



Presentation

# Values Create Value

Why Corporate Values Matter

Berlin  
14<sup>th</sup> October 2004

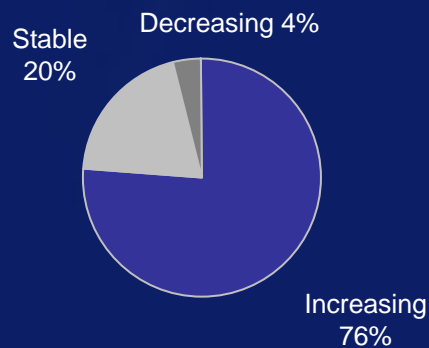
# This presentation covers three main topics

- ▶ Management of corporate culture and values ultimately impacts company performance
- ▶ There are examples of companies that are successfully managing their corporate culture and values
- ▶ Corporate culture can be operationalized and managed in an integrated approach

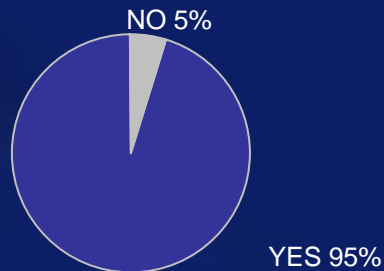
# CEOs strongly believe that a corporate culture embedded in values is critical for company success

## Significance of corporate values for CEOs

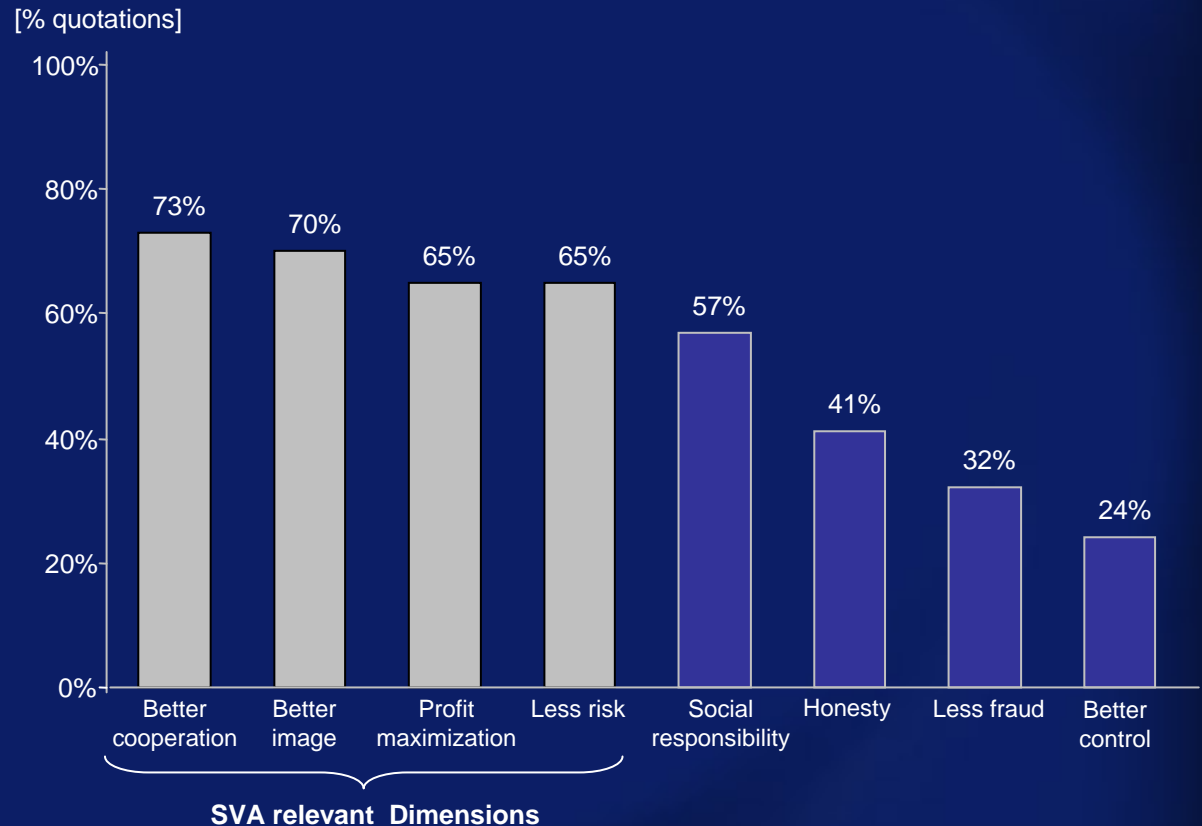
How do you rate the importance of values for the future ?



Do you believe, that values create economic benefits ?



Which types of benefits do you see?

