

# What is the real value of values?

## Pilot study research results

November 2006



Firms which adopt sharply defined values closely aligned with their members values seem to be doing better than firms with poorly aligned or ill-defined values. Some values seem particularly significant across the professional service industry, with other values appearing to have a particular relationship with some key performance measures, such as profitability.

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## This report

In this document we report the initial findings from the 'What is the real value of values?' project. The project addresses one of the most important and intriguing subjects in the management of people and performance: the importance of nurturing a firm's values to enhance its own performance. Do those firms who pay attention to their own values reap the benefit in the form of financial rewards?

Following months of hard work at BDO Stoy Hayward and ISR, a global leader in employee research and consulting, we have successfully completed our initial research.

This has included the following:

- design of process and methodology
- testing of methodology
- application of methodology to a small selection of businesses from the professional services industry sector
- analysis of our findings.

Our findings are only provisional, our research is still in its early stages and our study has only considered a small group of firms; but some of our findings are already startling.

# Introduction

Why bother to research the link between values and performance?

## If you can't measure it, you can't manage it

'If you can't measure it you can't manage it' – is a comforting mantra for those of us trying to wrestle with management in the modern world. Switch the mantra around and we have a recipe for perfect management: make sure you have the right measurement tools and you can manage anything. Hence the power wielded by statisticians and accountants, and the measures they provide for us. Key performance indicators, gross and net profit, return on capital employed; means, modes and medians; utilisation, productivity and asset turnover; variances and deviations (standard, and tailored at considerable expense to our own peculiar circumstances) – all these give our reports credibility and our managers the illusion of control.

But even in the act of hunting for ever finer measures of performance within the business, we harbour a suspicion that the mantra is perhaps a little too comforting. We suspect, as we continue to wrestle with our businesses, that much of what really matters within the business continues to escape our attention, despite our sophisticated measurement methodologies. It seems that our businesses are always far too complicated to be reduced to the easily measurable. Indeed, it's almost as if what really matters can't be measured at all, and because it can't be measured, it can't be managed either.

This doesn't stop us seeking unreal comforts in the easily measurable. Perhaps the most meaningful illustration of the consequences of an over-concern with what can be easily measured, has come to be called McNamara's fallacy – after Robert McNamara, US Secretary of State for Defence at the time of the Vietnam War, who was reduced to measuring military success in terms of the ratio of Viet Cong casualties to US casualties. This form of logical reductionism leads decision-takers into all sorts of disastrous blind alleys (and worse, in the case of McNamara). As Charles Handy has observed, the first step down the alley is to measure whatever can be easily measured. This is OK as far as it goes. The second step is to disregard what can't be easily measured or to give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that what can't be measured isn't really important. This is blindness. The fourth step is to say what can't be measured doesn't exist. This is suicide.

## Measuring the *really* important things

It would be too easy to accuse us at BDO Stoy Hayward of peddling just this sort of suicide of management by measurement. We are, after all, Chartered Accountants. But in fact we've thought deeply about this particular blind alley. Rather than accept, like many, that what can't be measured just can't be managed, we've redefined the problem; by trying to think imaginatively and creatively about how to capture the things that can't be measured easily – with the increasing conviction that these things are the most important of all. Indeed, if we can measure and thus manage the things that are most difficult to measure, then we will be able to grasp the handles of the most powerful management levers of all.

## The most important thing of all

At BDO Stoy Hayward we are convinced that the most important management levers of all, and the most difficult to measure, are an organisation's values. An organisation's values show themselves in all sorts of ways – including the complicated tangle of custom, anecdote and unwritten codes of conduct that influence how and why things really get done. Newcomers to the business often don't understand the importance of these irrational manifestations of an organisation's values – indeed, they might seek to eradicate them as wasteful and inefficient. Old hands, however, will often see them as key reasons for the organisation's success – often elements from the company's origins, maybe even some famous characteristics of the organisation's founders. Indeed, new businesses don't have organisational values, they have personalities – the personalities of their founders, still making their presence felt as owner-managers.

