

Inside out: how employees build value

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Abstract

Typical approaches to brand building tend to focus on marketing communications. Yet it is employees, who through their understanding of a company's ideology, truly build an image of the organization in the minds of customers and other stakeholders. This paper uses research undertaken for the book, 'Living the Brand', among such organizations as Nike, H&M, Baxter International, Patagonia, Adobe and Unicef. It argues that the focus should more be on bringing the ideology to life internally as a means of enhancing brand value. The method of evaluating performance is outlined in brief here, but will be dealt with in more detail in a subsequent paper.

When the authors of the iconoclastic Cluetrain Manifestoⁱ proclaimed as one of their 95 theses that "we are immune to advertising. Just forget it", it was probably seen by many as a typical piece of internet world hyperbole rather than a profound thought. However subsequent writers, such as Alan Mitchell in "Right Side Up"ⁱⁱ who have explored the failure of marketers to build genuine relationships with buyers and researchⁱⁱⁱ which points to the growing cynicism of people towards advertising, suggests there are real problems with the traditional approach to brands. Not least of these is an over reliance on marketing communication as a way to build brand value. This thinking relies on the premise that communications is the prime driver in building a bond with the customer that leads to purchase and reassurance. Not only does marketing mythology support this version of reality, but also many branding models provide tacit support. The reasons for this are varied. In part it is because marketers are brought up with the belief that their realm is defined by such concepts as positioning, distribution, pricing policy, product presentation and communication but not by employee performance. In part it is due to the

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balkanization of most organizations that leads to a lack of integration between marketing and other functional areas, such as HR and Operations. As Lou Gerstner, former head of IBM, writes, “One of the most surprising (and depressing) things I have learned about large organizations is the extent to which individual parts of an enterprise behave in an unsupportive and competitive way toward other parts of an organization. It exists everywhere.”^{iv} When the focus is on a part of the organization rather than the whole then measurement systems tend to concentrate on localized metrics rather than company wide ones. This is hardly surprising if internal battles predominate: managers tend to concentrate on those areas where they have control and not on other business units or functions. In marketing terms this leads to an emphasis on such controllable metrics as awareness, consideration and preference that are driven largely by archetypal marketing factors. However what really matters for long-term brand success is customer experience – something that is determined by the assumptions and direct actions of employees.

Brands are about people

It may seem a truism to say that brands are about people, but it is a truism that is often ignored. The language of brands is dominated by abstraction; by consumers, segments, market share and target groups. This aggregation of people may make sense from a planning perspective, but it ignores the reality of how brands work. If a brand truly exists in the mind of a customer, then the customer has the power. Yet the language of abstraction in a subtle and misleading way makes it seem that the power resides with the organization. It makes the organization believe it can do things to customers; that it can

communicate at customers and they will, in a Pavlovian way, react. But as Right Side Up thinking says, customers can easily choose to ignore or even deride marketing communication. The belief that emotive communication could build brands was the fallacy of much so-called dot com branding. Brands like boo.com built huge awareness, as did those brands in the US that competed outlandishly for prime spots on Super Bowl. Yet many of these “brands” failed to deliver an adequate experience. Equally the success of a web business such as friendsreunited.co.uk (8 million members and growing) that has been built on word of mouth is testament to the power of the consumer and the trust that person-to-person communication engenders. Also the seeming personalization of the Amazon experience demonstrates the appeal of an individualized approach to customers that makes the user feel in control. For example, Amazon software not only acts as a proxy for the personal experience by matching your preferences with others, it also allows the customer to adapt to the weighting of preferences. Equally the whole language of customer communication is not “at” but rather “with”.

