

Viinamäki, Olli-Pekka

**Article**

## Embedding value-based organization: An identification of critical success factors and challenges

The International Journal of Management Science and Information Technology (IJMSIT)

**Provided in Cooperation with:**

North American Institute of Science and Information Technology (NAISIT), Toronto

*Suggested Citation:* Viinamäki, Olli-Pekka (2012) : Embedding value-based organization: An identification of critical success factors and challenges, The International Journal of Management Science and Information Technology (IJMSIT), ISSN 1923-0273, NAISIT Publishers, Toronto, Iss. 3- (Jan-Mar), pp. 63-92

This Version is available at:

<https://hdl.handle.net/10419/97867>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

An official publication of The North American  
Institute of Science and Information Technology

ISSN:1923-0265

**INTERNATIONAL JOURNAL OF**

# **Management Science and Information Technology**



NAISIT  
PUBLISHERS **III**

[www.naisit.org](http://www.naisit.org)

# **The International Journal of Management Science and Information Technology (IJMSIT)**

NAISIT Publishers

Editor in Chief

J. J. Ferreira, University of Beira Interior, Portugal, Email: jjmf@ubi.pt

Associate Editors

Editor-in-Chief: João J. M. Ferreira, University of Beira interior, Portugal

Main Editors:

Fernando A. F. Ferreira, University Institute of Lisbon, Portugal and University of Memphis, USA

José M. Merigó Lindahl, University of Barcelona, Spain

Assistant Editors:

Cristina Fernandes, Reseacher at NECE -Research Unit in Business Sciences (UBI) and Portucalense University,  
Portugal

Jess Co, University of Reading, UK

Marjan S. Jalali, University Institute of Lisbon, Portugal

Editorial Advisory Board:

Adebimpe Lincoln, Cardiff School of Management, UK

Aharon Tziner, Netanya Academic College, Israel

Alan D. Smith, Robert Morris University, Pennsylvania, USA

Ana Maria G. Lafuente, University of Barcelona, Spain

Anastasia Mariussen, Oslo School of Management, Norway

Christian Serarols i Tarrés, Universitat Autònoma de Barcelona, Spain

Cindy Millman, Business School -Birmingham City university, UK

Cristina R. Popescu Gh, University of Bucharest, Romania

Dessy Irawati, Newcastle University Business School, UK

Domingo Ribeiro, University of Valencia, Spain

Elias G. Carayannis, Schools of Business, USA

Emanuel Oliveira, Michigan Technological University, USA

Francisco Liñán, University of Seville, Spain

Harry Matlay, Birmingham City University, UK

Irina Purcarea, The Bucharest University of Economic Studies, Romania

Jason Choi, The Hong Kong Polytechnic University, HK

Jose Vila, University of Valencia, Spain

Louis Jacques Filion, HEC Montréal, Canada

Luca Landoli, University of Naples Federico II, Italy

Luiz Ojima Sakuda, Researcher at Universidade de São Paulo, Brazil

Mário L. Raposo, University of Beira Interior, Portugal

Marta Peris-Ortiz, Universitat Politècnica de València, Spain

Michele Akoorie, The University of Waikato, New Zealand

Pierre-André Julien, Université du Québec à Trois-Rivières, Canada

Radwan Karabsheh, The Hashemite University, Jordan

Richard Mhlanga, National University of Science and Technology, Zimbabwe

Rodrigo Bandeira-de-Mello, Fundação Getulio Vargas – Brazil

Roel Rutten, Tilberg University - The Netherlands

Rosa Cruz, Instituto Superior de Ciências Económicas e Empresariais, Cabo Verde

Roy Thurik, Erasmus University Rotterdam, The Netherlands

Sudhir K. Jain, Indian Institute of Technology Delhi, India  
Susana G. Azevedo, University of Beira Interior, Portugal  
Svend Hollensen, Copenhagen Business University, Denmark  
Walter Frisch, University of Vienna, Austria  
Zinta S. Byrne, Colorado State University, USA

#### Editorial Review Board

Adem Ögüt, Selçuk University Turkey, Turkey  
Alexander B. Sideridis, Agricultural University of Athens, Greece  
Alexei Sharpanskykh, VU University Amsterdam, The Netherlands  
Ali Kara, Pennsylvania State University -York, York, USA  
Angilberto Freitas, Universidade Grande Rio, Brazil  
Arminda do Paço, University of Beira Interior, Portugal  
Arto Ojala, University of Jyväskylä, Finland  
Carla Marques, University of Trás-os-Montes e Alto Douro, Portugal  
Cem Tanova, Çukurova University, Turkey  
Cristiano Tolfo, Universidade Federal de Santa Catarina, Brazil  
Cristina S. Estevão, Polytechnic Institute of Castelo Branco, Portugal  
Dario Miocevic, University of Split, Croatia  
Davood Askarany, The University of Auckland Business School, New Zealand  
Debra Revere, University of Washington, USA  
Denise Kolesar Gormley, University of Cincinnati, Ohio, USA  
Dickson K.W. Chiu, Hong Kong University of Science and Technology, Hong Kong  
Domènec Melé, University of Navarra, Spain  
Emerson Mainardes, FUCAPE Business School, Brazil  
Eric E. Otenyo, Northern Arizona University, USA  
George W. Watson, Southern Illinois University, USA  
Gilnei Luiz de Moura, Universidade Federal de Santa Maria, Brazil  
Jian An Zhong, Department of Psychology, Zhejiang University, China  
Joana Carneiro Pinto, Faculty of Human Sciences, Portuguese Catholic University, Lisbon, Portugal  
Joaquín Alegre, University of Valencia, Spain  
Joel Thierry Rakotobe, Anisfield School of Business, New Jersey, USA  
Jonathan Matusitz, University of Central Florida, Sanford, FL, USA  
Kailash B. L. Srivastava, Indian Institute of Technology Kharagpur, India  
Karin Sanders, University of Twente, The Netherlands  
Klaus G. Troitzsch, University of Koblenz-Landau, Germany  
Kuiran Shi, Nanjing University of Technology, Nanjing, China  
Liliana da Costa Faria, ISLA, Portugal  
Luiz Fernando Capretz, University of Western Ontario, Canada  
Lynn Godkin, College of Business, USA  
Maggie Chunhui Liu, University of Winnipeg, Canada  
Marcel Ausloos, University of Liège, Belgium  
Marge Benham-Hutchins, Texas Woman's University, Denton, Texas, USA  
María Nieves Pérez-Aróstegui, University of Granada, Spain  
Maria Rosita Cagnina, University of Udine, Italy  
Mayumi Tabata, National Dong Hwa University, Taiwan

Micaela Pinho, Portucalense University and Lusíada University, Portugal  
Paolo Renna, University of Basilicata, Italy  
Paulo Rupino Cunha, University of Coimbra, Portugal  
Peter Loos, Saarland University, Germany  
Pilar Piñero García, F. de Economía e Administración de Empresas de Vigo, Spain  
Popescu N. Gheorghe, Bucharest University of Economic Studies, Bucharest, Romania  
Popescu Veronica Adriana, The Commercial Academy of Satu-Mare and The Bucharest University of Economic  
Studies, Bucharest, Romania  
Ramanjeet Singh, Institute of Management and Technology, India  
Ricardo Morais, Catholic University of Portugal  
Ruben Fernández Ortiz, University of Rioja, Spain  
Ruppa K. Thulasiram, University of Manitoba, Canada  
Soo Kim, Montclair State University, Montclair, NJ, USA  
Wen-Bin Chiou, National Sun Yat-Sem University, Taiwan  
Willaim Lawless, Paine College, Augusta, GA, USA  
Winston T.H. Koh, Singapore Management University, Singapore

## **Table of Contents**

This is one paper of  
The International Journal of Management Science and  
Information Technology (IJMSIT)  
Issue 3 - (Jan-Mar 2012)

## **Embedding Value-Based Organization: An Identification of Critical Success Factors and Challenges**

**Olli-Pekka Viinamäki**

University of Vaasa, Finland (Corresponding author)

Faculty of Philosophy, University of Vaasa

PO box 700, Vaasa FI-65101, Finland

Tel: +358 6 324 8414

E-mail: [olli-pekka.viinamaki@uwasa.fi](mailto:olli-pekka.viinamaki@uwasa.fi)



## **Abstract**

The recent discourse on modernizing organizations and leadership has often placed a strong emphasis on values and ethics. This article elaborates on the benefits and challenges in the integration of values into leadership and organizational actions, most notably in regards to appraisals of values-based leadership (VBL). It is proposed that if the critical success factors and the challenges in implementing value-based organization are not identified, this would lead to unintended consequences in organizations, such as insignificant value-statements, inappropriate use of values, and illegitimate leadership practices. The discussion deals with intra-organizational leadership prospects and challenges, namely changes in organizational structures and authority, participation, communication, image and perceptions, and the integration of values.