The larger and more complicated the business, the more difficult it is to define values. Values are things held dear by individuals. Do they become less important when an organisation has to satisfy the different needs of many different stakeholders? In a business dominated by one founding owner-manager it is relatively easy to define the

values that predominate. But in an organisation which has passed through several stages of evolution; which has an established cadre of professional managers, many of whom have probably never even met the founder; benefits from the support of a disparate group of financial investors; and sells its services to sophisticated group of professional buyers – is it possible to define one set of values at all? Many of the most successful bigger businesses have managed to bottle the qualities that their founders once exhibited and convert them into organisational values – which in turn comprise a key element of an organisational culture which can be measured and managed. But big companies don't need famous founders and well-documented histories in order to define the values that matter the most to their organisations.

At BDO Stoy Hayward we have long harboured the belief that organisations, big and small, can define a core set of values, nurture them, make them live in the decisions they take, recruit people who want to live up to them and thus increasingly foster a culture in which staff are aligned to those values. And, even more importantly, we have harboured a belief that those organisations that take their values seriously will in general perform better than those that don't. But there is a big difference between 'harbouring a belief' and proving beyond reasonable doubt that organisations aligned behind values perform better than those that don't. This is what BDO Stoy Hayward's 'The Real Value of Values' project is about.

Taking advantage of the expertise of ISR, who have surveyed more than 35 million employees globally, BDO Stoy Hayward is not only aiming to demonstrate once and for all the importance of values to performance – but also to generate detailed insight into what values to foster (and how) in order to make fundamental and sustainable improvements to commercial performance. This initial report presents findings from the initial pilot study which focused on organisations from the professional services sector. Eight different organisations agreed to participate. The findings, though necessarily preliminary, are already startling, and suggest that there are strong linkages between values and performance. There is indeed a case to answer:

We look forward to encouraging more organisations to participate in our research so that our findings might be tested further and our hypotheses more closely scrutinised.

# Project methodology

Eight professional service firms agreed to participate in the pilot study. The fact that the firms were from a similar sector facilitated the comparison of data between them.

Is eight a big enough sample? More than 30 years experience of benchmarking employee opinions and exploring the links with performance has taught ISR that a sample of eight firms provides the minimum necessary to begin to draw out meaningful relationships. By statistically weighting the employee opinions of each company and standardising the performance metrics the impact of a single set of data is minimised.

As with any statistical analysis, more is always better as it reduces the impact of erroneous data, but for pilot purposes a set of eight companies lays the foundation for preliminary exploration. By analysing the association first between values and performance; and then between performance and values, we are able to investigate thoroughly the importance that values play in firms.

## Definitions of 'value'

One of the difficulties in researching values is pinning down the definition of 'value'. Actually, we all instinctively know what a value is – but putting it into words is problematic. When constructing our methodology we found the following definitions helpful:

- fundamental beliefs and unwritten standards and principles that guide patterns of behaviour and judgements across situations (Rokeach, 1973)
- collective beliefs about what the organisation stands for and takes pride in (Schein, 1985)
- beliefs about 'what ought to be' in organisations as well as how individuals should behave (Cummings & Worley, 2001).

**In order to explore the linkage between performance and values, two separate data collection exercises were constructed.**

## Collecting data on values

ISR and BDO Stoy Hayward constructed a questionnaire designed to collect individual staff-members' perceptions of the values prevalent in their firms. In order to ensure consistency and to facilitate quantitative as well as qualitative research, the questionnaire was focused on a list of 29 value descriptors as follows:

- achievement oriented
- brand oriented
- customer oriented
- decisive
- employee oriented
- entrepreneurial
- equality focused
- expansionist
- flexible
- focused
- forward looking
- fun
- honest
- innovative
- open
- personally accountable
- process oriented
- professional
- quality focused
- realistic
- respectful
- risk taking
- socially responsible
- stable
- straightforward
- supporting diversity
- team oriented
- traditional
- trusting.

Additional questions focused each participant's attention on a list of 12 potential 'inhibitors' to performance in a firm:

- aggressive
- blame oriented
- bureaucratic
- cautious
- controlling
- cynical
- exploitative
- impatient
- long hours
- manipulative
- secretive
- unsupportive.

These lists of values and inhibitors were selected after a review of the academic literature on values in organisations.

Statistically reliable samples of individual staff members in participating firms were constructed in each participating firm, and members of the sample group were invited to complete a questionnaire which asked participants to review their perceptions of the relevance of a particular value to their own firm.

In total 1,966 individuals completed questionnaires between May and September 2006.

