Engagement of Organizational Stakeholders in the Process of Formulating Values Statements

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Although the literature on organizational values is plentiful, little is known about the process of formulating them. Both in theory and practice, stakeholder groups are treated dramatically differently when it comes to their engagement in the values formulation process and there is no consensus on whether, whom, and how much to involve when adopting values statements. The aim of the current article is to offer a model for stakeholder engagement in the process of formulating organizational values statements. Three distinct levels of engagement are proposed—information, consultation, and partnership. The model rests on the idea that the higher the impact of the values statement on stakeholders, the higher the level of their engagement. The model was tested in four banking sector organizations operating in Estonia.

INTRODUCTION

Stakeholder theory views the organization as a meeting place of different actors providing their resources to create value (Barney, 1997). This theory can be viewed as an organization-specific role theory—different groups are assigned different roles with respect to the organization. The role dictates what kind of interest a given stakeholder has toward the organization and to what extent they influence the organization, and vice versa. Although traditional analysis of organizational interest groups was mainly concerned with the influence that different groups can exert on the organization, stakeholder theory stresses the reverse effect—the potential influence of organizational activities on these groups.

According to stakeholder theory, normative concerns alone do not sufficiently protect stakeholder interests, and managers and entrepreneurs must take into account the legitimate interests of those groups and individuals who can affect (or be affected by) the organization’s activities (Freeman, 1994; Mitchell, Agle, & Wood, 1997). This means that stakeholder interests should be considered before making strategic decisions, and the best way to address someone’s interest would be his or her engagement in the process from early on. Stakeholder engagement has been defined by the Institute of Social and Ethical Accountability (1999) as “the process
of seeking stakeholder views on their relationship with an organization in a way that may realistically be expected to elicit them” (p. 91). The concept is also known as “involvement of stakeholders” (Lewis, Hamel, & Richardson, 2001; Scholes & James, 1997), “inclusion of stakeholders,” “integrating stakeholders” (Heywood & Smith, 2006), as well as “stakeholder dialogue” (Cumming, 2001).

Scholes and James (1997) found that an inclusive approach to business, meaning active communication with and involvement of a wide range of stakeholder groups, is a key factor of success. Stakeholders are deemed a considerable asset, contributing knowledge, insights, and support in shaping a decision and supporting its execution (Allio, 2008; Bourne & Walker, 2005). Some studies conclude that the world is moving toward an “involve me” culture in which stakeholders are working in partnerships with organizations; there is a need to find out about different stakeholders’ perspectives and expectations and to build trusting and cooperative relationships between the organization and its stakeholders (Allio, 2008; Cumming, 2001; Gotsi & Andriopoulos, 2007; Hatch & Schultz, 2003; Uggla, 2006).

Given this, it can be assumed that stakeholders should be in some way engaged when strategic issues such as organizational values are determined. Unfortunately, existing literature provides little guidance on whom, why, when, and how an organization should engage when adopting a values statement. The aim of this study is to offer a model for stakeholder engagement in the process of formulating organizational values statements. To reach the aim, it is explored which stakeholders should be engaged in the process of formulating organizational values statements, and thereafter a model for how they should be engaged is proposed. The article thus clarifies the relevant stakeholders in the values statement context: In the spirit of stakeholder theory it maps the potential impact of values that selected stakeholders encounter. The views on stakeholder engagement in the process of adopting values statements are briefly discussed, and as a result, a model for stakeholder engagement is proposed. Four organizations operating in the Estonian banking sector were studied to compare the actual engagement practice with the derived ideas.

VALUES STATEMENTS AND STAKEHOLDERS

A values statement is a specific set of publicly stated organizational beliefs, concepts, or principles. Often these beliefs are stated in writing for all members of the organization and are shared with other key stakeholders, including the general public (Buchko, 2007). These statements are commonly referred to as core values, corporate values, or organizational values, and they reflect what senior managers actually believe their organization is or should be like, or what they would like significant stakeholders to believe the organization is like (Fitzgerald & Desjardins, 2004). It should be noted, though, that the values statement is only the tip of the iceberg when it comes to organizational values—only a fraction of those made visible to everyone. There is an agreement that the purpose of a values statement is to have a means of communication (Bostdorff & Vibbert, 1994; Cheney & Christensen, 2001; Kelly, 2000; Urbany, 2005; Wenstop & Myrmel, 2006; Williams, 2008; Wilson, 2001).

