few years. The report has also portrayed the differences in value systems between big and small corporations. The Corporate Values Index project has covered 14 industries, 4800 companies and 11 countries: Poland, Germany, France, Italy, Austria, India, the Netherlands, Spain, the UK, the USA and Ukraine. The surveyed firms have been divided into three categories – companies employing up to 1000 people, 1000-5000 and above 5000. 77.5% of the 3726 firms have declared to have a defined set of values. 18,551 different terms and phrases have been used by these companies to refer to their espoused values. The report has grouped the terms according to their significance and scope of meaning, and narrowed them down to 89 pilot-values which have further been divided into eight families of values. Thanks to that, values have been categorized according to their function.

Fundamental values are indispensable principles on which company organization rests. They are usually a set of timeless ideas which are immediately clear and genuinely significant to all members of an organization.

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<sup>1</sup>Collins, James C., Porras, Jerry I., *Built to Last: Successful Habits of Visionary Companies*. HarperCollins: New York, 2002.

*It turns out that the most important personal values which have guided our lives for many years such as honesty, reliability, professionalism, trust, integrity, self-actualization, passion and effectiveness, are also among the most highly regarded ones in business. Conversely, the values traditionally associated with business such as innovativeness, modernity and quality have long joined the catalogue of personal values.*

Aren't values a luxury in business? Isn't business mainly about making money? Profit is an important goal, but not the most important one. However jarring this may sound to a tough, success-driven businessman, the fact is that outstanding business leaders recognized how significant values are a long time ago. No matter what they've been called – overarching values, common values, belief systems, creeds, operating philosophies – they've always been seen as crucial to long-term success. The real business icons which have existed for decades, such as Hewlett-Packard, Johnson & Johnson, IBM, Merck, as well as those founded recently, such as Google or the Polish mBank, MultiBank and BRE Bank owe their success largely to the values that have been espoused and put into practice by their creators.

Robert Wood Johnson, the President of Johnson & Johnson between 1932 and 1963, crafted the firm's credo in 1943. It's remained unchanged to this day. It emphasizes the importance of being responsible towards customers and offering fair-priced products of high quality. The credo states the firm is responsible to the natural environment and the community in which it operates. It also highlights that the employees are entitled to respect and decent pay. The credo is the company's most important strategic document. "Credo is Latin for <I believe>. At Johnson & Johnson we believe in the values encapsulated in the words of Our Credo. We believe that it forms a foundation for our company's philosophy and a basis for our operations," says the introduction to the Credo.

Thomas Watson Jr., who succeeded his father as CEO of IBM, created the foundation for the company's phenomenal growth. In his 1963 book, *A Business and Its Beliefs. The Ideas the Helped Build IBM*, he writes, "I firmly believe that any organization in order to survive and achieve success must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs."

Overarching values set out by its founders are the hallmark of Hewlett-Packard. Right from the beginning, the firm set itself the goal of contributing to societal progress. Its main task was to design, develop and produce the best electronics to serve science and society. Hewlett-Packard wanted to be a "good and responsible citizen" before anyone had even heard of corporate social responsibility. "Our basic principles have endured intact since our founders conceived them," said John Young, a former CEO of Hewlett-Packard. "We distinguish between core values and practices; the core values don't change, but the practices might. We've also remained clear that profit – as important as it is – is not why the Hewlett exists; it exists for more fundamental reasons."

When mBank began in November 2000, it seemed the cards had already been dealt. The banking market was carved out among the world leaders and a local power broker, PKO BP. It was clear from the start that it wasn't about founding just another bank. When BRE Bank made the decision to create an Internet bank for individual clients, the team of young hot enthusiasts in charge of the

project were sure the banking world was about to change.<sup>2</sup> After just three months, Eastern Europe's first Internet retail bank was unveiled. mBank was essentially one of the world's first discount stores offering the highest quality products. Its business model had all the features of a disruptive innovation. mBank's mission statement – "maximum benefit and convenience in personal finance" – reflects what lay at the heart of the model: the benefits of a low-cost operating model, the high quality of products and services, the use of modern technologies and the convenience of a 24/7 access to banking services. Ten years later, mBank became one of the largest retail banks in Poland and was among the biggest online banks in the world. At the end of 2011, it had three million clients in Poland, Czech Republic and Slovakia. Its 10-per-cent share of the market puts it in the third place in Poland. The first two belong to the old giants of the industry, PKO Bank Polski and Pekao SA. The latter has grown to its current size by taking over other banks. When it comes to online banks, mBank is fourth in Europe and fifth in the world in terms of the number of clients.