## **Keywords**

Value-based organization; Values; organization; leadership; ethics; values-based leadership; organizational values; organizational culture

## **1. Introduction**

Values and ethics are at the heart of organizational behavior and leadership. It is becoming increasingly apparent that the full integration of ethical standards and values into business practice is not only preferable, but also necessary for long-term organizational survival (Parry & Proctor-Thomson, 2002). Accordingly, while efficiency and profitability are viewed as a leader's primary objectives, there is a long held view that leaders also have the responsibility for ensuring standards of moral and ethical conduct (Barnard 1938; Cullen, Victor, & Stephens, 1989; Resick, Hanges, Dickson, & Mitchelson, 2006). Moreover, scandals throughout corporate America and Europe have encouraged many organizations to seek leaders who can sustain profitability and embody ethics and positive values within the organization (Reilly & Ehlinger, 2007). The overall consensus seems to be that values are an important factor in the successful leadership of large organizations (e.g. Mintzberg, Ahlstrand, & Lamplé, 2005; Hofstede, 2005) and in creating a competitive edge (Blanchard & O'Connor, 1997).

Organizational values have been known to partially define the organizational culture and to serve as a bonding mechanism between workers, but in the recent past, values have served as a critical component of the organization's perspective regarding strategic direction, mission determination and visioning (Williams, 2002).

Yet, to introduce organizational values and to integrate values into managerial work as well as organizational procedures and processes is often a complicated and challenging task. At the bottom level, the scandals in which CEOs and other top leaders have demonstrated a severe lack of ethical conduct in businesses have also demonstrated the enormous impact of leaders on their organizations, the conduct of others and on organizational performance and effectiveness, both through their direct actions as well as by creating a climate that sanctioned ethically questionable practices (Grojean, Resick, Dickson, & Smith, 2004, p. 224; Treviño, Brown, & Hartman, 2003; De Hoogh & Den Hartog, 2008).

This article addresses the question of why a value-based organization tends to be difficult to put into practice. Indeed, the challenge to operationalize organizational values is not a problem only for large organizations and their leadership, but also for professional, as well as production and service-oriented organizations. Given the growing expectations, understanding difficulties and challenges related to integration of values into organizations and their actions we can have a critical impact on the leadership and development of the organization in many ways.

There are several studies representing the introduction of value-based organizations as well as suggestions to improve leadership by taking organizational values into account (e.g. Buchko, 2007; Grojean, Resick, Dickson, & Smith, 2004; Treviño, Brown, & Hartman, 2003). However, a systematic analysis of thresholds which we face in executing organizational values and especially, Values-Based Leadership (VBL) is missing. This article attempts to answers the following five main questions about the Value-based organization:

1. What are the key concepts of values-based organization?
2. Why is values-based organization and leadership important in the 21<sup>st</sup> century?
3. What are the critical success factors of this organization?
4. What steps are required to create values-based organization and leadership?
5. What would be the challenges and the future of this kind of organization?

## **2. Key concepts**

Value-based organization as a concept refers to an organization where organizational values are defined and applied in leadership in terms of increasing motivation of personnel, commitment, and rewarding. Furthermore, in value-based organizations, organizational values are used to foster better communication and to reinforce decision-making and preferred actions.

Especially in terms of 21<sup>st</sup> century organizations, the Values-Based Leadership (VBL) discussion has evoked the role and importance of ethics and values in organizations and leadership (Graber & Osborne Kilpatrick, 2008; Buchko, 2007; Mussig, 2003; Pruzan, 1998). Both the positive and negative sides of many organizations and personal cases have been analyzed in order to develop a better understanding of value-based organizations and attaining organizational goals while preserving high ethical standards (De Hoogh & Den Hartog, 2008; Brown, Treviño & Harrison, 2005; Brown & Treviño, 2006; Treviño, Weaver & Reynolds, 2006; Viinamäki 2009; 2011).

Before beginning to elaborate on and analyze the potential challenges of introducing the value-based organization, it is necessary to explicate the content and thought of VBL. As such, the need for introducing values to business and organizations is clear. For instance, Peter Pruzan (1998, pp. 1379–1381) argues that leaders actively introduce the notion of organizational and stakeholders' values into the managerial culture and develop a values-based perspective on leadership. Accordingly, Van Wart (1998, pp. 319) notes that the art of values management for practitioners has already become the leading skill necessary for private and public managers.

As such, introducing values into business and leadership is not a new thought. The concept of values as central to organizations and organized societies has a long history in the sociology of organizations, as well as in understanding the guiding principles of institutions, organizations, and individuals (Schwartz, 1992; Cummings & Worley, 2001).

Within the field of organizational studies, early writers such as Chester Barnard (1938) suggested that shared values were useful in addressing the problem of managing and coordinating complex organizations. Philip Selznick (1957) wrote that organizations become mature and 'institutionalized' only when leaders infuse them with values. Others have noted the importance of shared values in creating a strong organization culture (Mintzberg, Ahlstrand, & Lamplel, 2005; Schein, 1985), motivating behavior by providing direction and emotional intensity to action (Schwartz, 1992), representing standards to judge and justify actions (Mills & Spencer, 2005), and socialization activities and individuals to organization and leadership (Grojean, Resick, Dickson, & Smith, 2004).

From a leadership perspective, organizational values are seen as the underlying attitudes and beliefs that help determine individual behavior, of both personnel and leaders (Barnard, 1938, p. 279; Treviño & Brown, 2004, p. 75). In organizations, the values are a common set of shared beliefs on the goals, means, and ends which together create the organization and leadership (Buchko, 2007; Meglino & Ravlin, 1998), and values can provide coherence and a sense of purpose to an individual's behavior (Lord & Brown, 2001). Values partially reveal the organization's culture and identity (Schein, 1985) and serve as a central part of the organization's definition (Williams, 2002). Organizational values also provide leaders with a means of directing the organization and behavior in a desired way without having to resort to authoritarianism (Buchko, 2007, p. 38) and using too tight or confusing rules and control mechanisms (Mills & Spencer 2005, p. 26). These views largely explain the fascination many leaders have with the concept of shared values. However, it should be remarked that explicit organizational values (presented e.g. in corporate websites, annual reports, and code of conducts) are not always the same as the implicit values that actually guide our actions.

Values-Based Leadership (VBL) itself refers broadly to leadership based on foundational moral principles or values such as integrity, empowerment, and social responsibility (Reilly & Ehlinger, 2007, p. 246). VBL operates in several directions in intra-organizational relations. Mussig (2003, pp. 73) argues that "values-driven leadership sets the function of the relationship as putting values into practice" and "the function of the leader may be to bring values to the relationship." O'Toole (2008, pp. 84) suggests that values-based leaders' "task, role, and responsibility is to help followers realize the most important ends that they hold dear but cannot obtain by themselves".

Some studies of the values-based dimension have been embedded within the transformational, transactional and charismatic leadership domains (Bass & Avolio, 2000; Brown, Treviño, & Harrison, 2005). The relationships are not clear-cut, and leaders in organizations likely use both transformational and transactional leadership approaches to influence followers' behavior (Treviño, Brown, & Hartman, 2003). Despite the ambiguity of links, VBL includes a similar inspirational motivation component that transformational leadership has (Bass & Avolio, 2000). Treviño, Brown, and Hartman (2003) found that VBL entails a transactional component that involves setting standards and expectations of ethical conduct for followers, to hold their subordinates accountable using the rewards and punishment systems that are available (also Resick, Hanges, Dickson, & Micthelson, 2006).

Despite the diversity in the definitions, we could summarize some critical points in terms of value-based organizations. First, organizational values, and their means and use hold the key position in VBL. Therefore, the questions of how values are introduced, used and evaluated in leadership form most of the discussions and practices within organizational life.

Secondly, the more or less practical use of organizational values and value-based actions often appear in diverse forms in large organizations. For instance, according to Sims (1991, pp. 495), the institutionalization of values takes place in: 1) managing the psychological contract between its employees and the organization (reciprocal expectations), 2) reinforcing employees' organizational commitment, and 3) encouraging and nurturing and value-oriented organizational culture. Additionally, to mention some examples, values can be used to establish and communicate a unifying vision; make strategic decisions; establish structures, processes and control systems; develop and educate new leaders; create and manage the organization's culture and climate; and establish the organization's ethical code and value system (Gorjean, Resick, Dickson, & Smith, 2004, p. 233; Viinamäki, 2009). Therefore, the integration of values into managerial work and leadership as well as organization procedures and processes is often a manifold, complicated, and challenging task.

