Cambridge Marketing Colleges

Professor Hugh Davidson
Vision and Value

The following contains a transcript of the speech given by Professor Hugh Davidson at the Fifth Cambridge Marketing Marketing Lecture at St Johns College, Cambridge.

The Cambridge Annual Marketing Lecture

This evening we are very honoured to have Professor Hugh Davidson to continue what has now become a tradition in Cambridge of the annual marketing lecture. We started five years ago with Professor Philip Kotler in this very room on the Future of Marketing and been honoured over the years to have Professor Malcolm McDonald, Paul Fifield and Paul Smith.
To share with us his views on marketing and what makes companies successful we have this evening Professor Davidson.

Hugh is now visiting Professor of Consumer Marketing at Cranfield but, previous to that, has spent many years with Procter & Gamble, Playtex, and at McVities.

Thirty years ago he published a book which is now a definitive work based on his experiences **Offensive Marketing**. A few years later he published a follow-up work **Even More Offensive Marketing**. Many of you have probably picked up on some of the ideas and models such as the Branding Iceberg.

This evening, as a result of 4 years research and interviews with 125 of the world's major companies and institutions he will give us some very interesting insights into what makes an enterprise committed to success, how to make values work

Professor Hugh Davidson's Speech

Vision and Values

Good evening ladies and gentlemen. I'm delighted to be here in Cambridge and keeping very quiet about the fact that I've travelled all the way from Oxford because if I'd revealed that to the Head Porter at the gate I wouldn't have been allowed inside this college at all I'm sure. Of course it is a fact that Cambridge University was founded by itinerant Oxford students in about 1250. Shall I continue this theme, is it controversial here? Perhaps it is. I did spend three years at another college just down the road in Cambridge, Corpus Christi College. Its rather older than St Johns, founded in 1352. I think St Johns was founded in 1511. St Johns is a much bigger college and has a finer hall than Corpus, but one thing they both have in common is a lion and unicorn insignia up there. Now the Corpus one is about four or five times the size of the St John's one and the unicorn is very brightly painted indeed. But a source of embarrassment to Corpus fellows over many centuries is the fact that the private parts of the unicorn are somewhat out of proportion to the rest of the body. And recognising this fact the college for centuries painted the private parts in a dull grey so they would be highly inconspicuous to visitors to the college. On my last day at Corpus I broke into the hall with a close friend who is now a senior judge and we painted the unicorn's private parts red, white and blue. Seven years later one of the fellows at dinner looked up at the unicorn and was horrified at what he saw. It only took a day for the private parts to be re-established in their urbane grey and I'm sure for the next few centuries they will remain grey.

Now I drew 2 lessons from this experience. One was that fellows of Cambridge University are very observant indeed...but it can take some time. The other was that it was my first example as a marketer of failing to achieve lasting change. That remains an issue. When I wrote the first edition of Offensive Marketing, I had three hopes for marketing by 2002 because it's exactly 30 years since I wrote it. First was that most major boards of directors would have a Marketing Director, because certainly in 1972 very few boards of directors had a Marketing Director. I really expected by now in 2002 that most boards would have a Marketing Director on the main Board. My second great hope was that marketers would get to the table on acquisitions and mergers and I wrote a chapter in the first edition of Offensive Marketing called 'The Marketing Approach to Acquisitions'. In those days, and it's no different now, about 60 or 70% of acquisitions fail to build shareholder value. There is a very simple reason -most acquisitions are run by financial people and they focus on the past. The key to a successful acquisition is understanding the future and who does this better than anybody else? You marketers do. My third hope was that marketers would play a major part in long-term planning, that they'd lead the budgeting process, the three-year plan, the five-year plan.

Ok those 30 years have gone and where are we now? Well let's take the first one. Quite a lot of research has been done on this by the Marketing Society and the CIM and only 20% of major companies have a Marketing Director on the main board. 100% have a Finance Director. I think you know as well as I do where we are on the other hopes. There's little involvement in mergers and acquisitions. In fact in Even More Offensive Marketing I had to shorten the book a bit and removed the chapter on the marketing approach to mergers and acquisitions because it seemed to be academic. That's a battle I think we may have lost, although I hope not. We should keep on fighting to get to the mergers and acquisitions table because it's very important for companies that we do. And we don't control long-term planning. That's something that Finance Directors have taken over.

