“WHEN IT COMES TO AN ORGANISATION’S VALUES, ATTITUDES, GESTURES AND EVERYDAY ACTIONS AT ALL LEVELS ARE AS IMPORTANT AS BROADER BUSINESS INITIATIVES. AS VALUES BECOME EMBEDDED IN ORGANISATIONAL BEHAVIOURS THEN THE PLATFORM IS ESTABLISHED TO DELIVER REAL VALUE TO CUSTOMERS AND TO THE COMMUNITY.”

ROSS PEAT, MANAGING DIRECTOR, MICROSOFT NEW ZEALAND
In reviewing various studies into what drives organisational success, it is clear that there are many ways to succeed. The fad of the day may grab headlines and create bestsellers with recipes for business success, but ongoing and constructive debate continues about the relevance and value of today’s fashionable practices when compared to long-established commercial principles and approaches.

What appears to shine through this debate are two fundamental concepts. Firstly, that companies which are most successful over the long term are those which incorporate their cultural values at the core of their everyday business operations, i.e. they implement values-based management practices. Secondly, it is the basics that matter – comprised of both the business values that underpin a company’s culture and the business value proposition offered to customers and stakeholders.
A more holistic view of business combining these two concepts elevates the importance of the cultural and emotional well-being of a company and its people – the emotional quotient – alongside organisational objectives such as return on investment. The right mix of these should ensure that companies celebrate success.

VALUES-BASED MANAGEMENT PRACTICES

The view that values should underpin all management practices is endorsed by Mohanbir Sawhney, McCormick Tribune Professor of Technology at Northwestern University’s world-renowned Kellogg School of Management in the United States. He advocates that corporations must see values as the foundation upon which the edifice of value creation must rest (Sawhney, 2002). He believes businesses are living entities that should constantly evolve. He talks of evolving companies as those which, among other things, define their purpose in terms that embrace the common good. They have corporate values that both reflect the collective values of all employees and align with individual values. Their leaders harness the emotions and spirit of every individual toward a common purpose that everyone understands while being authentic in their values and commitment to social responsibility.

These evolving businesses are a good reflection of organisations with their corporate culture and business practices underpinned by core values. I believe that by being transparent about values and allowing customers and partners to experience these values at every interaction, a company will distinguish itself from its competitors.

My experience has been that companies, especially highly successful ones, operate in a constant state of evolution. In fact, the more successful a company is, the more willing it tends to be to re-engineer itself right to its core. It is also willing to use its values-based management practices to evolve and improve its relationships and co-dependencies in its customer and partner ecosystem to support achievement of its business goals.

A VALUES-CENTRIC BUSINESS

An evolved business knows how to balance self-interest with common good. It understands that to generate and retain customer loyalty it needs to provide more than functional or economic value through the goods and services it provides. Such a business grows by developing an emotional connection with its customers and its partners. This emotionally derived value is driven by intangibles such as service experiences, trusted relationships and brand reputation.

As much of this value is intangible cultural capital, it is often one of the most under-estimated and under-invested areas by organisations. Yet, considerable evidence suggests there is a strong link between such psychological value and an organisation’s effectiveness. In Built to Last, Successful Habits of Visionary Companies, Collins and Porras (1994) showed companies which consistently focused on developing a strong corporate culture over a period of several decades outperformed companies which did not by a factor of six, and outperformed the general stock market by a factor of 15.

As an example, Microsoft is a company which is in the evolutionary process toward a company values + business value model. And with in-depth employee collaboration, Microsoft has developed a comprehensive set of company values to underpin every aspect of what each employee does to deliver business value to customers, partners and the wider community.

Despite the logistical challenges this model brings, it also provides the means to increase staff morale and team collaboration while increasing accountability across the business. It can also create pride in an organisation, a sense of belonging and put forward the right amount of challenge for high achievers. These characteristics are among the key drivers rated by Unlimited magazine’s Best Places to Work survey, New Zealand’s largest employee climate survey, for retaining happy employees. As such, companies adopting a values + value approach have the added advantage of creating a healthy workplace at the same time.
My view is that for a company values + business value management approach to be sustainable, it needs to be built on four distinct pillars:

1. Values must be embedded organisation-wide to provide a platform for common purpose and promote an understanding of a company’s strategic mission.
2. Values must be at the core of business engagements and be transparent in day-to-day operations.
3. Values must be aligned with customer expectations of an organisation operating in a trusted relationship.
4. Values are company-defined, value is customer-defined.