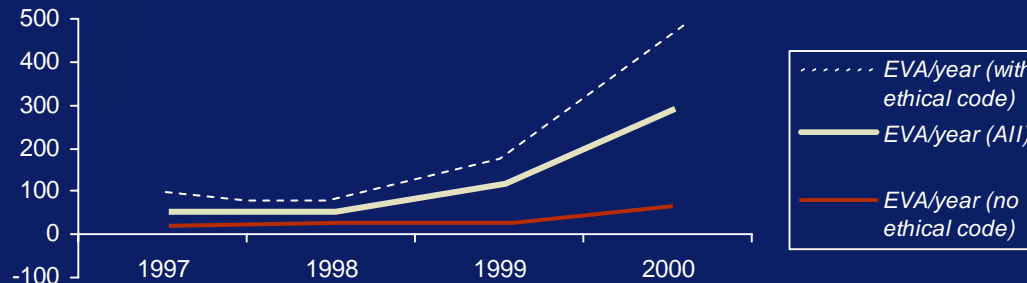


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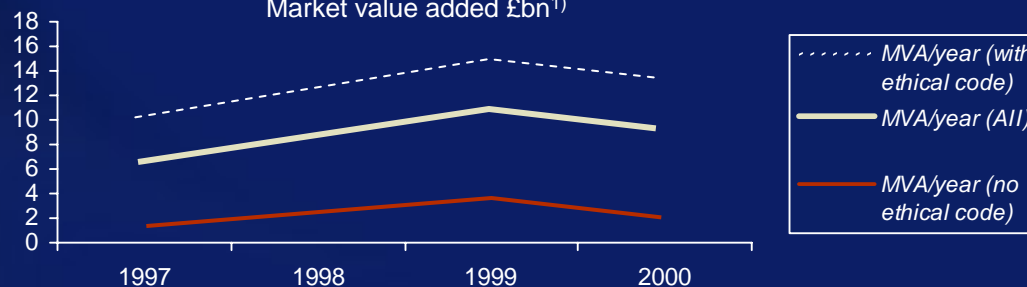
# International research confirms the positive impact of values based management on company value

## UK-Study: „profits from the righteous path“

Is having an ethical code consistent with the generation of more added value?  
Economic value added (EVA) £m<sup>1)</sup>



Is having an ethical code consistent with enhanced market added value?  
Market value added £bn<sup>1)</sup>