Stakeholders, to a varying degree, have an impact on organizational values and the resulting values statement, but once values are formulated, they begin a life of their own and start to influence stakeholders in turn. The upcoming discussion observes namely the latter effect,
where two angles are distinguished. First, the impact of the mere existence of a values statement on different stakeholders is investigated. Second, arguments from earlier studies are presented describing how the content of a values statement influences a given stakeholder.

In search of the stakeholders that deserve closer observation in the context of the current study, the author’s arguments are based on the works of Mitchell et al. (1997); Frooman (1999); Channon (1999); Scott and Lane (2000); and Johnson, Scholes, and Whittington (2008). These authors were chosen because they implicitly or explicitly paid attention to the involvement of different types of stakeholders. Frooman briefly discussed stakeholder engagement in terms of the organization’s need to be responsive to stakeholders and concluded that it is determined by power and interdependence between the organization and stakeholder. In particular, a low level of dependence of an organization on a stakeholder (i.e., when the relationship is characterized by organization power or low interdependence) implies that there is no need to be responsive to the stakeholder (Frooman, 1999, p. 200). Frooman said that relative power—who is dependent on whom, how much, and the extent of asymmetry in the exchange relationship—plays a critical role. Hence, when looking for the stakeholders that the organization should respond to during its values formulation process, attention should be turned to those that the organization is dependent upon. An idea very similar is developed by Scott and Lane (2000): They called this type of power “centrality” and suggested that the greater the centrality of the organization, the less incentive it has to attend to stakeholder needs. Thus, we are looking for the stakeholders who can directly manipulate the resources valuable to the organization, either by withholding them or dictating the terms of their usage.

Mitchell et al. (1997) stated that for the organization to be responsive to stakeholder interests, at least two out of three attributes of stakeholder salience (power, legitimacy, and urgency) should be present. One attribute alone characterizes a latent relationship between the organization and the stakeholder. But in a two-attribute case the level of engagement between organizations and the stakeholders is likely to be higher (Mitchell et al., 1997, p. 876). Originating from Frooman’s argument—one decisive attribute is power—it follows that the other should be legitimacy—a moral, legal, or property-based claim. Mitchell et al. called those stakeholders **definitive** (with power, legitimacy, and urgency) and **dominant stakeholders** (with power and legitimacy). Scott and Lane (2000) came to the conclusion that managers attend to the needs, values, and beliefs of stakeholders only to the extent that they perceive the stakeholders as legitimate, powerful, and having an urgent claim. In the current article, stakeholder engagement is found to be applicable for both definitive and dominant stakeholders.

Yet one additional attribute applies to definitive and dominant stakeholders when it comes to their engagement: Stakeholders should be interested in the functioning of the organization and motivated to have a say in it. This is inherent to stakeholder definition proposed by Channon (1999), an important attribute to characterize stakeholders by Johnson et al. (2008), and to the point in the context of current study. Government, for instance, is a dominant stakeholder of the organization, but it has little or no interest to be engaged in the process of formulating organizational values statement. However, Johnson et al. warned that if stakeholder power is high, low interest should still be attended and the group should be informed at least.

Based on the previous arguments, the current article discusses the potential engagement of five stakeholder groups: owners, managers, employees, customers, and strategic partners (including suppliers, creditors, etc.). These stakeholders are the ones the organization is more or less dependent upon, they all have some sort of legitimate claim, and they might have an
interest in supporting or opposing organization’s strategy. Compared to other stakeholders their engagement is in some form rather implicit.

THE IMPACT OF VALUES ON STAKEHOLDERS

Owners

Although Anderson (1997) admitted that in the case of a value conflict, shareholder (or stockholder) interests are served in practice at the expense of other groups, and Hilb (2006) stated that the expectations of shareholders should be met as the first priority, Freeman, Wicks, and Parmar (2004) maintained that concern for profits is the result rather than the driver in the process of creating an organization’s values, and in the long run, addressing the interests of all stakeholders benefits the owners. This may be an indication of the debate whether, from the owners’ perspective, companies are viewed as a mere investment or whether there is something beside capital as well. The answer seems to lie in different types of owners. In the context of the current study, the values of an organization do not affect those types similarly and, obviously, their engagement should be adapted accordingly. Wahl (2006) presented a range of features as a system for classifying owners, including their legal status (natural or legal persons), their role in governance and management (active or passive), their contribution to the realization of a business idea (strategic or financial), investment horizon, and so on. From the engagement point of view, it would be useful to distinguish between two types of owners:

1. Active owners who also have a strategic intent with the organization, regardless of their residence, attitude to risk, legal status, investment horizon, or the like.
2. Passive owners who are only interested in the earnings of a company.

