The Role of Organisational Stakeholders in the Formulation of Values Statements

Krista Jaakson
Institute of Business Administration, University of Tartu
Narva Rd 4, 51009 Tartu, Estonia
Telephone: +372-7376 323, Fax: +372-737 6312
E-mail: krista.jaakson@mtk.ut.ee

Abstract

Although the literature on organisational values is plentiful, little is known about the process of formulating the statements that reflect those values in an organisation. Furthermore, the way that stakeholder groups are treated in the existing literature is dramatically different when it comes to their involvement in the values formulation process. There is no consensus on whether and who to consult when adopting values statements. The aim of the current paper is to offer a model for stakeholder involvement in the process of formulating organisational values statements. First, the categories of values are discussed in order to understand the subject matter. Next, the potential impact of values statements on different stakeholders is mapped and a basis for distinct levels of stakeholder involvement is formed. The model for stakeholder involvement presented in the final chapter rests on the idea that the higher the impact of the values statement on stakeholders the more they deserve to be involved in the process of formulating these values.

Journal of Economic Literature Classification Numbers: J53, M14, L14

Keywords: organisational values, value statements, stakeholder involvement

Acknowledgements

This study was undertaken with support from the Estonian Science Foundation (Grant No 7018). The author wishes to thank Maaja Vadi, Anne Reino and Rebekka Vedina for their valuable comments about the earlier version of the paper.

1. Introduction

Stakeholder theory views the organisation as a meeting place of different actors providing their resources to create value (Barney 1997). Stakeholders consist of:

a) internal organisational members, including employees and managers;
b) external members such as owners, customers, suppliers, competitors, investors, regulators, communities; and
c) hybrid members engaged in inter-organisational cooperative activities with the organisation such as NGOs or industry associations (Hart, Sharma 2004, Schneider 2002).
Stakeholder theory can be viewed as an organisation-specific role-theory: different groups are assigned different roles with respect to the organisation. The role dictates what kind of interest a given stakeholder has in the organisation and to what extent they influence the organisation and *vice versa*. While traditional analysis of organisational interest groups was mainly concerned with the influence that different groups can exert on the organisation, stakeholder theory stresses the potential influence of organisational activities on these groups. Globalisation has brought about the idea of fringe stakeholders (Hart, Sharma 2004), referring to the 21st century business phenomenon that organisations have to take into account the groups outside their direct sphere of interest when planning different activities.

While a primary focus of stakeholder theory has been the ethical principles guiding management, Mitchell *et al.* (1997) conclude that normative concerns alone do not sufficiently protect stakeholder interests. This means that stakeholder interests should be considered in all the operations of the organisation, including the formulation of values statements. Milton Friedman’s view that all organisational values are instrumental to shareholder profit has long gone un-debated. Only recently has it been recognised that many other stakeholders provide their resources and are thus entitled to expect a return. From the organisation’s point of view, the best way to address someone’s interest would be his/her involvement in the process from early on. Unfortunately, existing literature provides little guidance on whom, why, when and how an organisation should involve when adopting a values statement.

This conceptual paper aims to find out what role different stakeholders should play in the process of adopting organisational values statements. In order to derive the model it is assumed that the impact of values on a given stakeholder determines the amount of involvement. To better understand the nature of values statements, the paper first describes the categories of espoused organisational values found by different authors; then maps the potential impact of values that selected stakeholders encounter. The concept and views on stakeholder involvement in the process of adopting values statements are briefly discussed and, as a result, a model for stakeholder involvement is proposed.

2. Value Categories in the Values Statement

A values statement is a specific set of publicly stated organisational beliefs or concepts (for instance, a “credo” in the famous case of Johnson & Johnson). Often these beliefs are stated in writing for all members of the organisation, and are shared with other key stakeholders, including the general public (Buchko 2007). These statements are commonly referred to as core values, corporate values or organisational values. It should be noted, though, that the values statement is only the tip of the iceberg when it comes to organisational values – only a fraction of those made visible to everyone.

