

# VALUES CAN AND SHOULD DRIVE RETURN ON INVESTMENT

## INSIGHT

The Commonwealth Bank of Australia and Optus Telecommunications have two things in common:

- 'Integrity' as one of their core values
- Behaviour not readily associated with integrity

Despite having 'integrity' as a core value, the Commonwealth Bank has experienced a number of scandals including those related to superannuation, insurance, lending practices and money laundering and is now fronting a potentially embarrassing Royal Commission explaining behaviour that many people, might not readily associate with integrity.

Other values of the Commonwealth Bank include, accountability, service, collaboration and excellence. Recent media reports could lead to questioning of the extent to which these values are reflected in behaviour.

Despite having 'integrity' as a core value, in 2011, Optus was fined \$5.26 million for misleading advertising, a behaviour few would readily associate with integrity, especially given that advertising is an entirely planned process. In 2015, Optus was fined \$51,000 for alleged false and misleading representations about broadband internet speeds, also not readily associated with integrity.

Other values of Optus include, customer focus, challenger spirit, team work, and personal excellence. The experiences of many in business would also bring into some doubt the extent to which these values are reflected in behaviour

This commentary is offered not to criticise or defame the Commonwealth Bank or Optus Communications, but rather to support the proposition that - core values need to be reflected in behaviour and not just incorporated into lists, circulated to staff, shareholders and the community

These two examples also highlight the fact that – 'integrity' while an all too commonly used core value, is arguably the least understood and least commonly reflected in behaviour

Google defines integrity as, 'the quality of being honest and having strong moral principle' and 'the state of being whole and undivided'.

This paper offers no comment on whether The Commonwealth Bank or Optus Communications are whole and undivided. It does however suggest that there is evidence suggest that both businesses might fall short of expectations in terms of being honest and display strong moral principles.

It is further contended here, that such a perception, real or imagined will have a negative impact on all target audiences, both internal (staff and shareholders) and external (customers and regulators).

## **PROPOSITION**

The central proposition here is that:

- Values can and should drive return on investment.

It is suggested that no factor impacts more directly on the productivity, sales, margins and overall performance of an organisation than its core values

Advertising executive Roy Spence said it best in the title of his best-selling book – ‘It is not what you sell, it is what you stand for (that drives profitability)’. Values and their coming to life in behaviour must demonstrate what the organisation stands for.

Further, as Spence notes in his book, performance, including productivity, sales and margins are maximised when the values lived by the organisation match those held by the target audiences.

It is proposed here that maximising the impact of values on the return on investment requires:

- Defining the optimal values
- Leveraging those values

## **CORE VALUES**

For many organisations core values are a list of motherhood statements placed near the front of the annual report or business plan.

For Coles, that list is:

- Our customers come first always
- We support each other to get things done
- We take pride in the service we provide
- We constantly strive to do better

Google defines core values as; ‘the fundamental beliefs of a person or organization’

Readers can judge for themselves whether the core values Coles articulates are reflective of the fundamental beliefs of the staff at Coles, or indeed the management.

Googles goes on to note that core values are ‘The guiding principles that dictate behaviour and can help people understand the difference between right and wrong’

Readers can judge for themselves whether the core values of Coles are reflected in the behaviour of the business or its people.

To help with that consideration readers might bear in mind that in 2015, Coles was ordered to pay penalties of \$2.5 million for making false and misleading representations in relation to its bakery products, and in that same year had to refund \$12 million to suppliers following a Federal Court ruling that the company had been involved in unconscionable conduct in 2011.

While many businesses view values a motherhood statements, others understand that they can and should be so much more than that. Values can and should be a driver of performance and profitability. But they can only be that if the term ‘core values’ is redefined as follows:

- The standards that will cause all target audiences to behave as want them to

In a commercial environment core values must establish a connection between the organisation and its target audiences.