If the idea of brands being about people is true it also makes clear that the attitude and behaviour of employees will be a significant determinant of brand value. For it is employees, through their assumptions, that make individualization possible. In the example of Amazon, it is the ideas of the individuals who design software, based on their understanding of the company’s ideology and their ability to understand how people behave that defines the shopping experience. In the case of a bricks and mortar retailer, such as the US department store Nordstrom, which has long harboured a reputation for

outstanding customer service it is primarily the people on the shop floor who determine the customer experience. How Nordstrom achieve this excellence is through a focus on recruiting people who like working with other people. Or as Nordstrom say, understatedly, “ we try to hire nice people who want to work hard.” Nordstrom’s success is down to a concentration on delivering outstanding customer service and the recognition that the best way to do this is not through a rule-book, but through empowering customer oriented employees. This is about more freedom and less about control; about recognizing the potential of people and not trying to define behaviour through systems. In terms of customer service it’s almost impossible to use Taylorist scientific management principles to specify how employees should behave in all situations. Nor is it desirable. Customers want an individualized experience that matches their specific needs and wants. At a hygiene factor level that may be about systems, but at a differentiated level it is mostly about the quality of service. For that to occur employees need to identify with and be committed to the organization and its ideology. As evidence for the benefits of this, a global study, published in September 2002 by ISR^v, showed that between 1999 and 2001 those organizations that have highly committed employees outperformed low commitment organizations in terms of percentage change in operating margin by more than 5 percentage points. To quote Gerstner again, “If you want to out-execute your competitors, you must communicate clear strategies, reinforce those values in everything the company does, and allow people the freedom to act, trusting they will execute consistent with the values...It calls for a commitment from employees that goes way beyond the normal company-employee relationship.”^{vi}

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The importance of ideology

In their influential book, 'Built to Last',^{vii} James Collins and Jerry Porras identified 18 visionary and long established companies (pre-1950) and compared them with 18 merely good organizations. Their conclusion was:

“Throughout the history of most of the visionary companies we saw a core ideology that transcended purely economic considerations. And – this is the key point – they have had core ideology to a greater degree than the comparison companies in our study.”

Collins and Porras believed that it was the combination of a deeply rooted purpose, such as Hewlett Packard's 'to make technical contributions for the advancement and welfare of humanity,' or 3M's 'to solve unsolved problems innovatively,' and the commitment to progress that enabled the visionary companies to stay ahead. The comparison companies often had ideologies as well, but as the quote above suggests it is the sincerity of the ideology and the commitment to it, that differentiates the visionary company. Ideology defines the organizational direction and provides a credo that employees can engage with.

Two examples make this point. At UNICEF in the UK, the brand has come to define an explicit management philosophy, to steer strategic planning for the organization as a whole and to help focus departmental strategies. For example, each departmental operational plan includes specific points on how it will reflect the brand in its work and how it will use each value in its decision making. Anita Tiessen, Deputy Director says, 'It

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is the linkage to other things in the organization that has helped give the brand relevance, especially our five year strategic plan. On its own it (the brand values programme) might have felt like a branding exercise.’ Some 18 months after launch, 83% of employees understood what the strategic plan is trying to achieve and 89% of employees agreed that they understood how to incorporate the brand into their work.

Another powerful example of the usage of values as a defining principle is Baxter International. At Baxter the values are much talked about, not least by the Chairman and CEO, Harry Kraemer Jr. Kraemer argues that it is the values that guide decision making for himself as an individual and for the organization as a whole. As evidence for this, take a dilemma that every business dreads. One of Baxter International products was a dialysis filter which was made by a company acquired by Baxter in 2000 called Althin Medical AB^{viii}. In the summer of 2001 patients in Madrid and Valencia who were undergoing dialysis treatment using equipment that featured the Althin filter, died. It wasn’t clear as to the source of the problem, but the filters were a common link. Baxter recalled the products in Spain and instituted an investigation, but there was no evidence of product failure. Then similar deaths occurred in Croatia. Baxter announced a global recall and then put together a team of 27 people from different disciplines to try and locate the problem – they found nothing, but then a quality engineer in the Swedish plant noticed a few bubbles on the recalled filters. When the filters leaked they were injected with a solution to locate the problem. The solution made by 3M was nontoxic, but when heated to body temperature the toxicologists theorized it gasified causing a fatal

