
Changing societal and executives' values: their impact on corporate governance

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Abstract: Scandals, top management misbehaviour and company failures resulting in a loss of investment and public trust in companies is well documented. Why has this corporate governance crisis happened, will it continue and what are implications for the board?

A theoretical and empirical approach is taken to understand the changing nature of values in society reflected in executives to reveal the cause of the recent corporate governance crisis and implications for the board.

Data from executives was collected from 163 owner/managers, senior managers and middle managers and combined with UK and US longitudinal population data.

Results of the current research found empirical support for changing social values with the implication that the consensus of 'playing by the rules' has broken down and replaced by the need to outperform expectations even if that means bending or breaking the rules. This paper concludes with an action plan for the board agenda.

Keywords: corporate governance; executive values; organisational performance; social values.

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Biographical notes: Dr. Scott Lichtenstein lectures in strategic management at Henley Management College, researches and writes in the area of strategic leadership and consults on people-focused approaches to strategy. Lichtenstein finished his Doctorate of Business Administration in February 2005 in the area of strategic leadership researching the relationship between strategy, goals and executives' personal values and their impact on organisational performance.

2 S. Lichtenstein and P. Dade

Pat Dade is an internationally recognised expert on human motivations and their applications to communications and behaviour change programmes. He is a founding director of Cultural Dynamics Strategy and Marketing, which conducts numerous studies every year into the changing values, beliefs and motivations of national populations. The basic research has been conducted for over 30 years in the UK. Over 40 other countries have been surveyed in this time. Dade's work is based on a deep understanding how organisational forms impact on individual psychological structures, and vice versa. Hundreds of clients have benefited from his approaches and programmes, including Unilever, Hewlett Packard, Cisco Systems, Green Peace, Shell, McKinsey&Co., and Arsenal Football Club.

1 Introduction

As Boards of Directors, consultants and academics focus on the causes of the crisis in corporate governance it has become apparent that purely rational/logical views on the nature of executive misbehaviour do not explain the nature of problem. There is a growing consensus that an accurate understanding of the causes of the current governance crisis requires consideration of the effects of executives' personal values in a societal context. There has been much speculation about changing social and executives' values, but apparently no empirical research has been done. Whilst a variety of social and market research companies have been measuring the values, beliefs and motivations of whole national populations for over 40 years, it has been kept in commercial confidence and used by the sponsors of the research to gain competitive advantage in consumer focused markets.

This paper will publish for the first time a long-term overview of the nature of the changes in individual and cultural values that have been theorised and measured two cultures – the UK and the USA – and through analysis and interpretation provide insights into social and executives' values that form the basis of corporate cultures. Armed with these insights implications are drawn for corporate governance including a view on the reasons for the present crisis in corporate misgovernance. It ends with a set of 'next steps' for concerned practitioners, consultants and boards.

2 Values and the corporate governance crisis

There is much theoretical conjecture concerning the relationship between values and corporate governance. Some observers believe (e.g., McCarthy and Puffer, 2002) that a country's corporate governance reflects its traditions, values and culture. They use the example of Russia to argue that its corporate governance will evolve into its own unique model based on that country's social values.

Academics in corporate governance (e.g., Wieland, 2005) have argued that the corporate governance code is determined by the moral values of the company culture. Wieland (2005) asserts that the moral resources of a company can only be deployed when a company is not perceived as a maximising machine for shareholders' interests.

Those who are concerned with restoring confidence in the system have identified that the values and actions of stakeholders are necessary ingredients towards raising currently low ethical and professional standards. Observers such as Dawson (2004) believe corporate governance rules, procedures and codes of practice are not enough to bring confidence back to the stock market but it will take the actions, values and beliefs of investors, customers, employees, politicians and civil servants.

Others commentators (e.g., Birchfield, 2004) blame the breakdown of 'family values' as a root cause of corporate fraud. Birchfield (2004) suggests that moral decay due to families spending less time together resulting in the breakdown of 'values transfer' has been a key element in the condition, which has caused the 'perfect fraud storm', which he believes we are in.

Can values simultaneously determine countries' corporate governance system, organisations' corporate governance code, be responsible for the cause and a key to the solution to the current situation? Clearly values are central to the corporate governance crisis, but how? What has been noticeably absent from the debate is empirical evidence as well as theory for understanding how values influence the corporate governance debate, which this paper seeks to address.

3 Social and executive values

All businesses draw their stakeholders from a national pool of people. The values of these individuals will determine the values of the markets they conduct their business in the corporate cultures they inhabit and especially the values that form the basis for good corporate governance. All societal values are derived from personal values. Theory and market research point towards a universal set of values and value systems that are held across people and cultures, only differing in their pattern amongst individuals and societies (Williams, 1979; Rokeach, 1979). Personal values are therefore understood to be determined by an individual's development within a culture.

Executive values are personal values held by executives. Values can be considered to be deep-seated beliefs that give insight into people's needs and motivations. Two characteristics of values are worth highlighting:

- 1 Value system – A value system exists for each person and is more important to understand than a single value (Hambrick and Brandon, 1988; Rokeach, 1979; Schwartz, 1996). A value system is created by our (changing) underlying needs.
- 2 Needs-based – Value systems correspond to his or her needs. A major contribution to the conceptualisation of values was made by Maslow (1970) as part of his theory on motivation and his definition of values as 'a gratification of a need'. He was the first to postulate that values are driven by underlying needs, which is now echoed by a variety of theorists (e.g., Rokeach, 1979). A Maslovian theory-based approach to conceptualise, measure and categorise social and executive values will be discussed in the following section.

The literature on corporate culture frequently places values at the core of understanding of the nature of corporate culture (e.g., Schein, 1992). The difficulty in determining the relationship between values and culture due to the complex dynamic underpinning the nature of an organisation's culture (e.g., Goffee and Jones, 1996) is acknowledged.

However, the dynamic can in part be explained by the interaction between the executives' values (typically the CEO) and those of the employees (Waldrop, 1996) and therefore is central to the corporate governance debate. This view is supported by Bourne and Jenkins' (2003) finding in a qualitative study of 27 senior managers on the relationship between personal and corporate values, which revealed that the corporate values espoused by the managers were a reflection of their own personal values rather than a broad framework of shared values.