Solomon (1999) claims that according to his consulting experience the values statements organisations ultimately agree upon do not vary to a great extent. Moreover, neither should uniqueness be the aim, because according to him it is the process of formulation that matters. Collins and Porras (1994) also hold the view that the content of a values statement does not determine the success of an organisation at any rate. However, there are also authors who firmly establish that some values are better candidates for values statement than others (Wenstop, Myrnel 2006, Lencioni 2002). Here the argument is based on different types of values. Below, the approaches of four authors are elaborated upon in order to demonstrate the lack of agreement about the name of certain value-types, and yet, behind the surface similarities can be traced.
In general, organisational values just like individual ones can be divided into terminal and instrumental values, classified by Rokeach (1973). Terminal values refer to desirable end-states and are thus similar to ideals (Maccoby 1998) and aspirations (Lencioni 2002). The created values put forward by Wenstøp and Myrmel (2006) resemble terminal values because they envisage tangible outcomes that different stakeholders expect from an organisation. Instrumental values express how to accomplish terminal values, and other authors have provided a deeper insight into this category. The how-question could be approached both from a behavioural point of view – what one should/should not do – and from an attitude or character point of view – what one should be like (Maccoby 1998, Griseri 1998). For instance, a behavioural outcome of the value teamwork would be that the work in the organisation is organised in teams rather than by individual assignments. A character outcome of the same value implies that employees share a strong belief in group synergy; they are team players by nature and are possibly recruited on this basis. Of course, the two approaches are not entirely independent, so the question is rather which one takes priority.

Behavioural values often boil down to normative rules and standards; such values are referred to as permission-to-play values by Lencioni (2002) and protected values by Wenstøp and Myrmel (2006). The characteristics of these values are the absence of emotions and their inability to distinguish an organisation from its competitors. For instance, being ethical is something that is expected from all organisations. In contrast, values as character reflect emotions and attitudes; they form the heart of an organisation's culture, which is unique. Character is expressed via core values (Lencioni 2002, Wenstøp, Myrmel 2006): these function as a backdrop to all activities in the organisation and are a source of the company's distinctiveness. A good example of a core value would be mercy and compassion in The Body Shop (Anderson 1997), since it goes beyond behaviour; it is a way of thinking and a life-style.

In addition, Lencioni (2002) talks about accidental values, which reflect employee interests (thus being an element of character), but have little to do with the organisation’s actual strategy and basis for success.

The categorisation of values by different authors and how they relate to each other is summarised in Table 1.

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<tr>
<td>Terminal values</td>
<td>Values as ideals</td>
<td>Aspirational values</td>
<td>Created values</td>
</tr>
<tr>
<td>Instrumental values</td>
<td>Values as behaviour</td>
<td>Permission-to-play values</td>
<td>Protected values</td>
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<td></td>
<td>Values as character</td>
<td>Core values</td>
<td>Core values</td>
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<tr>
<td></td>
<td></td>
<td>Accidental values</td>
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It has been suggested that organisational values statements should be about how rather than what to do (Dolan, Richley 2006, Blanchard, O’Connor 1996); in other words, an efficient values statement belongs to the instrumental side. Further, there seems to be agreement that minimum standards of behaviour or protected values do not help an organisation or its stakeholders (Lencioni 2002, p. 114, Wenstøp, Myrmel 2006, p. 679). Therefore, core values form the spine of the values statement and the following discussion about the impact of values on stakeholders primarily has this type in mind.
3. Values Statements and Stakeholders

As noted above, the relationship between stakeholders and the organisation is two-way traffic: stakeholders, to a varying degree, have an impact on organisational values and the resulting values statement, but once values are formulated, they begin a life of their own and start to influence stakeholders. The discussion below observes namely the latter effect, where two angles are distinguished. First, the impact of the mere existence of a values statement on different stakeholders is investigated. Secondly, arguments from earlier studies are presented describing how the content of a values statement influences a given stakeholder.

