

“Ethics and Values in Business”

Notes for a luncheon address by
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The Canadian Centre for Ethics & Corporate Policy
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Thank you. Good afternoon ladies and gentlemen.

The topic of ethics and values in business is one that I have carefully reflected on and addressed in a number of speaking engagements stretching back almost 10 years. So I am happy to be here in Toronto with an opportunity to share some thoughts on a subject that is near and dear to my heart. As many of you no doubt recall, business ethics became a hot issue early this century with the so-called accounting scandals involving a number of big U.S. companies. The topic is now back in the public eye in the wake of the recent financial and credit crisis that began in the United States and then spread around the globe.

My remarks today will reflect the model I know best, which, of course, is RONA. But before I get into details on our approach to ethics and values, I would like to make a short foray into the concept itself. Over the years, I have found there is a fair bit of confusion · not to mention cynicism · about the relationship between ethics and business. And it has become clear to me that one reason those words are often seen as being mutually exclusive is that we have not really taken the time to reflect on their true meaning or the real purpose · the *raison d'être*, as we say in French · of business.

Reason for being vs. way of being

To my way of thinking, a business is essentially a centre of effectiveness. It simplifies the mobilization of resources toward common objectives and makes the owner or manager responsible for the results. In this sense, the primary and perhaps only true purpose of business is to make the most effective use of resources, whether we're talking about capital, knowledge or labor. Businesses exist because they are a means to simplify organization, decision-making, and investment.

Notice that I am not putting profit as the prime motivator. Rather, I see profit as the motivation of the investor and the yardstick of effectiveness. It is both a way to attract capital and the standard by which the successful use of that capital is measured.

The key point here is that we should not confuse our *raison d'être* · our *reason* for being in business · with our *way of being*, which is where RONA's corporate culture, ethics and values, come in. More about that in a few moments.

Motivation vs. behaviour

Another source of confusion that frequently embroils discussions about the ethical side of business lies in the distinction between motivation and behaviour, between intention and action. We all learned at our mother's knee to associate good intentions with good actions. But reality is not so straightforward. While it is true that a company's performance can be measured in ethical as well as financial terms, the results do not necessarily reflect the deep-seated motivations of its directors, even though there may be some relationship between the two. Suppose, for instance, that a business adopts exemplary behaviour in every imaginable way because the owners have coldly calculated that this is the best way to maximize profits. Should this be lamented? It's an interesting question but, on balance, I think not.

Ethics are ethics - period

Yet another misconception is the widespread notion that, somehow, it is okay to apply different sets of ethical rules to our personal and business lives. We all know people who ascribe to vastly different moral precepts, depending on whether they happen to be wearing their %virtuous family hat+ or their %company hat.+

Ethics can differ depending on your cultural or social origin, and there are issues that arise which are unique to business. But business ethics should not differ from the ethics that apply to other aspects of a particular individual's world. Either behaviour is ethical, or it is not. Ethics cannot be context-specific. There is no room for double standards. Ethics are ethics - period. Allow me to add, however, that while I'm convinced there is no such thing as a %business ethic+ per se, I am just as fervently convinced of the need for ethics in business.

The bottom line

Stating that belief inevitably leads to the question: %Fine, but are ethics good for the bottom line?+ My answer is a resounding %yes+ - and ethics are likely to become even more of a critical success factor in the wake of recent events.

What we sometimes fail to understand is that the success and sustainability of not just individual companies but of our entire economic system - and, by extension, society - relies on confidence: people have to feel assured that we will conduct our affairs in an ethical manner that takes into account not only our fiduciary duty to shareholders and the corporation, but also our obligations to other stakeholders - customers, suppliers, employees and communities.

This is not only a matter of %doing the right thing+. Going forward, I am convinced that a company's reputation and values - in other words, its %ethics capital+ - will arguably be as important to long-term success as its financial and human capital.

RONA and ethics

On that note, I would like to acquaint you with RONA's approach to these issues and how we are striving to build up our ethics capital for the long run.

For those of you who might not be very familiar with our company, RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products, with some 700 stores and 30,000 employees across the country. We believe that, as the market leader, the responsibility is on us to also show leadership in other areas, including corporate social responsibility.

I also feel strongly that, to give a true sense of purpose to an organization, you need a perspective that transcends the personal ambitions of its managers or the fundamentals of a business plan. At RONA, that sense of purpose is instilled through our values and long-term vision.