Such values-based practices are important because as Peter Drucker, the patriarch of management theory, observes: “What the business thinks it produces is not of first importance. What the customer thinks he is buying, what he considers value, is decisive.” This in itself presents its own challenges since, as Drucker also notes: “What is value for the customer ... is anything but obvious.” I believe, however, that if organisations return to the basics and embrace the belief that the sole purpose of an organisation is to create value for its customers and to be fairly compensated for its efforts, it can establish what wouldn’t otherwise be obvious.

The view of Sawhney (2002), that true customer-centricity demands that you believe and act on the basis of customer value, is sound. As he contends, you cannot offer value to customers without first changing your organisation’s values, even if it means getting back to the basics. Ultimately, what companies believe in determines how they think and act. Their actions and behaviours in turn manifest themselves in their offerings.

I concur with Sawhney’s belief that firms which adopt the value mindset think differently about the customers they focus on, the value proposition they create for their customers, the growth strategy they employ, the way they organise their marketing and sales organisation, and the way they measure and reward success. When you contrast a company with a traditional product mindset with one with a customer value mindset, as Sawhney has on a number of important dimensions of business, the difference in a company’s purpose is enlightening. This is illustrated in Table 1.

By focusing on defining value as customers do, designing your offerings based on what customers value, and measuring your performance in terms of the value that customers experience, you will be well on your way to creating successful customer relationships.

Yet despite the obvious benefits, developing a company values + business value management practice remains for many organisations an elusive challenge. In studying why some companies succeed better than others, I have come to the conclusion that companies which fail are invariably those whose values remain at the periphery. Values are “worn” when it suits and discarded when not. Such companies have not put values at the core of what they do, much less tried to live the values in their daily operations.

VALUES UNDERPIN THE BUSINESS BASICS

To succeed in a highly competitive environment, companies must continue to practice business management basics. What I advocate is that long-term success is best derived when companies ensure that corporate values form an integral part of their management building blocks. That is, the cultural capital of organisations must remain at the core of the decision-making process to influence the operational side of business.
To better understand how this can be possible, it is important to first review successful business management basics.

The *Harvard Business Review*, in reporting the results of a study into business practices called the Evergreen Project (2003), proffers the view that those companies topping their industry excel in the following four business basics described as “primary management practices”: **strategy** (devising and maintaining a clearly stated, focused strategy), **execution** (developing and maintaining flawless operational execution), **culture** (developing and maintaining a performance-orientated culture) and **structure** (building and maintaining a fast, flexible, flat organisation).

The Evergreen Project’s suggested four primary practices provide a good mix of company values and business value. The project also identifies secondary management categories – **talent**, **innovation**, **leadership**, and **mergers and partnerships** – which were also attributes of the winning companies in the study.

The findings show successful organisations were those which excelled in the four primary management practices and in any two of the secondary management categories. The Evergreen Project called this combination of core practices and secondary categories the **4 + 2 formula**.

Most executives strive for excellence throughout their organisation, particularly with regard to their leadership behaviours and business practices. The virtue of the **4 + 2 formula** is in its relative simplicity and the way in which it drives company values (primarily culture and structure) and customer value (primarily strategy and execution). With the pragmatic recommendation of excellence in any two of the secondary management categories, rather than all four, the formula appeals as being both relevant and achievable in today’s dynamic business climate.