This enormous success is the result of a new approach to banking and an innovative strategy which was developed and implemented through an original concept of management by values. mBank turned its core values (Excellence, Execution, Responsibility, Readiness, Engagement) into a code of conduct within the company and in relations with the outer world. Managing by values at mBank meant practicing the overarching values in all areas of its operations.

*Most firms are usually content with a general mission statement. Only some describe their values in detail so that there are no doubts as to what they really mean.*

Codes of ethics which are too general don't stipulate sanctions for breaching company values. mBank went a step further. It introduced a system of employee evaluation based on values. Those values had a crucial influence on mBank's corporate culture and gave it an enduring competitive advantage.

Companies founded on values and managed by them are profitable in the middle and long term. Their customers are more loyal and their workers more satisfied. The story of mBank, MultiBank and BRE Bank proves this chain of cause and effect. The system was introduced in BRE Bank in 2005, after a two-year pilot programme in mBank and MultiBank. The results exceeded all expectations. Higher bonuses and profits made employees and shareholders happy. The bank's market capitalization had grown significantly. Its value had risen in relation to its competitors'. Four years of values-based management made BRE Bank progress from sixth place to the top three of the biggest Polish banks. Employees of the BRE Bank Group reported the biggest level of work satisfaction. Its client satisfaction index was the highest in the banking sector.

## Values based leadership.

*Leadership is lifting a person's vision to higher sights, the raising of a person's performance to a higher standard, the building of a personality beyond its normal limitations.*

Peter Drucker

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<sup>2</sup>See page 129 and onwards in Lachowski, Sławomir, *Droga innowacji. Pracuj ciężko, baw się, zmieniaj świat*. Studio Emka: Warszawa, 2011.

*Leadership is not a starring role. True leadership describes unified action of leaders and followers (stakeholders) working together to jointly achieve mutual goals. It is collaborative.*

Gilbert W. Fairholm

In the last thirty years, I've led teams of various sizes. Some had three to seven members, while others comprised a few dozen, a few hundred, a few thousand and even a few dozen thousand people. I've always been well aware of the huge responsibility which on many an occasion filled me with anxiety. I was worried whether I'd be able to meet the expectations of my co-workers, subordinates, shareholders and a larger community of business professionals. I tried to uncover the secrets of leadership first through education and specialist training, and later by analyzing my own failures and successes. Just like anyone else in a similar situation, I wanted to distinguish myself as a scout master, a good handball team captain, the life of the party, a responsible father and an excellent boss. At the beginning, I relied on observation and intuition, but quickly realized that leadership is an art based on knowledge which can be learnt at the best educational institutions, by following the best examples and through self-development. I was ready to sacrifice a lot because I was aware how important good leadership is for ambitious enterprises to succeed. When I was working at managerial posts in large corporations, I enjoyed an almost unlimited opportunity to hone leadership skills which, unlike many of my colleagues, I seized eagerly. I was fortunate to learn leadership at the best academic institutions and business schools in the world. INSEAD Fontainebleau, Harvard Business School, Stanford Business School, Wharton Business School are just the best-known ones. While taking part in various conferences, I had the chance to meet most of the living leadership gurus as well as renowned consultants, speakers and leadership coaches. I keenly took part in business meetings all around the world at a time when participants from the post-Communist countries had a special appeal. Thanks to that, I got to know great business leaders such as Bill Gates, Warren Buffet and Jack Welch.

Leadership theories form a basis for leadership education. They describe features and behaviours which make a person a good leader. They may provide an accurate depiction of reality, but they don't show how to become a good leader. They don't emphasize the importance of self-learning, shaping one's personality and controlling one's behaviour. You can observe the best examples by analyzing "case studies", reading autobiographies of great leaders and listening to their stories.

