

Measuring and Analyzing Corporate Values During Major Transformations

Not so long ago, corporate values were viewed as profoundly amorphous. Surely the set of principles, interests, or ambitions that define a company were too complex to unravel, too difficult to change, too squishy to measure.

That, as they say, was then.

Now, scandals at companies such as Enron, WorldCom, Tyco, Sunbeam, HealthSouth, Global Crossing, and Parmalat have destroyed billions of dollars in shareholder value. Actions by rogue employees brought down accounting giant Arthur Andersen and British merchant bank Barings, two organizations with hundreds of years of cumulative history. And through it all, companies like Johnson & Johnson (J&J), which annually measures its performance against its famous corporate values credo, and General Electric (GE), which demands that every employee personally commit to GE's integrity policies, continue to parlay their superior corporate values into tangible growth.

The lesson? While corporate values can't be seen or touched, we can discover a company's overarching corporate values indirectly, much the same way that astronomers, witnessing an intense gravitational pull on particular celestial bodies, deduced the existence of black holes. Bedrock corporate values reverberate throughout an organization, shaping behaviors and

driving companies to exhibit, collectively, many of the same characteristics as people.

Indeed, we speak of organizations that possess wisdom and folly, behave badly and well, succeed greatly and fail miserably. Enron quickly moved from entrepreneurial to overaggressive. Arthur Andersen became overaggressive. GE remains thirsty for improvement. J&J possesses an unparalleled sense of civic duty, best captured in its much-heralded response during the 1982 Tylenol tampering crisis, when the company immediately recalled all 31 million bottles of Tylenol capsules off of American store shelves.

Institutional Values, Individual Behavior

Many companies operating in today's environment of pervasive skepticism, increasing risk, intense regulation, and energized boards of directors have come to accept that exhibiting positive corporate values can both preserve corporate reputation and enhance shareholder value.

But this appreciation of the importance of corporate values doesn't mean that companies are particularly adept at understanding their own corporate values or promoting desired corporate values, especially during periods of major transformation. When a business is merging with a formerly fierce competitor, outsourcing operations, or changing its product orientation, great duress can be placed on the underlying corporate values.

For instance, a Booz Allen Hamilton global chemicals client recently acquired a smaller company, one very

successful in its own right. The organizations' respective corporate values could not have been more different. The larger company maintained very explicit roles and responsibilities, established individual—not team—performance targets, exerted tremendous pressure on employees to produce results, and exercised strict cost control, even limiting client dinners and outings. The acquired company, on the other hand, had always focused on the customer, learned from outside experts and competitors, and encouraged individuals throughout the organization to push their new ideas out from the nooks and crannies of the company and into the center. The result was a new company with two factions that could understand very little about each other, much less how to work together to achieve shared goals.

Compounding situations such as this is that management teams typically cling to conventional solutions and hard metrics during these periods of maximum stress. In the above case, for example, the larger company was very resistant to looking at the situation from a perspective different from the one it had held for years.

The bottom line is that organizations often initiate ambitious transformation efforts while overlooking the most important ingredient: human behavior. During a recent cost reduction program at another Booz Allen client, for instance, it was only when the company realized that sinking morale was hurting the company's profits that a discussion of the company's corporate values took place.

In order to forge fundamental change in a complex organization, companies must focus on the human behavioral side of implementing change as much as the hard analytics behind the change. And individual behaviors must be guided by strong institutional values that enjoy broad support throughout the organization, particularly through the words and deeds of the company's leaders.

We often observe that the behaviors that dominate at a company during large change efforts—be they destructive or productive, selfish or team-oriented—can fit into one of the ten umbrella value categories shown in the box at right. Far more significant than the individual categories themselves is a willingness on the part of the client to work with us to develop an agreed-upon corporate values framework that specifically supports their strategic goals.

A good example is our recent work assisting the U.S. division of a global consumer goods company implement a new corporate values system. In the first year, the company made very little progress. The next year, it picked three corporate values to focus on, including accountability and alignment to mission, and made dramatic progress. The company was transformed from a losing subsidiary to one making a modest profit. Ultimately, the number of corporate values or the names affixed to those corporate values was not of paramount importance to our client. What was critical was becoming profitable—and that goal was achieved.