Corporate and organisational values are often used interchangeably in management. Corporate or 'core' values are often seen not as values associated with humans, but as elements of a particular ideology or philosophy. Collins and Porras (1996) describe them as, "The organisation's essential and enduring tenets – a small set of guiding principles; not to be confused with specific cultural or operating practices; not to be compromised for financial gain or short term expediency". This raises a distinction between 'adopted' versus 'enacted' values (England, 1967). This issue addresses the need for understanding societies and executives' **operative** values, those dominant values that influence choice behaviour rather than **adopted** values, those that are espoused by the organisation which managers recognise is important to 'get on' but are difficult to internalise, does not subscribe to and therefore does not directly influence behaviour to any great degree. This research is focused on operative societal and executive values.

3.1 A Maslovian theory-driven approach to analysing social and executive values

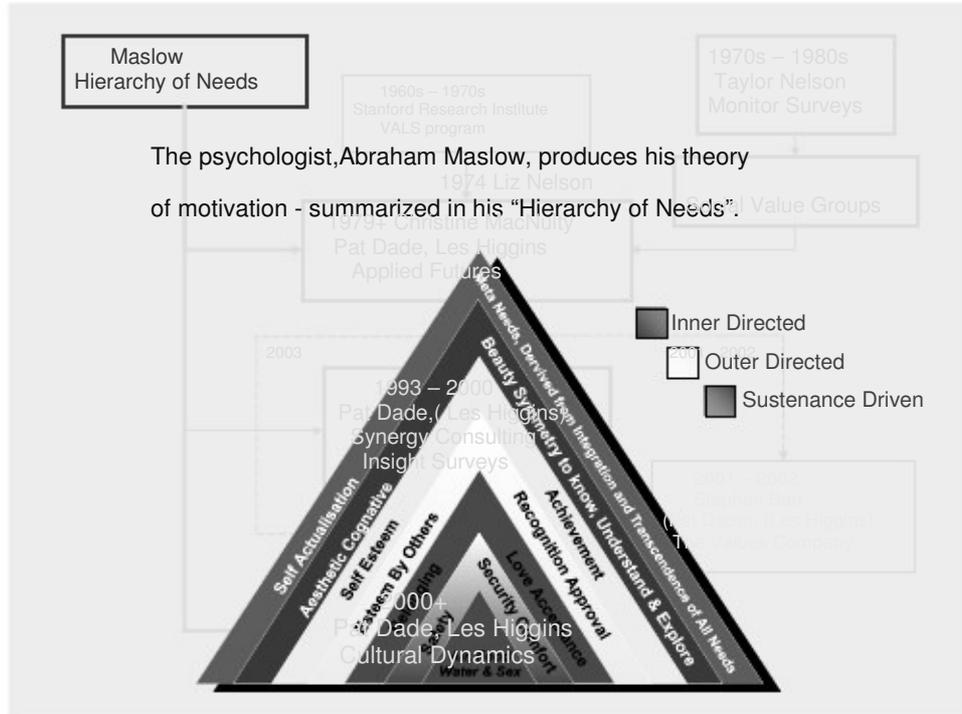
Maslow (1970) was the first and most enduring values theorist to propose a theory exploring how values are structured. The pre-eminent values instruments are based on Maslow's (1970) Hierarchy of Needs; Rokeach's Value Survey (RVS), Kahle's (1988) List of Values (LoV) and the proprietary instruments of Stanford Research International's Values and Lifestyles (VALS) (Baker, 1996), making Maslow's theory the *de facto* 'industry standard' definition of the structure of values which, therefore, will be used in this study.

Maslow's Hierarchy of Needs is a model of human psychological development that facilitates understanding of the basis human values and the way they can change over time from birth to death. The theory is based on years of practitioner experience and academic research, though never quantified in a management context. This research on executives' values is based in part on the first attempt to do so. Maslow's experience led him to the insight that, as human beings, we are all born with a set of needs that drive our attitudes and behaviours. These needs are complex and form what we call our 'value system'. His theory illustrated the nature of the changes in values systems through the life of every person. The changes are hierarchical in nature, i.e., some needs to meet before other needs become important as a determinant of attitudes and behaviours.

The basic model of the hierarchy of needs provides three levels of needs. See Figure 1.

<p>Please provide reference. Thank you.</p>

Figure 1 Maslow's Hierarchy of Needs



Source: Adapted from Maslow (1970)

The first level is called **Sustenance Driven** needs. At this level the individual is driven by basic physiological needs for air, food, water, sleep and sex (in post puberty individuals). Once this need is met the need for safety motivates the person, and eventually the need for belonging kicks in as a motivator of attitude and behaviour. Once this nest of needs is met, and significant proportions of national populations never satisfy these needs, the next level of need to be met are based on **Esteem**, initially the esteem from other and once that is met, they need for self-esteem drives attitudes and behaviour. These are called **Outer Directed** needs. Once the need for self-esteem is largely met, the values system of the individual changes again. In this third stage of development the needs for a deeper understanding of life, in the understanding of the interdependence among all life and eventually the transcendence of all needs drives the life of individuals. These are called **Inner Directed** needs.

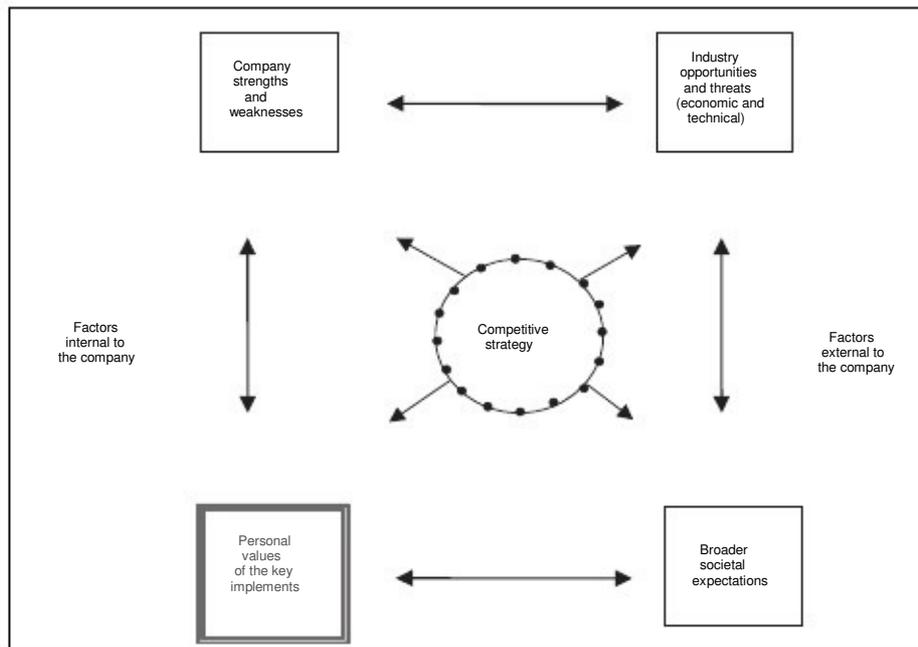
The operationalisation of this Maslovian model is discussed in the research methodology section. The next section reviews the research into the relationship between executives' needs, values and their decisions.

