

thought leadership

How to develop Principled Leadership for sustainable shareholder value

Where is your organisation coming from?

Unethical behaviour is destroying value within business, wiping billions from profits and market capitalisation. Those organisations which have recognised the need to address this are generally focusing on corporate governance processes – leading to even more rules and regulations. This approach fails to address the heart of the matter by paying little attention to behaviours of individual executives and board members.

Many of the organisations working with Getfeedback* and Roger Steare Consulting have experienced minor compliance failures. As a result, their need to tackle the issue at an individual level has come sharply into focus.

Initial discomfort that we as human beings do bad things is common. We depersonalise the issue and blame 'the business' or 'the culture' per se. The first step is therefore to move beyond the reactive nature of a compliance focus and instead change the behaviours of individuals. For example, if an individual is behaviourally predisposed to break rules, they will continue to do so, irrespective of codes of ethics or organisational principles. Furthermore, their deviant behaviour is often rewarded because the potential rewards outweigh the threat of sanctions.

In our 2000 research project, 83% of the most senior institutional investment executives in Europe agreed that personal misconduct on the part of directors and senior executives was either "very important" or of "some importance" in a review of 20 of the largest financial scandals.

What's the crux of the issue?

Organisational behaviour is the sum of individual behaviours. Yes, we can measure the attitudes of everyone in a business, but this won't necessarily predict actual behaviours unless we look at the culture and context in which the individuals operate.

We use the formula "a+c=b" to describe the process where

$$\text{Individual Attitude} + \text{Organisational Culture} = \text{Actual Behaviour}$$

Our data shows that rhetoric and rules have considerably less impact than the attitudes and behaviours of those leading the organisation. This gives us a double challenge:

Challenge 1: change the culture of the organisation by changing the example set at the top

Challenge 2: change the attitudes of each person in the business

What can you do about it?

Addressing single issues in isolation e.g. just focusing on those in a high risk role or only taking a developmental stance, will prove fruitless as the reward for behaving unethically will continue to outweigh the threat of sanctions. Instead the change should occur throughout the talent management lifecycle and across the whole organisation.

- **Recruitment:** consider the nature of ethical behaviour when creating role profiles and selection criteria; put systems in place to take an individual's integrity profile into account when considering their suitability for the role
- **Performance Management:** systematically measure and reward ethical performance, even if it means a short term financial loss
- **Development:** allow each employee to develop self awareness of their own integrity profile and decision making style; provide practice at making sound ethical judgements through workshops and masterclasses

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- **Succession:** systematically factor moral intelligence (MQ) into the succession planning criteria and assessment methodology
- **Engagement:** leverage personal integrity to engender more personal commitment and engagement from existing employees

What difference will it make?

Research undertaken by Deutsche Bank shows that over time, good ethical behaviour delivers superior shareholder value and maximises market capitalisation by a factor of 20%. Conversely poor ethical standards can also detrimentally affect consumers' and the market's perception of a firm, in much the same way as a poor year-end result.

However, organisations should not expect a one-off box-ticking exercise and instead must consider the development of ethical behaviour as an ongoing task. Critically, financial analysts themselves lack "temperance" (self control) and are not willing to wait for results. Hence the market, impatient for results, fails to allow organisations to realise the shareholder value created by a systematic approach. The first step for any organisation undertaking an integrity programme is to recognise that there is no quick fix – but the rewards for a sustained approach are well worth the wait.

Recommended reading

- Good to Great; Jim Collins; If you've already read this, reread thinking specifically about core values and level 5 leadership
- The CEO and the Monk; Cattell, Moore, Rifkin: Case study of a major New York utility company
- Bad Leadership: What It Is, How It Happens, Why It Matters; Barbara Kellerman