embolism. There were still doubts about this and it didn't explain why the problem had not occurred before. Still, this presented Baxter with a dilemma – how to act appropriately. The company's values – respect, responsiveness, results – defined its behaviour. First of all, Kraemer apologized and then the company shut down Althin, taking a charge to earnings of \$189 million. The company notified other rival manufacturers and over the next few months reviewed its procedures to prevent repeats in another area of the business. Additionally Kraemer recommended that his performance bonus be cut by 40% and that top executives take a 20% cut. As Keith Hammonds writing in Fast Company observes about the dip in the stock, but its rapid recovery, “The Message to CEOs: Investors like honesty, including public apologies. (Kraemer visited New York to apologize in person to the president of Croatia). So, it turns out, do employees. Kraemer was flooded with emails and phone messages from appreciative workers... To him, there is nothing extraordinary about what Baxter has done. This is simply how organizations and their people should behave.”^{ix}

Both these organizations have consistency of purpose and highly committed individuals. However, truly values-led organizations are probably a rarity.^x It not only requires a deep insight into the nature of an industry and the company's position within it, but also the ability to execute the vision with conviction and consistency. To achieve this there are a number of requirements. First the ideology has to be clearly and truthfully defined. Second it has to be communicated and experienced in a relevant way. Third, it needs to deliver business benefits.

Clearly and truthfully defined

To build a genuine commitment towards an organization requires clarity and truth.

Whether the ideology is framed in terms of a credo, a purpose statement, a vision and values or a brand idea^{xi} is not important. What is key is that the ideology is true to the organization and helps it achieve its business objectives. Indeed, Collins and Porras argue in 'Built to Last' that the content of core values doesn't matter. Any words will do. The important thing is to have the values and to integrate them into the organization. I'm not sure I fully subscribe to this view, as the truth of the values will determine their acceptance. In companies, such as Nike, Patagonia and H&M you can see that the values clearly relate to the company's history and principles. However, I do agree with the idea that strength of commitment to the values is the deciding factor.

In terms of uncovering an ideology, the dimensions suggested for leaders by the existentialist philosopher, Peter Koestenbaum are valuable: reality, vision, ethics and courage. For the ideology to be credible with employees it must be derived from the reality of the organization. Yet while truth is fundamental, there does need to be an element of vision in the ideology. It needs to push the organization towards its goals. An ethical dimension is important, because it reminds organizations that they operate within the bounds of consumer and shareholder trust. Finally, courage is required. To gain the affection of customers and to build genuine loyalty, the ideology needs to set the organization apart from others. It has to be willing to risk being different. However,

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differentiation *per se* is not the goal. Differentiation is best achieved through action not words. For example, Nordstrom's excellence in customer service is not achieved by slogans but by execution. Their commitment to their ideology is not a six month programme or a campaign of internal communication. It is an integrated, ongoing and passionate commitment to the cause of outstanding customer service. Collins in his follow-up book to Built to Last, called Good to Great argues that you can't manufacture passion or motivate people to feel passionate. This is true, but you can develop a culture that stimulates involvement and commitment. As Harry Kraemer Jr, 'We've learned that true success – success in good times as well as bad – is not about countless programs, tools, oversights and compliance. Rather, true success lies within the fundamental fabric of the culture of an organization.'^{xii}

Communication and experience

Research by Opinion Research Corporation among communication executives^{xiii} shows that a significant barrier to widespread adoption of a corporate ideology (or as the research puts it, to brand mission, vision and values) is that it remains rooted in the boardroom. Companies operate in the mistaken belief that if they simply communicate their ideology to employees it will become embedded in their working lives. Yet employees have other things to do than think about ideologies – they have their day-to-day work to tackle. The argument here is that you cannot tell people to believe in something. As Koestenbaum notes, "The manager must substantiate the values she has chosen and recognize the total *freedom* and potential she possesses to implement

them... Similarly the employee must recognize her freedom to choose her value system.”^{xiv} If we accept this concept of freedom to choose (which is borne out consistently by research) then we have to ask people to experience the ideology for themselves. This requires a conducive environment and the mechanisms to encourage it.