There are many stakeholders an organisation needs to acknowledge: owners, managers, employees, customers, suppliers, investors, competitors, strategic alliances, the community etc. In the current paper, the discussion is limited to five stakeholder groups: managers, employees, owners, customers and strategic partners (incl. suppliers). These stakeholders are most immediately affected by the organisation and, compared to others, their involvement is most topical.

3.1. Internal Stakeholders

Managers

Perhaps the greatest fascination in the literature on organisational values, and management according to these values, stems from the managerial perspective. Indeed, the benefits that a values statement potentially entails for CEOs are manifold, but this is only one side of the coin. Along with the promises, the potential drawbacks for managers are also clearly evident. To begin with the merits, clear values provide a basis for strategic decision-making (Wenstøp, Myrmel 2006, Williams 2002, Anderson 1997). Values give a direction and basis for all decisions and managers may feel relieved by the existence of such a point of reference in their organisation. But while values help to assess the appropriateness of decisions and their consequences, they also rule out some seemingly attractive alternatives. In other words, a values statement narrows the pool of possible strategies and tactics.

One reason why managers have been found to be interested in formal organisational values is that values guide individual behaviour without the need to establish policies, systems and control mechanisms – that is, bureaucracy (Buchko, 2007, Collins, Porras 1994, Deal, Kennedy 1982, Peters, Watermann 1982). This also makes an organisation more stable because employee behaviour is predictable. Nonetheless, there is a thin line between stability and rigidity, and managers may face the most challenging task if they wish to change the values to better respond to developments in the environment (Kabanoff, Daly 2002, Popper 1997, Trice, Beyer 1993, Chelte et al., 1989).

A values statement still helps managers in several ways: it is easier to attract employees who hold similar values (Williams, Ferris 2000, Schneider et al. 1995, Dutton et al. 1994), a values statement enables more effective communications with the public as well as internal stakeholders (Cheney, Christensen 2001, Bostdorff, Vibbert 1994), an effective values statement distinguishes an organisation from its competitors and could become a competitive advantage on the market (Lencioni 2002, Sadri, Lees 2001), competition with the outside world and internal cooperation is enhanced (Dutton et al. 1994) etc. In addition, clarity about values homogenises perceptions about what is deemed important in the organisation, and that in turn results in less task and relationship conflict among the top management team (Lankau et al. 2007). These
authors demonstrate that relationship conflict is negatively correlated with evaluations of the effectiveness of the CEOs leadership (Ibid. 2007, p. 24), so a values statement and adhering to it makes a manager effective in the eyes of his/her colleagues.

However, the least favourable outcome of a values statement is the potential for managerial behaviour to be perceived as hypocritical (Edmondson, Cha 2006, Urbany 2005). Managers have to demonstrate the espoused values in all situations, but interpretations by others may nevertheless diverge from the manager’s intentions. Perceived violations of a values statement can have far-reaching negative consequences for managers and the organisation; in extreme cases it results in employee acts of sabotage or even violence (Robinson, Bennett 1997).

In conclusion, it is evident that managers have a lot at stake with regard to an organisational values statement. From their perspective, there are pros and cons to having values clearly formulated, but once the values are defined, they affect the work of managers substantially – the content of these values is no doubt crucial for them.

Employees

A values statement often affects internal stakeholders alike. For instance, it is claimed that clear organisational values improve employee morale, because every member is held to the same value oriented obligations (Bhattacharya et al. 1998). While this result may serve the interest of managers rather than employees, the employees’ need for a sense of purpose, a sense of belonging, a sense of something to feel proud of is met at the same time. Employees bring social and personal value needs to the workplace, and many seek to align their personal values with the values of their employer (Neal 1999).