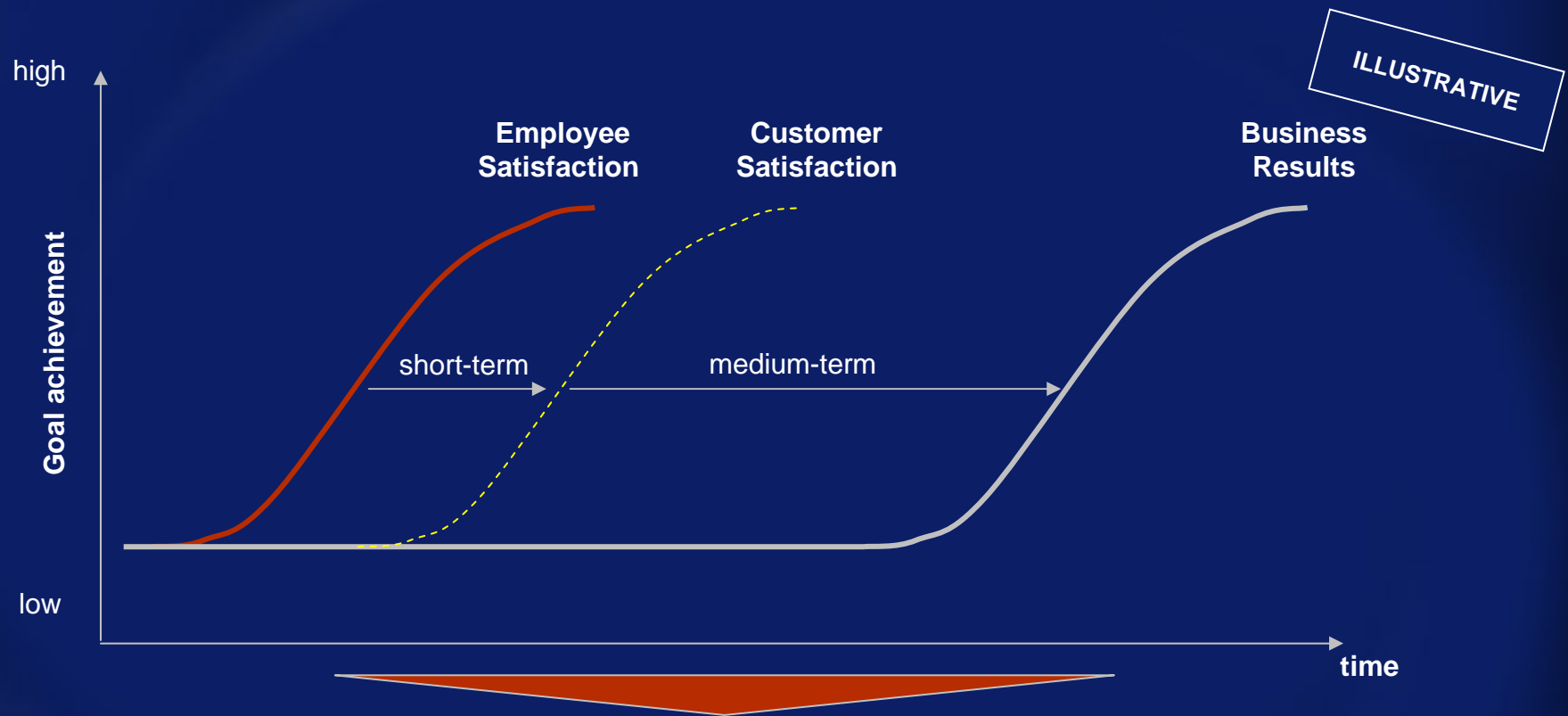


### Structure of the survey

- ▶ FTSE 250
- ▶ Selection of companies that - for more than 5 years - have had a code of ethics
- ▶ Plausibility check with
  - Risk ratings
  - Employer rankings
- ▶ Key indicators/ratios that were assessed:
  - Economic Value Added (EVA)
  - Market Value Added (MVA)
  - Price/Earnings Ratio
  - Return on Capital Employed (ROCE)

1) Per year for major UK companies  
Source: Institute of Business Ethics, UK, 2003 (FT 03.04.2003)

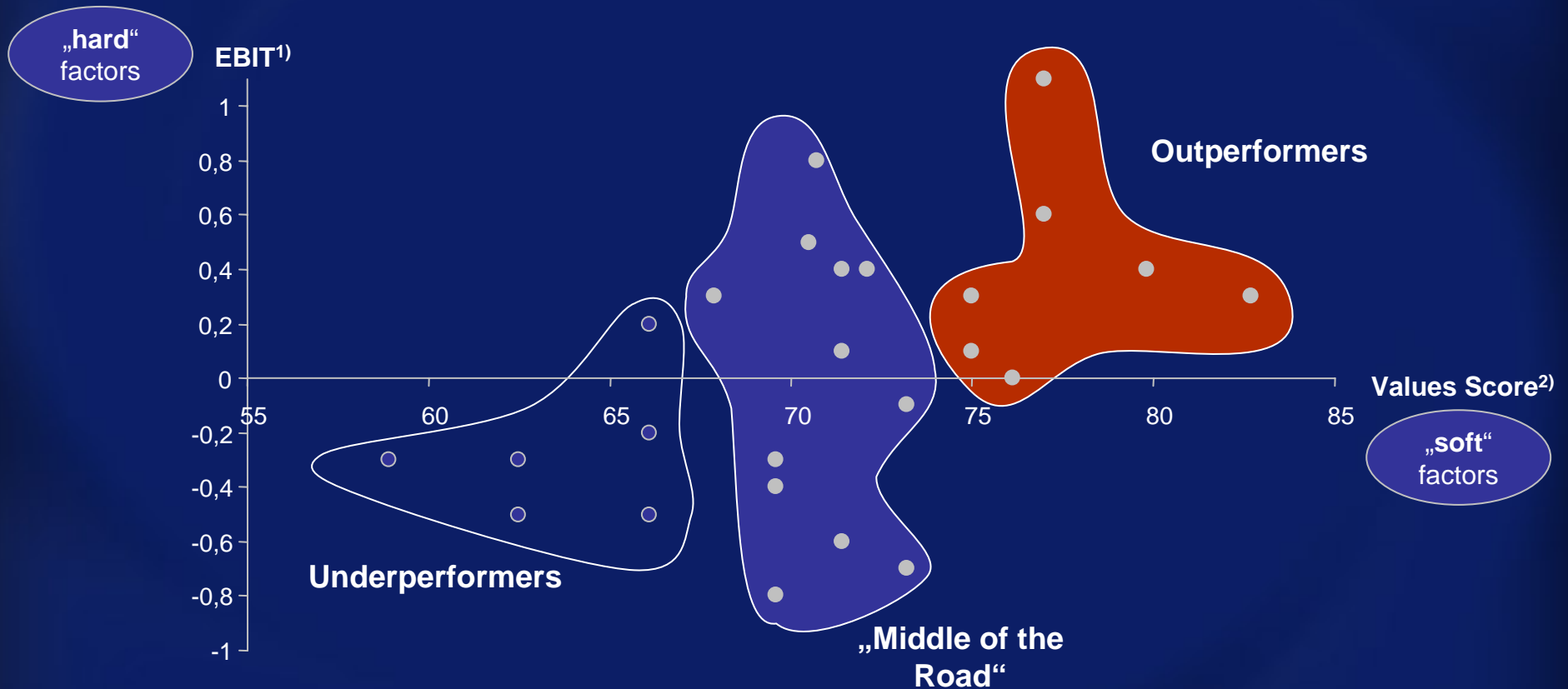
# Many companies find quantitative evidence of values impact on their business results



- ▶ Continuous measurement of all three indicators at Business Units
- ▶ High correlation ( $r^2$  of approx. 0,9)
- ▶ “If you want to impact your business results, you better start at the employee level”

