



Why the V-Zone®? The Bottom-Line on Corporate Values By Amie Devero

A few years ago, a national social membership club was experiencing a new member cancellation rate of about 10%. Despite their iron-clad membership contract, cancellations were permitted because state law guaranteed consumers a three-day thinking period.

When customers mailed in their cancellation notices, individual clubs were expected to issue a credit to customers' credit cards and void their membership agreements. Each cancellation ran between \$500 and \$3700, and, until refunded, was reflected in the cumulative branch sales report for the month.

Problems arose when sales managers stalled credit card in order to inflate sales figures. The practice was technically legal (merchants have up to 30 days to issue credit card refunds) and the pressure was strong from top management to "keep the numbers up" while talk of a buyout by a multinational corporation took place. Additionally, the sales manager's bonus of a company car was based on exceeding sales goals.

Despite numerous customer complaints, the manager continued to delay processing refunds. His rationale was that meeting sales goals, and winning bonuses for the sales department, was the primary goal and, since it was legal, he was justified in holding onto customers' money until the last moment.

Eventually, an angry customer contacted a local television station to complain about the company, resulting in an expose. The story was picked up by a local newspaper, then national newswire services and was finally included in a Dateline story about membership scams, never mentioning that that it was perfectly legal to hold refunds for thirty days.

The impact of the bad publicity was quick. The sales for the month dropped by 40% and cancellations doubled as negative word of mouth grew. And though the company was purchased as expected, the new management team could not salvage the business and was forced to sell it back to franchisees for pennies on the dollar.

***The practice was technically legal
and the pressure was strong
from top management to "keep
the numbers up"***

How Values Impact the Bottom Line

In light of recent corporate scandals, a discussion is emerging about corporate values and their role in fulfilling corporate financial goals. Although much has been said about compliance and averting fraud through legislation, what also needs to be explored is how corporate values can be harnessed to build profitable, sustainable organizations.

When corporate values serve as a foundation, businesses gain a strategic advantage that shows up in the financials. Whatever those corporate values are, when they are real they impact the bottom line in a variety of ways, including:

- ? Avoid penalties, fines, law suits and criminal penalties
- ? Build employee loyalty, reduce hiring and training costs
- ? Reducing theft and other anti-company activity
- ? Drive customer loyalty and sales
- ? Create community good will that can lend support for tax advantages, recruitment opportunities and strategic alliances
- ? Attract quality applicants with less search investment
- ? Maintain loyal vendor relationships reducing loss of suppliers or unexpected cost increases

Values encompass many qualities, commitments and traits. Some dictate morality, such as integrity and honesty, but at a corporate level it's also useful to consider values relating to a company's relationship to its community or its global citizenship. In fact, values can include any principle that could guide behavior. For example, at Timberland, throughout the entire company, it's evident that "doing well and doing good are inextricably linked". That simple statement articulates a value that is at the core of many decisions and choices made at Timberland. For example, its *Path of Service*[™] program gives Timberland employees 40 hours of paid time-off every month to serve in their communities.

When corporate values serve as a foundation, businesses gain a strategic advantage that shows up in the financials.

The key to being values-based, or as we say, to being in The V-Zone, has little to do with *which* values and everything to do with whether those values are the *actual* guiding principles, or just empty slogans. In the opening example, the company published values such as *caring and customer service*, but its *real* guiding value could be summarized as, "Make the numbers!"

Along with avoiding direct financial hardship, research also shows that a V-Zone approach can actually benefit the bottom line.

According to Arthur Levitt, former SEC Chairman, "ethical behavior and governance are as important to business as productivity". The Dow Jones Sustainability Group Index reports that companies using "triple bottom line" measures of economic, environmental and ethical sustainability outperform other companies in the stock market.

In another study, Burson-Marsteller established a link between a CEO's corporate reputation and the company's ability to attract investment capital, recruit the best employees, and earn the benefit of the doubt in times of crisis. The study also showed that a CEO's reputation for "ethical practices" enhanced the company's ability to increase shareholder value.

Addressing the concerns of all stakeholders is increasingly driven less by the threat of government intervention and more by the stigma of being branded an unethical enterprise. A 2001 Cone Corporate Citizenship Study found that 76% of Americans surveyed would boycott a company's product or service if they found that the company had negative corporate citizen practices. **So despite the fact that business skeptics may scoff, focusing on values rather than solely on profit, revenue, sales or stock value does**

seem to reduce problems and produce superior financial results.

Companies using "triple bottom line" measures of economic, environmental and ethical sustainability outperform other companies in the stock market.

Taking an Organization into The V-Zone

Unfortunately, many companies claim to have corporate values but fail to communicate or promote their values in a meaningful way. After all, Enron had "Respect, Integrity, Communication, Excellence" as part of its former values statement, hardly the guiding principles for Enron's senior management.

Creating a culture that "lives" the values at all levels of an organization—a V-Zone organization-- is the best way to reap the bottom-line benefits. But this is only possible through values-based management. Just as most businesses have systematized Total Quality Management practices (TQM), creating metrics, policies and practices that reinforce the need to raise quality standards, creating a values-based organization demands the same level of systematic attention.

Southwest Airlines can be seen as a V-Zone organization. The three core values, 1) Work should be fun—even playful—so enjoy it; 2) Work is important--don't spoil it with seriousness; and 3) People are important—each one makes a difference are translated into business practices and underlie a philosophy that explains, in part, Southwest's financial success. Amongst its unconventional, but values-reinforcing policies, Southwest hires those with the right attitude and then trains them in job skills.