Ten Frequently Encountered Corporate Values Dimensions

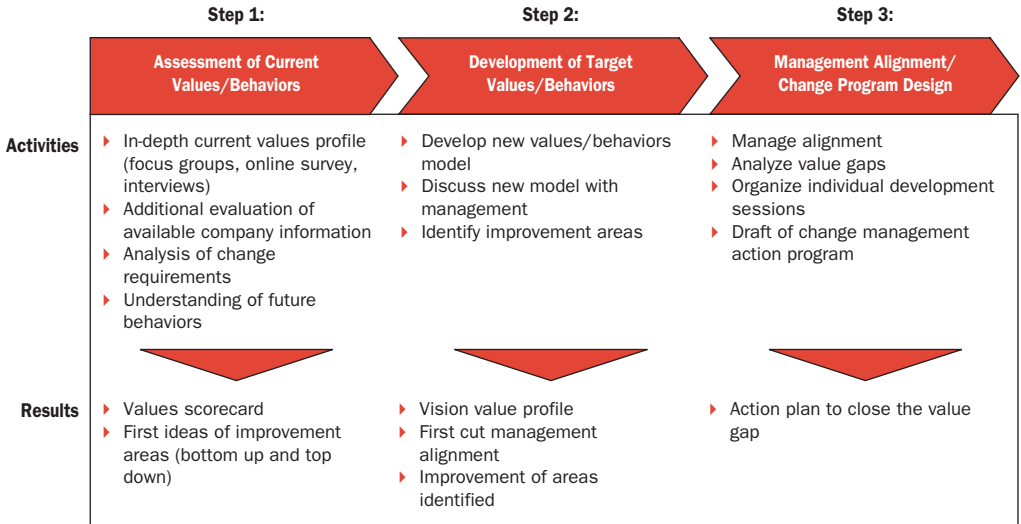
- Goal and Performance Orientation
- Teamwork and Cooperation
- Adaptability
- Entrepreneurship
- Accountability
- Hierarchy
- Employee Orientation
- Customer Orientation
- Shareholder Focus
- Societal Responsibility

Digging Deep with Values Due Diligence

As part of comprehensive strategy-based transformations for our clients—during which we typically define the long-term vision, fix subpar processes, and build new capabilities—Booz Allen has introduced a new process called values due diligence (see Exhibit 1, page 3). In much the same way that traditional due diligence projects might systematically review a company's financials, litigation history, or intellectual property holdings, this process unearths the corporate values that guide the organization.

Most of the values due diligence work we perform for clients has three steps: the assessment of current corporate values, the development of target corporate values,

Exhibit 1
Three Steps of Values Due Diligence



Source: Booz Allen Hamilton

and the change program design. As we guide our clients through each step, we also focus on the big picture: using values due diligence to align a company’s values and business goals.

One of our clients, for instance, an electronics equipment seller, held dear its reputation for selling products known for their engineering excellence. It turned out that over time an evolving marketplace didn’t place as high a premium on expensive, incremental design improvements. The company decided to transform itself to a full-service provider, bundling its equipment sales with various consulting services. That meant, among other things, disavowing its preoccupation with superiorly engineered products and adopting the value of cost management.

To help our client achieve this change, we performed a values due diligence project, conducting interviews throughout the organization and developing new value priorities based on the desired strategic change. The organization had taken the first step toward aligning its corporate values with its strategic goals and core business processes.

A Toolbox for Change

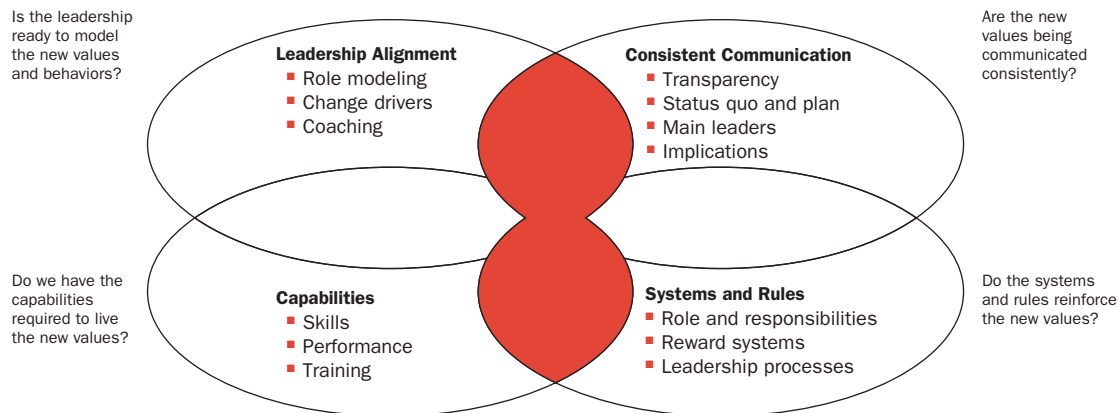
To get the most out of values due diligence, it is important to measure corporate values improvement with the same discipline that one would insist on when measuring

increases in productivity or revenues. The tools shown in Exhibit 2 (see page 4) can help.