A sea of books and articles on leadership has already been written. A river of new publications is constantly supplying this rich reservoir. When I started writing this book, I pulled all the works on leadership out of the recesses of my library. I found a few dozen titles. But only a few had any educational value in terms of real leadership. Leadership is one of the most popular subjects on many university courses. Renowned speakers and experts offer their recipes on how to become a good leader during open lectures and one-day training sessions. Their attractiveness is proven by the large demand which makes such classes expensive. Popular authors, consultants and coaches can count on high paycheques. The supply is so excessive that it creates chaos. It's mostly style over content. After finishing a well-crafted book or attending a spectacular conference, we still ask ourselves the same questions: how to live, what to do to pass our personal test of leadership or reject bad leadership on which we are dependent? Appealing truths about morality and ethics seem to be commonly accepted. In reality, however, they're overshadowed by the pursuit of short-term goals. Practical tips taught during such courses on how to influence people, how to win their hearts

and minds, have more in common with manipulation skills based on simple psychology than real leadership. No one will become a leader after a two-day course.

My approach to developing leadership skills is quite different today and, in fact, makes everything a lot easier. It's all about values-based leadership which starts with identifying your personal values, adhering to them in life and business and clearly communicating them as a leader. This creates a platform for agreement on common goals and how to pursue them. Having thought long and hard about the skills and features which determine leadership abilities, I finally concluded that leadership starts and ends with values, for better or for worse. It is values that make us who we are. They have a direct bearing on our relationships with family, friends and work colleagues. Our values also define us as leaders. Leadership has a real dimension. It manifests itself in personal, social and business relations. Real leadership consists in identifying your own spiritual and professional values which then become an axis of cooperation that helps realize group goals.

Every person is guided, consciously or subconsciously, by their individual values. They steer our behaviour much more effectively than any order, directive, instruction, ban, regulation or decree can ever do. Leadership starts with fundamental things – authenticity, open communication and following universal values in personal life and business. Leading by values is about acquiring supporters or recruiting co-workers who declare similar principles. This makes it possible to implement a uniform value system, define common goals and agree on how to pursue them. Three factors are all-important for real leadership to exist: similar value systems + community of purpose + common ideas on how to accomplish goals. Studies on group dynamics show that effective relations between a leader and followers/subordinates can develop only when they share similar values. A community of values is a *sine qua non* for real leadership. True leadership doesn't rest on the authority of power, but on the authority of the leader which arises from their professional, moral and ethical competences. It's the result of how the leader's virtues impact others, but also of taking into account the followers' interests and expectations. Real leadership is based on values and a clearly defined value system which the whole group voluntarily accepts. The community of values ensures a cohesive corporate culture. This gives a company an unparalleled competitive advantage and makes it resistant to internal and external crises, which safeguards its long-term future. The contemporary world of business and politics needs real leaders who can clearly communicate moral and ethical values, who respect the values of others, their followers and co-workers, and who base their leadership on their own values. This is when leadership becomes a function of a person's individual character and their principles which match the values of their supporters and subordinates.

Limiting values to ethics reduces values-based leadership to a subject of philosophical inquiry and lends it a universal dimension, while, in fact, leadership has an individual character. It derives from each person's unique make-up and is a reflection of a personal value system. A value system that shapes a leader and their leadership is composed of ethical, moral and individual values. Individual values extend beyond the scope of philosophy. They are connected with individual features, such as passion, open-mindedness, ambition and many others. None of these are inherent; for example, you can develop a passion for something. We are usually passionate about things that we enjoy. And we often enjoy what we are proficient at doing or have expert knowledge in. I remember all those maths exercises and workouts had seemed to me tedious and burdensome, but once I had attained high competence in mathematics and a championship level in sports, they became my

passion. I would still devote a lot of time and effort to them, but I also started to discover joy in hard work.

We often consider leadership a challenge of adulthood, but our leadership features are already shaped in childhood and early youth. The character and good habits that any leader must have are most easily formed in early years.

*The basics of leading are shaped along with a person's value system whose core is forged in youth. It is impossible completely to change a previously established value system. Therefore, it is only to a certain extent that leadership can be taught in adulthood.*

Leadership training is most effective when it develops a person's awareness of their own value system and a habit of self-reflection. That's why it's so crucial to start shaping leadership skills as early as possible by honing one's personality through an everyday disciplined practice of virtues. This early development should be rooted in values derived from ethics and individual interests.