In our consulting work, we have identified a series of traits that indicate that a company is in The V-Zone.

1. *Values are strategic tools.* The best time to develop values is after establishing a company vision and the financial and non-financial measurements that would distinguish that goal. Certain values must drive behavior to generate those results. Values are ideally generated in response to the question "what values will we need to accomplish our vision?"
2. *Values are clearly defined.* Everyone in a V-Zone organization must understand and share the same notion of the stated corporate values. If *integrity* means "transparency and honesty," it must be universally understood as that and practiced at all levels of an organization. Discuss and document what is meant by each value. Circulate the values to the entire company, or present it in a company meeting.
3. *Values-based management.* V-Zone organizations develop specific practices, rituals and activities that reinforce established company values for everyone. Requiring, for example, that as matter of policy credits be issued within 24 hours of a customer's cancellation request, and enforcing discipline or dismissal for violators, would have generated a different outcome within the company cited in the early example.
4. *Measure it.* Use company-wide metrics to track the fulfillment of values and use milestones to track improvement. For example, if a stated value is *accuracy*, it is important to measure the number of errors in all reporting and have milestones for improvement accompanied by a process for auditing and correcting errors. If *fun* is a value, then perhaps measuring the number of social events or employee morale with surveys or by tracking absenteeism if it is believed to be linked to morale.
5. *Pay for Principled Performance.* Values play a role in all performance reviews. For example, if customer satisfaction is a value, measure and reward employees who have the best track record for customer complaints, as well as those who are effective at resolving customer concerns. This may require a change in practice, such as the addition of a 360^o reviews. That's how V-Zone companies show that *everyone* is empowered and required to choose a value over an expedient action.
6. *Foster an "Open Question Mindset."* Values-based companies understand that they will *never* succeed at perfectly applying their values. They view values-building as an ongoing process, and look for ways to better fulfill their values by actively searching for contradictions, breaches, violations or weaknesses through regular audits of their practices and policies. When they find those breaches they are honest about them and correct them.

During the 1990's Sears demonstrated for itself that there was a link between employee morale and the resulting customer environment, correlating it to increased revenue. They continue to value employee satisfaction and believe it is a driver of financial success. In light of that core value, Sears has an annual employee survey called "My Opinion Counts" that tracks key indicators of employee satisfaction (which includes ethical and strategic issues) allowing the company to adjust and improve. The survey also demonstrates the need for everyone actively to reinforce and report breaches in the values.

When everyone in a company champions its values by openly finding, reporting and repairing breaches, the company's values will thrive and all the necessary structural and operational actions will ultimately be taken.

Values Start At The Top

Management must become living examples of a company's values. When James Granger was hired as CEO of Norstan in 2000, he was required to resurrect a company that had lost its way after an interim executive team allowed its values-based philosophy to languish. The company was losing \$8m per quarter, had \$80m in debt, and was, in Granger's words "within days of filing".

While planning the first all-company meeting, Granger's fellow executives warned him not to share Norstan's cash position with employees. But Granger explained that because Norstan had integrity as a value, he had to be forthright with the company's true financial picture.

Granger's honesty motivated employees to seek ways to help turn the company around. By embracing *all* of Norstan's values: integrity, collaboration, initiative and profitability, employees understood when Granger had to delay raises by a full quarter. Granger was equally honest with his vendors. By the first quarter of the following fiscal year (2001), profitability had been restored and debt reduced from \$80m to almost none, ultimately improving stock value and the profitability of the company.

When executives demonstrate those values employees understand their true importance and can take responsibility for their own values-based behavior.

An Ethics Resource Center study found that 90% of employees value leaders with integrity as highly as they value income. When executives demonstrate those values employees understand their true importance and can take responsibility for their own values-based behavior.

"When any choice must be made by management—it should always be based on a consideration of whether it reinforces the company values," says Kevin Francis, CEO of CenterBeam. "Management must be rigorous in setting a consistent example for all in the company to follow."

One of our clients created a long-term goal to have every employee become a millionaire 30 years later, if still with the company. The values needed to accomplish this goal included frugality and super-high productivity. Employees embraced these values in large part because they were visibly practiced by management. The CEO and CFO made average salaries for the market, drove a Mitsubishi and Toyota SUV respectively and dressed in off-the-rack suits. They were seen as being true to the value of "frugality", despite the huge financial success of the company.

Being values-based is in the self-interest of any CFO. Because CFOs are responsible for all public financial accountabilities, they shoulder a disproportionate responsibility for legal compliance. But when sales reports are transparent, CFO's needn't perform internal due diligence or worry about the internal consistency of the reporting. The same goes for policies regarding the way sales are recorded, returns taken, proposals negotiated, payables handled and receivables collected.

CFO's can champion values by making changes to policies and practices in their purview and by being highly communicative about doing so. This creates the way for the rest of the company, especially those within the finance area to do the same. Consider auditing entire processes, starting at the lowest level of transaction or activity and working your way up from there. You will unearth inconsistencies, and with them, opportunities for correction.

At Matthews Construction, for example, executives demonstrate their commitment to values every time they have a bid accepted by an architect or developer, by never renegotiating with a subcontractor at that point. Sometimes it means that they make a smaller margin than they hoped. But the pristine reputation they have developed with every vendor, buyer and observer of the construction industry is worth more than the potential short-term gain.

Finally, values-based organizations must invent metrics that track adherence to company values. They must go beyond traditional financial reporting styles to include non-traditional areas such as the environment, social performance, work environment, employee morale and any other area implied by their own values.

This article originally appeared in Financial Executive Magazine's May 2003 edition.