The impact of a values statement on a passive financial owner stems from one source only—organizational performance as measured by dividend pay-offs and/or stock price. Several authors have stressed the importance of core values as a basis for achieving high performance (Collins & Porras, 1994; Peters & Waterman, 1982). Brønn, Engell, and Martinsen (2006) demonstrated through a case study that defined values have helped the organization to increase market share and gain a favorable reputation in the media. Also, Buchko (2007) offered a model where desired performance indicators are supported by organizational values. Thus, there is good reason for passive financial owners to be interested in agreeing upon organizational values, but what these values exactly are is less relevant for them as long as they guarantee return on investment.

The impact of a values statement on active strategic owners is not limited to financial considerations. This type of owner might have some emotional connection to their property or hold a specific goal for the organization (Wahl, 2006). In both cases, organizational values represent nothing but a peripheral issue for them. Strategic owners are often involved in the management of the organization in order to shape its strategic direction and bring their business idea to fruition. It is vital for them that organizational values support their vision. Like financial owners, they also welcome the improved performance of the organization, but in contrast to the former, they care much about how it is achieved and that concern is directly linked to organizational values.
Managers

The benefits that a values statement potentially entails for CEOs are manifold, but along with the promises, the potential drawbacks for managers are also clearly evident. To begin with the merits, clear values provide a basis for strategic decision making (Anderson, 1997; Wenstøp & Myrmel, 2006; Williams, 2002). Values give a direction and basis for all decisions, and managers may feel relieved by the existence of such a point of reference in their organization. But although values help to assess the appropriateness of decisions and their consequences, they also rule out some seemingly attractive alternatives. In other words, a values statement narrows the pool of possible strategies and tactics.

One reason why managers could be interested in formal organizational values is that they are efficient in guiding individual behavior and suppress the unnecessary spread of bureaucracy (Buchko, 2007; Collins & Porras, 1994; Deal & Kennedy, 1982; Peters & Watermann, 1982). This also makes an organization more stable, because employee behavior is predictable. Nonetheless, there is a thin line between stability and rigidity, and managers may face the most challenging task if they wish to change the values to better respond to developments in the environment (Chelte, Hess, Fanelli & Ferris, 1989; Kabanoff & Daly, 2002; Popper, 1997; Trice & Beyer, 1993).

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

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

In conclusion, it is evident that managers have a lot at stake with regard to an organizational values statement. Scott and Lane (2000) argued that organizational identity and managerial identities are likely to overlap, because they identify themselves and are identified by others with the organization. From their perspective, there are pros and cons to having values clearly formulated, but once the values are defined, they substantially affect the work and even the self-concept of managers. Both the existence and content of a values statement affects them crucially.
Employees

A values statement often affects internal stakeholders alike. For instance, it is claimed that clear organizational values improve employee morale, because every member is held to the same value oriented obligations (R. Bhattacharya, Devinney, & Pilluta, 1998). Although this result may serve the interest of managers rather than employees, the employees’ need for a sense of purpose, a sense of belonging, a sense of something to feel proud of is met at the same time. Employees bring social and personal value needs to the workplace, and many seek to align their personal values with the values of their employer (Neal, 1999). It is thus not the values statement per se that influences employees, but rather the content of the statement—if and how much these values correspond to their own personal values. If such congruency exists, many positive side effects are found: higher affective and normative commitment to their job and organization (Brønn et al., 2006; Finegan, 2000; Fitzgerald & Desjardins, 2004), higher job satisfaction (Barrett, 1999; Fitzgerald & Desjardins, 2004), greater loyalty (Ball, 2002), attachment to the company even after leaving the organization (Rousseau, 1998), and less symptoms of stress (Bocchino, Hartman, & Foley, 2003). Of course, the content of statements plays a role again; for instance, organizational values that support work–personal life integration are associated with the emotional and physical well-being of employees, whereas workaholic work environments are characterized by respective values (Burke, Oberklaid, & Burgess, 2005).