# Also Booz Allen Hamilton, in its work with the Bertelsmann Foundation has found a clear relation between company culture and performance

Relation between results of a company values analysis and company peer performance  
 – 26 companies –



1) Company Performance relative to EuroStoxx Sectorindex. Result >0 means outperformance. Considered time interval: 10 years  
 2) Results of an analysis of company values performance, recently researched jointly by Bertelsmann foundation and Booz Allen  
 Source: Booz Allen Hamilton, Bertelsmann Foundation

# There are examples of companies which manage their values and culture very well



- ▶ Premium Car Manufacturer: 105.000 employees, EUR 41,5 bn turnover
  - Sustaining core cultural strengths whilst growing to become a global player (“not the biggest but the best”)
  - Building trust and commitment



**Lufthansa**

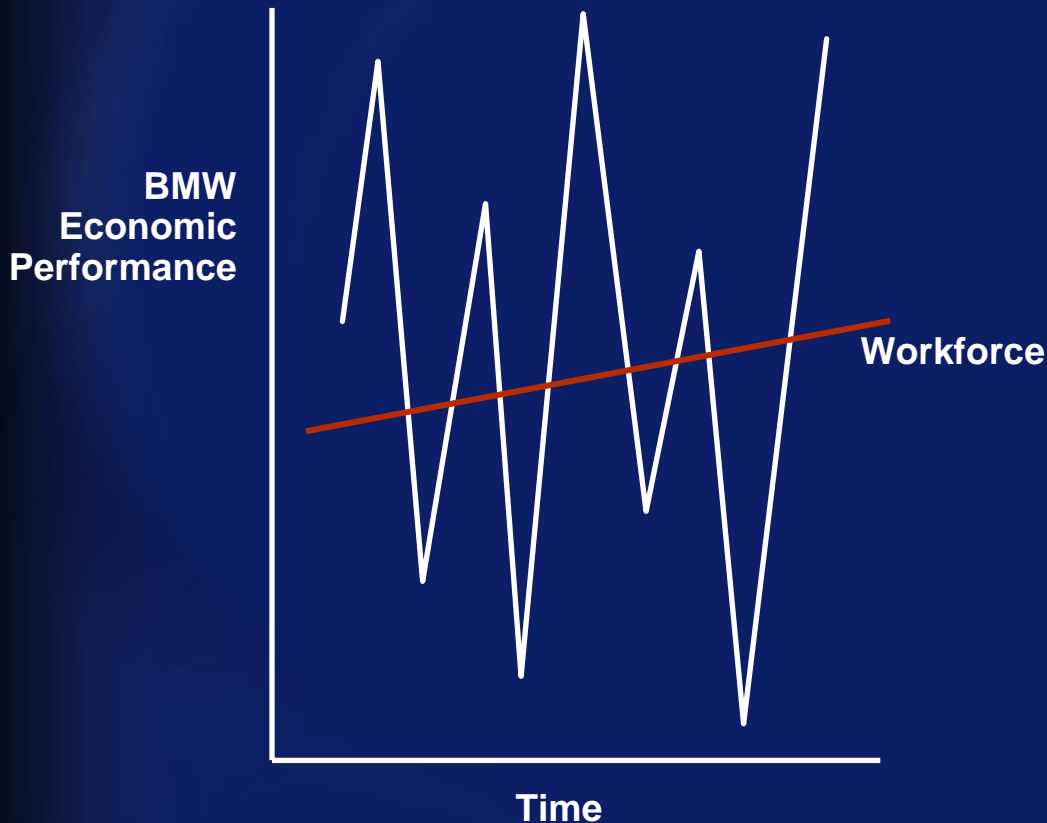
- ▶ Global Airline Player: 93.000 employees, EUR 16 bn turnover
  - Living through continuous change
  - Integrating strong individual cultures into one common culture
  - Maintaining identity and pride in a highly outsourced value chain (“one brand”)

**HILTI**

- ▶ Leading worldwide Producer of Building Products : 16.000 employees, CHF 3 bn turnover
  - Implementing a values based management approach across the full business management cycle
  - Systematic alignment of values in norms, instruments and processes („love it or leave it“)
  - Sustaining leadership beyond the individual leader