3.2 Executives' values and the decisions they make

The strategic leadership area, concerned with how leaders think, influence and act, has gone the furthest in informing understanding of the executive values-behaviour relationship. Although executives' personal values have been identified as a key

determinant affecting strategic decision-making in organisations (see Figure 2), it has been a neglected area of research (Zahra and Pearce, 1990; Finkelstein and Hambrick, 1996; Mintzberg et al., 2003), Finkelstein and Hambrick (1996, p.48) identified the research void that exists, “Even though values are undoubtedly important factors in executive choice, they have not been the focus of much systemic study.” Why? In part because the focus on strategic ‘analysis’ has driven out their critical role in the strategy process (Mintzberg et al., 2003). Also, there was no theoretical underpinning to examining the relationship between executives’ values and their strategic choices until Hambrick and Mason’s (1984) “upper echelon theory” that made the crucial link between managers’ values, cognitive base, selective perception and strategic choice. Values’ centrality to strategic decisions, executive behaviour and performance has only recently been appreciated and lead to theorists’ Finkelstein and Hambrick (1996, p.54) to the proposition: Executive values are reflected in the choices they make.

Figure 2 Key determinants of strategy

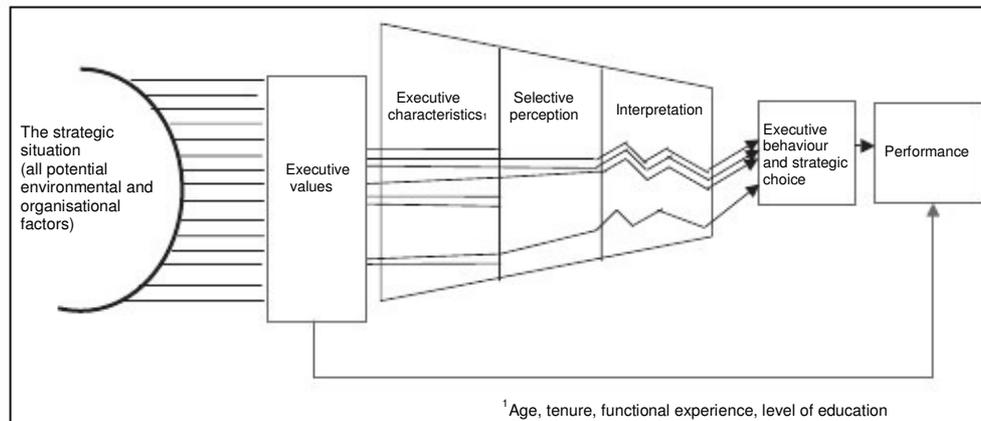


Source: Porter (1980)

An adapted strategic leadership model of the executive values-behaviour relationship provides the theoretical framework for understanding the relationship between Executive needs, values, their behaviours and decisions as seen in Figure 3.

The research challenge is to determine the relationship between executive values and other variables, e.g., strategy, as indicated above and their impact on performance. This is discussed below in the following Section 4, which proposes a research model and related hypotheses.

Figure 3 Executive values' impact on performance



Sources: Adapted from Hambrick and Mason (1984), Finkelstein and Hambrick (1996)

4 Model and hypotheses

To more accurately define the relationship between values and corporate governance and overcome the limitations of previous studies lacking empirical data, the following model and hypotheses are developed:

1 Social values

Based on Birchfield's (2004) and McCarthy and Puffer's (2002) assertions that social values are changing and impact countries' corporate governance, the following hypothesis was developed:

H1 Social values are changing rather than fixed

2 Strategic orientation and performance

Based on previous strategic leadership studies (e.g., Thomas and Ramaswamy, 1996) that have identified strategic orientation as a key variable that affects performance, the following hypothesis was developed:

H2 Strategic orientation has a significant impact on performance

3 Executive value orientation and performance

Following Hambrick and Mason's (1984) upper echelon theory and Finkelstein and Hambrick's (1996) assertions that executive values influencing strategic decisions and performance, the following hypothesis was developed:

H3 Executive value orientation has a significant impact on organisational performance

4 Executive values and strategic orientation alignment and performance

Based on the identification of the central importance of executives' values being aligned to the strategy if it is to be successful (e.g., Porter, 1980; Andrews, 1987), the following hypothesis was developed:

H4 Strategic orientation and executive values alignment has a significant impact on performance

5 Executive values and managerial characteristics alignment and performance

Based on this Finkelstein and Hambrick (1996, p.47) assertion that executive psychological characteristics and managerial characteristics 'probably' are mutually dependent and therefore executive values and managerial characteristics has an equal impact on organisational performance, the following hypothesis was developed:

H5 Executive values and managerial characteristics alignment has a significant impact on performance

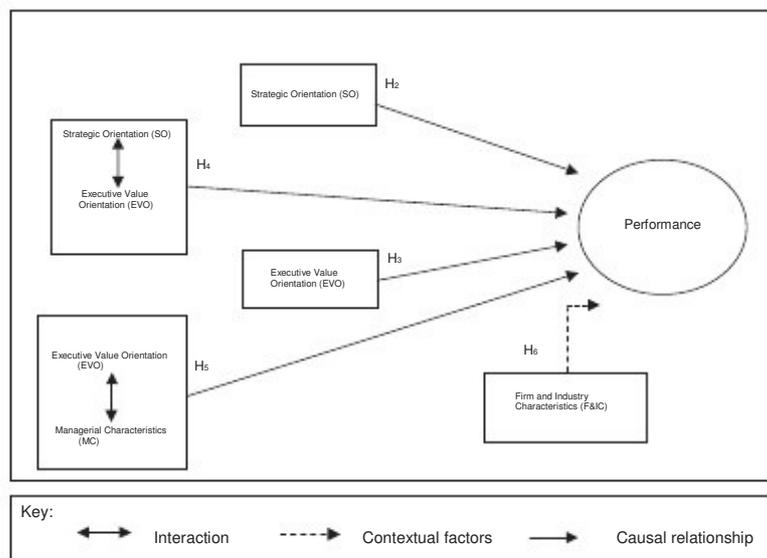
6 Contextual variables

Following Thomas and Ramaswamy's (1996) finding that firm and industry effects as contextual variables did not have a performance impact, the following hypothesis was developed:

H6a Firm characteristics will not impact performance

H6b Industry characteristics will not impact on performance

Figure 4 Research model with direct and interaction effects



5 Research methodology

5.1 Survey instrument design

The operationalisation of social values was developed through a questionnaire that included the construct Value Modes (VMs). The VMs instrument uses response to 11 questions on a 5-point Likert scale to categorise respondents.

