



## TenStep Supplemental Paper

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### Corporate Valuation

Formal statements of corporate values are fairly common. However, the alignment between stated and actual value systems has always drawn attention. Today there is a heightened emphasis on corporate values. With more than 95 percent of organizations having a similar sounding values manifesto, there's concern over its effectiveness. As more organizations publicly proclaim their corporate values, it's imperative to understand its ramifications in business.

#### Changing perceptions

Integrity, honesty, social responsibility and ethics - these are the five most common corporate values. These have been the same for years. So what really has changed? The difference lies in the way organizations are coming out with their commitment to the value system.

In the past, it was difficult to find organizations giving credit to their corporate value system for their success. However, today organizations directly and openly credit their corporate value system in their journey to success.

So, what has prompted organizations to suddenly align to their corporate value system? Is it due to recent corporate scandals, or is it a strategy to distract media attention? The answer lies partly in both these assumptions. Organizations are increasingly turning inwards for some soul searching. In the past, organizations often resorted to treating their ethical lapses as freak cases. They are now seeking external help to straighten their records by incorporating adherence to corporate values as a critical performance objective. Further, companies are also resorting to value-driven management improvement strategies. These include employee training, conducting employee appraisal based on the employee's ability to adhere to corporate values, hiring executives reinforcing corporate values and top management involvement in making values a way of life at the workplace.

Corporate intolerance to ethical lapses is high as work systems are designed to reflect its values. This is a rather passive reflection of the increasing commitment to corporate values. Many organizations are cautious of any serious ethical lapse. Many also believe that apart from violation of the values credo, doing the right thing is more important for employees. Hence, the board should be wary of cases where ethical lapses may occur despite adherence to the letter of law.

#### Corporate values-facts and findings

Corporate values are the institutional behavioral standards that guide organizations through business operations. Thus, most organizations have a similar set of values that help them in benchmarking against each other. There are certain facts that govern the corporate values credo and its application in business. These include:



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**Ethical behavior is the cardinal corporate value.** Out of the favorite five mentioned earlier, ethical behavior is the most commonly quoted corporate value. Ninety percent of the companies surveyed admitted that adherence to ethical behavior was their chief concern.

**The two “R”s of corporate values.** Reputation and relationships – these two factors are most influenced by corporate values. Eighty percent of the organizations surveyed believed that corporate mission statements reinforce employee commitment. Moreover, companies also stressed that corporate values strengthen customer loyalty.

**The concept of ROV.** ROI is still the only true measure of success according to most organizations. The concept of ROV (return on values) still seems elusive to the corporate fraternity, primarily because intangible qualities like employee commitment, integrity etc., are difficult to measure.

**Top performers know it all.** A survey revealed that eighty five percent of corporate top performers were staunch believers in corporate values.

**Values are region specific.** Corporate values, like personal beliefs and values, vary with geographic regions. This is largely because of cultural differences.

**The boss has the final word.** *Like any other management drive or decision, corporate values* too have to be reinforced top-down. Without the CEO involvement, corporate values would be greatly devalued!

### Values that matter

Apart from having a feel-good appeal, corporate values have a significant impact on the bottom line. These values, when applied, can augment the efficacy of business strategies and guard corporate image and relationships. Thus, an increasing number of organizations are emphasizing employee commitment, customer satisfaction, adaptability to change with changing customer preferences and employee recruitment and retention. Organizations consider reputation and relationships high-risk factors. For instance, inconsistency with corporate values can damage the corporate image, which in turn could adversely affect a company’s standing in the market, its share value and investor confidence. Organizations therefore need to live by their values if they have to build strong and long-lasting relationships with their employees and customers.

Other factors that corporate values greatly influence and are important for business strategy include brand equity, supplier relationships, revenue growth, risk management, product innovation, productivity and earnings growth.

### The ROV

Measuring the *Return on Values (ROV)* is a rather Herculean task. The impediments are many. The mindset is the most difficult to overcome. Corporate values being largely intangible, the issue of instituting measures to gauge their effectiveness almost always comes under fire. Not many corporate watchdogs take the ROV figure seriously. However, companies are making an effort to make the measures concrete in terms of their usability.



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Surveying employee satisfaction through parameters like employee retention and recruitment is one of the most commonly used methods to gauge the effect of values on employee mobility. However, the risk of misrepresentation of figures and data is high in surveys. In addition, surveys have limited scope and therefore fail to measure the impact of corporate values on employee attitudes.

Another hitch in calculating the ROV is inconsistency in what is present and what is missing. For instance, a company may claim that its corporate values have a major role in enhancing customer loyalty. Then the company could authenticate its claim by getting customers to vouch for it. In many customer surveys, not even half the customers know the corporate values that the vendor swears by.

### **Aligning practice with value**

Framing a practical, easy to implement and clear corporate values credo is easy. The difficulty, however, arises when organizations begin to align their management practices with their corporate values.

To integrate corporate values in the company's psyche, the company ought to write down management practices that would reinforce its values and help managers make decisions in line with the values.

The heightened frenzy about corporate values has benefited both the employer and the employee. From the employer's point of view, adherence to corporate values has opened up a new path to success, while for employees it has given them an opportunity to supplement their performance with value-driven objectives.