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

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

Customers

In competitive markets where customers have many alternatives to choose from, the consumption of and loyalty to certain products and services as well as organizations is viewed as a self-definitional act. It has been found that customers enter into strong, committed, and meaningful relationships with some organizations because of their identification with them (C. B. Bhattacharya & Sen, 2003). Values become cultural symbols that influence consumers’ self-identities (Kay, 2006) and are therefore important determinants of customer loyalty (Anisimova, 2007).

It could well be, though, that organizational values and the values perceived by customers are not identical (de Chernatony, Drury, & Segal-Horn, 2004; Urde, 2003). This may not be a prob-
lem until the organization makes their values apparent through a values statement. Knowledgeable customers who make conscious choices are then keenly interested in the values statement in order to compare its content and their own experience and perception; these should not diverge substantially from each other or alienation may result (Gotsi & Andriopoulos, 2007). However, compared to managers or employees, the customers are not as affected by the values statement.

Strategic Partners

Strategic partners are vital for an organization’s success: Complementary assets provide the opportunity to exploit the higher productivity of capital, cooperation with other organizations provides access to new opportunities and makes them cheaper or less risky to explore, engagement in cooperative interorganizational activities adds reputation and bargaining power, and so on. The nature of strategic partnership is multifaceted, ranging from an outsourced canteen service to membership in umbrella organizations such as employer confederations.

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

A summary of the impact of values statements on internal and external stakeholders both in terms of its existence and its content is presented in Table 1. The impact scale varies from low to medium to high, which is quite usual for this type of mapping (see, e.g., Anderson, 1997; Bourne & Walker, 2005).

The traditional understanding of values as merely internal characteristics is no longer viable. As can be seen from Table 1, external stakeholder groups are at least to some extent affected by

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Passive Financial Owners</th>
<th>Active Strategic Owners</th>
<th>Managers</th>
<th>Employees</th>
<th>Customers</th>
<th>Strategic Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>the existence of a values statement</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>the content of a values statement</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
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values statements. Next, stakeholder engagement in the process of formulating values statements is discussed.

THE MODEL FOR STAKEHOLDER ENGAGEMENT

There is no agreement in the literature as to the most appropriate process for the formulation of values statements. The views on stakeholder engagement vary dramatically. For instance, Lencioni (2002) claimed, “Values initiatives have nothing to do with building consensus—they’re about imposing a set of fundamental, strategically sound beliefs on a broad group of people” (p. 116). At the other extreme, Scholes and James (1997) proposed inviting stakeholders to be involved in the creation of values through consultation and even beyond, suggesting that stakeholders should perhaps be appointed to the board. Many authors recommend engaging several stakeholders in a values statement (Blanchard & O’Connor, 1996; Brønn et al., 2006; van Riel & van Hasselt, 2002; Williams, 2002). Most typically, customers and employees are mentioned, whereas the latter group is seen as especially critical (Barrett, 1999; Brønn et al., 2006; Gotsi & Andriopoulus, 2007; Hemp & Stewart, 2004; Rubino, 1998). However, the exact form and timing of engagement varies in these studies.

The levels of stakeholder engagement adopted for the purpose of this study rely on the works of Arnstein (1969) and Cumming (2001). The former proposed a model for the engagement of citizens in public policy; the latter amended the model for business organizations and their stakeholders. Cumming suggested that the extent of engagement according to her empirical data ranges from informing to partnership, consultation and placation remaining in the middle. Informing is a one-way flow of information, consultation seeks the opinions of stakeholders, placation adds feedback to these opinions (while still retaining the right to decide and veto), and partnership denotes shared planning and decision-making responsibilities.