The operationalisation of the strategic leadership model and hypotheses were developed through a questionnaire that had a total of 70 questions including seven constructs: Strategic Orientation, Executive Values, Performance, Managerial Characteristics, Firm and Industry Characteristics. To ensure reliability of the survey questionnaire a maximum of existing scales were used. Strategic Orientation, Executive Values, Managerial, Firm and Industry Characteristics are a combination of ratios and categoric variables. A 5-point Likert scale was used to measure Performance and Executive Values, the latter using the VMs instrument and List of Values (LoV). The LoV scale is a values inventory that measures respondents' espousal of individual values to categorise respondents into executive value orientations. See Table 1 for instrument design.

Table 1 Instrument design

Construct	Measure	Source
Values modes	11 item list of values statement	Cultural Dynamics Ltd.
Performance	Seven item scale comprising of three item financial and four item operational measures	Dess and Robinson, 1984; Pearce et al., 1987; Miles and Snow, 2003; Thomas and Ramaswamy, 1996
Strategic orientation	11 item scale with four alternative descriptions of the strategic types for each item	Conant et al., 1990; Parnell and Wright, 1993
Executive values	(1) 28 item List of Values (LoV) instruments	Kotey and Meredith (1997)
	(2) 11 item List of Values statement (Values modes)	Cultural Dynamics Ltd.
Managerial characteristics	Age, level of education, functional experience, tenure	Thomas et al., 1991; Thomas and Ramaswamy, 1996
Contextual variables	Firm age and size: age, number of employees	Thomas et al., 1991; Thomas and Ramaswamy, 1996
	Industry characteristics: five item scale of industry product/service differentiation	Thomas et al., 1991; Thomas and Ramaswamy, 1996

5.2 Statistical technique

The primary statistical measure used for hypotheses testing is analysis of variance (ANOVA) which is a replication of similar studies using manager-strategy coalignment (e.g., Thomas and Ramaswamy, 1996). This current research employs an interaction effects approach using a two-way between groups ANOVA also referred to as a factorial analysis of variance (Sokal and Rohlf, 1981). This technique has the

Please provide reference. Thank you.

advantage of allowing an investigation into main and interaction effects of independent variables in the research, particularly **strategic and executive values orientation** and **managerial, firm and industry characteristics** on the dependent variable of **organisational performance**.

5.3 Sample frame and data collection

5.3.1 Social values data

The sample frame for the UK societal data is a nationally representative sample of 5600 respondents across the UK collected by BMRB and categorised by Cultural Dynamics Ltd., which has been carried out over a 30-year period. This is by far the largest body of data collected and analysed anywhere in the world measuring and tracking this model of human developmental psychology among a representative national sample. The US societal data is a nationwide survey of 2200 nationally representative respondents collected by Environics Research Group in 2004 and analysed by Cultural Dynamics Ltd.

5.3.2 Executive values data

The survey population was international in-work managers of public and private sector organisations working at the business unit level (as opposed to corporate or group level of a multi-business company). The sampling frame consisted of in-work owner/managers (18%), senior managers (48%) and middle managers (34%) from the international business community. The sample was drawn using a combination of a convenient sampling design and judgement concerning respondents. In total, 163 responses were received. Respondents were from a broad range of companies and industries from the UK (53%), the rest of Europe (32%) and other countries (15%). Sample bias was tested for concerning managerial level, strategic decision-making influence and organisational tenure and none were found.

6 Research constructs and analysis process

6.1 Social values

Respondents were categorised into the values modes of **Inner Directed**, **Outer Directed** or **Sustenance Driven** groups based on Maslow's (1970) theory using the Values Modes (VMs) instrument developed by Cultural Dynamics who has been measuring values for over 30 years. As Cultural Dynamics owns the proprietary algorithm that allows classification of respondents into one of the three Maslovian values groups, they carried out the categorisation of respondents in the USA and UK.

6.2 Executive values and the strategic leadership model

The process of making the research variables suitable for the use of the research technique used for hypothesis testing, ANOVA, is briefly outlined. The ANOVA technique requires a single continuous dependent variable and therefore the process of converting the financial and operational performance measures into a single measure of performance is discussed. Moreover, the ANOVA technique also requires independent

variables to be categorised into three or more groups and so the process of transforming Strategic, Executive values orientation, Managerial, Firm and Industry characteristics into categoric variables is also examined.

6.2.1 Performance

The process of converting the financial and operational performance measures into a single measure of performance and transforming Strategic, Executive values orientation, Managerial, Firm and Industry characteristics into categoric variables required by the ANOVA technique is discussed below.

Performance scale

Both Exploratory and Confirmatory Factor Analysis were used to assess the reliability and validity of the performance scale. The dependent variable, performance, is a combination of a three item financial performance measure (overall financial performance, Return On Investment (ROI) and sales growth) developed by Dess and Robinson (1984) that has a reliability coefficient in the current study of Cronbach $\alpha = 0.80$ as well as a four item operational measure (Production Costs, Asset Intensity, Market Focus, and Research and Development) developed by Thomas and Ramaswamy (1996) that has a reliability coefficient of Cronbach $\alpha = 0.66$. The seven item performance scale was subjected to Exploratory Factor Analysis to ascertain whether or not the data indicated the existence of two specified dimensions, finance and operations. Orthogonal rotation revealed two factors with eigenvalues greater than 1, explaining 61% of the variance with both factors showing strong loadings all above Hair et al.'s (1998, p.112) recommended guideline for statistically significant factor loadings of .45 for the sample size of this current research. See Table 2 for the results. Confirmatory Factor Analysis (CFA) was carried out in addition to re-enforce the reliability and validity of this concept. The structural model that was used for CFA is given in Figure 5.