It is thus not the values statement per se that influences employees, but the values that correspond to their personality. If such congruence exists, many positive side-effects are found: higher affective and normative commitment to their job and organisation (Brønn et al. 2006, Fitzgerald, Desjardins 2004, Finegan 2000), higher job satisfaction (Fitzgerald, Desjardins 2004, Barrett 2002), attachment to the company even after leaving the organisation (Rousseau 1998), and less symptoms of stress (Bocchino et al. 2003). Of course, the content of statements plays a role again; for instance, organisational values that support work-personal life integration are associated with the emotional and physical well-being of employees, whereas workaholic work-environments are characterised by respective values (Burke et al. 2005).

From the operational point of view, empirical research suggests that employees feel that the values statement provides them guidelines for decision-making, increases accountability and clarifies expectations (Urbany 2005). Also, the working environment improves and new customers are easier to approach (Brønn et al. 2006).

The downside of a values statement for the employees is mainly related to its content: personal-organisational value conflict produces stress and a perceived violation of the psychological contract, as well as increasing incidents of workplace injuries (Bocchino et al. 2003). Lencioni (2002) admits that some employees may feel like outcasts if the values statement does not support their personal beliefs. Finally, a fear that may yield to cautiousness about the values statement is the potential misuse of it – as a means to manipulate people (Brønn et al. 2006, Griseri 1998). All in all, a values statement could be useful for employees, but in the case of a strong organisational culture, their existence changes little in the work-life of employees. Still, once adopted, their content is vital for employees, because just like managers they have to align their behaviour and even attitudes with the stated values.
3.2. External Stakeholders

The owners
The impact of a values statement for the owners stems from one major source – organisational performance. Several authors have stressed the importance of core values as a basis for achieving high performance (Collins, Porras 1994, Peters, Waterman 1982). Brønn et al. (2006) demonstrate through a case study that the defined values have helped the organisation to increase its market share and gain a favourable reputation in the media. Buchko (2007) offers a model where desired performance indicators are supported by organisational values (see Figure 1).

Figure 1. The Relationship of Organisational Values to Performance

Source: Based on Buchko (2007)

Reading the figure from right to left, performance is achieved through products and services, which in turn need respective business processes. These processes can only be introduced and run by employees whose behaviour and decisions are affected by, among other factors, organisational values. Thus, there is a good reason for the owners to be interested in organisational values being agreed upon, but what these values exactly are is less relevant for them as long as they improve the performance of the organisation.

Customers
In competitive markets where customers have many alternatives to choose between, consumption of and loyalty to certain products and services as well as organisations is viewed as a self-definitional act. It has been found that customers enter into strong, committed and meaningful relationships with some organisations because of their identification with them (Bhattacharya, Sen 2003). Organisational values and perceived personality are important determinants of customer loyalty, both attitudinal and behavioural loyalty (Anisimova 2007).

It could well be, though, that organisational values and the values perceived by customers are not identical (de Chernatony et al. 2004, Urde 2003). This may not be a problem until the organisation makes their values apparent through a values statement. Knowledgeable customers who make conscious choices are then keenly interested in the values statement in order to compare its content and their own experience. However, compared to managers or employees, the customers are not as affected by the values statement.

Strategic partners
Strategic partners are vital for organisation’s success: complementary assets provide the opportunity to exploit the higher productivity of capital, cooperation with other organisations gives access to new opportunities and makes them cheaper or less risky to explore, engagement in cooperative inter-organisational activities adds reputation and bargaining power etc. The nature of strategic partnership is multifaceted, ranging from...
outsourced canteen-service to membership in umbrella organisations such as employers’ confederations.

A number of relationship and network studies have suggested that values play a role in developing and maintaining network cooperation (Morgan, Hunt 1994, Jarillo 1988). Järvensivu (2006) concluded that organisational values do influence strategic cooperation, but value congruency between organisations does not automatically determine its success. In fact, value congruence and incongruence may have both a positive and negative influence on the success of cooperation depending on the context (Ibid. 2006, p. 43). Compared to other stakeholders, the relationships with strategic partners are the most pragmatic and this is why a certain value may serve the aims of both partners in one situation and become a hindrance in the next. Therefore, whether or not a values statement is in place is of little relevance to strategic partners because emotional and cultural aspects of the organisation do not matter much in business cooperation. The content of a values statement (given that they truly reflect organisational values) probably influences partners, but there is not enough evidence to predetermine the direction or intensity of that impact.