RONA has been around for more than 70 years now. Although much has changed over seven decades, one constant has been our underlying values: service, unity, respect, pursuit of the common good and a sense of responsibility. Those values, shared by the Company's founders, are integral to RONA's DNA. And while they may sound like relics from a bygone era, I would suggest they are as valid today as ever.

Accordingly, we make a point of familiarizing every new RONA employee with our values and ethics. They are then supplied with a copy of our Code of Conduct and must personally undertake to comply with the written rules. But let me be clear. It is not a matter of simply handing out a set of rules and paying lip service to them. As I stated a moment ago, the RONA values are a part of our DNA and we make an effort to live by them every day in all aspects of our business activities.

For instance, when we are recruiting employees - particularly managers - our screening and interviewing processes are designed to help us identify candidates that share our values and will buy into the system. There is a similar focus to our annual performance review and appraisal process: conversations between the manager and the employee routinely begin with a discussion of how our values have been reflected in his or her performance.

To help ensure that our ethics and values remain front and centre and are reflected in day-to-day practices, their importance is continually reinforced through corporate communications tools and - more importantly - through dialogue. I personally make a point of getting out into our stores, administrative offices and distribution centres at every opportunity, to mingle with employees and talk about our values.

It is essential to set the tone at the top, to lead by example. As CEO, you must make it clear that you will not tolerate behaviour that is contrary to the organization's values - that you are not interested in maximizing short-term gains by engaging in practices that could jeopardize your company's hard-won reputation and undermine long-term value creation. At RONA, we also encourage our partners, affiliates, franchisees, consultants, suppliers and subcontractors to abide by the rules and respect our values.

Can I help you?

Our most basic value - service - is expressed in the simple phrase: "Can I help you?" This is a sentence I learned as a child, growing up in my parents' RONA store. And it is a sentence that I am doing my best to keep at the centre of RONA culture.

Our goal is to make certain that when shoppers come to RONA, they don't just find an array of products sitting on shelves - rather we want them to find solutions to their problems. In addition to providing prompt, polite, knowledgeable service and advice, we wish to ensure that customers are always treated in an honest and ethical manner.

To reinforce and enhance this service culture, we invest considerable time, effort and money in communications and training. Wanting to help is good. Knowing *how* to help is better. RONA places a great deal of importance on training.

Recognition is also key to nurturing a culture of service. RONA's AGP initiative . for Acknowledge, Guide, Provide . makes service the responsibility of all RONA employees, and includes an incentive program that recognizes and rewards our %service champions+.

Is this focus on customer service and ethical sales practices a purely selfless orientation? Ethics for ethics's sake? Of course not. We believe that being service champions also will earn us the loyalty of our customers and lead to future growth.

Respect

Along with appropriate recognition for our employees, goes a high degree of respect . another of those tried-and-true RONA values I mentioned earlier. How is this particular value embodied? First of all, by providing working conditions that respect the dignity of one and all . a pleasant, people-oriented environment where the health and safety of our employees is paramount.

RONA's respect for its employees is also reflected by our investment in the development of individuals, enabling them to enhance their skill sets and career prospects. As well, we show respect by *really* listening to our employees and encouraging them to make each business project their own. We genuinely welcome their opinions and input . to the extent that every RONA employee has my personal email address and is given to understand they should not hesitate to contact me if there is something important they wish to bring to my attention.

Seeking the common good

In the context of today's remarks, perhaps the most relevant of all our RONA values is our pursuit of the common good. This takes on many dimensions and extends far beyond the borders of the company, to our customers, suppliers, partners and communities.

From an economic perspective, we strive to ensure the greatest possible benefit to Canadians by sourcing 90% of the merchandise we sell, literally billions of dollars worth per year, from domestic suppliers. That way, we can be sure that our success as a company helps generate wealth and create jobs here at home.

As a Canadian company with a presence in hundreds of cities and towns across the country, RONA is particularly conscious of its impact on the well being of our people and communities. In dozens of small towns, the local RONA outlet is an important part of the retail and business fabric and a prized employer. More to the point, our merchants and their employees also take great pride in being active members of their communities, supporting worthwhile causes and lending a hand to help less fortunate members of society . in keeping with the RONA values.

In that same spirit, we created the RONA Foundation back in 1998 to help disadvantaged and at-risk youth. The Foundation collaborates with social agencies and charitable organizations across Canada to provide trades training and fund programs for combating illiteracy and school drop-out rates. The Foundation's mission is clear: to provide young people with a second chance; to help them regain their dignity, realize their potential and take their rightful places in society.