Creating the environment is most often the difficult part. It requires:

- the wholehearted commitment of management (leading by example)
- a willingness to empower people (that means diminishing the power of leaders)
- a willingness to take a risk on people
- an acceptance of the need to share ideas and results
- the integration of the ideology into all facets of the organization, especially in terms of recruitment policy, training, appraisals and rewards.

The ideology needs to permeate and be understood by the whole organization. That necessitates the idea moving beyond communication into people’s everyday activities. This is about stimulating self-discovery and behavioural change rather than trying to dictate it. The example I found in the course of the book research that best exemplifies this and where the values are used in an intuitive way is the Californian based, outdoor clothing company, Patagonia. Established in the early sixties, Patagonia has a very distinctive culture based around environmentalism. It engages its employees with its ideas, not primarily through training and communication, but by involving people with the purpose and the values of the organization. Nowhere is this more evident than in the person of its eleven times world freestyle Frisbee champion and receptionist, Chip Bell.

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Chip is an engaging person. He welcomes visitors with spontaneity and enthusiasm. He answers all manner of phone queries about company policy. He keeps the office surfing report updated and he teaches occasional surf classes. He is the sort of committed employee that most HR Directors can only dream about. Given the frequency of interactions Chip has with employees, customers, suppliers and retailers, he is a primary determinant of the company's image. Interestingly Chip's persona has not been defined through a rulebook, but rather because he has chosen to identify with the deeper purpose of Patagonia and integrated it into the way he thinks and behaves. This is how Chip describes his working day:

'I ride my bike to work everyday; some of my children come to the childcare programme here. It seemed that when I arrived at work not only was I in a good mood, it was easy to work with our customers and our guests. It's an image that comes naturally - standing up, shaking hands, smiling. I'm genuinely feeling groovy. It's seamless for me to give customer service and interact with people and to give them a feeling that it is a different place; that it is a business where you can be yourself - caring and giving top-notch customer service. It's easy for me.... My reactions come naturally from absorbing all of our values - environment, integrity, quality - all of that is relayed back out when I'm on the phone. When I'm on the phone, I want to know what the person at the other end is going to feel; what the picture is in their mind. It's the image they have of Patagonia that equals a strong brand.'

Patagonia has achieved something simple and powerful by defining and delivering an ideology that attracts a certain type of employee who identifies with the organizational cause: to use business to inspire and implement solutions to the environmental crisis. This stance will not appeal to everyone, but if a person is happy with the idea of the company giving 1% of turnover to environmental charities, comfortable with the idea of being trained in non-violent civil disobedience (and having their fines paid if arrested) and willing to put environmental principle before profit (Patagonia happily repair product, generally for free, rather than encouraging people to buy a replacement purchase) then this is an organization that could fulfill their needs. Although the Patagonia purpose is idiosyncratic, it indicates the importance of courage. It is the courage to be different that enables people to discover meaning for themselves in their working lives.

The question that has to be posed is whether other organizations, perhaps in less exciting business areas, can deliver such committed employees? However, there are examples of companies that generate engagement in diverse industries. The UK travel agency, Trailfinders delivers above the norm in terms of customer service and employee involvement, by hiring people who are travel enthusiasts. Equally, parts supplier Unipart makes a powerful commitment to its employees through an in-house University, which has a central resource unit and locations on the shop floor. Most significant is the widely used exemplar, Pike Place Fish Market in Seattle, which has been the subject of two best-selling training videos (Fish! and Fish Sticks). This organization is cited because its

employees work from day break in a fish market, yet seem to be highly committed to the fulfilling idea of making their customers happy. As with Patagonia, they break down the barriers between the employee and the customer and create relationships.