# BMW: Building trust and commitment

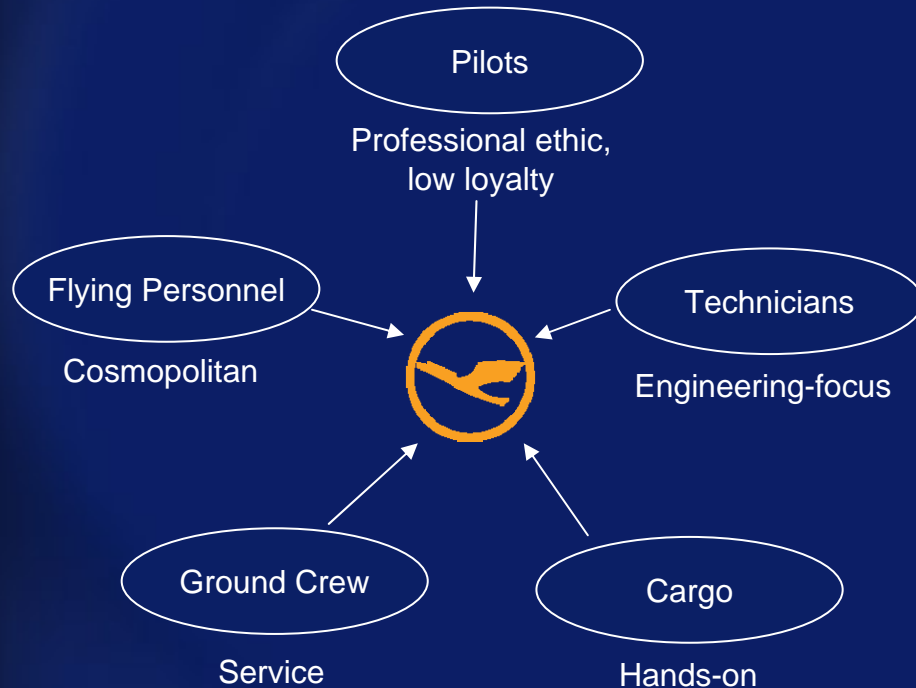


- ▶ High consistency in leadership style and management behavior (predictability)
- ▶ Strong involvement of employees in change process and establishment of common rules and guidelines; strong performance contract
- ▶ Formal pact not to lay off people on a short term basis (no lay-offs in almost 40 years!)
- ▶ Instead highly flexible agreements, e.g employees potentially deployed in other locations or working overtime in peak periods



- ▶ Very high identification of employees with BMW (>96%)
- ▶ Very low employee turnover of ~1%

# Lufthansa: Uniting different individual cultures



## “Always on alert”

- ▶ Crisis management as daily business (“Forming the troops against the enemy”)
- ▶ Series of ongoing improvement projects (e.g. “D-Check”) throughout the company

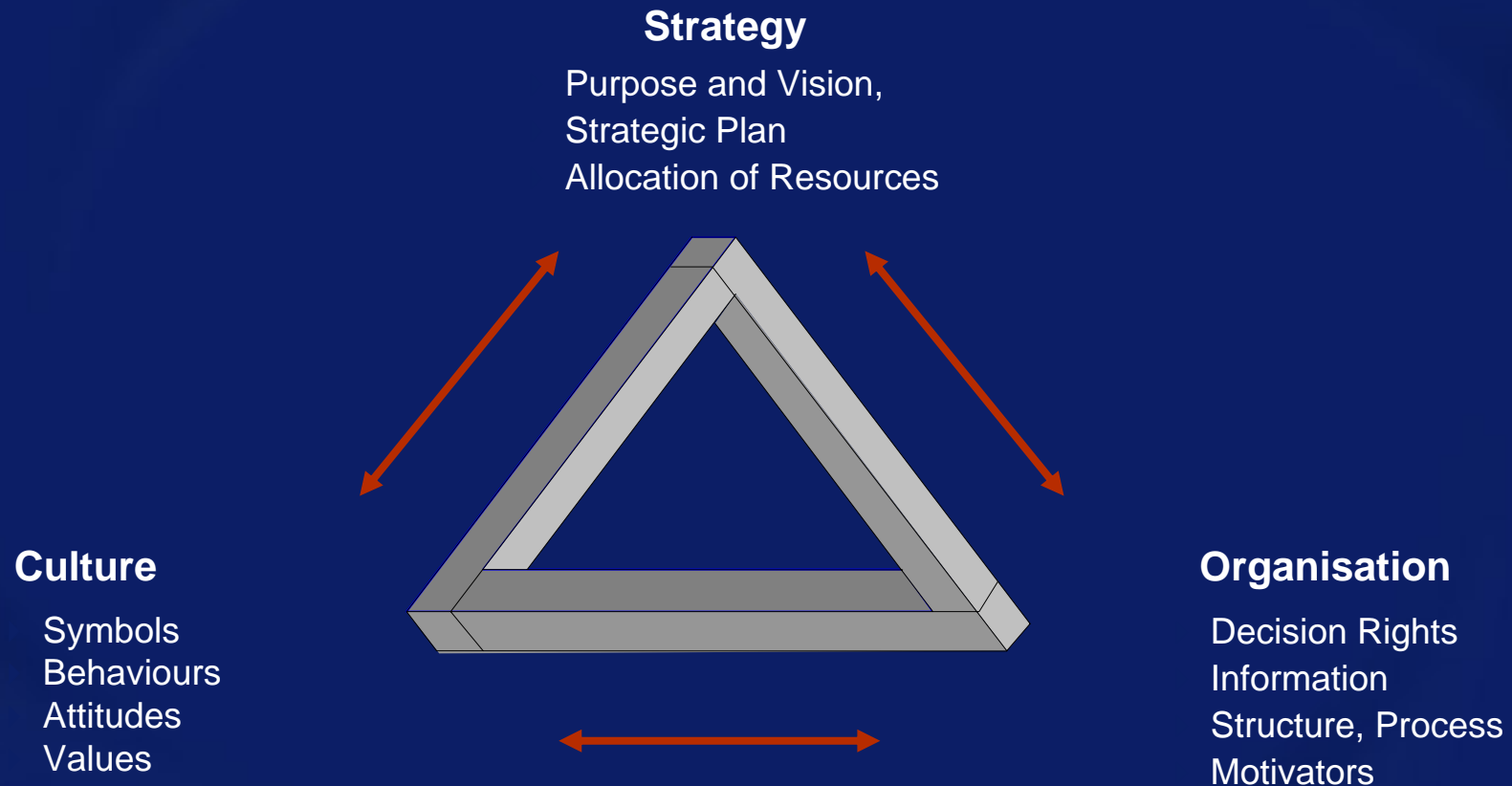
## “Learn to know each other”