For values to satisfy this criterion, they need to be:

- Beneficial
- Meaningful
- Actionable

## DEFINITIONS

### CULTURE

Investopedia defines corporate culture as, “the beliefs and behaviours that determine how a company's employees and management interact and handle outside business transactions”. Further, it notes that, “culture is a system of shared assumptions, values, and beliefs which governs how people behave in organizations. These shared values have a strong influence on the people in the organization and dictate how they dress, act, and perform their jobs”.

The culture of an organisation determines how team members within an organisation behave towards each other and all stakeholders, including the target market external to the organisation. To a very large extent, the culture of the organisation is informed by the brand, and, in every respect, it delivers the brand.

At the core of an organisations culture are its rules of engagement, and those rules of engagement are its core values, what it believes in and how it expects all staff to behave. Central to any culture is the core values of the organisation. The best cultures are those that reflect fully the core values

### BRAND

Perhaps the best definition of the word ‘brand’ was offered by Jeff Bezos, founder of Amazon. Bezos defined a brand as:

‘what people say about you when you are not in the room’

A brand encompasses - reputation, corporate image, personality, and a range of other related issues.

Given that all organisations should focus their limited resources on their target market (rather than ‘all people’), Bezos’s definition might be refined to read:

‘what your *target* market says about you when you are not in the room’

The core components of a brand include the organisations mission, vision, *values*, personality and positioning. Values, or core values are arguable the most important component of the brand. With out core values and all staff living consistently by those behaviours the brand will be less than optimal.

Borrowing again from Roy Spence, it is the values (what the organisation stands for), as reflected in the behaviour of all staff and the organisation as a whole, that the target audience engages with, and when that engagement is maximised, sales, margins and profitability can be maximised.

## **DEFINING THE OPTIMAL VALUES**

The optimal values for any organisation will be beneficial, meaningful and actionable.

### **BENEFICIAL**

The most important target audience of them all are of course, customers and potential customers. The requirements and expectations of these audiences is to drive sales, repeat sales, referral and margins.

Research has demonstrated time and again that performance against these metrics is more readily maximised when the values of the organisation, as demonstrated in the behaviour of staff and the organisation (the culture) matches those held by the target market.

Consumers will only relate to and engage with core values that address their needs, wants and expectations. Other values are irrelevant to them

To drive performance the values of an organisation must 'benefit' the target audiences.

### **MEANINGFUL**

A core value like 'integrity' has a number of potential issues, including:

- A lack of understanding of its meaning
- A lack of preparedness to deliver fully
- Its general nature and ubiquity

It is evident that many people are not really sure what integrity really means, making it hard to reflect in behaviour. It might be argued that values like honesty and transparency are more meaningful and easier to reflect in behaviour

It is apparent that many organisations lack the preparedness to deliver on integrity consistently, making it less than credible as a value. While values can and should be aspirational, they also need to be delivered at some time.

Any organisation can claim 'integrity' as a core value, and many do. It might be argued that no value is more common, and indeed, less lived up to. The best values are specific to the organisation in question and the specific needs of its market.

Values to be useful must be 'meaningful'.

### **ACTIONABLE**

Until a value is actioned, it is not real and has no value beyond any potential value that comes from listing them on the website or in the annual report, knowing that few believe what they read, and will not believe until the action (behaviour of staff and the organisation) reflects the value.

Surveys of businesses and charities continually demonstrate that staff cannot articulate the values that are listed in the annual report or on the website, and as such have little hope of ever living those values in any meaningful way.

A common value is 'trust' and yet, no one can action trust. It is the market, not the organisation that trusts. Trust is earned not actioned. The values should revolve around that which earns trust.

Values are only of value if they can be reflected in behaviour and for that to occur. They must be actionable.

## **THE FOUR HORSEMEN**

Setting aside the inherent gender bias, the term 'The Four Horsemen' refers to four businesses now dominating the planet. Facebook, Google, Amazon and Apple.

A feature of these businesses is their commitment to core values that are reflected in behaviour.