The Evergreen Project also makes it clear why few companies maintain a steady lead. It says that business success requires unyielding vigilance in six dimensions:

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Product mindset</th>
<th>Customer value mindset</th>
</tr>
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<tbody>
<tr>
<td><strong>Strategic focus</strong></td>
<td>Product leadership – winning by launching innovative products and adding features to products.</td>
<td></td>
</tr>
<tr>
<td><strong>Growth driver</strong></td>
<td>Primary demand – sell broadly to new customers.</td>
<td>Selective demand – sell deeply to existing customers.</td>
</tr>
<tr>
<td><strong>Offerings</strong></td>
<td>Horizontal products with limited customisation. Delegate solutions design and delivery to partners.</td>
<td></td>
</tr>
<tr>
<td><strong>Pricing strategy</strong></td>
<td>Perpetual license pricing to maximise revenue from transactions.</td>
<td>Value-based pricing to align value creation for customers with value capture for the firm through subscription pricing and gain sharing arrangements.</td>
</tr>
<tr>
<td><strong>Sales organisation</strong></td>
<td>Product-centric organisation with multiple faces to a customer.</td>
<td>Customer-centric organisation organised around key customer segments or customer accounts, with a single face to a customer.</td>
</tr>
<tr>
<td><strong>Marketing operations</strong></td>
<td>Emphasis on product launches and breadth campaigns to increase reach and influence customer perceptions.</td>
<td></td>
</tr>
<tr>
<td><strong>Monitoring and tracking</strong></td>
<td>Periodic surveys of customer satisfaction with products.</td>
<td>Ongoing tracking and continuous improvement of the total customer experience.</td>
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</tbody>
</table>

*Source: Sawhney (2002)*
management practices at once and constant renewal to stay on top. Reputations are hard to earn, but easy to lose. Yet the study also offers hope that winning companies often have codified principles – lessons drawn from experience – that enable them to revisit their true mission, embrace change and refine how they need to do business to deliver a true customer value proposition.

So the question is how do companies implement the management practice building block and ensure their success is long-term and sustainable? The answer inevitably remains that winning companies have learnt to create business value from company values by aligning the preliminary business management practices to the values-based pillars, as illustrated in Table 2. The following considers how the four primary management practices can be underpinned by values.

1 DERIVING BUSINESS VALUE FROM BUSINESS STRATEGY

There is no doubt the development of a strategic business strategy takes a concentrated time of evaluation and review. It also has cost implications and needs substantial market knowledge in order to answer questions such as: What is the market doing? What are our customers saying? What is the legislative environment? What are the opportunities?

Despite the challenges, as cited in the Evergreen Project, maintaining a sharp focus on strategy is crucial. In the project’s study of 160 companies, winning companies were those which devised and maintained a clearly stated and focused strategy. A strategy should begin with a simple, focused value proposition that is deep rooted in precise knowledge about the company’s customers and a realistic appraisal of the organisation’s own capabilities. Also as the study demonstrated, the key to achieving excellence in strategy delivery is in its transparency. Predictability and transparency helps customers, partners and the wider community understand what the company stands for and how it intends to pursue its strategic growth plans.

Staying clear on strategy also means companies need to be careful about how they pursue growth. This is how a successful company can be differentiated from the rest of its competitors.

Supporting this view is the fact that Evergreen Project winners establish and abide by clear company values, giving employees, customers and partners a reason to embrace the organisation. The project authors argue that these are not vague niceties, but rather that winning companies write down their values and demonstrate them with genuine actions. Having values articulated and internalised in a more concrete manner also allows

### Table 2: Aligning primary business management practices to values-based pillars

<table>
<thead>
<tr>
<th>Business practices</th>
<th>Values-based pillars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong> – whatever your strategy, whether it is low prices or innovative products, it will work if it is <strong>sharply defined</strong>, clearly communicated, and well understood by employees, customers, partners and investors.</td>
<td></td>
</tr>
<tr>
<td><strong>Execution</strong> – develop and maintain <strong>flawless operational execution</strong>. You might not always delight your customers, but make sure never to disappoint them.</td>
<td></td>
</tr>
<tr>
<td><strong>Culture</strong> – corporate culture advocates sometimes argue that if you can make the work fun, all else will follow. Results suggest that holding <strong>high expectations</strong> about performance matters a lot more.</td>
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<tr>
<td><strong>Structure</strong> – managers spend hours agonising over how to structure their organisations. Winners show that what really counts is whether structure <strong>reduces bureaucracy</strong> and simplifies work.</td>
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<tr>
<td>Values must be <strong>embedded</strong> organisation-wide to provide a platform for common purpose and promote an understanding of a company’s strategic mission.</td>
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</tr>
<tr>
<td>Values must be <strong>aligned</strong> with customer expectations of an organisation operating in a trusted relationship. How a company delivers is as important as what it delivers.</td>
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<tr>
<td>A high performance-orientated culture based on clearly defined values clearly provides business results, but while values are company defined, value is customer defined.</td>
<td></td>
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<tr>
<td>Values must be at the <strong>core of business engagements</strong> and be transparent in day-to-day operations.</td>
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values to be aligned organisation-wide. It also provides a platform for common purpose and promotes an understanding of a company’s mission.