- ▶ Systematic job rotation between sub-groups (e.g. pilots into administration)
- ▶ Sending out “Ambassadors” to bridge between the different cultures

## “We are one family”

- ▶ Strong Corporate Identity built around an easy symbol: the yellow Lufthansa badge !

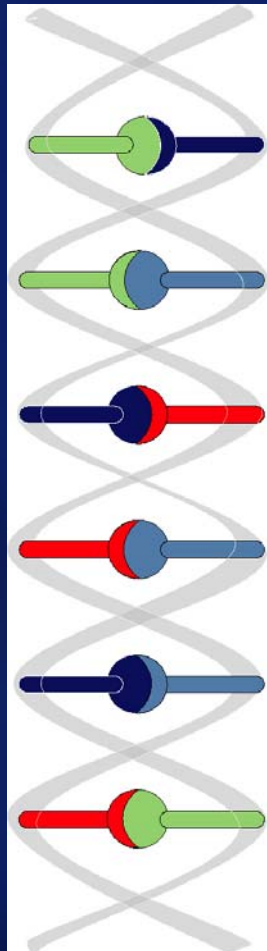
# Values should not be seen in isolation; an effective alignment of Strategy, Organisation and Corporate Culture is needed



# Especially the four building blocks of the company's "Organizational DNA" need to be optimized as culture enabler

## The Four Building Blocks of Organizational DNA

## Key Questions



### Decision Rights

What is the role of Corporate vs. Operating Units?  
Where in the organization should various decisions be made, and by whom?  
How are decisions made and what is our decision-making culture – Consensus vs. Mandate?

### Motivators

What objectives, incentives, and career alternatives do people have?  
How is performance monitored and people evaluated?  
How are people influenced by the company's history?

### Information

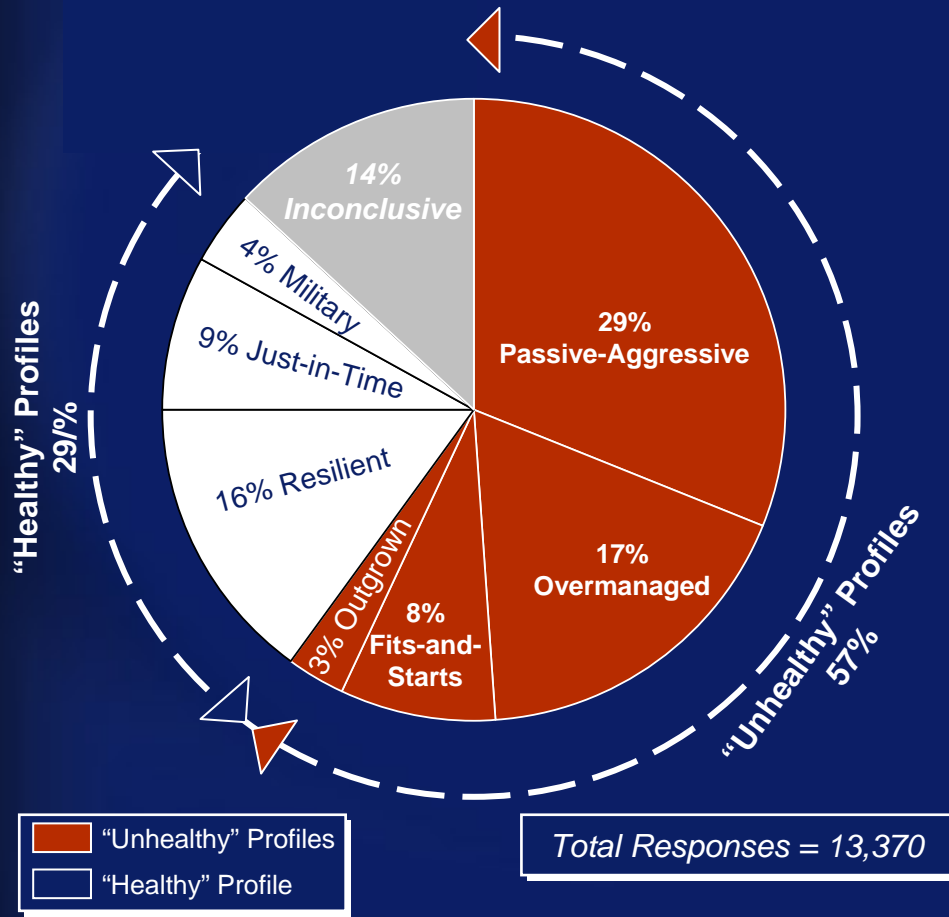
What metrics are used to measure performance?  
How are activities coordinated, and how is knowledge transferred?