Unity

Unity can rightly be termed RONA's founding value. Back in 1939, a group of Montreal hardware merchants came together in the realization that, while they were sometimes in competition with one another, there was room for co-operation in certain aspects of their business. Simply put, they realized that in unity there is strength . that by pooling orders for various product lines they could obtain better prices.

What those pioneering dealers shared in common was the desire to provide the right products at the right prices, a desire that continues to unite RONA dealers to this day.

During the 1990s, for example, customer needs were evolving and new market entrants were appearing on the scene. RONA decided the time was right to move ahead with implementation of a store concept that had been on its drawing boards for some time - big-box outlets.

However, rather than forge ahead with construction of a bunch of big new corporate stores, we opted to partner with existing dealer-owners, pooling our resources and expertise to open a series of new franchised outlets that enabled us to consolidate and further enhance RONA's market position: a unique-to-RONA approach that reflected the spirit of unity and benefited both the company and its dealers.

Sense of responsibility

RONA's sense of responsibility applies not only to people but also the environment in which they live. Which helps explain why RONA also is committed to respecting and protecting our natural environment, including Canada's Boreal forest, for the benefit of current and future generations. To that end, one of our current priorities involves integrating vital environmental stewardship and sustainability initiatives into our business plan.

Here again, there are more than altruistic motivations at stake. A significant portion of RONA's revenues comes from sales of lumber and wood products that are derived from a precious renewable resource, our forests. We understand that if we don't help take care of this resource, then 30 or 40 years down the road there will be little wood left for our dealers to sell, at least not from Canadian sources. It was clear that we had to act today to help ensure the sustainability of our forests for the benefit of tomorrow's generations - not just from an economic perspective, but also for their cultural and recreational value.

RONA's many environment-related initiatives - from paint recovery, to our decision to stop selling synthetic pesticides for cosmetic use, to the rigorous life-cycle approach we apply to our RONA ECO product line - all reflect the same deep-seated ethics and values and responsible governance.

In a nutshell, these policies are designed to show respect for people, their dignity and their environment.

Concluding remarks

What I have attempted to convey in this speech is that, to my way of thinking, business and ethics are inextricably linked; that the ethics which guide individual behaviour and a company's actions are - or certainly ought to be - the same; and that our values strongly influence the way we manage.

I think it would be fair to say that RONA, like many other reputable Canadian companies, has demonstrated that it is possible to manage our businesses in accordance with what most people consider very solid ethics and values, while generating healthy returns for shareholders and creating significant benefits for other stakeholders as well - employees, suppliers, customers and communities. In other words, you need not take a vow of poverty in order to conduct your business in an ethical manner.

In fact, I believe that, to the contrary, up-and-coming generations of investors and consumers will frown upon companies whose reputations do not measure up to financial performance will no longer be the lone determinant of what constitutes a sound investment.

Going forward, reputation also will be increasingly important in terms of being able to attract and retain top-flight talent. This hit home for me last summer, when I directed the STEP-workshop for 20-to-35-year-old RONA personnel from across Canada. Managers, affiliate dealer-owners and those aspiring to be one or the other got together with company executives to discuss the future of both RONA's future and their own prospects within the organization. It was a fascinating experience. I could not help but be excited by their intelligence, energy, solid values and worldly perspectives. My conversations with these young men and women also impressed on me the importance today's youth place in seeking out an employer whose values they share and can identify with. Their views underscored my conviction that ethical capital is becoming an increasingly precious commodity.

Having spent several decades in the executive suite, I am aware that the public's view of how the business and financial community operates and, indeed, the business community's self-image continue to evolve to reflect changing times and circumstances. Back in the 1980s, for example, sports analogies were popular in the business world - we talked a lot about game plans+etcetera. In the 90s, it was war analogies - the need to motivate the troops+and capture+increased market share. Now, some would argue that business has entered the realm of extreme sports, where pretty much anything goes.

That clearly is not the case. Rules and regulations do exist, even if they are sometimes found lacking. And as I indicated at the beginning of my remarks, I do not subscribe to the cynical view that business and ethics are mutually exclusive. Nor, obviously, do the many other fine organizations represented here today.

However, I believe it would be a mistake not to acknowledge some of the shortcomings including questionable ethical behaviour that may have contributed to the economic woes of 2008-2009. Given lingering scepticism, we must demonstrate to investors and the general public that the business and financial communities are committed to doing what is necessary to rectify those shortcomings and restore confidence in the system.

In that regard, I would like to conclude by congratulating the Canadian Centre for Ethics & Corporate Policy for demonstrating leadership on a vital issue.

Thank you very much.