

Ethics, Strategy, & Sustainability

Sustainability Business Case

Alliant Energy Resources

July 10, 2003

Internal Memo

To: Mr. James Hoffman
President, Alliant Energy Resources

From:

Date: July 10, 2003

RE: Sustainable Development

Executive Summary

As you are well aware, 2002 and the first half of 2003 have been very trying time for Alliant Energy and especially for Alliant Energy Resources. Largely in part to the poor performance and poor investment decisions made by Alliant Energy Resources, our corporation has been forced to slash the dividend by 50% and in turn watched our stock tumble to record lows. While we are making improvements in key areas and once again slowly returning to profitability, more needs to be done to ensure this trend continues into the future. Therefore, Alliant Energy Resources must look toward sustainable practices to reestablish our reputation with the financial institutions, our investors, and our customers.

To accomplish this, Alliant Energy Resources must create and implement a set of sustainable business practices. These practices will not only result in increased trust among our employees and stakeholders, they will result in measurable operational efficiency and financial savings. As a first step, we must establish the criteria to be improved and commit to actual performance measures to ensure success. This memo will focus on the areas that will give us the greatest positive return in the least amount of time and provide evidence of success via case studies and reports.

Improved Brand Value and Reputation – Ethics, Values, and Principles

Alliant Energy Resources currently has no written guidelines for a company standard ethics, values, and principles as they relate to decision-making. Given our current poor reputation and lack of customer, employee, and shareholder trust, these guidelines are extremely necessary. Ethics specialist Larue Hosmar stated that people who believe they have been misgoverned by bribes, sickened by emissions, or cheated by products tend to lose trust in the firm responsible for their actions.¹ This statement exemplifies what has happened within our corporation. In January 2002, our CEO, Errol Davis, stated to our shareholders that Alliant Energy Resources would carry the growth of this company into the future. Six months later, Alliant Energy cut the dividend in half due to poor cash flow and losses stemming from investments made by our non-regulated business. In the latest shareholder meeting, we witnessed how our investors have reacted to actions such as these, by asking for the executive management and Board of Directors to step down or take compensation cuts for their actions.

Implementing a set of decision-making guidelines will help our investors and customers regain their trust in this company. These guidelines must be stated in writing with your signature beside them and distributed corporate wide and placed in our Annual Report. Our employees must understand that you too are being held to these high standards. This will ensure that decisions being made throughout this company are consistent with the overall strategy and direction. Too often we are being pulled by conflicting messages of customer focus and money at all costs. This directive will put in place one document that any employee can access as a guideline to their everyday decision-making process and it will streamline the decisions throughout all of Alliant Energy Resources' divisions. Once in place, we must hold employees to these values. Hewlett-Packard has had a policy in place since 1976 that stated any employee violating the company's ethical principles would be fired, no questions asked. I strongly suggest we adopt the same firm standard.

In addition to a positive internal impact, these value statements will have a positive impact on our relations with shareholders, customers, governmental organizations, and non-governmental organizations. Our brand awareness and brand image will increase dramatically once the community at large understands that we are truly committed to these ethical principles. Curtis Verschoor conducted studies based on Fortune's "100 Most Admired Companies" and found that companies with an expressed commitment to business ethics scored, on average, 4.7 to 6.7% higher than companies without such a commitment.² Given the current state of our reputation, Alliant Energy Resources can ill afford to pass by a proven method of increased brand valuation.

To measure the results that a statement of ethical decision-making principles would create, we must look at two main areas. One, the result of the actual decisions being made in accordance to these guidelines. I suggest that if these guidelines were in place two years prior, we would not have been pressured into making the many investments that have cost this company millions in write-offs and straight performance losses. Our Enermetrix investment was forced through for political reasons with no regard to the financial criteria showing the great risk it possessed. The result was over \$10 million in lost investments and over \$5 million in write-offs. The second part of our measurement will come in the way of our customer feedback. We have fared poorly in recent surveys and numerous reports show that companies with ethical commitments create consumer trust. John Dalla Costa stated that ethical orientation feeds the growth of trust and is itself further developed by trust. He goes on to say, "Dignity extended to employees and customers by the company creates the foundation for trust to be exchanged."³

As you can see, it is vital to the success of Alliant Energy Resources that we establish a set of ethical principles and value statements. Furthermore, we must implement these principles into our organization from the top down, with no exceptions and no leniency. It is obvious, that in our time of crisis, these actions will produce a positive result for Alliant Energy Resources.

Human & Intellectual Capital – Workplace Conditions

During my tenure with Alliant Energy Resources, I have repeatedly witnessed issues with our treatment of our most valued asset, our employees. As a service based company, we differentiate ourselves from our competitors only by the expertise we possess. That expertise comes in the form of our employees. As I am sure you have noticed, we have lost a significant percentage of our employees over the last year. In my division alone, we have lost over half of our workforce and, even in a down economy; we have not been able to effectively replace them. In addition, the employees that are still with the company are experiencing extremely low morale and, as a result, poor performance.