Embracing the findings of values due diligence starts at the top and cascades down throughout an organization. When actions taken by leadership are in alignment with the newly stated corporate values, morale will improve and trust will deepen. One method for a company to self-evaluate its adherence to the new corporate values is to use Booz Allen’s 360-degree feedback model. We interview senior management, team leaders, and various others in the organization to gain an understanding of how a company’s leadership team is embracing and disseminating the new corporate values.

Another tool is the broad spectrum of capabilities encompassed by the company’s employees. Living the new corporate values means instilling in employees the skills needed to move beyond the old ways of doing things. Remember the Booz Allen client, a global chemical company, that had acquired a smaller entity with drastically different corporate values.

Using the tools of leadership alignment and improving employee capabilities, we helped the new organization identify and retain those corporate values that had always served the two individual companies so well: the cost management and organizational discipline of the

Exhibit 2**Change Toolbox: How Do We Align the Heart of the Organization to New Corporate Values?**

Source: Booz Allen Hamilton

global company and the customer focus and innovation of the acquired company. To its credit, the newly forged company's senior management team understood that if the potential clash of corporate values had not been addressed, many skilled employees might have left for good.

Our toolbox also contains two other levers. One is a rigorous communications program designed to spread the new corporate values throughout the organizations and let individual employee groups know what specific new behaviors are expected of them.

Finally, the systems and rules at a company must support the transformation to the new values. For example, at the Internal Revenue Service the mission and corporate values for decades were focused primarily on enforcement and collection of taxes. The institution did not value service to the taxpayers, and over time this orientation led to front-line employees over zealously implementing their responsibilities, which ultimately led to the abuse scandals in the 1990's. When Commissioner Charles Rossotti arrived in 1998, he quickly assessed the root causes and launched an effort to redefine the agency's corporate values and mission. The corporate values were realigned around "providing service to each taxpayer to fulfill their obligations." The organization was transformed around these new corporate values—a redefined organization, new processes, new systems, new measures, and new training. Inside of three years the entire IRS organization

began to think and treat taxpayers as "customers." The results achieved from implementing these new corporate values were impressive: After an eight-year decline, customer satisfaction has increased every month since the new corporate values and mission were adopted, and several measures of customer satisfaction showed 20%+ improvements.

Best Practices for Changing Corporate Values

- Leaders must demonstrate the new corporate values and behaviors
- Leadership must change the heart of the organization, that part of the organization that is the standard setter for behaviors, for the rest of the organization to follow
- Communications about the new corporate values must be frequent and consistent and must address employees emotions as well as their minds
- Processes, information flows, decision rights, metrics, and incentives must be adjusted to reinforce the new corporate values and desired behaviors
- Employees have to believe there will be positive consequences for adopting the new corporate values and behaviors and negative consequences for resisting

Corporate Values: A Lodestar to Work By

Much as an athlete's true mettle is tested under the pressure of competition, an organization's corporate values are never as strained as when a company is in the midst of a major transformation.

Yet it is just at that juncture in an organization's evolution that positive corporate values are most needed. Any group of executives or employees can exhibit positive behavior during the good times. It is when companies face unforeseen challenges—such as Johnson & Johnson's Tylenol crisis in 1982—that they need to rely

on their corporate values to guide them to make the right decision.

Many companies today, using benchmarks with perceived ironclad integrity like Johnson & Johnson and Coca-Cola, want to improve their corporate values to a point where their application is second nature. The box on page 4 contains five best practices we've observed at companies that successfully introduce new corporate values into an organization. Certainly there are others, but these five are consistently present.

What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for 90 years. Booz Allen, a global strategy and technology consulting firm, works with clients to deliver results that endure.

With over 15,000 employees on six continents, the firm generates annual sales of \$2.7 billion. Booz Allen provides services in strategy, organization, operations,

systems, and technology to the world's leading corporations, government and other public agencies, emerging growth companies, and institutions.

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.

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