How an organisation develops and communicates its strategy is greatly dependent on the size and structure of the organisation and whether or not the company is listed. Listed companies, for example, are required to regularly and transparently comment on their business strategy, as Telecom New Zealand did when it released its fourth quarter/full year results for 2003. The company said it had been focusing on a strategy of cost cutting and planned to shift its strategy to growing its business in the areas of data services and mobile-to-mobile calling, migrating and supplementing its former revenue streams from core national calling. When companies such as Telecom make such strategic changes, they find themselves needing to encourage their customers to embrace this shift. In turn, this provides the impetus for organisations to make sure their new customer value proposition is more than just a transactional exercise. Companies can make such an evolution a success by reviewing their core business character and revitalising the specific attributes to help them achieve the much-needed “emotional” dimension of their business value offering.

Building a strategy on customer understanding

To develop a strategy where an organisation’s values influence business value, it is crucial the organisation understands the needs and wants of its customers and community at any given time. As a company evolves and changes, external events influence what our customers’ and partners’ needs are, and encourage us to review our relationships with them to ensure that our values are empathetic to their current issues.

Essentially, what it means is that values must be aligned with customer expectations of an organisation operating in a trusted relationship. Company values must remain aligned even as the company evolves.

This in itself is extremely challenging in industries where change is regular and rapid. It is a common statement that the technology industry undergoes regular rapid change. But the technology industry is not alone. The dairy industry in New Zealand has undergone massive change over the past couple of years, as has the finance sector, as will the transport industry as the government implements its land transport strategy.

There is no doubt that as industry evolves, companies need to embrace change to forge a new kind of relationship with customers, partners, the industry and government to ensure the business value these stakeholders are wanting is being delivered on the mark.

Developing customer value intelligence

As much as organisational values need to be transparent to matter to customers, business value as defined by customers needs to matter to the organisation. It is a push-pull equation. This is because while an organisation may define its company values, it is its customers who truly define the business value of its products and services. If customers define what business value is, it stands to reason that it is important to get inside their hearts and minds to really understand what value means to them.

Such customer understanding has been described by New Zealand’s Research Solutions’ Jonathan Dodd and Phil Edmonds-Rowe (2003) as business intelligence, where “consumer values and behaviour are integrated into the system to the same extent as stock and supply-chain management, brand management, and marketing, storefront operations, HR and financial management.”

Research Solutions’ investigation into business intelligence and consumer values highlights three trends: social devolution (change and dislocation); a frustration with the increased pace of life; and a proliferation of technology that, despite the advantages, is bringing a clear sense of information overload.

What this means to various organisations will vary depending on what the business delivers. For
Microsoft, taking on board the relevant customer trends, such as the challenges that additional pace and information overload impose, or the security demands placed on organisations resulting from a more connected world, is fundamental for business success.

In response, Microsoft has raised the impetus to integrate its product and service offerings so that our customers have the value of resolving their own customer business needs. Microsoft has also shifted its entire software development and delivery time-to-market methodology to allow for closer collaboration with more customers and partners earlier in the development cycle.

As such, for organisations to tangibly demonstrate the business value proposition, they must understand both what they and their customers care about and what value propositions will appeal to their customers, remembering that, ultimately, business value is customer-defined.

2 DELIVERING ON BUSINESS VALUE THROUGH EXECUTION

Successful organisations require procedures to allow them to execute their plans in a way that maps closely to their business strategy. Robust systems are crucial for any organisation’s operations. But it is in the delivery of products or services that the company values + business value model really has the opportunity to shine through.