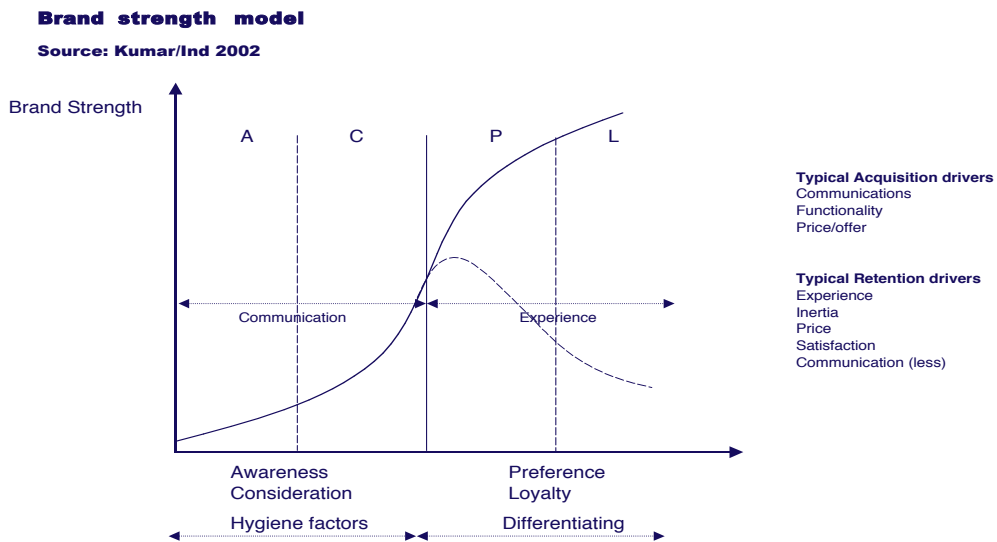
Business Benefits

A focus on employees is not a mandate for stakeholder capitalism. Rather it recognizes the relationship between highly committed employees, satisfied and loyal customers and business performance. Richard Branson of Virgin once articulated this by pointing out that shareholder interests depend on customer satisfaction delivered by enthusiastic staff and that the opposite is true, “poor performance by demotivated and antagonized employees erodes service quality and customer satisfaction and in the end the long term interests of shareholders are actually damaged.”^{xv} This suggests that “living the brand” is about ensuring the linkage between employee attitudes and behaviour and overall business goals. This is the responsibility of management. Too often an internal focus leads to indulgences that create happy employees but ultimately deliver little for the organization. This may be acceptable in good times, but when hard times hit the indulgences are cut and morale plummets. However, if the things that make employees enthusiastic are also fundamental to business success they will remain through both good and bad times and become central to the organizational culture. One way to achieve this is by adapting the strategy maps championed by Kaplan and Norton^{xvi} to ensure that the linkage between internal activities, processes, customer strategies and overall business objectives is wired into the overall system. This delivers a balanced brand scorecard

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where for each key audience a set of objectives, strategies and measures are defined. This helps to ensure that actions designed to benefit shareholders, for example, do not undermine employees or customers. To achieve this balance, organizations need to measure the relevant metrics and be adept at capturing and using information (too often research is held captive by business units or a market research department, rather than widely shared). Rather than adopting narrow measures of performance, it is important to evaluate the overall performance of the brand. This suggests that the organization has to understand not only such marketing communication indicators as awareness and consideration, but also the likely long term loyalty of customers. In figure 1, brand strength can seem quite powerful merely on the basis of communication. People get to hear about a brand through advertising and pr and awareness and consideration indicators



can seem high. However it is the repeat purchase action of customers over time that is truly important. This is defined by experience – by the design of the product, by the interaction with employees and the quality of service. These are cross organizational measures that require the integration of such areas as marketing, hr, r&d and operations and importantly they require a widespread understanding of the organizational ideology. When measures of employee attitude and behaviour and shareholder views are added it makes the inter-relationships between the different aspects of the brand clear and provides a measure of true brand value.