A summary of the impact of values statements on internal and external stakeholders both in terms of its existence and its content is presented in Table 2.

Table 2. The Impact of Values Statements on Different Stakeholders

<table>
<thead>
<tr>
<th>The impact of:</th>
<th>Managers</th>
<th>Employees</th>
<th>Owners</th>
<th>Customers</th>
<th>Strategic partners</th>
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<tbody>
<tr>
<td>the existence of a values statement</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>the content of a values statement</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
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</table>

The traditional understanding of core values as merely internal characteristics is no longer viable. As can be seen from Table 2, all external stakeholder groups are at least to some extent affected by values statements. Next, stakeholder involvement in the process of formulating values statements will be discussed. It is assumed that the higher the impact of values statements on the stakeholder group the more it deserves to be involved in the process.

4. The Model for Stakeholder Involvement in the Process of Formulating the Values Statement

There is no agreement in the literature as to the most appropriate process for the formulation of values statements. The views on stakeholder involvement vary dramatically. For instance, Lencioni (2002) claims: “Values initiatives have nothing to do with building consensus – they’re about imposing a set of fundamental, strategically sound beliefs on a broad group of people” (p. 116). On the other hand, many authors recommend engaging several stakeholders in a values statement, both internal and external (van Riel, van Hasselt 2002, Williams 2002, Blanchard, O’Connor 1996). Brønn et al. (2006) suggest, for example, that customers may provide their input, but also admit that this is not a sufficient basis for the organisation to determine values. Instead, they find that employees should be critical in the process of formulating a values statement (Ibid. 2006). This seems to be a widely shared opinion (Hemp, Stewart
The framework for stakeholder involvement used in this paper is adopted from the Dachler and Wilpert (1978) employee participation concept. They suggested that involvement is a continuum of activities, ranging from information dissemination to co-decision, where consultation lies in between. The argument derived from the previous paragraph allows relating different stakeholders with different forms of involvement in the values formulation process. When the impact of the values statement was found to be marginal, high involvement would probably be undesirable both by the stakeholder as well as by the organisation. However, when the impact of the values statement on a given stakeholder is high, close cooperation is in the interest of both sides.

Figure 2 combines the concept worked out by Dachler and Wilpert with the impact of the values statement on different stakeholders.

**Figure 2. Stakeholder Involvement Depending on the Impact of the Values Statement**

Thus, the role that stakeholders play in the process of adopting an organisational values statement should depend on the degree of impact that the statement has on them. When the impact is low, involvement that is limited to the dissemination of information is optimal. Stakeholders may feel more involved if the information is given before the final decision, but if the right to express an opinion is not granted at the same time, such pre-notice may cause confusion. When values impact stakeholders to a moderate extent they should be consulted – their opinion should be asked and heard. Finally, stakeholders should be able to participate in the decision-making when the outcome of that decision greatly affects their well-being.

According to Table 2, it was found that there is one stakeholder group – the owners – whose well-being is affected by the existence of the values statement. The initiative to start a process of formulating a values statement has, indeed, sometimes been reported to have come from the owners (e.g. Brønn et al. 2006). However, a more typical course of events is that the initiative comes from the managers, and the owners are asked to give their consent (Blanchard, O’Connor 1996). It is suggested in this paper
that owners should kick off the values initiative by consulting the idea with managers and employees, who would potentially experience its impact as well. Customers and strategic partners may be neglected at this stage because the existence of a values statement is not relevant for them. It is worth mentioning that consultation still leaves the authority over the final decision with the owners. However, if they disregard the opinions gathered, they should provide their reasons.