Now when Charles briefed me to give this talk he said; 'Tell them something inspirational and motivational and get them really excited and make them happy'. How am I doing so far ladies and gentlemen? Will you give me a score please? Right I think we need a change of pace. Let's look to the future because I think there's a bigger opportunity on the horizon, much bigger than the ones we've missed and it's there for the taking by marketers. Here it is. Marketers have a major opportunity to lead the management of vision and values in organisations.

Slide 1

Example: Goldman Sachs

Purpose/Mission	To provide excellent investment and development advice to major companies
Vision	To be the world's premier investment bank in every sector
Values	• Client first • Teamwork

Cranfield UNIVERSITY School of Management

They're pretty poorly managed today and you have the competencies to change this. I decided to write a book about this four years ago and had a look at all the research on managing vision and values. It's normally covered in books on leadership. There's typically about a chapter on vision and values because those are the kind of things that leaders are supposed to do. Most of the written material on vision and values says how important they are and provides guidance on how to design statements. But there's hardly anything at all about how to make vision and values work in practice, every day, everywhere, including receptionists, telesales people, blue-collar workers.

I decided to do some research myself to establish best practice and, as Charles mentioned, visited 125 major organisations across the world, mainly in the USA and the UK. I did about 70 , mainly global, companies and they accounted for over 20% of American Gross National Product. I saw Chief Execs of companies like Du Pont, BP, Procter & Gamble, Gillette and so on. It seemed possible that companies had a lot to learn about vision and values management from non-profit organisations, so I also visited about 65 of these, including the New York Police Department, Scotland Yard, Boston Symphony Orchestra, Save the Children and five of the top 50 American Hospitals. I did a lot of universities, including this one, the University of California, Cornell, Oxford, Caltech, and many schools as well. These ranged from private schools, Eton, to the North Campus Continuation School in Oakland, California, which had 110 pupils who were mostly either on probation or treble expellees. My focus was on schools with high performance in very difficult demographic areas. The output of all this research was my book: The Committed Enterprise and seven best practices for making vision and values work. I'll come on to those a little bit later.

One of the big difficulties I had in talking to people was terminology. You know all about this as marketers because when you start talking about brands people say what's a brand, what's brand equity, how does a brand differ from a name? I found myself in a minefield of terminology because people were using words: mission, purpose, goals, objectives, strategies, visions, principles, ethos, often to describe the same thing. What I concluded was it didn't matter which words were used, they all pointed to the fact that there were only three fundamental questions to ask and you can see them up there.

The three big questions of life are critical to any organisation and any individual. So, what are we here for? The word most people preferred for this was not "mission" - most business people really disliked this and felt it had been abused. They liked "purpose", so I'm using this to cover "What are we here for?". Second one; "What is our long-term destination?" Vision, most people accepting this word. "Vision" doesn't mean this year, next year. It looks ahead for 5, 10, 20 years. And the third issue is "What beliefs and behaviours will guide us on the journey?". Nearly everybody accepted that values was the key word to use there.

"Here's an example of how purpose, vision and values work. I've taken a category where on the whole people have got rather weak values and there's hardly any vision at all." *slide 1*

The best company in the investment-banking sector I met was Goldman Sachs. They were a bit different from others because they were a partnership until a few years ago and still have a partnership ethos. You can see their purpose there - every word counts: "to provide excellent investment and development advice to major companies". They're just in the investment, development and advice business and only operate with the Fortune 500. If you're not a Fortune 500 they're very unlikely to be interested in talking to you. So that's what they're here for. Their vision is to be the world's premier investment bank in every sector in which they operate. That's a continuing vision and a pretty hard one to keep on achieving year in year out.