The argument derived from the previous paragraph allows us to relate different stakeholders with different engagement levels in the values formulation process. Lewis et al. (2001) invited practitioners to use a model wherein more access is granted to stakeholders for whom the impact of the change will be most significant. Specifically, they wrote, “Practitioners should consider whether individuals . . . who are affected directly by the change that is proposed are receiving information and/or opportunities to contribute ideas” (p. 36). Further, they suggested that alterations to approaches during different phases of change implementation would be appropriate. In this article, the values statement process is divided into two phases, and engagement is discussed separately in these. The engagement principle, though, remains the same regardless of the phase: When the impact of the values statement is marginal, high engagement would probably be undesirable both by the stakeholder as well as by the organization. However, when the impact of the values statement on a given stakeholder is high, partnership is in the interest of both sides. Figure 1 combines the levels of stakeholder engagement with the impact of the values statement on different stakeholders.

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

According to Table 1, it was found that there are two stakeholder groups—both the active strategic and passive financial owners as well as managers whose well-being is highly affected by the existence of the values statement. It is thus natural for them to decide whether to formulate the values in the first place. The initiative has, indeed, sometimes been reported to come from the owners (e.g., Brønn et al., 2006). However, a more typical course of events is that the initiative comes from the managers, and the owners are asked to give their consent (Blanchard & O’Connor, 1996). Indeed, it is essential that owners and managers come to an agreement on whether the organization needs formal values, and the owners should not handle this issue in an authoritarian manner. As Freeman (1984) stated, “At the absolute minimum ... the board of directors must be aware of the impact of their decision on key stakeholder groups” (p. 96). Furthermore, no matter which group wishes the values to be formulated, it is suggested in this article that consulting the employees about the idea is also necessary, for they will also potentially experience its impact. Customers and strategic partners may be neglected at this stage because the existence of a values statement has little impact on them. It is worth mentioning that consultation still retains the authority over the final decision.

Next, the formulation of particular values should be completely in the hands of active strategic owners, managers, and employees, who are equally and to a large extent influenced by the content of the values statement. In terms of the employees, perhaps not all of them should be engaged—meaningful core values are unlikely to be reached in this way. Regardless of their hierarchical position, employees who are the most notable bearers of organizational values and philosophy (as perceived by managers, colleagues, or even customers) should work on the values statement. These employees are identified as key employees in the model. They might
also be employee representatives, if appropriate. Here, consultation in the form of revealing how the organization is perceived by strategic partners and long-term customers is useful. This would provide thoughtful input for strategic owners, managers, and key employees when creating the values statement. As warned by Gotsi and Andriotopoulos (2007), creating values that depart from the identity of the organization from customers’ perspective was the most serious pitfall of a brand change in their case study.

The final version of the values should be approved equally by managers, key employees, and the strategic owners. Passive financial owners have no role at this stage. In the final stage of the values formulation process, the agreed values statement should be disseminated to all stakeholder groups. This form of engagement is called “information,” and although it is the weakest form (compared to consultation, placation, and partnership), it does not mean it is less important. Because the purpose of having values statements is to communicate more effectively, all the relevant stakeholders should be made aware of them. Figure 2 summarizes the stakeholder engagement in the process of adopting an organizational values statement.

The main difference between the proposed model and models that have been suggested before in the literature (e.g., Blanchard & O’Connor, 1996; Brønn et al., 2006; Hemp & Stewart, 2004; Lencioni, 2002) concerns three aspects. First, the owners are divided into different types and passive financial owners, if present, should step aside right after deciding about the need to formulate the values statements. Second, consultation with strategic partners and long-term customers before the values have been agreed internally is advisable. This somewhat runs against the idea put forward by Blanchard and O’Connor (1996) of testing values that have already been agreed upon on different stakeholder groups. Such testing may or may not embrace the idea of engagement—listening to stakeholders with a view to taking a different action and putting values on the line (Cumming, 2001; Scholes & James, 1997).

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**FIGURE 2** Engagement of organizational stakeholders in the process of formulating a values statement.
Finally, those employees who share the core values of the organization should have decision-making power on equal grounds with the managers and strategic owners. Despite the fact that employees are given a significant role in the process described by many authors, the final decision making is still seen as the task and prerogative of managers, or alternatively, the owners.

STAKEHOLDER ENGAGEMENT PRACTICES IN THE BANKING SECTOR

Organizations

This study was conducted in Estonian banking sector organizations. This sector was chosen for two reasons:

1. Most Estonian banking sector organizations have values statements in place; in some cases the formulation procedure was thoughtfully designed and implemented with care. It can thus be assumed that the organizations studied would represent best practice.
2. The banking sector in Estonia is relatively concentrated yet very competitive. Studying only a few organizations enables to reach a sample that well characterizes the whole sector.