Table 2 Factor analysis of overall performance

	Factor	
	1	2
Overall financial performance	.841	
ROI	.831	
Sale growth	.797	
Production costs		.771
Market focus		.733
R&D		.635
Asset intensity		.532

Two issues arose before the execution of this model through AMOS. The first was replacing missing values by the use of means. The second was that the variance on the operations variable was shown to be negative. Therefore, following Hair et al.'s (1998, p.610) guideline, the variance was set to (0.005). The model then performed well. This was reflected through an overall test of significance, Chi-square = 17.575 which proved

insignificant at 13 degrees of freedom. Other goodness-of-fit diagnostics (GFI = .971, AGFI = .937) met the acceptable benchmarks (Arbuckle and Wothke, 1999). Table 3 presents these results. The assessment of loadings shows that all the linkages are highly significant and performance is therefore reflected in two sub-dimensions, finance and operations (see Table 4).

The reliability coefficient Cronbach α for the new seven item performance instrument is 0.79 which exceeds Nunnally's (1978) Cronbach $\alpha = 0.70$ value guideline. The items reflecting the financial dimensions and operational dimensions were summated to construct an overall performance measure (Churchill, 1979).

Figure 5 CFA model

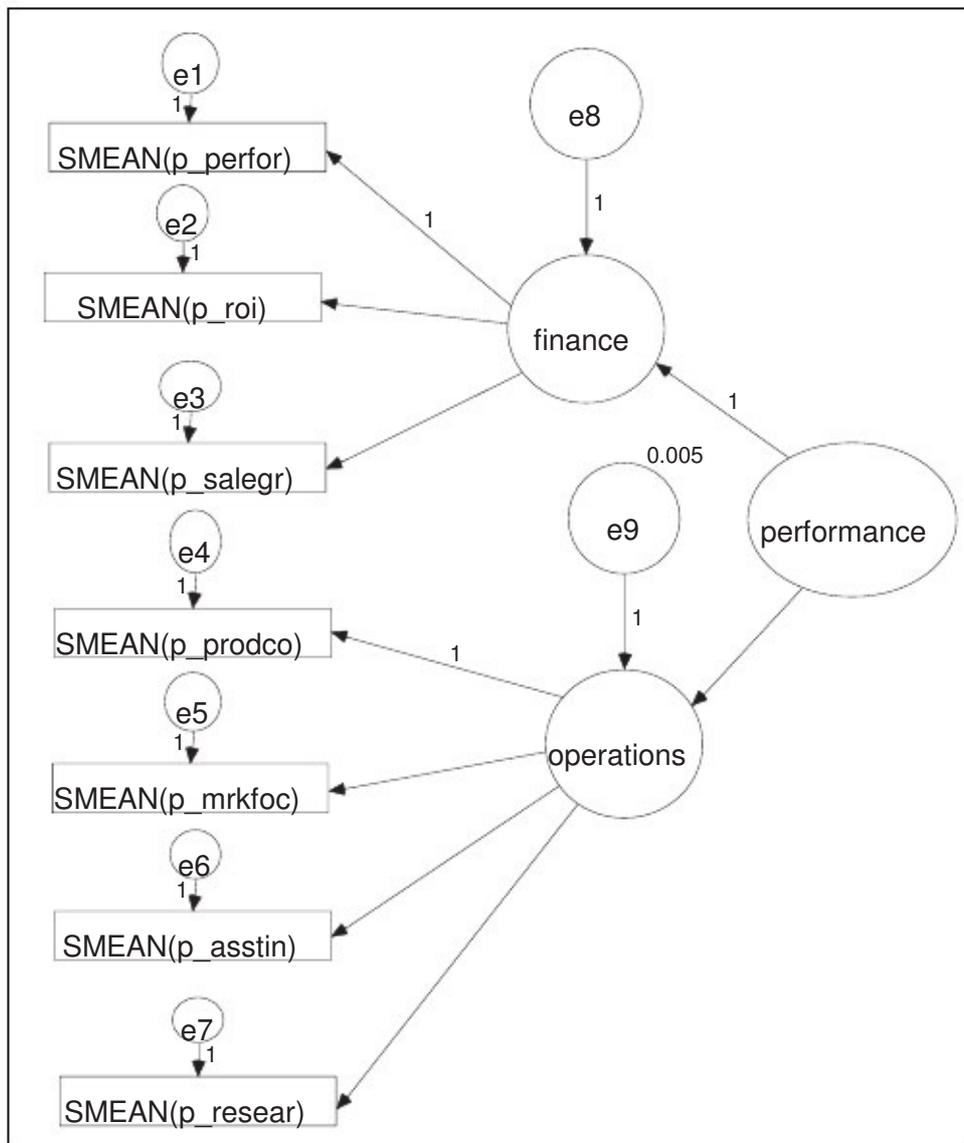


Table 3 Goodness of fit criteria

Measure	Description	Rule of thumb
CMIN	17.575	
P	0.174	>.05
GFI	.971	≥.9
AGFI	.937	>.8

Table 4 Regression weights

Estimate	Estimates	S.E.	C.R.	P-value
Finance performance	1000			
Operations performance	0.711	0.165	4.309	0.000
P_Overall performance finance	1.000			
P_Sales growth finance	0.793	0.101	7.817	0.000
P_ROI finance	0.839	0.100	8.362	0.000
P_Asset intensity operations	1.211	0.255	4.759	0.000
P_R and D operations	1.135	0.271	4.195	0.000
P_Production costs operations	1.000			
P_Market focus operations	1.332	0.287	4.649	0.000

6.2.2 Strategic orientation

To operationalise strategy,² the Miles and Snow's (2003) strategic typologies framework was used for consistency with other manager-strategy coalignment studies (e.g., Thomas and Ramaswamy) and because the typology has been scrutinised empirically and theoretically and has become widely recognised (e.g., Shortell and Zajac, 1990; Zahra and Pearce, 1990; Doty et al., 1993; Finkelstein and Hambrick, 1996; Ghoshal, 2003; Desarbo et al., 2005), with consistent support for the validity of the typology (Hambrick, 2003) in a wide array of settings (e.g., hospitals, colleges, banking, industrial products, IT and life insurance).

Based on Miles and Snow's (1994; 2003) strategic typologies, each respondent was categorised in terms of their organisation's strategic orientation using Conant et al.'s (1990) survey instrument and guidelines. Respondents were categorised into four possible types based on the majority rule. The results are shown in Table 5. All four types (Prospectors, Analysers, Defenders, and Reactors) were used in the ANOVA estimation.