For values systems to be entrenched in an organisation, how we deliver becomes more important than perhaps it has been before. Too often, even companies which subscribe strongly to values-based management practices fail to incorporate their values as a core part of their business practices. They put their values on the periphery and exhibit those values only when they don’t hinder the drive for results.

Beyond the excitement about the creation and delivery of new products and services, questions that need to be answered with as much enthusiasm include: Are we delivering on time for our customers? Are we thinking about the form in which our customers may need our products and find them most useful? What specific parts of our solutions provide real value for individual customer segments? Are they getting the right level of service support when we give them the products?

If we accept that how an organisation executes is what really matters, then an organisation, through the collective behaviour and actions of its people, provides the fundamental impression of the company’s identity and mission. For there to be trust, such actions must reflect a company’s articulated values, which in turn must be aligned with customer expectations of an organisation operating in a trusted relationship. One of the keys, therefore, is in the way the organisation executes its business value.

Living the values

It should come as no surprise that New Zealanders assign most respect to companies which deliver quality products and services, build good relationships and care for their own people. This was well illustrated in the NFO/Porter Novelli Currents of Thought research, undertaken last year, that saw The Warehouse retain the top spot it gained in 1999 as New Zealand’s “most respected company”. Hubbard Foods came second and Cadbury Confectionery came third.

According to the survey, The Warehouse, Hubbards and Cadbury are examples of companies that have the mix right. They look after the critical elements of delivering consistent quality, ensuring corporate visibility, meeting the needs of employees and emphasising their New Zealand identity.
They appear to be living their values and communicating them clearly to the public. For example, The Warehouse believes it is difficult for any business to be successful unless its team members are aware of the vision and values of the company. The company also says it aims to ensure that these values flow on to its stakeholders – its customers, suppliers, shareholders and its community. It has clearly stated its strategy toward business sustainability as focusing on three key areas:

1. **Ourselves**: how can we improve how we do business? We can develop ourselves through group policies, training and fostering change.

2. **Suppliers**: we can influence our suppliers to reduce the environmental impacts of their activities and products.

3. **Our customers and our community**: we can raise our customers’ and our communities’ awareness of relevant issues.

Not only is The Warehouse clear on what its strategy is, but it is also taking its business sustainability message to the community by getting involved in many environmental projects including Zero Waste, Customer Recycling Centres, Clean Up New Zealand, Project Kiwi and others.

Living values is a major challenge for companies which may have historically focused solely on “the big idea” or getting their product line to market. Microsoft has certainly focused on its product platform on its path to success, but I like to think that, as an organisation, we have also made an incredibly important step forward toward the company values + business value model.

For example, Microsoft has come to the realisation that its mission is in the way it can help realise people’s potential. From taking on industry initiatives such as trustworthy computing toward creating a more secure connected world, to digital opportunities projects around New Zealand to equip students with lifelong skills relevant for a knowledge-based economy, the improved clarity about the company’s business mission has helped Microsoft people make better decisions; by understanding that the choices they are empowered to make ultimately define Microsoft.

Something I have taken on board is that value is a mindset, not just a set of models and processes. I believe we cannot offer value to our customers without first understanding our own company values and knowing precisely who we are as an organisation and what we stand for. From a financial viewpoint, a values + value model also allows a company to work through difficult unplanned economic downturns or industry issues, as it is a model that allows for and, in fact, thrives on flexibility and change.

### 3 Achieving a High-Performance Culture Through Values

The development of an organisation’s culture looks to be slowly but surely shifting from a soft option to the real option as illustrated by its status as one of the four primary management practices listed by the Evergreen Project.

Defining culture as a business fundamental balances an organisation’s management framework between the people focus and the product or service focus.

A high-performance-orientated culture based on well-defined values clearly provides business results. For example, Richard Barrett, author of *Liberating the Corporate Soul* (1998), contends that values alignment leads to financial success. In his article, *Cultural Capital: The New Frontier of Competitive Advantage*, he provides examples to support his assertion that companies which are rated as the “Best Companies to Work For” and have strong adaptive cultures based on shared values also consistently provide greater shareholder return.