Values is where Goldman and Sachs differ radically from most of the other investment banks. They put client before profit, so everybody at Goldman Sachs understands it's about client first, and they put teamwork very high. Now most investment banks operate on the values of "You eat what you kill", in other words you are evaluated as an individual purely on the revenue you bring in and if you bring in, say, a billion dollars in revenue you will get very highly rewarded. The bonuses in investment banking are staggering. At Goldman Sachs if you have a good year you will get up to thirty times your salary in bonus, which could be over four million dollars and that's the way

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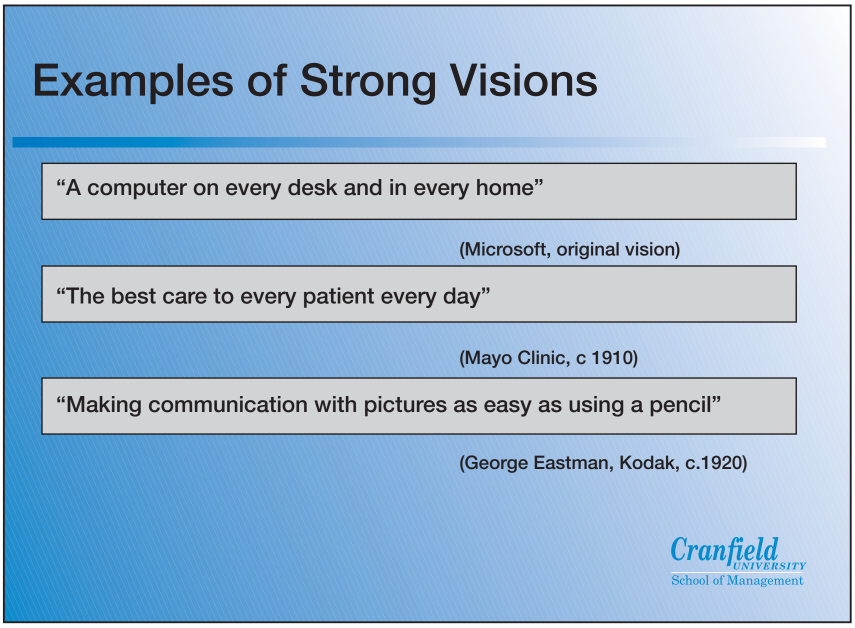

most of the banks operate. Goldman Sachs don’t just operate on individual revenue and you might have someone who gets a billion dollars in revenue but handles people badly, is very egotistical and so on; and another person who brings in half that, but develops people, mentors them and builds long-term client relationships. The one with much lower revenue will get a much higher bonus. One of the things about Goldman Sachs is nobody ever talks about ‘I’. It’s always ‘We’.

“Here’s an some examples of what I think are strong visions. It’s pretty hard to find them because most companies have very bland visions. They are developed by consensus and are neither bold, nor ambitious.” *slide 2*

Only 34% of companies I saw had what I would consider a strong vision. That’s the original Microsoft vision. The thing about visions is that you achieve them and it took Microsoft about 20 years to reach this one. They’ve now got a new vision built around the internet. The Mayo Clinic was the best of the 125 organisations I visited. An absolutely outstanding American hospital, it is always ranked in the league tables number 1 or 2 out of the 6200 American hospitals. That vision was developed by the Mayo brothers at the turn of the century and they still try and do it every day. Thirdly you can see George Eastman’s original vision for Kodak which I think the company is somewhat close to achieving.

Some people say “What a waste of time all of this stuff is” and one of the companies I interviewed really caught me off guard because I was talking with a senior person who I’ve known for a long time. He’s a very good executive who I respect and the message I got, which he was too considerate to spell out was ‘Hugh, you really are wasting your time with this vision and value stuff, its just psychobabble. What matters is performance. That should be the vision and value: results, targets, new business, making it happen, getting out there with customers”. I left the interview a little depressed and momentarily thought perhaps I’d got it all wrong. Want to know the name of the company? It was WorldCom.