Table 5 Strategic orientation

	Frequency	Percent
Reactor	28	17.4
Defender	43	26.7
Analysers	52	32.3
Prospector	38	23.6
Total	161	100.0

6.2.3 Executive value orientation

Executive value orientation

To assess convergent validity, two instruments were used for the categorisation of respondents into the Maslovian value groups of Inner Directed (Innovation, Risk and Creativity values), Outer Directed (Power, Prestige, Ambition) and Sustenance Driven (Loyalty, Trust, Compassion). Firstly, respondents were categorised into the value groups of Inner Directed, Outer Directed or Sustenance Driven groups based on Maslow's (1970) theory using the Values Modes (VMs) instrument developed by Cultural Dynamics. The results (Table 6) show a small percentage of managers were categorised as Sustenance driven, which supports published reports (e.g., Wilkinson and Howard, 1997) on the decline of the working age population in western society who espouse traditional values. Analysis of the data indicated a low number of sustenance driven values; as a result this was removed from subsequent analyses.

Table 6 Values modes

	Frequency	Percent
Sustenance driven	2	1.2
Outer directed	63	38.7
Inner directed	98	60.1
Total	163	100.0

Notes: 1. These value groups were categorised by Cultural Dynamics Ltd. using their proprietary algorithm.
2. Maslow's (1970) categories of Sustenance driven, Outer directed and Inner directed were used to name the groups.

Secondly, Kotey and Meredith's (1997) List of Values (LoV) 28 item personal values scale (Cronbach $\alpha = 0.87$ for the current research) was also used to categorise variables into value groups by subjecting it to principal components analysis. Relying on Maslow's (1970) theory of Inner Directed (ID), Outer Directed (OD) and Sustenance Driven (SD) value groups, the *a priori* criterion (Sharma, 1996) was used to derive a three factor extraction. The three factor solution explained a total of 41% of the variance. Maslow's (1970) theory also predicts two transitional sub-groups along with the three main groups, which may account for the relatively low variance explained. The rotated solution (Table 7) revealed the presence of a 'simple structure' (Thurstone, 1947) with all three factors showing strong loadings above Hair *et al.*'s recommended guideline. Examining for reliability and content validity, the results support theory:

- 1 The core Sustenance Driven traditional values of loyalty, trust, compassion and affection of Factor 1 has a Cronbach $\alpha = 0.79$.
- 2 The core esteem-seeking Outer Directed values of power, prestige, ambition and aggression of Factor 3 has a Cronbach $\alpha = 0.64$.
- 3 The core of the Inner Directed entrepreneurial values of innovation, risk and creativity of Factor 2 has a Cronbach $\alpha = 0.72$.

To establish convergent validity between the two approaches to measure executive values, a discriminant analysis using the factor scores of the 28 item LoV scale was carried out to predict Values Modes (VMs) groups, which gave a percentage of respondents correctly classified by the discriminant function (hit ratio) of 64%.

Table 7 Specified three factor solution of list of values at .45 factor loading cut off

	Factors		
	1 = Sustenance driven	2 = Inner directed	3 = Outer directed
v_trustSD1	.755		
v_compassionSD2	.723		
v_affectionSD3	.669		
v_loyaltySD4	.667		
v_natsecuritySD5	.648		
v_responsibilitySD6	.600		
v_honestySD7	.582		
v_leisureSD8	.549		
v_energySD9	.532		
v_socialprotectionSD10	.515		
v_equalitySD11	.485		
v_innovationID1		.791	
v_riskID2		.691	
v_creativityID3		.685	
v_competitionID4		.495	
v_autonomyID5		.460	
v_prestigeOD1			.637
v_ambitionOD2			.624
v_powerOD3			.614
v_aggressivenessOD4			.605
v_moneyOD5			.537
v_securityOD6			.514
v_achievementOD7			.449

Note: Although Achievement has a factor loading of below .45, at .449 it was decided to include it due to its importance as a value and its close proximity to the cut-off criteria.

6.2.4 Managerial characteristics

Managerial characteristics were composed of respondents' self-reporting of age, tenure, level of education and functional experience.

Age, tenure, level of education – Age was measured in number years. Tenure was measured as the number of years and months the respondent has been with the organisation. Level of education was the years following secondary school based on respondents' highest level of study they had achieved including postgraduate qualification if indicated.

Functional experience – Functional experience was measured by the total number of years of respondent's primary and current job function.

6.2.5 Contextual variables

Firm age and size – Firm age was measured as the number of years of the organisation. Firm size was measured as the number of the full-time equivalent employees of the organisation.

Industry characteristics – Industry characteristics was a categorical variable using Thomas and Ramaswamy's (1996) definition of the degree of product/service differentiation on a continuum from undifferentiated products and services (e.g., petroleum refining) to highly differentiated product/services (e.g., electronics).

6.3 Analysis process of the overall strategic leadership model

The process of data analysis was to identify only the significant variables that impact performance for inclusion in the overall model. The results revealed there was a statistically significant main effect for industry characteristics [$F(3, 133) = 2.289$, $p = .083$] at $p < .10$. An interaction effect for tenure and age [$F(4, 77) = 2.348$, $p = .062$] reached significance at $p < .10$.

Secondly, the research model was tested (see Table 8). Tenure and age were tested sequentially and the results with tenure are presented because they achieved the highest R^2 (58%) compared to age (46%) and had the most significant results. A multi-way between groups analysis of variance was conducted to test the research model by investigating the impact of strategic, executive values, tenure and industry characteristics on performance.

Table 8 Between-subject effects of strategic, executive values and goal orientation

Tests of between-subjects effects						
Dependent Variable: P_FINOP3						
Hypothesis	Source	Type III sum of squares	df	Mean square	F	Sig.
H2	Strategic orientation	6.167	3	2.056	5.881	.001
H3	Executive values	1.456	1	1.456	4.166	.045
	Tenure	1.155	2	.578	1.653	.198
H6	Industry characteristics	1.004	3	.335	.958	.417
H4	Strategic orientation*	1.493	3	.498	1.423	.243
	Executive values					
H5	Executive values*	.205	2	.102	.293	.747
	Tenure					

7 Results

The results of the analysis of social and executive values provides empirical support for changing social values and their implications on corporate governance as well as the impact of executive values on organisational performance. See Table 9 for a summary of the hypotheses analysed.