Five financial organizations were contacted, representing approximately 95% of the banking market. Four agreed to participate in the study, and they are called organizations A, B, C, and D, for simplicity. Their profile is as follows:

- They have been operating in Estonia for approximately 15 years.
- They employ 700 people, on average.
- Full or majority ownership is foreign based; organizations are not listed on the stock market.
- Values statement formulation took place in 2002 in one organization and during the period 2006–2008 in the rest.

Procedure

Semistructured interviews were conducted with managers well versed with the values statement process (HR managers, hereafter) in November and December 2008. Audiotaped interviews were carried out in Estonian; they lasted 35 to 60 min, and a full transcription of them was deemed unnecessary. The aim of the interviews was to find answers to the following questions: (a) Which stakeholder groups do the responding organizations consider important; (b) if and how much do values statements affect the defined stakeholders in the respondents’ opinion; and (c) in terms of stakeholder engagement, how was the values formulation process handled in the responding organizations?
Results

Organization B defined their stakeholders in Estonia: management, employees, customers, and partners; the owners are abroad. Organization C mentions their relevant stakeholders in their vision statement: owners, customers, and employees; Organization D adds society and corporate-level management to these three. With the exception of Organization B, management is not distinguished from the employees. Strategic partners as a separate stakeholder group have little relevance in two organizations out of four. Thus, the stakeholders theoretically reviewed earlier in the article mostly apply to the banking sector, although the role of strategic partners is minor compared to other groups. In particular, the role of partners is usurped by customers, because they provide “raw material” for financial organizations. Also, the management is not always separated from the employees, but when it comes to the process of values statement formulation, all respondents admit that the management has a special role.

Regarding the influence of values on different stakeholders, all respondents find it difficult to distinguish between the existence of the values statement and its content. Generally though, the influence of the content is found to be higher for all stakeholders. The opinions of the respondents are collected in Table 2. The impact of the values statement on strategic owners was found to be high with the exception of Organization C, which said, 

There is no influence on owners in our case. They are concerned about how well we are doing, but not whether we have friendly or considerate as values. . . . They come from a different cultural context—things are the way manager says they are; what’s there to formulate?

This may show that the owners’ cultural background plays a certain role; alternatively, the statement implies the financial nature of the owners in Organization C. At any rate, the distant position of owners was highlighted in other organizational activities as well; it was clear that Organization C was independent in its decisions, including about the values statement. However, Organization D partly supports the owners’ reticent role by stating that the initiative to formulate values should not come from the owners, the statement is instrumental to management in order to achieve the owners’ vision:

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Owners</th>
<th>Managers</th>
<th>Employees</th>
<th>Customers</th>
<th>Strategic Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Impact of the existence of a values statement</td>
<td>A: High</td>
<td>A: High</td>
<td>A: Moderate</td>
<td>A: None</td>
<td>A: Low</td>
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<td></td>
<td>B: High</td>
<td>B: High(est)</td>
<td>B: High</td>
<td>B: Depends</td>
<td>B: Moderate</td>
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<td></td>
<td>C: None</td>
<td>C: High</td>
<td>C: Low</td>
<td>C: None</td>
<td>C: None</td>
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<tr>
<td></td>
<td>D: None</td>
<td>D: High</td>
<td>D: High(est)</td>
<td>D: None</td>
<td>D: None</td>
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<tr>
<td>The Impact of the content of a values statement</td>
<td>A: High</td>
<td>A: High</td>
<td>A: Moderate</td>
<td>A: High</td>
<td>A: Moderate</td>
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<tr>
<td></td>
<td>B: High</td>
<td>B: High(est)</td>
<td>B: High</td>
<td>B: Moderate</td>
<td>B: Moderate</td>
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<td></td>
<td>C: None</td>
<td>C: High</td>
<td>C: High</td>
<td>C: High</td>
<td>C: Moderate</td>
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<tr>
<td></td>
<td>D: High</td>
<td>D: High</td>
<td>D: High(est)</td>
<td>D: Moderate</td>
<td>D: Moderate</td>
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</table>
The owners say what they wish and presume, ... but they will not say that it is time to formulate a values statement. The management has to think of this.