### **3. The benefits and importance of values-based organization and leadership**

We may start with a citation from Messick and Bazerman (1996, 9) who underline that: "Executives today work in a moral minefield. At any moment, a seemingly innocuous decision can explode and harm not only the decision maker but also everyone in the neighborhood." In other words, how can they ensure that their decisions will not backfire? It is obvious that leaders of organizations are in a position to make strategic choices and tough decisions, and they cannot please everyone in the organization. Partially, organizational values can be used as a source of legitimization, establishing credibility and trust, or alternative criteria for controlling and rewarding, and communicating the organization's mission and goals. Moreover, a key question for 21<sup>st</sup> century organizations is how executives can improve their proficiency in value-based organizations?

Of course, moves towards values-driven organization and values-based leadership in modern organizations are cultivated by instrumental thinking and the desire to obtain more efficient performance (Pruzan, 1998, p. 1380). It is said that it is important for businesses to display ethical behavior in order to attract and retain staff, increase profits, attract investors and government funding, and to enhance their reputation within the corporate world. Additionally, as McDonald (1999, pp. 143–144) notes,

organizations are looking for material of a more pragmatic nature that will assist them in making values operational and mechanisms by which values can be integrated into their organizations. However, a values-based environment would offer an alternative, especially in terms of better stakeholder value and the legitimacy of the organization's activities and managerial actions (Brytting & Trollestad, 2000).

At the same time, value-based organizations and VBL are believed to guide organizational members towards goals which benefit the organization, its members, stakeholders, and society (Kanungo, 2001). VBL is often positively related to satisfaction with the leaders, perceived leader effectiveness, and followers' job dedication and willingness to report ethical violations (Brown, Treviño, & Harrison, 2005). Some also refer to the fact that VBL foster greater accountability, increased organization valuation, and gaining the competitive edge, attracting and retaining staff and investors, and enhancing the organization's reputation within the corporate world (Buckley et al., 2001; Pruzan, 1998). In this vein, value-based organization as well as VBL is also criticized, because sometimes for instance, top executives might see ethics as "good business" in terms of enhanced image, reputation, and as a source of competitive advantage (Buckley et al., 2001).

The anecdotal perspective tends to tell stories about or provide case studies of various leadership practices on introducing values, then infer that values are essential components of the organizations' success. Such discussions conveniently ignore the fact that some very unsuccessful companies – such as Enron, Arthur Andersen, WorldCom – had a well-defined and well-articulated set of core values (Buchko, 2007, p. 37; Graber & Osborne Kilpatrick, 2008, p. 179). Yet, despite the negative sounds of the prominent ethical scandals of the past several years, scandals have brought values to the forefront of the business world and organizational behavior (McCuddy, 2008).

More broadly speaking, arguments towards increased value-consciousness can be described by using Kenneth Goodpaster's (1994) reference to a 'common managerial disease' with three symptoms'. First, leadership contains an intensive goal-fixation. Leaders are engaged with short-term goals which are dealt with recklessly. In turn, values and ethics in organizations often stand for longer perspectives and responsibility. Secondly, leadership emphasizes rationalization, i.e. the tendency to fit emerging problems into socially approved statements, for instance, competitive necessity. In turn, values represent more profound and morally detached development in organizations. Thirdly, there is detachment, which is the tendency to separate the head from the heart with the support of expressions like 'it is a jungle out there' or 'in the real world'. Values, instead, try to capture the essence of corporate life, strategy and vision, as well as culture nurtured issues and organizational and personal self-awareness and identity.

Moreover, Goodpaster (1994) critically conveys that spirituality and ethics are everywhere. The buzzwords and phrases on servant leadership, stewardship, empowerment, values-based management, and sensitivity are widely used. He uses a quotation from the Training Magazine to describe the situation: “in an environment racked with stress, insecurity, tough decisions and 60-hour weeks, you might expect a resurgence of a management model based on Machiavelli’s Prince... or Theory-X icon. Instead, there’s a stirring in the opposite direction: A flood of management books, articles and musings tries to make sense of the current chaos by proposing a management model filled with heart – and soul.”

The first thing is to overcome this kind of superficiality and overextended use of values, by concentrating on the practical and fairly instrumental value-related issues in organizations and leadership. For instance, how and in what different ways are values used in organizations? How can values be integrated into leadership and managerial actions? Moreover, there is a consensus about the needs of alternative organizational structures to hierarchy, as well as the requirements of reorganizing control, better communication, and increasing personnel engagement and stakeholders’ commitment to the organization’s goals and strategies. Then, a value-based organization is probably one of the promising organizations.

#### **4. The critical success factors in embedding values-based organization**

As mentioned above, organizations are seeking routes to introduce and integrate values in their business, actions and leadership. Thus, on the basis of positive yields as well as critical notions, the suggestions for value-based organization and leadership are critically discussed in terms of elaborating on the critical success factors. The elaboration of the critical success factors also reveal what is happening in modern organizations and what issues are essential for successful leadership in 21<sup>st</sup> century organizations.

In this section, the critical success factors of values-based organization can be listed as follows.

1. Traditional power is becoming powerless in flat and professional organizations.
2. The participation of stakeholders is suggested to be intensive and extensive.
3. New forms of control and feedback are needed.
4. The communication of values should be clear and straightforward.
5. Leadership stands for fostering a good image and perceptions.

All these five critical success factors are discussed in detail in the following subchapters. First, the critical success factor for the value-based organization is presented in each subsection. Then, the needs, preconditions, and arguments for finding solutions are rationalized and justified – why it is necessary to solve and what leaders should consider. And, what additional benefit do we gain from introducing organizational values into leadership and organization?

Additionally, it should be recognized that the approach in this article to organizations is leader-centered. This approach is encouraged by the hypothesis and research findings that the ethical orientation of the leader is a critical issue to consider in understanding the ethical and values-based practices in organizations (Hood, 2003). Also, leadership and how it is practiced in the organization have a considerable effect on the organization's success, and the ways in which the organization reacts to changes in the competitive environment, as well as how people, customers and stakeholders are motivated, engaged, and treated.

Thereby, organizational structures and managerial functions are seen as issues that could be affected by leadership, and thereby, the introduction of the critical success factors as well as challenges revealed in the subchapter can be solved by leadership activities. The alternative approach would be, for example, to represent that leadership is a complex interaction between the leader and the organizational environment, when leadership is partially determined by the changes in both the environment and leadership itself.

**Alternating Hierarchical Structures and Authority.** The first set of potential success factors is expected to be related to changes and redefinitions in authority, structures, and changes in leaders' positions.

Often organizational reforms are labeled with terms such as greater flexibility, performance, accountability, and simplification (Rouillard & Giroux, 2005, p. 334). To answer these demands, more flat and flexible organizational structures are introduced. These changes are often seen necessary for value-based organization because centralized authority structures and strict hierarchy do not benefit value-based actions or organization. But, what kinds of challenges do these changes bring for value-based organizations and VBL in particular? What do leaders have to do and what do they focus on with these kinds of changes? And, what role do organizational values play in this change?



The formal definitions of who has the power and right over whom and how to distinguish leaders from those who are led, has become increasingly more complex, to say the least. It is argued that the primary symbol of organizational power (i.e. hierarchy) is somehow replaced. Moreover, a formal position does not entirely allow the authority to make decisions, set and enforce control mechanisms, or influence people to achieve managerial goals. Thus, leaders face demands on supplementing hierarchical power with legitimate power, which is not coercion and fear, but shared values, visions, and goals, as well as trust and mutual confidence (Pruzan, 1998, p. 1381), and here, value-based organization is one of the prominent organization forms.

One of the critical success factors is that within new organizational structures and new leadership positions, values and ethics are often introduced as an alternative way to maintain classical power and hierarchies. Since the point of rules is to control behavior and actions, allowing rules to be suspended implies that the organization trusts as well as empowers its stakeholders (Mills & Spencer, 2005, p. 27). Additionally, when values start to dominate, organizational leadership also begins to be understood as a shared responsibility among all individuals in the organization, at all hierarchical levels. Another is to let employees, at least the key persons, be informed and trained in the right value-policy (Brytting & Trollestad, 2000, p. 65; Treviño, Brown, & Hartman, 2003, p. 20).

The importance of goals tends to increase when we are moving from hierarchical structures towards flexible and non-coercive authority. Then, the values and goals of most organizations may be so closely intertwined that their separation is, in practice, impossible. However, decisions in organizations are not always straightforward; achieving one goal or value may mean sacrificing or impinging on another (Mills & Spencer, 2005, p. 19-20). For example, in some situations, to gain the required profits may mean that there is some reduction in quality. Or, leaders may prefer high-performing employees instead of equal rewards for satisfactory performance.

Moves toward specialized and autonomous organizational functions can, however, become problematic. In fact, in highly specialized or loosely-structured organizations, leaders have limited authority over professional and licensed personnel, as well as the capacity to influence professional values and gain value-concurrence with the organization's values. Sometimes professionals may have strong professional identities and values which are difficult to overcome if professional values clash or represent too much heterogeneity with the organization's values.