# Project methodology

## Collecting data on performance

BDO Stoy Hayward designed a checklist of performance indicators and metrics, which we used to collect data from participating firms' finance departments.

In addition, ISR designed questions on aspects of a firm's performance that are best measured by employee opinion data. These were added to the values questionnaire.

In total the following metrics were used:

### Employee

- employee engagement\*
- average fee income per employee
- chargeable output as a proportion of employee remuneration
- training & development spend per employee
- total employee remuneration as a percentage of fee income
- employee turnover:

### Leadership

- employee perceptions of leadership effectiveness\*.

### Customer

- employee perceptions of competitiveness\*
- marketing spend as a proportion of fee income.

### Investor

- operating profit as a proportion of fee income
- profit (before interest and tax) as a proportion of fee income.

## Developing hypotheses

Analysis of the values questionnaires, and linkage of results with performance results, was conducted and tabulated by ISR.

The following areas were investigated in particular:

- which values seem to be most characteristic of professional service firms?
- are some values so universal as to almost define the industry?
- do these values tell us something about the characteristics of key performers in the industry?
- how strongly are these values held in differing firms?
- which are the key drivers of the most important of those core values?
- what other values correlate well with the most important values?
- which values seem to be least characteristic of professional service firms?
- does the rating given to these values tell us something about the characteristics of key performers in the industry?
- which of the inhibitors are particularly characteristic of the industry?
- what is the relationship between these inhibitors and the core values noted above?
- what is the relationship between the core values and performance metrics?
- are there other associations that catch our eye?

When developing hypotheses, we tried to examine the data from the perspectives of the following stakeholders:

- employee
- leader
- customer
- investor.

(\* ISR Normative measures of employee opinion)