Cynical small to medium business executives often suggest that 'it is easy for these businesses to behave as they do, given their size and wealth. This suggestion however overlooks that these businesses have lived by largely the same values since they started in the proverbial 'garage' all those years ago.

The fact is, these businesses are not behaving this way because they are big – rather they are big because they have consistently behaved this way – because they had the same or similar values from day one and have from that day, ensured that this is reflected in both their culture and their brand.

Two excellent examples of this are Apple and Amazon.

Steve Jobs said, way back in 1984; "Marketing is about values. It's a complicated and noisy world, and we're not going to get a chance to get people to remember much about us. No company is. So, we have to be really clear about what we want them to know about us."

Today, Tim Cook lists the core values of Apple as follows:

- We believe that we're on the face of the Earth to make great products.
- We believe in the simple, not the complex.
- We believe that we need to own and control the primary technologies behind the products we make.
- We participate only in markets where we can make a significant contribution.
- We believe in saying no to thousands of projects so that we can really focus on the few that are truly important and meaningful to us.
- We believe in deep collaboration and cross-pollination of our groups, which allow us to innovate in a way that others cannot.
- We don't settle for anything less than excellence in every group in the company, and we have the self-honesty to admit when we're wrong and the courage to change.

Readers can judge for themselves, the extent to which, Apple lives these core values. It is argued here that:

- These values relate directly to addressing customer needs
- These values are specific, directly relevant to Apple and actionable
- The culture of Apple suggests that these values are lived by staff

This might perhaps explain the fact that Apple is the largest corporation in the world with cash reserves greater than those of the United States Treasury

Jeff Bezos said; 'we are not competitor obsessed, we are customer obsessed. We start with the customer and work backwards'

Customer obsession is the primary core value of Amazon, and this is well reflected in its absolute adoption of what is known as the 'Benjamin Button effect'.

Benjamin Button, got younger (rather than older) every day he lived. Amazon gets better (rather than worse) every time any consumer uses it. While most services stay the same no matter how often they are used and most products decay as they are used, Amazon has in place algorithms that ensure that every contact with the business improves the service for the next user. Amazon is upgrading its offering to customers ever second of every day.

The other values of Amazon (which they call 'leadership principles' include:

- Ownership
- Invent and simplify
- Learn and be curious
- Think big
- Insist on high standards
- Bias for action
- Frugality
- Earn trust
- Dive deep
- Have backbone
- Deliver results

Readers can judge for themselves, the extent to which, Amazon lives these core values. It is argued here that:

- All of these values relate directly to addressing customer needs
- These values are specific, directly relevant to the Amazon and actionable
- The evidence available suggests that these values are lived by Amazon staff

Both of these examples suggest that the notion that an organisation should not have more than 3 to 5 values is not necessarily valid. Values must be tailored to the requirements of the target audience and the organisation.

## **LEVERAGING VALUES TO DRIVE ROI**

Core value are of little value if they are not reflected in behaviour, and that behaviour is not directed at augmenting return on investment. Values must be leveraged

Central to leveraging values is the 'Culture – Brand Continuum'.

Brand and culture lie on a continuum. The branding strategy defines the brand and how it is to be created. The brand determines the type of people required to develop the culture. The culture brings the brand to life, making it more than a hollow promise. The culture, once established, gives credibility to the external communication. The brand and culture can then be monitored and fine-tuned as required.

The implications of the culture-brand continuum include:

- The optimal brand must be defined before the brand can be brought to life
- The culture needed to bring the brand to life must be addressed before communication

- The external communication of the brand must not occur until the culture is established
- The culture may be all that is needed to communicate the brand

Defining the brand is the essential starting point. This begins with an understanding of the target audience as the basis upon which to make strategic decisions.

A brand does not exist until it is brought to life. It is the culture that brings the brand to life, and a failure to create the culture before communicating the brand will lead to disappointed customers, a fact well known to Richard Umbers, the recently departed CEO of Myer. No one could possibly suggest that the cuCULTURE BRAND CONTINUUM – PART 2lture of Myer supports its advertising brand messaging. Sales continue to decline.