Next, the formulation of particular values should be completely in the hands of managers and employees, who are equally and to a large extent influenced by the content of the values statement – organisational values that are considered most important. As for employees, perhaps not all of them should be involved – meaningful core values are unlikely to be reached in this way. Regardless of their hierarchical position, employees who are the most notable bearers of organisational values and philosophy (as perceived by managers, colleagues or even customers) should work on the values statement. These employees are identified as key employees in the model. Here, consultation in the form of revealing how the organisation is perceived by strategic partners and long-term customers is useful. This would provide a motivating input for managers and key employees when creating the values statement. The final version of the values should be approved by both managers and key employees and the owners should not have any authority here.

Figure 3 summarises the role of different stakeholders in the process of adopting an organisational values statement.

Figure 3. The Role of Stakeholders in Formulating a Values Statement

The main difference between the model above and models that have been suggested before in the literature (e.g. Brønn et al. 2006, Hemp, Stewart 2004, Lencioni 2002, Blanchard, O’Connor 1996) concern three aspects. First, the role of owners is to take the lead in the beginning of the process, but then give ground to managers and employees with no further interference. Secondly, consultation with strategic partners and long-term customers, especially before the values have been agreed internally, is advisable. This runs against the idea put forward by Blanchard and O’Connor (1996) of
testing the already agreed values on different stakeholder groups. And thirdly, those employees who share the core values of the organisation (especially character-wise) should have decision-making power on equal grounds with the managers. Despite the fact that employees are given a significant role in the process described by many authors, the final decision-making is still seen as the task and prerogative of managers, or even worse, the owners.

6. Conclusions

The current paper aimed at developing a model for stakeholder involvement in the process of formulating a values statement in the organisation. Existing literature on this topic is scarce and for the most part empirical by nature. Organisations have approached the values statement formulation process differently, depending on their traditions, leaders’ beliefs or consultants’ guidelines. Models of some generality have been developed on the basis of the practical success of values-related endeavours. Nonetheless, to date no agreement has been reached as to whom, when and why to involve.

In this paper, the model for stakeholder involvement followed the idea that the more the values statement affects a stakeholder group the more involvement this particular group deserves. First, it was found that an efficient values statement should reveal organisational culture, its character and beliefs; in other words, consist of core values as opposed to protected and created values. Building on that, the impact of values statements on five stakeholder groups – managers, employees, owners, customers and strategic partners – was analysed. It became clear that the existence of a values statement serves the interest of owners in the first place, while the content of the statement is most crucial for managers and employees. Customers and strategic partners are affected by the organisation’s values statement to some extent, but not comparably with its internal stakeholders.

This led to constructing a model where stakeholder involvement was divided into three distinct activities – information dissemination, consultation and co-decision. Since the owners are most affected by the existence of a values statement, adopting a values statement is their initiative and decision according to the model, whereas prior consultation with managers and employees would benefit all partners. The content of the values statement has the highest impact on internal stakeholders and therefore they should have the right and responsibility to decide about this. Here, key employees should have equal decision-making power with the managers. Before formulating the statement, consultation with long-term customers and strategic partners is advisable. The final stage of involvement, which is also stressed in the literature on values-based management, is the communication of the values to all stakeholders. In this paper, this form of involvement is called “information dissemination”. In the involvement concept, this is the weakest form (compared to consultation and co-decision), but it does not mean it is less important. Values statements have meaning only if all the relevant stakeholders are aware of them.

The contribution of this paper is a systematic analysis of the impact of values statements on stakeholders and the combination of the results gained with the stakeholder involvement concept. The proposed model differs from previous findings in the following two respects. First, final decision-making power is transferred from the owners to the managers and key employees. Secondly, consultation with managers and employees in the beginning of the values formulation process is added and it is also
suggested that long-term customers and strategic partners should be consulted before the content of the values statement is adopted.

The topic of stakeholder involvement in the values formulation process is open to future study in several directions. The author of this paper believes that testing the model in real organisational situations would be a promising avenue to pursue; also, the technicalities of the consultation process deserve deeper investigation – how to approach the stakeholders, what kind of questions are most efficient, what is the optimal time-span of the entire process etc.

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