So here’s your list of things that make vision and values worthwhile and I think these will resonate with you as marketers. First of all if you are a company with a vision you will have a long-term direction and that’s good for marketers since the company is more likely to take a long-term approach to investment and its more likely to create an environment where you can build customer focus. I analysed all the values in organisations seen and the average had 5.1. About a third were “marketing driven”… about customer first, customer focus, superior quality, innovation. Another third were about people and most of the rest were about ethics or operational excellence.

So clearly strong values motivate employees and partners because people know what’s expected of them and what they’re there for. In service businesses, (and in Europe and the USA about 70% of businesses are services) the people who deliver the product give you differentiation, and values create this edge.

In research done in the 1980s, 98% of CEOs said a sense of vision was the most important trait in a CEO but most didn’t have confidence they could do it. If you did the research today you’d get a better number but the problem of confidence and skills would still be there. Let’s have a look at the kind of competencies needed to deliver vision and values and think about who in the organisation possesses them. Some may be familiar: analytical ability. I’m sure you’re all good at that because a bottle of champagne went to the finance guy who was hammering away at analytical skills. Understanding a company’s critical competencies, what we’re better at than other people? And customers markets, do we understand those? Communication and branding skills, creativity? Which group of people, which function of the organisation has those skills. Is it finance? Well finance are pretty good on analysis and understanding the inside, they are probably not very strong on the next three. Finance people know how to cut costs and how to manipulate numbers but they’re not very good at driving the top line because they’re not trained to do so. It will be quite obvious to you that strong marketers possess the critical competencies. So marketers are the key people who can help the Board and the CEO make vision and values work.

However, visions and values are pretty poorly managed on the whole and there’s a very good reason for that. They are cross-departmental, but there are no exams in visions and values and there are no particular sets of competencies or knowledge. So it’s very difficult to manage and a lot of people dabble in it who are poorly qualified to do so. The

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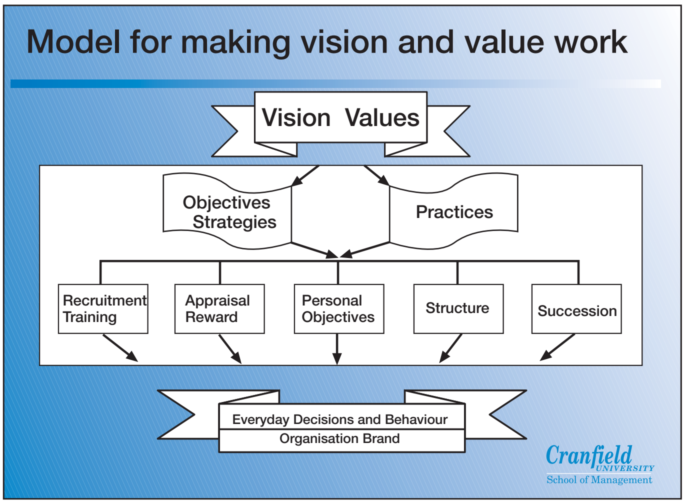

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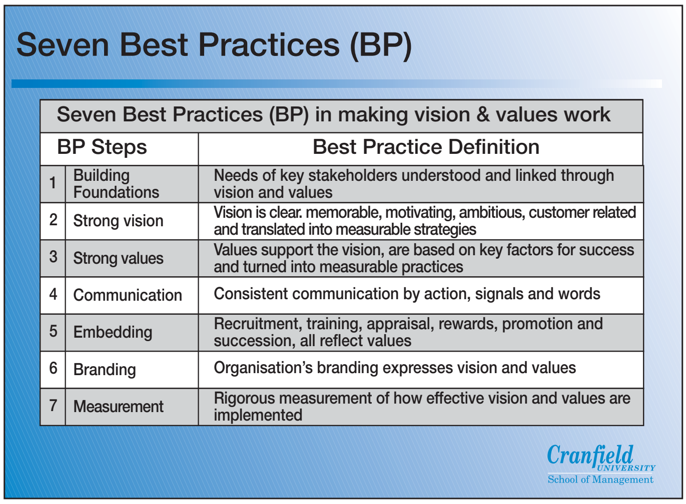

few studies that have been done indicate about 60% of new vision and values fail to make any impact whatsoever and very often they've disappeared in a couple of years.