Table 9 Summary of stage one analysis

Hypothesis	Findings of hypotheses testing
H1 Social values are changing	Supported
H2 Strategic orientation has an impact on performance	Supported***
H3 Executive values have an impact on performance	Supported*
H4 Strategic orientation and executive values alignment has an impact on performance	Unsupported
H5 Executive values and managerial characteristic alignment has an impact on performance	Unsupported
H6 Industry characteristics will not have an impact on performance	Supported

Notes: * p < .05; ** p < .01; *** p < .001

Hypothesis 1

This hypothesis tested whether social values are changing. In the UK values, beliefs and motivations of the culture have been measured for over 30 years and the shifts in the values of the British from those typical of a traditional culture, to those much more in tune with modern societies have been noticeable; in fact at times in the forefront of changes in modern societies. The results and comparison of data from the UK and US surveys in 2004 are shown in Table 10.

Table 10 Maslovian groups by country 2004

Maslovian groups	USA (%)	UK (%)
Sustenance driven	13	21
Outer directed	51	44
Inner directed	36	35

What is evident from the results is that:

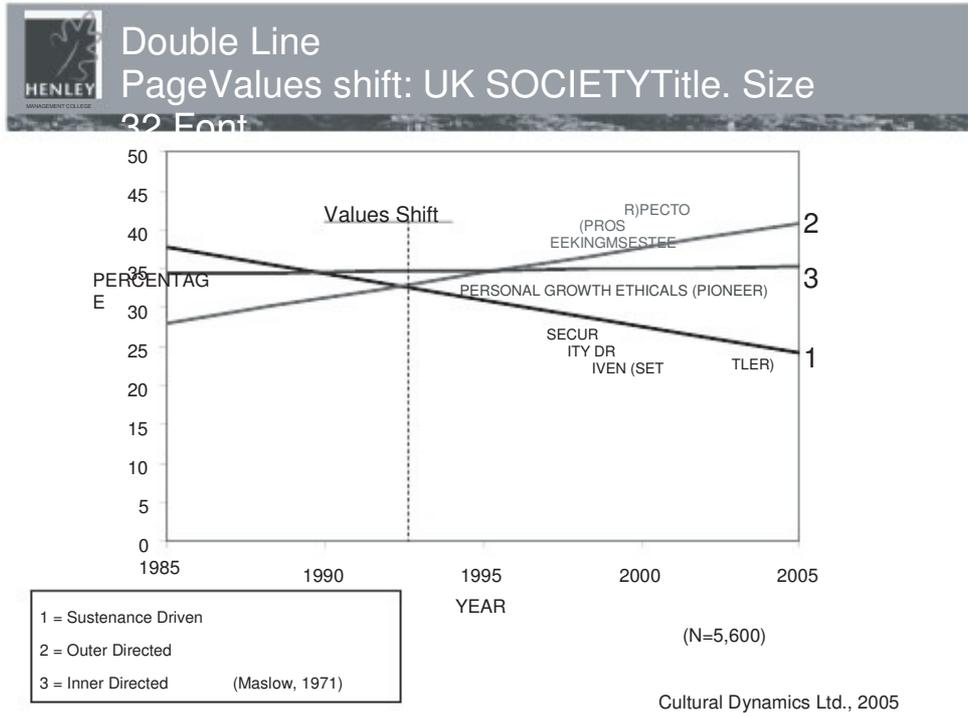
- The USA (13%) and the UK (21%) have fewer people who are Sustenance Driven with traditional values.
- Both cultures have a large proportion of Outer Directed (USA = 51%, UK = 44%) with esteem-seeking needs in their population.
- There is a large percentage of Inner Directed in each culture (USA = 36%, UK = 35%).

The time series research in the UK is supporting evidence of a social change in values, from a Sustenance Driven society to an Outer Directed society and this provides support for Hypothesis 1.

The implications for corporate governance of these changing values will be explored in the implications and recommendation chapter.

Please provide figure caption. Thank you.

Figure 6



Hypothesis 2

Hypothesis 2 involved examination of the extent to which strategic orientation impacts performance. The main effect for strategic orientation [F(3, 75) = 5.88, p = .001] had the most significant impact on performance and the hypothesis is supported. Moreover, a post hoc comparisons using Tukey HSD test indicated that the mean scores for the Prospectors (X =3.50, s = .66) and Analysers (X = 3.48, s = .65) were significantly different from Reactors (X =3.05, s = .48) and Defenders (X = 2.96, s = .67). This result indicates that the strategic choices managers make have a major impact on performance. Furthermore, organisations that innovate (Prospectors and Analysers) outperform those that do not (Defenders and Reactors). Thus the data provides some support for this hypothesis.

Hypothesis 3

Hypothesis 3 assessed whether executive values orientation has a significant impact on performance. The main effect of executive values [$F(1, 75) = 4.12, p = .04$] had a significant impact on performance, and therefore, the hypothesis is supported. This result concurs with Dawson (2004) and others that executive values are central to their behaviour and corporate governance.

Hypothesis 4

Hypothesis 4 stated that strategic and executive value orientation alignment has a significant impact on performance. The results [$F(3, 80) = 1.42, p = .24$] do not support the hypothesis. This suggests that executive values do not interact directly with strategic orientation and there are other variables and/or processes that might intervene. An investigation of executive values' interaction with stakeholders' expectations, organisational vision, purpose, or goals could be a fruitful area for further research.

Hypothesis 5

Hypothesis 5 tested Finkelstein and Hambrick's (1996) assertion that managerial characteristics and psychological experiences are mutually dependent and have an equal impact on performance. A comparison of the performance impact between executive values [$F(1, 75) = 4.12, p = .04$] and the managerial characteristic with a main effect, tenure [$F(2, 75) = 1.65, p = .20$], provides evidence that executives values is a more fundamental executive attribute than managerial characteristics in impacting performance and influencing organisational outcomes and thus refutes Hypothesis 5.

Hypothesis 6

Hypothesis 6 stated that the contextual variables of firm and industry characteristics would not have an impact on performance. These hypotheses were supported. There was no significant impact on performance for firm age [$F(2, 106) = 1.54, p = .22$], size [$F(2, 106) = .50, p = .61$], or industry characteristics [$F(2, 106) = .65, p = .53$]. Thus Hypothesis 6 is refuted.

8 Conclusions

Building on Hambrick and Mason's (1984) upper echelon theory and Maslow's (1970) theory of the hierarchy of needs, the focus of this research was to apply a value-based approach to understanding corporate and executive behaviour as it applies to corporate governance. Specifically, the study examined the performance impact of executive values orientation in the context of social values in the USA and the UK. Previous research into executive values (Lichtenstein, 2005) found support for individual executives' personal values corresponding to the Maslovian groups of Inner Directed, Outer Directed and Sustenance Driven value systems. The Maslovian categorisation of executive values and their performance impact allowed a comparison with population data of consumers'

values based on the same Maslovian categorisation. Moreover, the social and strategic leadership research used the same instrument (Values Modes) to allow comparison and insight into executive behaviour in the context of changing social values.