Success is...

The true measure of organization wide involvement with the brand idea is when, as Dr John Warnock, one of the founders of Adobe says, ‘good ideas come from everywhere in the company.’ This has certainly been true of the innovation record at Adobe and reflects the truth that when intellectual capital is the prime driver of business success, it makes obvious sense to use the full intellectual capital an organization has at its disposal. That will not happen if the organization is at war with itself and it will not happen if the organization operates a control culture. The core of using the brain power and creativity of employees is achieving a balance of what the economist, Ernst Schumacher called “freedom and order”. If the organization has a clear ideology it provides a focus for employees. This is the element of order and allows for employees to have the freedom to deliver customer focused products and services in the most appropriate way. When this works it becomes intuitive. An employee such as Chip Bell, does not have to use the

Patagonia purpose and value statement in an overt way to define his behaviour – he knows how to act in a way that is consonant with the organization’s ideology. Of course, this does not just happen. Rather it is the result of the truth and appeal of the ideology and the fact that it is embedded into Chip’s day-to-day behaviour.

However, success can be elusive. Organizations are driven by bottom line performance and talk of values and visions may be useful to include in the annual report, but otherwise seem rather woolly. The evidence for the benefit of ideology is contained within Collins and Porras’ work, but the only real way to convince sometimes cynical leaders of the value of it, is to show it through performance measures that matter. That means monitoring over time the performance of employees and the related behaviour of customers in delivering revenues and building brand value.

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- ⁱ Levine R, Locke C, Searls D, Weinberger D (2000). *The Cluetrain Manifesto*. Perseus Books
- ⁱⁱ Mitchell, Alan (2001). *Right Side Up: Building brands in the age of the organized consumer*. Harper Collins Business
- ⁱⁱⁱ Yesavich, Pepperdine & Brown/Yankelovich Partners (2001) *Research into consumer trust of sources of information*
- ^{iv} Gerstner, Louis V (2002) *Who Say Elephants Can't Dance?* p249 Harper Business
- ^v International Survey Research (2002) on employee commitment was based on employee feedback from 362, 950 employees from 40 different organizations.
- ^{vi} Gerstner *ibid* p234
- ^{vii} Collins, James and Porras, Jerry (1998) *Built to Last: Successful habits of visionary companies*. Random House Business Books
- ^{viii} Hammonds, Keith (2002) *Harry Kraemer's Moment of Truth*. Fast Company, November 2002 p 93-98
- ^{ix} *ibid*
- ^x A study by TEMO (2002) among Swedish companies found that 31% of employees did not believe in their employers' vision and values; a Gallup study of US workers (2000) found that 74% were either not engaged or actively disengaged in their jobs; a research project by tompeterscompany! among 700 business professionals in the US (2002) discovered that 75% of employees don't support their company's branding initiatives and that 90% don't understand how to represent the brand effectively.
- ^{xi} Although the word "brand" is poorly understood in most organizations and therefore is dangerous to use internally, it does have the value of reminding us that the purpose of building employee commitment is to deliver service to customers.
- ^{xii} Kraemer Jr, Harry (2002) *Values-based leadership is not an oxymoron in corporate America*. Speech to Chicago Executives Club, October 15 2002.
- ^{xiii} Opinion Research International (2000) *Global 250: Attitudes to Corporate Branding*.
- ^{xiv} Koestenbaum, Peter and Block, Peter (2001). *Freedom and Accountability at Work* p367 Jossey-Bass/Pfeiffer, San Francisco.
- ^{xv} Macrae, Chris et al (1996)., *An invitation from MELNET 96 to contribute to the "brand learning organization"*, *Journal of Brand Management* 3(4) February 1996 p232
- ^{xvi} Kaplan RS and Norton DP (2000) *Having trouble with your strategy? Then map it*. *Harvard Business Review* Sept-Oct 2000 167-176