External communication begins with the delivery of the optimal culture, and, as is the case of Zara, if that culture is strong enough, advertising may not be necessary. If advertising is still necessary, at least the culture will support the brand, thereby reducing the cost of advertising and avoiding the potential for cognitive dissonance.

Core values are therefore central to both and a shared component of both the culture and the brand, and as such arguable the most important element of the culture brand continuum.

The culture brand continuum determines that core values must:

- Directly influence who is employed and retained
- Be understood by all members of the team
- Be reflected consistently in the behaviour of each team member

It is essential that:

- All team members understand the critical importance of the core values
- All team members are incentivised to reflect the values in behaviour
- The performance of all team members is monitored and incentivised

If these things do not occur, core values are nothing more than window dressing. If they do occur, the values will drive performance.

## **BRINGING VALUES TO LIFE**

One organisation that puts values and culture at the centre of their customer experience and brand promotion is online shoe and clothing store Zappos.

Zappos, and the former CEO Tony Hsieh, have been widely recognised for building their business around one simple idea – *get the organisational culture right then everything else will fall into place* – a strategy that has served them well resulting in a \$1.6 billion start-up company being bought by Amazon in 2009 in a deal valued at over \$1.2 billion.

Zappos determined what the corporate culture needs to be and what values needed to lie at the heart of that culture and consistently reinforces and supports that culture through all human resources and management activities and systems.

Zappos takes cultural fit seriously with 50% weighting of the recruitment process based on cultural fit decided by the hiring manager and other employees (potential colleagues) involved in the process. Interviewers have developed five or six behaviourally based questions that illuminate a candidate's congruence with each of the Zappos core values

If you are hired by Zappos, you can expect to spend your first three to four weeks manning phones in their call centre learning how to respond to customer needs.

Each manager is expected to spend 10-20% of the department's time on employee team building activities enabling employees to feel comfortable with the culture, with each other, and they develop relationships that live the core values that Zappos espouses.

Call centre employees are fully empowered to serve customers. These customer service employees do not work from a script and are encouraged to use their imagination to make customers happy. They do not have to ask permission from a boss to give their customers the wow factor. With over 75% of sales from repeat customers, they succeed.

Zappos also views organisational culture as an expression of a diverse mix of people, backgrounds and religions to connect and respond to its diverse customer base and understand and be able to respond to the needs and the wants of its customers across multiple platforms.

Zappos have clearly got this right and have developed ways to embed their values into their organisational infrastructure and employee practices. Defining an organisations values to drive culture and create your unique brand needs to be reflected in the behaviours and actions that drive the organisation as a whole.

Zappos CEO Tony Hsieh, noted:

'We believe that it's really important to come up with core values that you can commit to. And by commit, we mean that you're willing to hire and fire based on them. If you're willing to do that, then you're well on your way to building a company culture that is in line with the brand you want to build.'

## **IN SUMMARY**

It can and is her, argued that nothing has more potential to drive the performance of an organisation, for-profit or not-for-profit, private or public, government or non-government, than core values.

But to drive performance and return on investment, values need to be well defined and fully leveraged.

To be well defined, values need to be beneficial, meaningful and actionable. To be leveraged, values must be consistently reflected in the behaviour of each and every team member.

This in term involves recognising and embracing the power of the 'Culture-Brand Continuum'.



## **BUILT TO LAST**

In the book he authored with Jerry Porras, Jim Collins (arguable the leading business author of his age) noted:

“Contrary to business school doctrine, maximizing shareholder wealth has not been a dominant driving force or primary objective of any visionary company down through history,”

“They are guided by a set of core values, and they preserve those core values almost religiously... They change and adapt without compromising their cherished core ideals.”

Values are almost certainly the most potent potential driver of return on investment

**D. John Carlson Advisory - <http://www.djohncarlsonesq.com/>**

**Fortis Consulting - <http://www.fortisconsulting.com.au/>**