**To Achieve Extensive Participation.** The second success factor of value-based organization concerns how to get personnel, customers, and stakeholders engaged in the organization's goals and strategies. In what ways can organizational values serve this means? Moreover, it is widely argued that modern leadership, especially values-based leadership, requires extensive participation and the motivation of the people towards a common goal. However, value-based organizations face many problems because in most cases values cannot be introduced with the coercive use of power, hierarchy, or sanctions. Thus, the question is what purpose organizational values can serve in the pursuit towards a common organizational goal, and the controlling of organizational behavior and efforts?

To realize value-based organization, it requires extensive participation, including personnel and stakeholders. Often values and codes of conducts imply expected behavior, and to commit to organizational values and codes requires participation and personnel engagement procedures. However, in most organizations, a code of values or an ethical code is developed by top management with the help of outside consultants. There are a lot of critics in the leadership literature against this straightforward top-down procedure (Graber & Osborne Kilpatrick, 2008; Mussig, 2003; Brytting & Trollestad, 2000; Pruzan, 1998). Most of the critics argue that stakeholders (i.e. personnel, customers) should participate in the formulation of values and the institutionalization of the organization's values. Otherwise they could consider the values as simply a new set of rules. Also, if they have not been involved in interpreting the value code, their capacity for motivating, advising, and coordinating will be severely limited. Furthermore, trust, respect, and reactivity of and in the organization can be displaced and misused. (Blanchard & O'Connor, 1997; Pruzan, 1998, p. 1382; Mills & Spencer, 2005, p. 26.) Thereby, an evident challenge to implement this success factor is to answer how to engage people with values and VBL itself? Furthermore, how can organizations develop shared values by using a participatory process (Covey, 1991)?

In establishing a participatory process, a precondition in leadership is to establish credibility and trust between the leader and the constituents who choose to follow him/her (Kouzes & Posner, 1993). This is part of the shift away from the concept of the leader as the primary or sole creator of an organization's values. This means that personnel should have the possibility to reflect upon and formulate values on their own. Some propose the value-process to be that the employees discuss the management's vision and break it down in subparts adjusted for each area of operation. Others prefer a communicative strategy where employees process the values themselves, through an open dialogue with the management. (Blanchard & O'Connor, 1997; Pruzan, 1998.)

To reach this success factor, Mills and Spencer (2005, pp. 26) argue that VBL would establish a basis or a platform on which stakeholders can communicate and collaborate. The most beneficial in stakeholder involvement is when stakeholders accept the goals and values of the organization as legitimate, and if they, for instance, agree that both quality and cost control are primary goals, then responsible leadership can no longer occur as totally 'managerial' decisions.

In large organizations, the fact that staff and leaders may have to act through several layers of bureaucracy, rules, roles, and professional groups to implement actions, strategies, and values should be turned into an advantage. They all represent stakeholders who could be used in formulating values and groups who implement values. Yet, sometimes even extensive participation does not offer a simple solution for the success of value-based organization and VBL. As Graber and Osborne Kilpatrick (2008, pp. 186, 191) remind us, implementing value systems is almost always much more difficult than processing them.

**Possibility to Replace Old-Fashioned Forms of Control and Feedback.** Brytting and Trollestad (2000, pp. 62) argue that the market-oriented way of thinking in business and the introduction of more loosely knitted and flexible organizational structures with delegated decision-powers, demand new forms of control. Here, introducing value-based organization is a prominent choice. It is evident when we introducing value-based organization we have to rethink control and feedback mechanisms in our organization. Moreover, old-fashioned tight rules, rewards, and sanctions do not fit into the value-based organization or the 'toolkit' of the VBL. Here, the obvious reasons are, for example, that values usually do not present clear set of operational rules, or values can rarely be used as a direct and straightforward ground for rewarding or sanctioning.

Traditionally control has been exerted via systems of rules and regulations, and boosted by a variety of accounting and reporting systems. The more complex the organizations and the more uncertain their environments, the greater the demands are placed upon developing and implementing control systems to monitor and steer the experienced complexity (Pruzan, 1998, p. 1379-1380). Over the past decades leadership discourse has emphasized the partial rejection of regulatory constraints in favor of increased autonomy for managers, in order to increase organizational performance and efficiency. Most reforms are firmly rooted in the post-bureaucracy paradigm where rules and regulations need to be circumscribed and counterbalanced by values to foster greater flexibility, additional empowerment, and further down the line, better performance in terms of efficiency, efficacy and economy.

According to this perspective, the third success factor of value-based organization is that values and ethics, provide a better framework for decision making and leadership, since ‘imposed rules’ are being replaced by leaders’ and employees’ judgment and accountability (Rouillard & Giroux, 2005, p. 345). It follows, then, that an evident precondition for VBL is how increased judgment and accountability demands are turned into the criteria of preferred outcomes and actions, as well as motivating people and renewing the reward systems?

In Brytting and Trollestad’s (2000, pp. 64) study, most leaders stressed that a modern flexible organization has to find new ways of keeping both co-workers and the business as such together, and that this calls for a new kind of ‘glue’. Striving towards common values is one way of working in that direction, and as Collins and Porras (2000, pp. 73) note, “values form the glue that holds an organization together as it grows, decentralizes, diversifies and expands”.

In loosely knitted organizations, much depends on the leader’s capabilities to create interactive and cooperative platforms. This is not an easy task to do, and thus, control and feedback tend to be based on easily measured and expressed factors that values often do not represent. Furthermore, as Rouillard and Giroux (2005, pp. 331) put it “under the yoke of managerialism”, values and ethics are presented as a means of circumscribing and supporting the decisions and actions rather than referring to the codified rules on which they are traditionally based. In other words, would this instrumentalization of values cause unintended tensions between the democratic processes (social responsibility) and the pursuit of organizational efficiency and operational results? Or, does instrumentalization lead to a significant perverse effect, namely, the construction of an organizational culture of illusion (ibid., p. 333)?

In flexible and flat organizations, coercive and uniform feedback mechanisms are not the most appropriate ones. They may cause difficulties if there is a lack of consistency between the expressed values and actual values. Kerr’s (1995) survey of executives describes more detailed these conflicts between expressed values and the reward system. Innovative thinking and risk-taking are emphasized, but proven methods and not making mistakes are rewarded; leaders encourage employee involvement and empowerment, but reward tight control of activities and resources. Yet, there is an evident link between a leader’s capability to use reward systems and the organizational values that are supposed to be followed. Conflicts between values and feedback will contribute to uncertainty about what the organization really appreciates from employees and customers, and lead to a lack of personnel motivation. (Graber & Osborne Kilpatrick, 2008, p. 190.)

People need feedback on accomplishment and performance. Building shared values into processes for rewards, recognition, advancement, and excommunication will send a clear message to members regarding the importance of ethical conduct. Criteria regarding organizational values can be incorporated into performance evaluation and management programs, also sending a clear message of the importance of shared values. (Grojean, Resick, Dickson, & Smith, 2004, p. 230.)

People pay close attention to behavior that is rewarded, and that which is punished. Employees understand that the reward system carries a powerful meaning about what leaders truly care about (Treviño et al., 2003, p. 28). Especially disciplinary events are salient because they are relatively rare, they symbolize the value of conformity to organizational norms, and they make an example of rule violators. In the implementation of values, many practices underline the importance of recruiting staff, staff that embraces and follows the 'right' values, as well as staff who are dismissed if a code is not followed.

Organizations often tend to fail to reward members who uphold or enact the organizations' values. This can lead to a lack of motivation and commitment to the organization and leadership. Grojean, Resick, Dickson, and Smith (2004, pp. 231) argue that a key point for value-based organization regarding rewards and feedback is that leaders communicate important values, standards and assumptions. In value-based organizations, leaders should also pay attention to both formal (financial incentives, pay raises, and higher positions) and informal rewards (recognition, opportunities to work more autonomously and interact, or increased feelings of trust, respect, and peer-interest) that are consistent with the organization's value system.

Finally, relinquishing a degree of control and rules may be both frightening and uncomfortable to leadership, personnel, and other stakeholders. Then, leadership will have a 'teaching' role, and effective leaders remove fear by ensuring that their 'students' are aware of appropriate values and goals, by motivating, and by providing guidance to them (Mills & Spencer, 2005, p. 27). Another point of view is that creating common values can be a pedagogical tool which may increase loyalty with the top level of the organization. Also, leadership would be built on communication and collaboration rather than formal relationships (ibid., p. 27).

**Creating Effective and Sound Communication.** It is generally agreed that leaders should communicate values and visions to the organization. In organizational life, this normative suggestion is revealed to be a complex and tricky issue. First of all, communicating values, especially in large

organizations, always includes an interpretation of values. Leaders themselves, personnel, and stakeholders interpret the organization's values on the basis of their own perspectives. Therefore, leaders are in a key role to make sure that values hold the meaning they are designed to. Secondly, communication and messages are often interpreted in several ways, depending upon the sender, purpose, content, and receiver. Thus, the benefits of using values in an organization and realization of this success factor are dependent on the communication culture, reliability of communication, and trust between leaders and personnel as well as stakeholders.