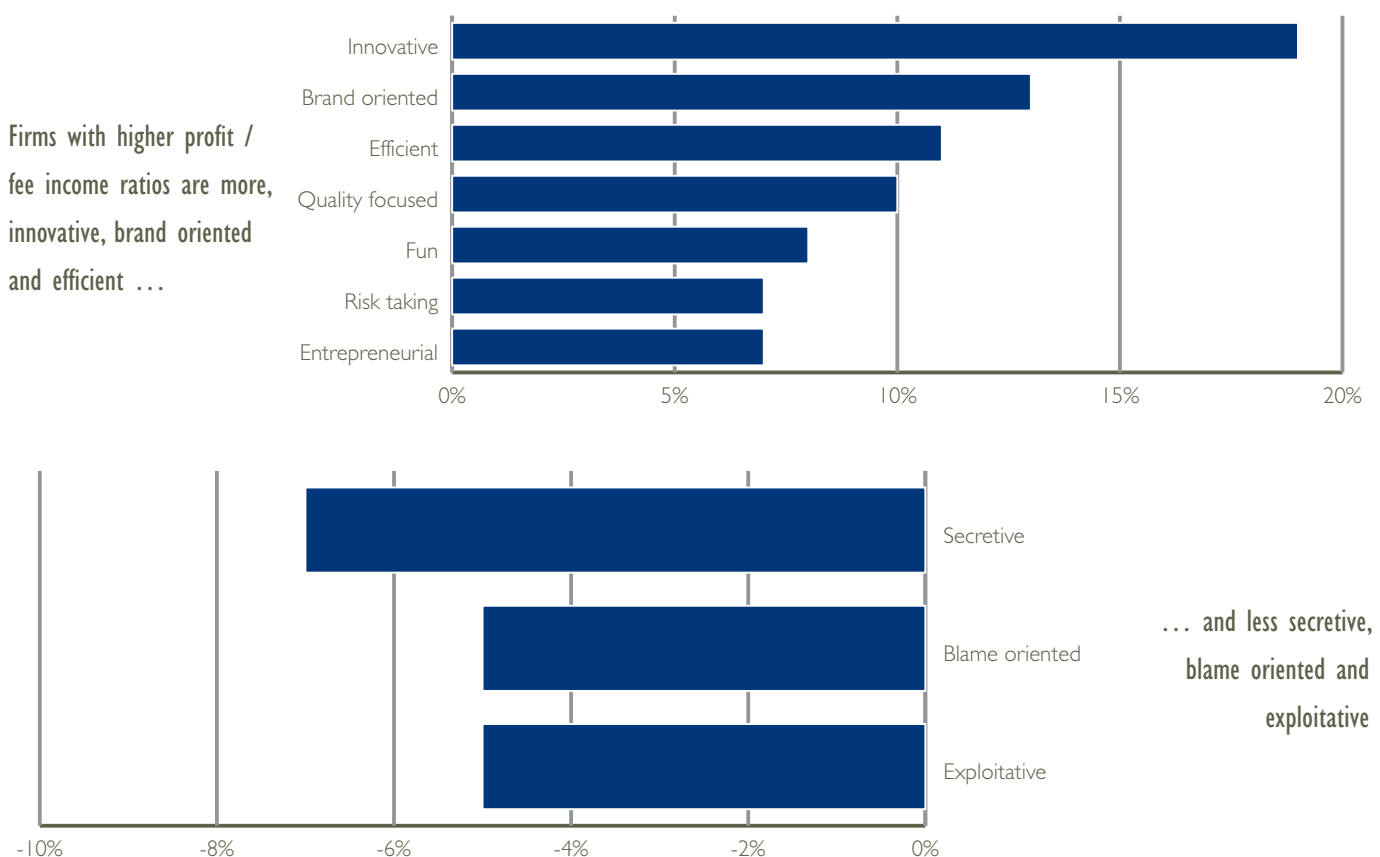
# Initial findings

## Values which drive performance

Are there particular values, or patterns of values, that characterise the firms that achieve particularly high scores on the performance indicators?

The answer to this first question seems to be 'Yes!'

Take what many might consider to be one of the most significant performance indicators - profit / fee income. From our research we can identify how value scores differ between profitable firms and unprofitable firms. The following charts highlight the biggest of these differences - firstly showing the positive values, and secondly the negative values or inhibitors. For example, on the chart below we can see that members of the firms who are more profitable are 19 per cent more likely to describe their firms as innovative than less profitable firms.



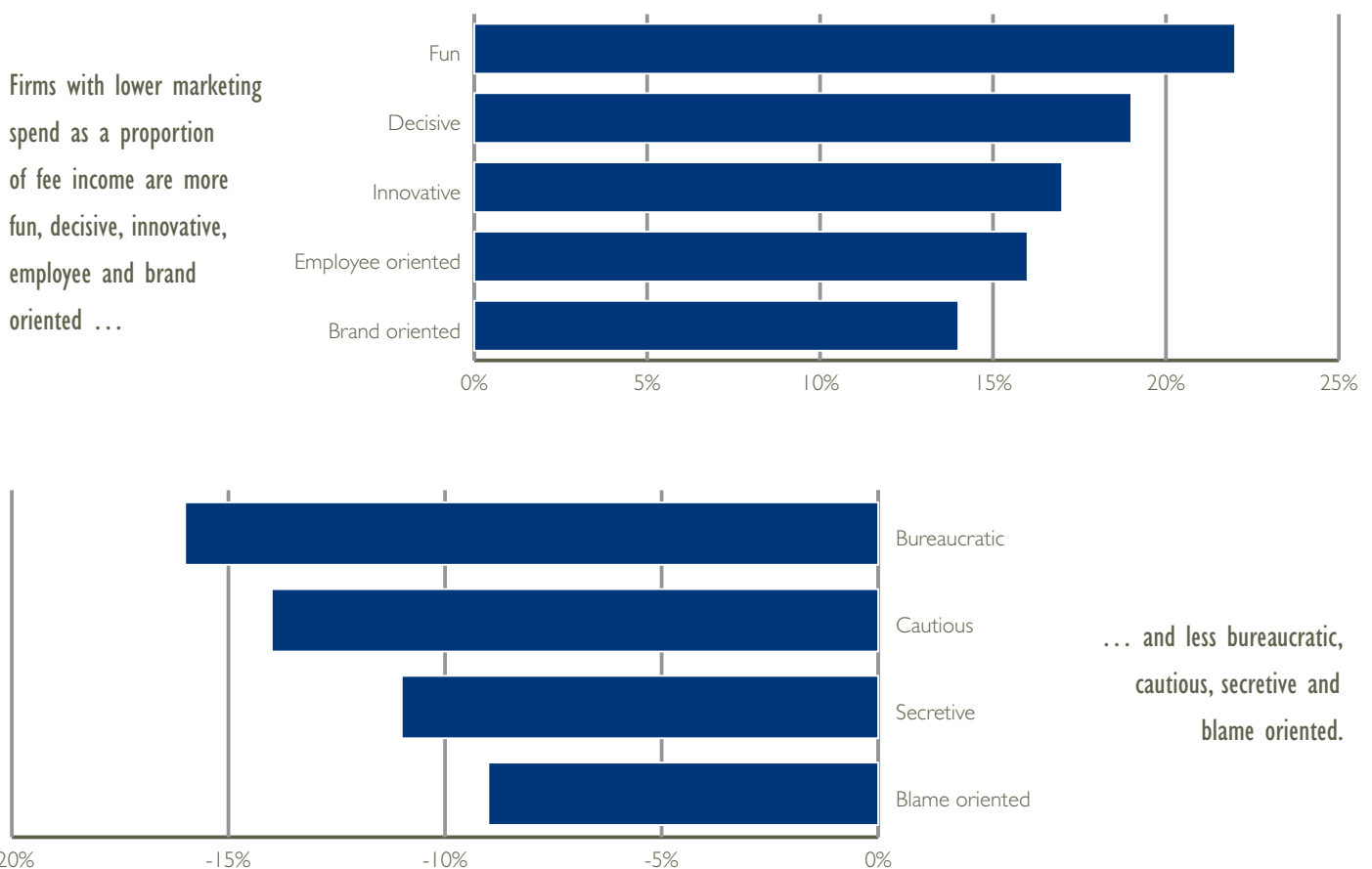
The above charts suggest that the more profitable firms are the more entrepreneurial firms (innovative, risk taking, entrepreneurial). They are also more quality focused and (perhaps not surprisingly) more efficient. The suggestion that profitable firms are more likely to be firms where staff prize enjoyment as an organisational value is striking. Members of such firms are also less likely to see their firms as secretive, blame oriented and exploitative.