There was consensus on the management being highly affected by the values. Values act like a management instrument (Organization C) and management was rated as the most affected group by Organization B. Organization D, however, does not overrate the impact of values on managers, because this small group of people is bound together by goals and responsibilities anyway and “no extra glue is needed.”

The values statement was found to be relevant for employees, but less so for the existence of values:

It is good to have a values statement in place for new employees perhaps…. (Organization C)

Having a statement could be important in the sense that employees then have something to rely on in critical situations. (Organization A)

The content of the values matters to employees insomuch as it coincides with their own personal values (Organization A and D), but they were still marked as a highly influenced group by most HR managers.

Customers are affected by the values statement, but the mechanisms are different from internal stakeholders. The opinions are summarized by the HR manager of Organization A:

Surely values affect them. But they do not have to know the values, they have to experience them. They would never visit our web-site to see what our values are.

The influence of the values on strategic partners is found to be marginal. The existence of values makes little difference to partners, whereas the content may have some effect. However, values statements are not the source that partners base their decisions on, rather the principles professed or the partner’s reputation matters in business cooperation. In concordance with theoretical elaborations, the HR manager of Organization A expresses

... these are financial considerations first and foremost.

The process of formulating the values statement differs between the four organizations mainly with respect to the role that the owners played in the process. In two organizations, A and B, the initiative to have a values statement came from the owners. As put by Organization A,

Conscious values statement formulation came from our parent company. Our own management in Estonia had never thought that they should be formulated or written down.

In these organizations the content of the values statements was determined by the owners, too, and the local managements were predominantly informed or consulted to a limited extent. In Organization D the procedure was similar at first glance, but the initiators of the process were seen as the top management of the mother company rather than the owner. The owner would step in only in the final stages, when approving the values statement:
When the values statement is agreed, the owner needs to be sure they are the right ones according to his/her idea. (Organization D)

Organization C represents a different perspective. The need for renewing the values statement and its drafting was worked out by the local management together with some “highly valued” employees of Organization C. There was no intervention whatsoever from the owners. HR manager of Organization C said,

They do not care and . . . we prefer not to engage them.

The engagement of employees more or less took place in every organization studied. Organization C engaged key employees in the early phase and almost everyone later on. In the other organizations, employees were engaged in discussions and workshops where the meaning of values was elaborated for every organizational unit and profession. In Organizations A and B, the leaders of these workshops were not necessarily managers, but volunteers and opinion leaders in the organization. In addition, in Organization B the input for the values statement was gathered from an organizational culture survey. Hence, the HR manager said that the values statement was a direct product of what the employees wished:

You can say the values came from the corporate level, yet they were very well comprehended here. It was extremely easy for us to adopt them.

The HR manager in Organization D believes that the first draft of the statement has to come from the management and employees should be consulted as extensively as possible, especially those directly working with customers. Hence, it can be said that some kind of consultation with employees is an established practice in the banking sector; however, nowhere was the final decision taken in partnership. The HR manager in Organization B admits that although volunteers were excellent in delivering the workshops on values, she feels ex post that their assignment was a lost chance for the line managers to become real leaders in their departments. In particular, she said

It is important that managers quickly take full responsibility. I would have liked to see them managing the whole process.

This well illustrates the unique function designated to management with respect to organizational values and justifies viewing it as a separate stakeholder group.

Consulting customers was relevant in Organization B and C. In Organization B, the values statement took notice of a customer survey conducted before the process. Organization C found its results outdated, and they thought of other ways to engage customers:

We considered arranging something like focus-groups with our customers, but at the end of the day we did not do it. The main reason was that we thought it would be difficult to get participants who represent all our customers. ( . . . ) It boiled down to engaging customer service employees, who best know what customers want and sometimes even better than the customers themselves do.

Approach similar to this was implemented in Organization D. Thus, engagement of customers regarding the content of values is indeed practical. The appropriate method however, seems to
be a challenge in two respects: first, how to obtain a representative sample, and second, how to get relevant information out of them.

Engaging strategic partners was not an issue in any of the organizations studied. It is somewhat surprising given that all HR managers admitted that values have a moderate influence on partners and therefore some kind of consultation was to be expected.