In my research I applied the seven best practices to all 125 organisations. Excellence is achieving all seven best practices. Only 6% of those researched, and that included Johnson & Johnson and the Mayo Clinic, achieved all seven. The average company only got four. As the seven best practices are synergistic and work together, four out of seven is not 55%, its about 33% in terms of performance, so there's a very long way to go. This is a big opportunity for marketers because you are best placed to move this whole area forward.

Here's the formula I developed for the Committed Enterprise; committed customers plus motivated employees equals a satisfied finance provider. That's a formula for shareholder value which will be familiar to you. The problem with companies like WorldCom and Enron and Andersen is that like many other companies, and there are many more to come through I can assure you, they have tried to take the short cut. They have focused on the finance provider, and tried to get quick fix results through manipulation and cost-cutting rather than on improvement in customer franchise or in motivating employees. So the right way to shareholder value is the marketing way.

"Here's the model for making vision and values work. You start at the top with the vision. It has to be strong and we'll soon have a look at the six criteria for a strong vision" *slide 3*

It's not enough just to have a vision, that's just a set of words; you've got to turn it into hard, measurable strategies and objectives. The vision may last 20 years or 30 years, and you'll change the strategies and objectives supporting it over time, as you eventually achieve the vision. Its the same with values. Values are meaningless just as things on cards, like we saw in the Enron case. So what you've got to do is take those values like innovation or customer focus and provide a clear picture of what they look like in practice. So you have a value word or phrase and you have a number of bullet points that turn them into measurable practices. Then you embed all these in your systems through recruitment, appraisal, reward and so on. So when you recruit people you do so on a combination of "Are they competent and do they meet the values?", they must meet both criteria because you've got to recruit values. Same with appraisal and reward, we saw that with Goldman Sachs. The result of all this is every day decisions and behaviour which are value based and performance based, backed by an organisation brand. So the promises you're making out there in the market place with brands like Tesco or IBM or Sony or Procter & Gamble are matched by the substance of the values inside the organisation.

"Here are the seven best practices and we've covered some of that ground already *slide 4*

You start off by building foundations because you really can't chart the future until you understand the past. You need to know where you've come from, where you are now and who you are. Who better than marketers to do that?

Then you develop strong vision and I've got six criteria for strong vision. Only 34% of the companies met these compared with 63% of non-profits. In non-profits people work for the vision and values, not for the money. In companies people work to make a living and you try and get them to be aligned with vision and values as well. It's much harder.

Strong values. Well the wrong way to develop values is to come up with thoughts like 'Let's be nice to people' or 'Let's be honest', 'Let's be customer focused'. That is exactly the wrong way to develop vision and values. You've got to start off by figuring out what are the key future factors for success in your marketplace or category and then you build the values around achieving those key factors for success. In that way if you make your values work, they build competitive advantage. Otherwise they are quite irrelevant.

Communication. The key type of communication is by action. A lot of you here are senior managers. You say things, you preach things, you behave in certain ways and people know what the rules are but what they're doing is watching you closely every day and seeing what you do compared to what you say. So it's not words, it's action and signals and behaviour.

Embedding. We saw that in recruitment, training, appraisal, when you appraise somebody you do so on a combination of 'Did you get the results?' and 'Did you get them the right way'? Anybody can get results in a year but to make results sustainable you've got to get them the right way by using values.

Next we've got branding. There must be complete alignment between what you're promising outside there and the substance you're delivering within the organisation. If there are any chinks, any misalignment, it will soon be spotted, first by employees, then by consumers.

Then you've got to measure, measure all the stakeholder delivery; employees, customers, finance providers, partners and so on. Larger organisations should use both quantitative surveys and anecdotal evidence in measuring their success in managing vision and values.

So, to summarise:

Strong vision and values create differentiation

They build motivation, trust, customer focus

Vision and values are not well managed

Marketers are best equipped to help the CEO

This opportunity will build their board influence

They should follow the seven best practices

Thank you very much

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