We all want to be proud of the jobs we're doing and organizations we belong to. It's possible when the result of our work is valuable and useful, when it satisfies other people's genuine needs and brings them satisfaction. The same is true for companies. Good pay is one thing, but a sense of fulfilment and pride in working at a firm is another. Job satisfaction is a function of personal benefit, corporate culture as well as other people's opinions about the company and its products. It's nice to work at a firm which is respected by its competitors and popular among customers. Combined with decent remuneration, it brings real job satisfaction. Sooner or later, bad leadership is bound to impact company performance. A badly managed firm may remain profitable for a while at the cost of exploiting employees and cheating customers. This doesn't last long, however. The best workers eventually leave and the rest of the staff lose their motivation. The customers realize they've been treated dishonestly and the performance plummets. Good leadership based on values allows employees to discover deeper meaning in their work. It's reflected in the quality and prices of products. It creates an added value, which generates customer satisfaction. Leadership which rests on the formal authority of power and is exercised through bans and commands doesn't take into account employees' freedom and their individual values. This makes it less effective. The freedom and respect for individual values are at the heart of contemporary civic society and corporate organization. Formal authority must reckon with the growing emancipation of citizens and corporate workers. Mobbing in the workplace is a crime and employees are increasingly more aware of its manifestations. Both senior and junior workers are nowadays a lot less tolerant of unethical conduct at the top of corporations. People no longer turn a blind eye on transgressions of power and immoral behaviour is instantly pilloried by the public. This creates room for ethical and effective leaders, and individuals with clearly defined value systems which are a good indication of their competence and potential value. If these people also prove to be efficient, they become truly indispensable. So far, ethics has been thought to be only occasionally important in business. People have believed that business requires an ability to cope with ruthless competition which is governed by the brutal law of the survival of the fittest.

Today, the attitudes towards leadership and educating leaders are at a turning point. This radical shift arises from the changes in the world of politics and business. People's behaviours can no longer be explained through the prism of pursuing material benefit, taking decisions based on

economic assessment or obeying the authority of formal and traditional power. Attitudes of contemporary people are, to a larger extent than ever before, shaped by their emotions and a desire for freedom and self-actualization. A personal value system plays the most significant part in this. It becomes the main motor behind individual and group actions. This necessitates a shift in the understanding of the nature of leadership. Values-based leadership introduces a new enlighteningly simple paradigm: our life and leadership in all its forms rest on individual values. This new paradigm assumes that good leadership must uphold values. Their violation in personal and social life, politics and business mustn't go unpunished.

The spread of values-based leadership can't be stopped. We live in a world where nothing can be kept secret anymore. Information spreads with the speed of light. Social and business life are becoming more and more transparent. Victims of bad leadership are also increasingly more assertive. Instances of bad leadership, which have blighted lives of many, are exposed, discussed and condemned by company workers more frequently than ever before. Any information about unethical conduct within companies quickly finds its way to the Internet. Discussion groups, blogs, independent news portals exert more pressure on immoral leaders. The position of oppressed, exploited and bullied workers of inhumane organizations is changing from subordination to equality. They're now able to send a strong voice of dissatisfaction which can eradicate unethical and ineffective leaders.

Values-based leadership does away with the existing patterns. Thanks to that, it can solve the problem of modern times:

- it ensures a good balance in personal and business life,
- it introduces simple measures in solving personal and professional dilemmas,
- it makes actions meaningful and helps find the right way to achieve aims,
- it helps make true friends and win the respect of one's acquaintances,
- it helps achieve professional success,
- it helps set new directions for development,
- it helps find motivation to act.

Values-based leadership flows from within. It reflects our value system and determines our attitudes towards ourselves (our source of satisfaction, our response to success and failure etc.) and our relationships with others (family, friends, workers).

Values-based leadership requires deep reflection on values and being aware of how important they are. This allows a person to build a cohesive system which must be adhered to in everyday actions. Self-reflection helps choose the most important values which define a leader's character. A leader's individual value system is a foundation for their interaction with followers/subordinates. The formal leader-subordinate relationship doesn't change the fact that a leader's source of power is the informal authority built on values.