### Structure

What is the overall organizational model?  
What are the formal and informal reporting relationships within the company?  
How many layers of management exist and what are the typical spans of control, by functional area?

# Based on our extensive research, few organizations have a “healthy org profile”

Org DNA Cross-Industry Responses

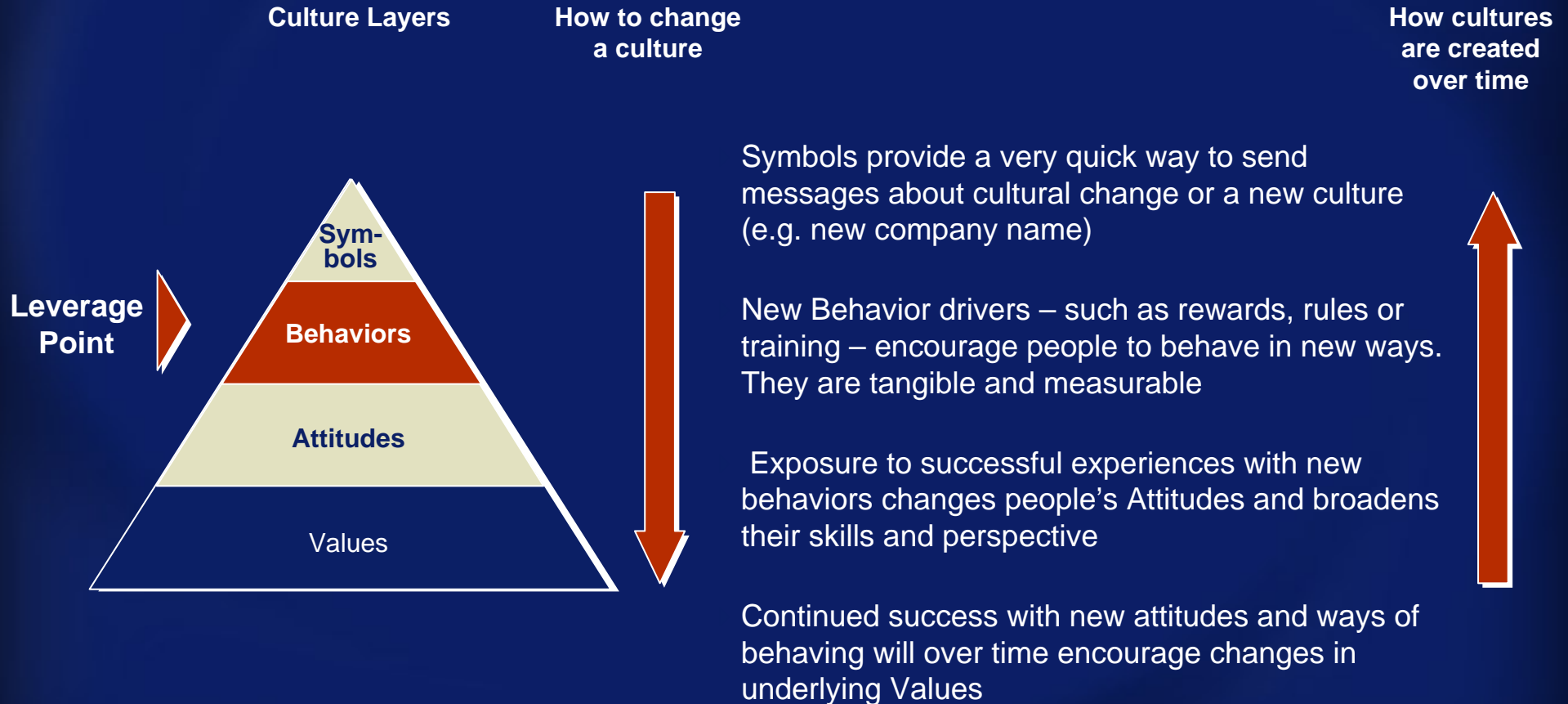


Organization DNA Type

<b>Passive-Aggressive</b>	"Everyone agrees but nothing changes." Line employees tend to ignore mandates from headquarters, assuming "this too shall pass".
<b>Over-managed</b>	"Analysis paralysis." When it does move, it moves slowly and reactively, pursuing opportunities less vigorously than competitors.
<b>Fits-and-Starts</b>	"Running in a million different directions." Scores of talented and motivated people who often do not pull in the same direction at the same time.
<b>Outgrown</b>	"Bursting at the seams." Too large and too complex to be effectively controlled anymore by a small team of top executives.
<b>Resilient</b>	"Adaptive to market changes" yet "steadfast" in business strategy. This forward-looking organization anticipates changes routinely and addresses them proactively.
<b>Just-in-Time</b>	Ability to "turn on a dime" when needed. Can miss opportunities, but only by inches rather than miles.
<b>Military</b>	"Command and control" by a small group of senior managers. Succeeds by sheer force of senior management's will while middle management's bench can be shallow and short-lived.