The more complex an organization is, the more hierarchical it will tend to be. This affects the classical principle that the line of communication must be as direct and short as possible (Barnard, 1938, p. 176); increasing the hierarchy tends to extend the line of communicating values, and might cause the separation of a decision from an operation. Under these challenges, much depends on 'communicative capacity' (Brytting & Trollestad, 2000, p. 66).

To overcome problems in communication and communicative capacity, basically, two strategies exist. The first is a more authoritarian and hierarchical leadership ideal. Here, the leader is, for instance, a 'teacher' who gives information, persuades people and has sanctions over those who do not follow the values. A tight commitment to position and hierarchy may prevent the use of communication as an error-correcting mechanism because the lower level does not have the possibility or willingness to criticize the decision of a higher level. Despite this criticism, centralized design, stability, and continuity can all be used to promote the creation of common meanings in communicating values.

The second stresses the leader's ability to release the creative powers and willingness to take on responsibility that exists in employees. Communication about values grows from within and from below. It is also marked with notions of clarity, sensitivity, and credibility because patterns are not determined in advance. However, communication may become fragmented and occasional. There might be a lack of common meanings and symbols, as well as a lack of acceptance of diverse values and deliberate misrepresentations. Then, communicative functions are related to removing obstacles, to stimulating and to creating dialogue on values, and to allocating resources for value-processes.

Values-based leaders can fail in demonstrating that they care about people. Perhaps the most common are complaints about leaders not listening to people or visibly demonstrating concern for the long-term best interests of the organization. To overcome this, executives should communicate with employees regularly about ethical issues and values, and use socially salient actions, such as rewards and

punishments to signal support for the common and shared values (Treviño, Brown, & Hartman, 2003, p. 30). Meglino and Ravlin (1998) suggest that people who hold similar values view the world in similar ways, enabling them to communicate more clearly, predict each other's behavior and more efficiently coordinate activities resulting in reduced role conflict and ambiguity and increased satisfaction with interpersonal relationships.

With new communication technologies (email, www, intranet, Facebook and others) the issue is not so much failure in transmission; it lies in the interpretation and the use of communication and of processing, and in developing the communicative value of communication. Moreover, communication is never a transmission of purely neutral or value-free information. Scott (1967, pp. 304) uses the term 'filtering' in which information is interpreted at all levels of the organization. Subordinates constantly observe, hear and analyze the qualifications, personality and information needs of leaders. And often subordinates tend to tell their superiors what they are interested in, not what he/she does not want to hear, and to cover up problems and mistakes which may reflect adversely on the subordinate, all of which reflect the mentality of 'let the boss hear only the good news'.

**Fostering the Creation of a Good Image and Adequate Perceptions.** The final success factor in introducing the value-based organization is related to the organization's image and perceptions. Multiple factors, both internal and external to the organization and leadership, are likely to influence members' perceptions of an organization's norms and expectations of ethical conduct. But, why is the creation of a good image and adequate perceptions difficult? In what ways can VBL be enhanced in large organizations?

Lord and Brown (2001) suggest that perceptions play a significant role in understanding leadership. They differentiate perceptions of executive leaders and lower-level supervisory leaders. Most employees in large organizations rarely have face-to-face interactions with senior executives, but rather from more distant images of the leader (Treviño, Brown, & Hartman, 2003, p. 24). Therefore, their perceptions of executive VBL probably come indirectly from images, symbolic behavior, policies and communications. However, as Treviño, Brown, and Hartman (*ibid.*, pp. 20) remind us "ethical people can be bad leaders or unethical leaders".

In value-based organizations, leaders are supposed to be first and foremost people-focused. As Treviño, Brown, and Hartman (2003, pp. 14) concretize "they care about people, respect people, develop their people, and treat people right: An ethical leader needs to downsize, they do it, but they do it with as

much concern and interest for their people as possible.” The creditability depends upon leading by example and “walking the ethical talk”. To lead people, often qualifications or traits such as integrity, honesty, respect, and trustworthiness are mentioned. A part of these values is consistency, credibility, and predictability. (Ibid., p. 18.)

Values-based and ethics based conduct is thought to be essential to be charismatic, as well as transformational and transactional leadership (Grojean, Resick, Dickson, & Smith, 2004, p. 227-228; Treviño, Brown, & Hartman, 2003, p. 7). The ‘charisma/inspirational’ dimension has been defined as providing ‘followers with a clear sense of purpose that is energizing’, being ‘a role model for ethical conduct’ and building ‘identification with the leader and his/her articulated vision’ (Treviño, Brown, & Hartman, 2003, p. 7). Charismatic leaders often invoke values as part of their compelling vision for an organization (Cha & Edmondson, 2006, p. 58).

In other words, the challenge is to use charisma to convince people that the leader is simply ‘doing the right thing’. Charismatic value-based leaders are often characterized with the terms influential, inspirational, courageous, and strong. However, Parry and Proctor-Thomson (2002, pp. 75) suggest that especially transformational leaders have sometimes been labeled as ‘narcissistic, manipulative, and self-centered’. Furthermore, trusting, admiring, and respecting a leader does not necessarily mean that followers will behave with integrity, or that followers are automatically elevated in their motivation or ethical behavior. In this way, charismatic (or transformational) leadership may in fact be undesirable or sometimes, represent the ‘dark’ side of charisma (ibid., p. 92).

A solid, strong and inspiring base for values needs time to evolve. Studies on organizational culture argue that most organizational values are stable, and therefore, organizations face difficulties changing them (Agle & Caldwell, 1999; Campbell, 2004; Schein, 1985). All the difficulties are not intra-organizational. Customers and other stakeholders also find themselves in difficulties to change their attitudes and to adopt the new values. Often values evolve as a result of the interactions between people, and then leadership can focus on creating value-platforms for the interaction, and creating spaces for deliberation and reflection.

## **5. The required steps to create values-based organization**

Leaders must somehow cope with changing and increasingly heterogeneous values, both in their organizations and society at large. How to define matching values and turn values into practice to serve



organizational requirements and better outcomes? Moreover, how can we ensure that values benefit corporations, especially in large organizations where diverse value compositions are often present? In this part, four steps are presented for practitioners who are willing to reinforce value-based organization. For academics, steps address potential and interesting topics for further research.

**Step 1: Integration of organizational values into organizational acts, strategies, and leadership practices.** Evidently, the first and the most important step in creating a value-based organization is to answer how we can integrate values, at least in a way that is beneficial for the organization. Still, a lot of questions remain unanswered. Why is the establishment of shared values difficult even in a single organization? Why is there a need to integrate values in organizations? Furthermore, what do leaders and organizations have to do to tackle the challenges discussed above?

As Brytting and Trollestad's (2000, pp. 62-63) interviewees argued, most leaders had instrumental motives behind the widespread talk about values in working life. Their interviews indicated that efficiency and economic growth is often looked for when leaders say that they want to manage values, to create a common value-base, or to build a strong company culture. This was regarded as an important tool for leaders in their efforts to unite and control their organizations.

One way of understanding the increased occurrence of values in leadership is to start with the changes taking place in society. They seem to shift from having relatively homogenous cultural patterns to something less stable and heterogeneous or even fragmented. Many researchers have reported a clear shift in values. This is often described as a slow but steady shift from high estimation of material safety values to post-material freedom values (Inglehart, 1990; Hofstede, 2005). This implies that increased value is granted to an individual's autonomy, well-being, and personal development. For instance, involvement, responsibility, meaningfulness, and self-fulfillment are put forward to characterize good working conditions (Brytting & Trollestad, 2000, p. 56).

Most large organizations have multiple goals and a plurality of values, which must be held in balance in order for the organization to be successful. However, a leader may lose contact with the subcultures that exist in the organization, the goals, as well as the processes. Large organizations tend to rely on hierarchies and the bureaucracy that sustain the feeling of security, routine, and habits. Values are part of the organizational culture and habits, and therefore, to change the values might turn into a difficult task because change may break security and customs. (Brytting & Trollestad, 2000, p. 67.)

**Step 2: Turn and remould organizational culture to serve organizational goals and leadership.** Often, the integration of organizational values reveals differences and misunderstandings related to organizational values and their use in leadership. The issue here is that first we have to make certain integrative leadership actions, and then we usually start to understand what kind of culture and organizational climate we have in our organization. Otherwise, if we start on reshaping of organizational culture, it might be endless task and to acts to 'fit' culture to selected values has no strategic direction.