A key conclusion from the research is that executives' values matter. Based on the results, executive values have a greater impact on performance than the managerial characteristics of age, length of business experience, tenure and level of education. Executive values in the context of social change provide insight into the dynamics of executive behaviour at the national and organisational level.

Future research could build upon the findings of this effort by using comparable operationalisations of executive values in different contexts. The importance of executive values as a key strategic leadership variable requires similar operationalisation of executive values and performance to allow a comparison of results with future studies to test the endurance of its impact.

Similarly, more cross cultural data on changing social values would give a greater international perspective. More data on national cultures of the major economies would allow more comparison of the dynamics behind corporate governance in different countries. An obvious first place would be Russia.

Furthermore, testing executive values and their implications on corporate governance in other contexts with different samples would increase the validity of the construct and understanding of its strengths and limitations. One obvious extension of the study is values analysis by sector and single-company studies. Executive values research in the financial services sector would be a useful study of how different players in a trading environment manage motivational tensions at a sectoral level. Concerning single company studies, a useful starting point could be executive values research into different levels of an organisation, e.g., the board and top team, to look at the values congruence or incongruence within a company by team and level and implications on executing a governance and guidance system.

A strength and limitation of the research is the use of the same instrument for social and executive values with the limitation being that the Values Modes instrument has no reported reliability. An instrument with reported reliability in future social and executive values research would allow examination and increase confidence that robust measures of individual values were being used.

Although an association between Maslovian underlying needs and executive values using Kotey and Meredith's List of Values was indicated by the research, more testing and instrument refinement needs to be done.

9 Implications and recommendations

Based on the results on changing social date and its implication on corporate governance, there are several implications and challenges for the board.

Firstly, boards have to realise that the paradigm shift is real. The decline of the Sustenance Driven segment in the UK means there are likely to be fewer people who will rigidly adhere to established rules and laws, typified by the Sustenance Driven segment. This segment has traditionally defined the structure and orientation of all legal and regulatory systems. Their need for order and stability has driven the values of many large

corporations in the past. The decline of this segment of executives with these values who 'followed the rules' indicates that 'business-as-usual' will no longer apply as the Outer Directed segment rip up the rule book that the Sustenance Driven wrote and followed.

The US and UK cultures have a large proportion of Outer Directed in their population. They will be strongly inclined to break those same rules and laws, in the pursuit of esteem from others and their own self-esteem. This will include bending and breaking the rules in pursuit of profit, market share, high P/E's, huge ROIs, or any other business objective that will set them apart from the 'herd' as 'winners'.

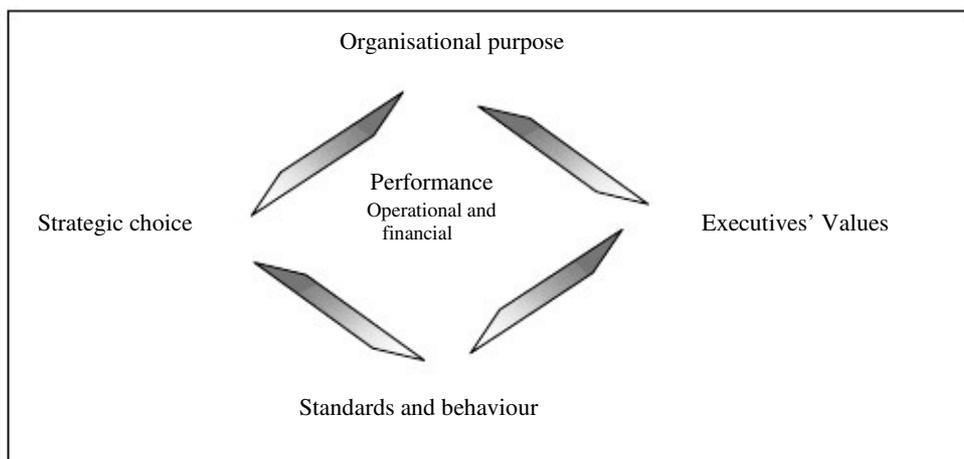
Also, both countries have a significant proportion of their populations in the Inner Directed group. They will constantly be 'playing' with current boundaries of 'accepted' attitudes and behaviours in creative ways; ways that are rooted in their needs for novelty and change and discovery of new ways of behaving and experiencing their own environments.

We put forward the assertion that much of 'corporate mis-governance' is inbuilt into both cultures and boardrooms and as such needs to be understood and dealt with in a different manner than the Sustenance Driven derived rules, regulations and legislations now mandate.

Secondly, boards have to lead. Board leadership means getting the 'hard' factors of strategy right in order to play and the 'harder' factors of executive needs and values right in order to win. Executives' values matter and have a greater impact on performance than other managerial characteristics. Boards' continued disregard of the underlying needs and values of key people is misplaced. If the focus on executive values and needs is not taken then rules and regulations and whole ranges of legislation will continue to be circumvented, challenged, ignored or just plain ole 'broken' by executives in their drive to maximise their ability to satisfy their needs for esteem of others or their own self esteem, through their positions within companies and corporations.

Boards can lead by providing a guidance system for the approximately 40% of an organisation's executives that will bend or break the rules to get their esteem needs met. Boards need to trust their guts and drive it down the organisation, not tolerate behaviour solely to attain 'shareholder value'. No board intervention can change an executive's values but it can change their behaviour by creating cultures that define the behaviours sought based on executive's true needs and values.

Figure 7 Influencers of standards and behaviour



To do that, the Boards' first step is to get clarity of their executive teams' and managers' true needs and values systems. This is necessary to understand the dynamics of the organisational culture that is driving behaviour. Too often organisations espouse **adopted values**, those needed to 'get on' in the organisation rather than **operative values**, the true personal values that exist, which have the greatest influence on behaviour.

A value-based approach to corporate governance offers clear implications and recommendations. Will boards be up to the challenge of acting on them?

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Notes

- 1 The use of the Miles and Snow typology is recognised as being applicable at the business level (Hambrick, 1983).
- 2 Strategy was conceptualised and measured as a pattern of strategic choices that over time results in the strategic position and behaviour or orientation of the business. Types of orientation were self reported and measured across 11 dimensions. Prospectors are first-to-market innovators, Analysers are 'fast followers', Defenders protect their product/market segments and Reactors lack a consistent and coherent strategy (Miles and Snow, 2003).