Although values were systematically communicated to employees in all four organizations, there was no extra effort to communicate the values to outside stakeholders after they were adopted. In Organization A, a new slogan was developed along with the values statement and a short marketing campaign was run to customers. Something similar took place in Organization B, but the HR manager thinks of it as a detail in the general marketing area. Moreover, Organization D was restrained in espousing its values statement, because the organization considers it as inner agreement to be translated into products and service standards. Advocating mere values would give rise to potential customer dissatisfaction because of the higher expectations regarding the service.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The current article aimed to develop a model for stakeholder engagement in the process of formulating a values statement in the organization. Organizations have approached the values statement formulation process differently, depending on their traditions, leaders’ beliefs, or consultants’ guidelines. To date, no agreement has been reached as to whom, when, and why to engage in this process.

In this article, a model for stakeholder engagement was proposed that followed the idea that the more the values statement affects a stakeholder group, the more engagement this particular group deserves. First, five stakeholder groups—owners, managers, employees, customers, and strategic partners—were found to deserve engagement in some form. Next, the impact of values statements on each group was analyzed. It became clear that the existence of a values statement influences the owners and managers, whereas the content of the statement is most crucial for strategic owners, managers, and employees. Customers and strategic partners are affected by the organization’s values statement to some extent but not on a par with its internal stakeholders.

This led to constructing a model where stakeholder engagement was divided into three distinct levels—information, consultation/placation, and partnership. Because the owners and managers are most affected by the existence of a values statement, adopting a values statement is their initiative and decision according to the model, whereas prior consultation/placation with employees would benefit all partners. The content of the values statement has the highest impact on strategic owners and internal stakeholders, and therefore they should have the right and responsibility to decide about this. Here, key employees should have equal decision-making power with the managers and strategic owners. Before formulating the statement, consultation with long-term customers and strategic partners is advisable.

However, rather than prescribing the exact engagement level of particular groups, this article suggests that a starting point for any organization in the values formulation process should be the analysis of the impact of the values statement on organizational stakeholders. Clearly, organizations may differ remarkably as to what groups represent relevant stakeholders and
how the values statement affects them. This was demonstrated by four organizations in the banking sector in Estonia, whose values statement formulation processes were analyzed in retrospect. It was found that

- Management and employees are seen as most affected stakeholder groups in the banking sector when it comes to values statements. For employees, the content of the values matters more than their existence, which is in accordance with the literature. In most instances, some employees (opinion leaders) were engaged in the early phases of the formulation process together with the management.
- Engagement of stakeholders is pursued, but the range of activities is rather limited. Partnership decisions are a rarity; direct or indirect consultation is a common practice.
- The views on the impact of values statements on strategic owners varied greatly. Consequently, owner engagement in the values statement formulation process was also dissimilar. This may exemplify the variety of investment motives, but also cultural peculiarities—the importance attached to publicly espoused values may not be similar across cultures.
- Although the values formulation process varied even within one sector, the empirical study confirms the principle that the engagement of stakeholders stems from the extent these stakeholders are perceived to be affected by the values statement. Therefore, the general model can only be a starting point in creating the appropriate engagement process for a particular organization.

The topic of stakeholder engagement in the values formulation process is open to future research in several directions. Satisfaction on the side of the organization and its stakeholders both with the process and the outcome of engagement should be tested. Although some studies (Heywood & Smith, 2006; O’Higgins & Morgan, 2006) give very encouraging results in this respect, their focus was not specifically values statement formulation. Also, technical questions of the engagement process deserve deeper investigation; for example, what methods suit best for consultation and placation? For instance, Allio (2008) thought that guided discussion with each stakeholder group separately triggered by unattributed direct quotations are useful. Cumming (2001) and Heywood and Smith (2006) reported that stakeholders’ own best-practice investigations, feedback consultations, workshops, questionnaire surveys, face-to-face or paired interviews, and expert or advisory panels work well. What resources are necessary for the conduct of proper engagement is also relevant to assess, because the limitation of these resources may inhibit the process just as a lack of knowledge or negative attitudes (Gotsi & Andriopoulos, 2006; Lewis et al., 2001). Finally, there might be differences in engagement patterns depending on the type or size of organization. For instance, there is some evidence that consensus building and the degree of stakeholder engagement is firmly higher in NGOs than in other organizations (Cumming, 2001; Lewis et al., 2001).

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