Organizational culture may be understood as the ultimate source of ethical and unethical behavior and values, or values are an extension of an organization's culture (Schein, 1985; Schwartz, 1992). In both cases, culture holds some integrating values, goals, and intentions, but often some contradicting issues tend to arise. It is important to note that the organization's values and culture are not one and the same thing. To simplify, while values are the beliefs, the culture is the outward representation of certain key underlying beliefs. Culture consists of the myths, legends, rituals, symbols, and language that define a social group (Meglino & Ravlin, 1998; Schein, 1985). Thus, for leaders to understand this disparity may be one route to better solutions and a way to find solutions to integration problems.

However, a difficulty in applying culture/climate in leadership is that VBL thrives more successfully in some organizational cultures than in others. Yet, leaders are deemed to be a critical element in cultural development (Sims, 2000) and must be effective modelers of behavior, as reciprocity and feedback stimulate cycles of trust (Sama & Shoaf, 2008). Leaders throughout all stages of the organization's life cycle and all organizational levels continuously shape the organization's climate by providing meaning to policies and practices through the manner in which they enact the organization's goals and strategies (Grojean, Resick, Dickson, & Smith, 2004).

VBL involves an integration of personal values and the needs of the social system in the development of an ethical framework. One of the most important questions regarding VBL is how well managers have begun to realize that there is a need for managerial structures, processes and attitudes that reflect corporate values employees experience as being in harmony with their own personal values (Pruzan, 1998, p. 1387)? Thus, it is important for leaders to have an awareness of personal values, ethics and morals as they influence the choices they make and the behaviors in which they engage. If individuals' personal values totally conflict with the organization's values or values of their supervisor, organizational values are likely be ignored or be followed slowly (Grojean, Resick, Dickson, & Smith, 2004, p. 226, 231). If values are more or less congruent, this is related to an increase in job satisfaction, organizational commitment, and credibility of leadership (Meglino & Ravlin, 1998).

Yet some have questioned the ethics of attempting to change the values of others. There are some arguments that it is inappropriate for leaders to attempt to instill their values in subordinates. Some of these arguments contain negatively flavored tones of the ‘clever ones’ who oversee and manipulate subordinates’ fundamental values with impunity. Furthermore, not every person who attempts to influence another does so with the best of motives. On the contrary, Grojean, Resick, Dickson, and Smith (2004, pp. 228) disagree with these arguments, arguing that in most cases, leaders do not instill totally new values and identities in their followers’; rather, they raise their salience and connect them with goals and required behavior.

If we agree that leaders are role models of appropriate behavior and their actions are supposed to have a strong influence over the ethical conduct of followers, then Social Learning Theory provides some additional clues. One way that people learn is by observing the behavior of others and the consequences of it. Thus, a leader’s actions might be viewed as the standard of acceptable conduct and are modeled by individuals as appropriate and necessary for achieving goals, efficient performance, and even for career advancement. Basically learning influences via at least two routes: increasing trust in leaders, and facilitating value congruence (Grojean, Resick, Dickson, & Smith, 2004, pp. 228). Leaders tend to be trusted because they act consistently with the values and the organization’s mission; they lead by practical example. If leaders also manage to create a climate that the organization’s values, as well as the stakeholders’ values are congruent, personnel may feel that they should integrate their values with the organizational values. In other words, inducing attraction and retention of members who have similar values ‘fit’ the organization.

**Step 3: Make organizational values visible and use them in every conduct, and increase value-consciousness.** Leaders are also held responsible for making codes and values visible and interpreting them if necessary. On that basis, Grojean, Resick, Dickson, and Smith (2004) argues that it is important for leaders to have an awareness of personal values as they influence the choices they make and the behaviors in which they engage. Gaining values-conscious leadership involves the integration of personal values and the needs of the stakeholders inside and outside of the organization, especially in the development of an values framework.

Within complex organizational settings, Graber and Osborne Kilpatrick (2008, pp. 190) propose that leaders should consider advocating a parsimonious set of values and also determine if these key values are within the scope of the typical organizational member to achieve or internalize. Such reflection

will make it far more likely that the final set of organizational values are embraced and actualized. Secondly, they argue that we should apply Senge's (1990) thoughts on differentiating expressed values from the values we really act upon. Thus, leaders should explicate beliefs (e.g. via empowerment and introducing OD learning cycles) from practices (e.g. tight control) and how well they fit together. If the leadership is capable of providing a shared value-basis, it may also alleviate the potential of 'shadow relationships' to hamper the achievement of organizational goals. Blurring the boundaries between groups and individuals would result in shared goals and better performance (Mills & Spencer, 2005, p. 26).

Much depends on how leaders themselves perceive values in both their rhetorical and factual aspects. To an individual employee within an organization, the organization's values represent a touchstone to personal values. It is argued that a positive relationship can bring about greater personal loyalty, identification, and commitment to the organization (Chatman, 1991). Therefore, as Pruzan (1998, pp. 1388) summarizes, the key question is how well in VBL are we able to create productive organizational structures, systems of communication, and measurement/evaluation – and reward systems which can attract, hold and develop intelligent, responsible, creative, independent and loyal employees?

**Step 4: Communicate through set of selected values.** It is argued that in VBL leaders should focus on creating the "right" organizational culture to foster the development of values-driven behavior rather than on building a compliance structure (Ponnu & Tennakoon, 2009). To accomplish this step, leaders have the primary role in communicating and demonstrating the true importance of values to the organization's members (Grojean, Resick, Dickson, & Smith, 2004) and to motivate and commit personnel to ethics codes and organizational values.

This kind of focus requires that ethics is the cornerstone of how they conduct decisions and set strategies by practicing ethical behavior in their personal life, in their organizational duties, and in their relationships (Sims & Brinkmann, 2002). In leadership, a utility of shared values according to Meglino and Ravlin (1998) is that if people hold similar value systems, this enables them to communicate more clearly, predict each other's behavior, and more efficiently coordinate activities, resulting in reduced role conflict and ambiguity and increased satisfaction with interpersonal relationships.

## **6. Identification of the particular challenges and presentation of potential strategies to overcome the challenges**

To summarize, this paper began with the question of what are the required steps to create a value-based organization. Obviously, the integration of values and actions is vital for organizations and their development.

Particular elements to this kind of organization and what leaders have to solve are: 1) plurality of the value-basis, 2) bargaining hinders the achievement of mutual and shared values, and 3) leadership does not contain role-modeling in regards to and linked to organizational values. Solutions or steps to create an integrated value-based organization, on the basis of these three points are that, firstly, if value-basis seems to be too plural, leadership efforts should be concentrated on developing value-congruence. Secondly, creating neutral platforms for negotiations and invoking the organization’s strategy are probably the best ways to avoid unnecessary bargaining in an organization. Thirdly, a kick-off for the role-modeling is to try to increase trust and lead by practical example.

As discussed above, there are great pressures and multifarious opportunities as well as challenges for leaders to assess or reassess their organization’s strategic moves, to develop roadmaps for personnel and production, to make operational plans detailed, and to evaluate projects and process implementation. Organizations are more dynamic than ever with increased global competition, complexity, rate of change, new technologies, economic uncertainties, and the movement towards a service-oriented economy (Millick, 2009). The integration of organizational values into an organization’s practices and leadership often helps to tackle the challenges. But what do leaders have to do and how can they cope with the diversity of requests present in their organizations?

We might use the five success factors for a value-based organization which were analyzed above. In order to reveal the challenges, and especially the future of this organization, the discussed challenges are summarized here and several alternative strategies to overcome the challenges are presented. In table 1, the key arguments of this article are repeated (left column), then the particular challenges that each argument creates are expressed in the middle column. Furthermore, to depart the limitations and the challenges of VBL, some alternative strategies to overcome the explicated VBL challenges are presented in the right column.

**Table 1.** Identified challenges and proposed solutions

Arguments	Particular challenges	Alternative strategies to overcome
-----------	-----------------------	------------------------------------

<p>Traditional power is becoming powerless in flat and professional organizations</p>	<p>Leader's position does not meet the actual needs and requirements → To create consensual decision-making and cohesive authority on the basis of shared values</p> <p>→</p> <p>The ineffective combinations of formal and informal value-processes → To decentralize responsibility for value-congruence</p> <p>→</p> <p>Independency and lack of cooperative actions and trust leads to several, parallel key values → To operationalize common goals precisely and to create link to the key values</p>
<p>Participation of stakeholders is suggested to be intensive and extensive</p>	<p>Too restricted participation → Empower and motivate stakeholders</p> <p>→</p> <p>Problems of finding key stakeholders within the organization → To ensure that stakeholders are aware of the goals and values, and that goals and actions are precise</p>
<p>New forms of control and feedback are needed</p>	<p>Formal values do not constitute a solid base to assess actions or performance in accordance with values → Receive and provide feedback actively, reward on the accordance of values</p> <p>→</p> <p>Moving from controller to enabler is partial → Specify leader's role and integrate organizational and personal values</p>
<p>Communication of values should be clear and straightforward</p>	<p>Low acceptance of formal values → Provide guidance when situations are ambiguous</p> <p>→</p> <p>The length of communication lines increases the possibility of breaks and misinterpretations → To increase familiarity with participants</p> <p>→</p>

	Information is 'filtered'	To ensure a common base of know-how and value-basis
Leadership stands for fostering image and perceptions	There is no example to be followed  Lack of time and continuity	→ Determine what is expected and illustrate what leaders can implement and influence  → To commit to VBL

In addition to the table, there are other aspects to consider. One should note that tackling challenges is not simply a matter of 'ethical policing'. Rather, it opens up the possibility to rethink the organization, strategy, and operative goals, and to motivate and reward people. Also, recognizing challenges contributes to the personal and professional development of leadership via promoting increased harmony and awareness between individual and organizational values.