His line of reasoning is backed by Kotter and Heskett in *Corporate Culture and Performance* (1992). They showed that over an 11-year period, companies which focused on leadership development grew four times faster than companies which did not. They also found that these companies had job creation rates seven times higher, stock prices that grew 12 times faster and profit performance 750 times higher than companies which did
not have shared values and adaptive cultures.

The agreement on what constitutes values-based behaviour in any organisation is not easy. To work, it needs to be both a top-down and a bottom-up effort. Apart from the organisation itself, both staff and management need to work wholeheartedly together to embrace a company’s core values.

According to the Evergreen Project, in winning companies everyone works at the highest level. These organisations design and support a culture that encourages outstanding individual and team contributions, one that holds employees – not just managers – responsible for success. The best way to hold people to such high standards, therefore, is to recognise and reward achievements.

In its evolution toward a values + value company, Microsoft is embarking on a new frontier by having all employees’ performance assessed not just along the lines of achieving financial targets, but also on the delivery of customer satisfaction and partner collaboration experiences.

My belief is that if values are a mindset, then expressing values is a skill set and, therefore, that is the portion that can be reasonably assessed. For any such performance assessment to work, it is important for organisations, even those with strong values, to provide staff with the necessary support infrastructure, including clear goal setting and measurement to values-based workshops, to ensure that employees can acquire the necessary skill competence to live the organisation’s core values.

4 CONSIDERING VALUES IN ORGANISATIONAL STRUCTURES

Many versions of organisational structures depend on the function, geography, products a company sells, or issues a company faces. The key is to keep it simple and to align it to the company values and business value.

Organisations should take into consideration what they know of the customers’ view of business value when considering their structure. My experience has been that agile organisations that can respond quickly to changing customer needs and changing market environments usually have a reasonably flat structure. This is supported by the findings in the Evergreen Project in that winning companies trim every possible vestige of unnecessary bureaucracy – extra layers of management, an abundance of rules and regulations, and outdated formalities. They strive as much as possible to make their structures and processes as simple as possible, not only for their employees but also for their vendors and customers.

The thinner the layer between a customer and the organisation, the more transparent the organisation’s values can be to its customers, making it possible for it to be more readily understood. At the same time, a flat organisational structure usually simplifies work and enables an organisation to shift gears quickly based on customer-defined business values.

A flat structure certainly has been instrumental in Microsoft’s success. It allows employees to be empowered to innovate and respond to customers. Naturally, to make good decisions, employees also need to have access to relevant and up-to-date information. As winning companies in the Evergreen Project show, those which support a high-achieving culture will be willing to spend the necessary time and resources and invest their energies in programmes and technologies designed to eliminate structural boundaries and ensure internal cross-team collaboration to the benefit of external customers and partners.

SUSTAINING SUCCESS INTO THE FUTURE

Specific organisational practices require regular review if they are to survive. I believe the successful organisations of the future will be those...
which develop a strong values culture and thread their values throughout and excel in the four key business basics of strategy, culture, execution and structure, and two of the secondary practices.

What is interesting about the NFO/Porter Novelli Currents of Thought research results is how some companies’ rankings changed in just three years. For example, known values + value-centric firms such as Hubbard Foods went up three places in 2002 from its fifth ranking in 1999, and Cadbury Confectionery also went up from its 1999 ranking. This is a good reminder that unless company values are constantly reflected in our interactions with customers, business value perception cannot be readily achieved.

I am of the opinion that inherent in every company is the foundation for being a company values + business value-driven organisation. Since companies usually start out with a common purpose – whether it is founded on the basis of someone’s bright idea or business acumen in sensing an opportunity in the market – the company’s fundamental purpose should always be present, even if it has to be rediscovered.

In reviewing that purpose, a company is also likely to uncover its core character and related business attributes that set it on the upward path to success. As markets and environments change, so do customer expectations. Therefore, companies which are high achievers and want to sustain their success will need to be prepared to re-engineer themselves by reviewing the intrinsic company values that are embedded in their business character.

Only through a willingness to continually evolve from its core can an organisation create true value from values.

REFERENCES