To counter these events and even reverse their trend, I suggest that we setup a long-term mentoring and training program within the company. This program would involve the assigning of a mentor to all of our younger and first-tier employees looking to stay within the company and advance their careers. Mentors would be matched by current position or advancement method. Some mentors could be assigned by where the employee would like their career to advance and not necessary the area in which they current work. It would also provide better access to training for those employees wishing to round out their skills.

We currently have a Talent Management Program in place, but it lacks the involvement of all employees, especially first-tier employees. These employees feel like the program is solely meant for upper management or as a method of justification for firing employees. Our current training system only addresses physical labor employees and outside training courses are usually discouraged because of the high costs, travel expenses, and time involved.

Bad training and mentoring can cost a 1,000-worker firm \$14.5M and \$9.5 M per annum respectively. Training and mentoring are strong indicators of staff retention according to a study by Louis Harris and Associates. The study finds that only 16% of people receiving good mentorship will look for a new job within a year, compared to 35% of those that are not mentored properly. Training has an even stronger impact, as 41% of employees would leave a company that does not train them properly, compared with 12% for those with ‘excellent training opportunities.’⁴ This shows a strong correlation between our high employee turnover and bad morale with our poor training access and complete lack of a mentoring program.

Aside from decreasing employee turnover, this program will provide Alliant Energy Resources with better employees, thus increasing our competitive advantage. In addition, we will be better able to attract qualified candidates to fill new positions or those that do become vacant. A Hewitt Associates analysis of Fortune’s “100 Best Companies to Work For” found that these companies have half the turnover rate and twice the applicants as other companies.⁵

The results of this program can be easily verified by looking at the employee turnover and costs statistics year over year. I firmly believe we will see a sharp decline in employee turnover, thus dramatically decreasing hiring costs and lost labor time. These savings will more than offset the costs associated with implementing such a program. Savings will also be visible with increased employee morale, increased skills via the training, and thus, increased productivity and

efficiency. In addition, managers will have the time currently dedicated to finding and training new employees available for their core duties and current employee focus.

Human & Intellectual Capital – Ethics, Values & Principles

While the above program will help retain employees and help secure our competitive advantage, Alliant Energy Resources must also put in place a written code of ethics for the treatment of our employees. While an antidiscrimination policy does currently exist, this policy simply addresses how not to treat employees, but it does not address how employees should be treated. I propose a code of ethical treatment to address this issue.

This code is necessary to address the numerous internal issues that I have personally witnessed and large volume that have gone unreported. These issues include breaking verbal promises, blocking employee advancement opportunities, taking credit for the work of subordinates, and sharing private conversations and the public criticism of employees by management. These acts accomplish nothing but destroying employee morale and trust in upper management.

With a code of ethical treatment in place and training on this code, management and first-tier employees will better understand how to treat each other and better recognize when they or their coworkers are not being treated ethically. Everyone must be held to these high standards of treatment to ensure complete compliance. Employees who break this code must be dealt with quickly and effectively.

Building trust in the workplace has numerous benefits according to John Dalla Costa: A trusting relationship with employees fuels creativity, makes the work environment faster and more responsive, is more open to change and creates personal growth opportunities for its people.⁶ All of these benefits are necessary for Alliant Energy Resources to compete in the highly volatile energy services marketplace. We need to be able to react quickly to changing consumer needs, we need creative employees to look for unique savings opportunities for our customers, and we need employees who can grow within our organization to provide us long-term benefit.

While the savings associated with this initiative may seem more difficult to measure, what it will provide us is a better working environment for our employees. It will also help prevent serious issues that could cause the company millions of dollars. The examples I listed above could easily turn into lawsuits against the company. In November 2000, the Coca-Cola Company paid out a record \$192.5 million for pay, promotion, and evaluation discrimination against black employees.⁷ If Alliant Energy Resources doesn't address the treatment of its employees now, we could fall to a similar fate.

Conclusion

Alliant Energy Resources is on the verge of becoming extinct like so many other non-regulated energy companies. We are in a market that is heavily scrutinized and our reputation has been tarnished in recent years. By implementing these sustainability practices and making them publicly known, Alliant Energy Resources can address current issues while preparing itself for a long future. Not only will these practices address certain morale issues within the company, but also the evidence shows that they will result in real financial savings. With our strict cash flow needs, we need to look for any savings possible and especially savings that will in turn provide us better employees and a greater brand image in the eyes of our customers and stakeholders.

References:

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- 3) "The Ethical Imperative: Why moral leadership is good business", John Dalla Costa, 1998, Harper/Collins
- 4) Business Week, January 3, 1999, pg. 8
- 5) Hewitt Associates Press Release, December 23, 1998
- 6) "The Ethical Imperative: Why moral leadership is good business", John Dalla Costa, 1998, Harper/Collins
- 7) The New York Times, November 11, 2000