However, there is also the threat of overemphasizing values and sanctions for misbehavior. Bartol and Locke (2000) suggest caution in using rewards to foster desired behavior, especially that personnel do not sacrifice the overall desired outcomes. Essentially, in order to balance an organization's desired outcomes and ethics, leaders are responsible for engaging subordinates in in-group exchange activities to enact ethical codes. In addition, a strong sense of values and ethics, ethical awareness may lead to over-emphasizing their importance. If leaders pay too much attention to what is wrong or bad, or what is according to values and what is not, managers' capacity for focusing on those wrong or bad things which are 'really important' can diminish significantly. Thus, for leaders, ethical awareness is necessarily selective. Some situations may even require that leaders operate in the moral sphere in a decisive and uncompromising way (Smilansky, 1996, 14–15).

## 7. Conclusions and Considerations for Further Research

This article has discussed the value-based organization and the particular leadership style to put it into practice, namely Values-Based Leadership (VBL). Our concentration on the benefits and critical success factors of putting value-based organizations into practice facilitates a better, more focused understanding of organizational life and the necessary focuses when values are harnessed to the tools of leadership practices to achieve an organization's goals.

For us, value-based organization and especially VBL has represented conscious actions in leadership where organizational values are put into practice in terms of achieving organizational goals and efficiency. In this sense, VBL embodies profound and principle-oriented leadership acts in which daily and technical questions of management are merely left in the background. Of course, it is fair to say that VBL is not purely an alternative approach; it is complementary to other leadership efforts (Parry & Proctor-Thomson's, 2002, pp. 92 conclusions) such as strategic leadership and Human Resource Management. As Treviño Brown, and Hartman (2003, pp. 21) conclude, ethical leaders do many of the things 'leaders' do, but within the context of an ethics agenda.

Embedding organizational values and VBL evidently has positive effects on organizations. The focus was limited to intra-organizational success factors, namely changes in organizational structures and authority, extending participation, focusing communication, and fostering creation of good image and perceptions. The analysis above presented several critical standpoints and challenges, and this was a conscious choice because most leaders and developers in organizations are seeking best practices and learning from others, and then, illuminating difficulties and their causes is often beneficial for an organization. To overcome these challenges and embedding the values-based organization, several alternative strategies were presented, including some normative considerations.

To an organization, values are a set of shared beliefs and basis for mutual recognition. At best, VBL can create a feeling of 'organizational fit' at the personal and group levels. For the leaders, values are to set criteria for rewarding, to enact beliefs, and are tools to create continuity and to set guidelines. Values benchmark a bottom-line for decision-making, and explain the ground for selections, as well as a choice between strategies and policies.

Most notably, value-based organization and application of VBL always requires choices between organizational values; often we might feel that we have many great values to pursue but none of the values exactly describe or explain the actions taken in the organization or leadership. To make choices



between organizational values, several tools are available to an organization. Moreover, analyzing the organizational culture and operational environment helps us to select appreciated values, and for most organizations the key values can be found on the basis of dialogues with personnel and customers. Inside the organization, the choice of strategy and integration of the strategy with external expectations (i.e. customers, consumers, funders etc.) facilitates the focusing and implementing of organizational values as well as making the values visible and concrete.

Further research is needed in order to understand value-based organization's benefits and pitfalls, and also how to institutionalize VBL practices in a variety of organizations. Future research would also be fruitful in investigating the unintentional outcomes of VBL. Perhaps using a multidimensional evaluation models (e.g. Reidenbach & Robin, 1990; Kujala et al., 2010) and stakeholder approach would benefit the research, and help move towards comprehensive constructions of value-based organizations and ethical leadership in organizations, and thereby, making ethics more familiar to a variety of stakeholders, not just the CEO-office business.

## References

- Agle, B.R., & Caldwell, C.B. (1999). Understanding Research on Values in Business. *Business and Society*, 38, 326-388. <http://dx.doi.org/10.1177/000765039903800305>
- Barnard, C. (1938). *Functions of the Executives*. Cambridge: Harvard University Press.
- Bartol, K. M., & Locke, E. A. (2000). Incentives and Motivation. In S. L. Rynes & B. Gerhart (Eds.), *Compensation in Organizations: Current Research and Practice* (pp. 104–147). San Francisco: Jossey-Bass.
- Bass, B.M., & Avolio, B. (2000). *Multifactor Leadership Questionnaire*, 2<sup>nd</sup> Ed. Redwood City, CA: Mind Garden.
- Blanchard, K., & O'Connor, M. (1997). *Managing by Values*. San Francisco: Berrett-Koehler Publishers.
- Brown, M. E., Treviño L. K., & Harrison, D A. (2005). Ethical Leadership: A Social Learning Perspective for Construct Development and Testing. *Organizational Behavior and Human Decision Processes*, 97, 117–134. <http://dx.doi.org/10.1016/j.obhdp.2005.03.002>
- Brown, M. E., & Treviño L. K. (2006). Ethical Leadership: A Review and Future Directions. *The Leadership Quarterly*, 17, 595-616. <http://dx.doi.org/10.1016/j.leaqua.2006.10.004>
- Brytting, T., & Trollestad, C. (2000). Managerial Thinking on Value-Based Management. *International Journal of Value-Based Management*, 13, 55-77. <http://dx.doi.org/10.1023/A:1007775731891>

- Buchko, A.A. (2007). The Effect of Leadership on Values-Based Management. *Leadership & Organization Development Journal*, 28, 36-50. <http://dx.doi.org/10.1108/01437730710718236>
- Buckley, R. M., Beu, D. S., Frink, D. D., Howard, J. L., Berkson, H., Mobbs, T. A., & Ferris, G. R. (2001). Ethical Issues in Human Resources Systems. *Human Resource Management Review*, 11, 11–29. [http://dx.doi.org/10.1016/S1053-4822\(00\)00038-3](http://dx.doi.org/10.1016/S1053-4822(00)00038-3)
- Campbell, C.R. (2004). A Longitudinal Study of One Organization’s Culture: Do Values Endure? *American Journal of Business*, 19, 41-51. <http://dx.doi.org/10.1108/19355181200400011>
- Cha, S.E., & Edmondson, A.C. (2006). When Values Backfire: Leadership, Attribution, and Disenchantment in a Values-Driven Organization. *The Leadership Quarterly*, 17, 57-78. <http://dx.doi.org/10.1016/j.leaqua.2005.10.006>
- Chatman, J.A. (1991). Matching People and Organizations: Selection and Socialization in Public Accounting Firms. *Administrative Science Quarterly*, 36, 459-484.
- Collins, J.C., & Porras J.I. (2000). *Built to Last: Successful Habits of Visionary Companies*. London: Random House.
- Covey, S.R. (1991). *Principle-Centered Leadership*. New York: Free Press.
- Cullen, J.B., Victor, B., & Stephens, C. (1989). An ethical Weather Report: Assessing the Organization’s Ethical Climate. *Organizational Dynamics*, 18, 50–62. [http://dx.doi.org/10.1016/0090-2616\(89\)90042-9](http://dx.doi.org/10.1016/0090-2616(89)90042-9)
- Cummings, T.G., & Worley, C.G. (2001). *Essentials of Organization Development and Change*. Cincinnati: South-Western College Publishing.
- De Hoogh, A. H. B., & Den Hartog, D. N. (2008). Ethical and Despotism Leadership, Relationships with leader’s Social Responsibility, Top Management Team Effectiveness and Subordinates’ Optimism: A Multi-Method Study. *The Leadership Quarterly*, 19, 297–311. <http://dx.doi.org/10.1016/j.leaqua.2008.03.002>
- Goodpaster, K.E. (1994). Work, Spirituality, and the Moral Point of View. *International Journal of Value-Based Management*, 7, 49-64. <http://dx.doi.org/10.1007/BF00892148>
- Graber, D.R., & Osborne Kilpatrick, A. (2008). Establishing Values-Based Leadership and Value Systems in Healthcare Organizations. *Journal of Health and Human Services Administration*, 31, 179-197.
- Grojean, M.W., Resick, C.J., Dickson, M.W., & Smith, B.D. (2004). Leaders, Values, and Organizational Climate. Examining Leadership Strategies for Establishing an Organizational Climate Regarding Ethics. *Journal of Business Ethics*, 55, 223-241. <http://dx.doi.org/10.1007/s10551-004-1275-5>
- Hofstede, G. (2005). *Cultures and Organizations, Software of the Mind: Intercultural Cooperation and Its Importance for Survival*. New York: McGraw-Hill.