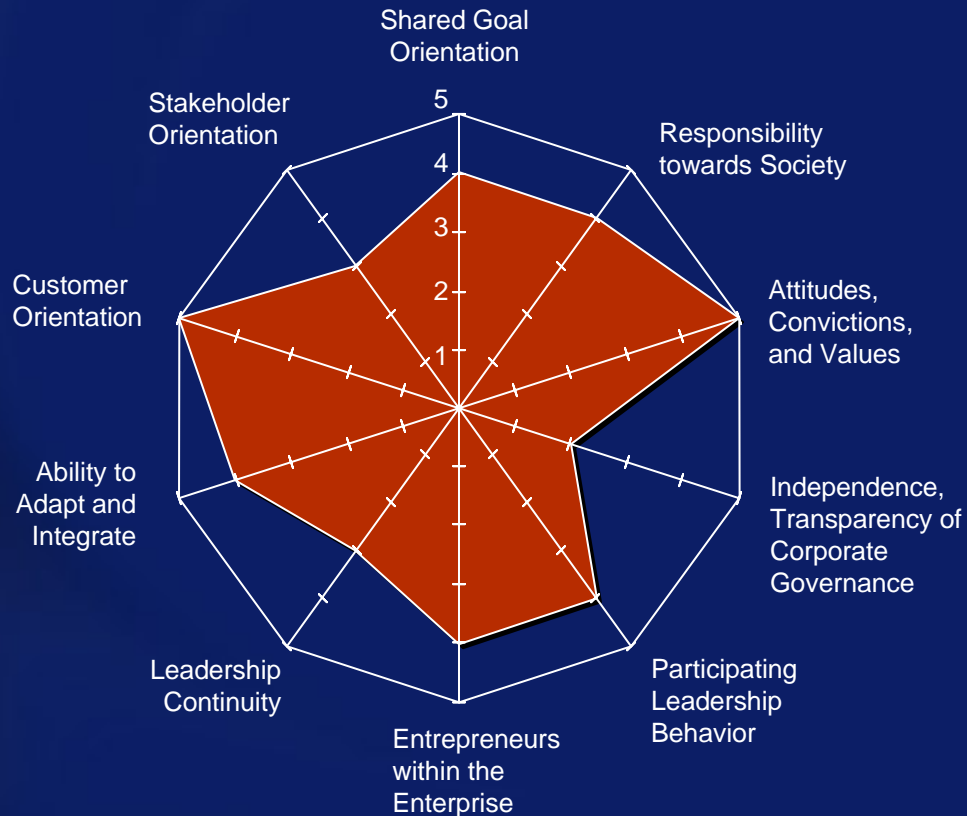
# Behaviors are the strongest leverage points to influence company culture – they are tangible and measurable

## How Culture Works ...



# „White spaces” in the company profile need to be understood and fixed

## Mapping the company status quo



## Take aways

- ▶ Position/ change over time
- ▶ Position against best in class
- ▶ Identification of specific remedial action:
  - ▶ key levers for change
  - ▶ enabling tools (Instruments, Processes)
  - ▶ new behaviors, e.g. allowing learning from errors (Culture elements)

# Management has to clearly identify the current and define envisioned behaviors/culture – and then take action towards it

“Making cultural Choices: Example: from Innovator to market Speedboat”



# In summary, we believe that corporate culture can be managed

- ▶ Corporate Culture is not something that stands above the company, but is an integral part of the way a company does business
- ▶ The areas in which corporate culture shows are the key managerial dimensions of the company
- ▶ To influence corporate culture, the behaviors of management and staff have to be addressed and changed
- ▶ Change starts at the top
  - Trust and effective decision making in leadership team
  - Agreement on case for necessary change
  - Shared cultural vision (core values, cultural center, “new “ behaviors)
  - Clear roadmap
- ▶ Clarity, Consistency and Consequent Behavior are maybe the single most mission critical ingredients

# A pragmatic approach could look like this:

- ▶ Clarify what's there
  - Complete base line of what the company has already initiated
  - Map base line against the integrated corporate culture framework
  - Establish current state of values alignment („check up“)
- ▶ Clarify where Company wants to be
  - Understand strategic goals and market positioning
  - Understand inherent cultural strengths and critical issues
  - Define desired /target culture for total entity to support strategy
- ▶ Close the gap
  - Identify gaps and deficient areas
  - Define action program to drive alignment /develop corporate culture in deficient areas