- Hood, J.N. (2003). The Relationship of Leadership Style and CEO Values to Ethical Practices in Organizations. *Journal of Business Ethics*, 43, 263-273. <http://dx.doi.org/10.1023/A:1023085713600>
- Inglehart, R. (1990). *Culture Shift in Advanced Industrial Society*. New Jersey: Princeton University Press.
- Kanungo, R. N. (2001). Ethical Values of Transactional and Transformational Leaders. *Canadian Journal of Administrative Sciences*, 18, 265–275. <http://dx.doi.org/10.1111/j.1936-4490.2001.tb00261.x>
- Kerr, S. (1995). On the Folly of Rewarding A, While Hoping for B. *Academy of Management Executive*, 9, 7-14.
- Kouzes, J.M., & Posner, B.Z. (1993). *Credibility: How Leaders Gain and Lose It, and Why People Demand It*. San Francisco: Jossey-Bass.
- Kujala, J., Lämsä, A-M. & Penttilä, K. (2010). Managers' Moral Decision-Making Patterns Over Time: A Multidimensional Approach. *Journal of Business Ethics* 100, 191-207. <http://dx.doi.org/10.1007/s10551-010-0467-4>
- Lord, R.G., & Brown, D.J. (2001). Leadership, Values, and Subordinate Self-Concepts. *The Leadership Quarterly*, 12, 133-152. [http://dx.doi.org/10.1016/S1048-9843\(01\)00072-8](http://dx.doi.org/10.1016/S1048-9843(01)00072-8)
- McCuddy, M.K. (2008). Fundamental Moral Orientations: Implications for Values-Based Leadership. *Journal of Values-Based Leadership*, 1, 9-21.
- McDonald, G. (1999). Business Ethics: Practical Proposals for Organizations. *Journal of Business Ethics*, 19, 143-158. <http://dx.doi.org/10.1023/A:1005939232327>
- Meglino, B.M., & Ravlin, E.C. (1998). Individual Values in Organizations: Concepts, Controversies, and Research. *Journal of Management*, 24, 351-389. <http://dx.doi.org/10.1177/014920639802400304>
- Messick, D. M., & Bazerman, M. H. (1996). Ethical Leadership and the Psychology of Decision Making. *Sloan Management Review*, 37, 9–22. [http://dx.doi.org/10.1016/S1529-2096\(01\)03014-0](http://dx.doi.org/10.1016/S1529-2096(01)03014-0)
- Millick, C.A. (2009). Values-Based Leadership and Happiness: Enlightened Leadership Improves the Return on People. *The Journal of Values Based Leadership*, 2.
- Mills, A.E., & Spencer E.M. (2005). Values Based Decision-Making: A Tool for Achieving the Goals of Healthcare. *HEC Forum*, 17, 18-32.
- Mintzberg, H., Ahlstrand, B., & Lampel, J. (2005). *Strategy Safari. A Guided Tour through the Wilds of Strategic Management*. New York: Free Press.
- Mussig, D.J. (2003). A Research and Skills Training Framework for Values-Driven Leadership. *Journal of European Industrial Training*, 27, 73-79. <http://dx.doi.org/10.1108/03090590310468895>
- O'Toole, J. (2008). Notes towards a Definition of Values-Based Leadership. *The Journal of Values-Based Leadership*, 1, 84-92.

- Parry, K.W., & Proctor-Thomson, S.B. (2002). Perceived Integrity of Transformational Leaders in Organizational Settings. *Journal of Business Ethics*, 35, 75-96. <http://dx.doi.org/10.1023/A:1013077109223>
- Ponnu, C. H., & Tennakoon, G. (2009). The Association between Ethical Leadership and Employee Outcomes – the Malaysian Case. *Electronic Journal of Business Ethics and Organization Studies*, 14, 21–32.
- Pruzan, P. (1998). From Control to Values-Based Management and Accountability. *Journal of Business Ethics*, 17, 1379-1394. <http://dx.doi.org/10.1023/A:1006079110633>
- Reidenbach, R. E. & Robin, D.P. (1990). Toward the Development of a Multi-Dimensional Scale for Improving Evaluations of Business Ethics. *Journal of Business Ethics* 9, 639-653. <http://dx.doi.org/10.1007/BF00383391>
- Reilly, A.H., & Ehlinger, S. (2007). Choosing a Values-Based Leader: An Experiential Exercise. *Journal of Management Education*, 31, 245-262. <http://dx.doi.org/10.1177/1052562906292565>
- Resick, C. J., Hanges, P. J., Dickson, M. W., & Mitchelson, J. K. (2006). A Cross-Cultural Examination of the Endorsement of Ethical Leadership. *Journal of Business Ethics*, 63, 345–359. <http://dx.doi.org/10.1007/s10551-005-3242-1>
- Rouillard, C., & Giroux, D. (2005). Public Administration and the Managerialist Fervour for Values and Ethics: Of Collective Confusion in Control Societies. *Administrative Theory & Praxis*, 27, 330-357.
- Sama, L. M., & Shoaf, V. (2008). Ethical Leadership for the Professions: Fostering a Moral Community. *Journal of Business Ethics*, 79, 39-46. <http://dx.doi.org/10.1007/s10551-006-9309-9>
- Schein, E.H. (1985). *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.
- Schwartz, S.H. (1992). Universals in the Content and Structures of Values: Theoretical Advances and Empirical Tests in 20 Countries. In M.P. Zanna (Ed.), *Advances in Experimental Social Psychology* 25 (pp. 1-65). San Diego: Academic Press.
- Scott, W.G. (1967). *Organization Theory: A Behavioral Analysis for Management*. Homewood: Richard D. Irwin.
- Selznick, P. (1957). *Leadership in Administration*. New York: Harper and Row.
- Sims, R.R. (1991). The Institutionalization of Organizational Ethics. *Journal of Business Ethics*, 13, 939-947. <http://dx.doi.org/10.1007/BF00383348>
- Sims, R. (2000). Changing an Organization's Culture under New Leadership. *Journal of Business Ethics*, 25, 65–78. <http://dx.doi.org/10.1023/A:1006093713658>

- Sims, R., & Brinkmann, J. (2002). Leaders as Moral Roles Models: The Case of John Gutfreund and Salomon Brothers. *Journal of Business Ethics*, 35, 327–338. <http://dx.doi.org/10.1023/A:1013826126058>
- Senge, P.M. (1990). *The Fifth Discipline*. New York: Doubleday.
- Treviño, L.K., & Brown, M.E. (2004). Managing to be Ethical: Debunking Five Business Ethics Myths. *Academy of Management Executive*, 18, 69-81. <http://dx.doi.org/10.1109/EMR.2004.25135>
- Treviño, L.K., Brown, M.E., & Hartman, L.P. (2003). A Qualitative Investigation of Perceived Executive Ethical Leadership: Perceptions from Inside and Outside the Executive Suite. *Human Relations*, 56, 5-37. <http://dx.doi.org/10.1177/0018726703056001448>
- Treviño, L. K., Weaver, G. R., & Reynolds, S. J. (2006). Behavioral Ethics in Organizations: A Review. *Journal of Management*, 32, 951–990. <http://dx.doi.org/10.1177/0149206306294258>
- Treviño, L. K., & Youngblood, S. A. (1990). Bad Apples in Bad Barrels: a Causal Analysis of Ethical Decision Making Behavior. *Journal of Applied psychology*, 74, 447–476. <http://dx.doi.org/10.1037/0021-9010.75.4.378>
- Viinamäki, O-P. (2009). Intra-Organizational Challenges of Values-Based Leadership. *Electronic Journal of Business Ethics and Organizational Studies*, 14, 6-13.
- Viinamäki, O-P. (2011). Value-Based Organization. In M.A. Sarlak (Eds.), *The New Faces of Organizations in the 21<sup>st</sup> Century* (pp. 190-223). Toronto: NAISIT Publishers.
- Van Wart, M. (1998). *Changing Public Sector Values*. New York: Garland.
- Williams, S.L. (2002). Strategic Planning and Organizational Values: Links to Alignment. *Human Resource Development International*, 5, 217-233. <http://dx.doi.org/10.1080/13678860110057638>

## AUTHORS BIOGRAPHIES

**Olli-Pekka Viinamäki** is a Senior Researcher in the Department of Public Management at the University of Vaasa. His research activities include Values-Based Leadership, ethical leadership, decision-making, evaluation and comparative methodology. Dr. Viinamäki has written several books, contributed to 10 books and published more than 40 papers in journals and proceedings.