Perhaps even more striking is the suggestion that profitable firms are more brand oriented – brand orientation is not often associated with professional services firms.

# Initial findings

## Values which drive performance

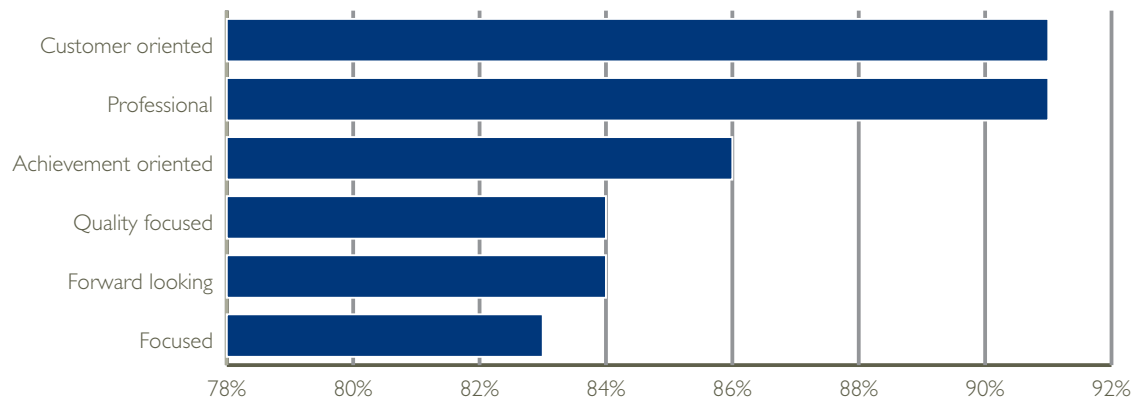
We can explore this further. One of the performance criteria we explored in our research is marketing spend as a proportion of fee income. The following charts explore how value scores differ between firms which invest little in marketing and those which invest a lot.



Three of the values that distinguish the most profitable firms, also distinguish those which spend proportionally *least* on marketing: fun, innovative – and, most interestingly, brand oriented. Also worthy of attention is the high difference in the scores given to the negative value or inhibitor bureaucratic. There's a suggestion in these scores that brands, like values, have to be *lived*. They are not just constructs of the marketing department.

## The most popular values

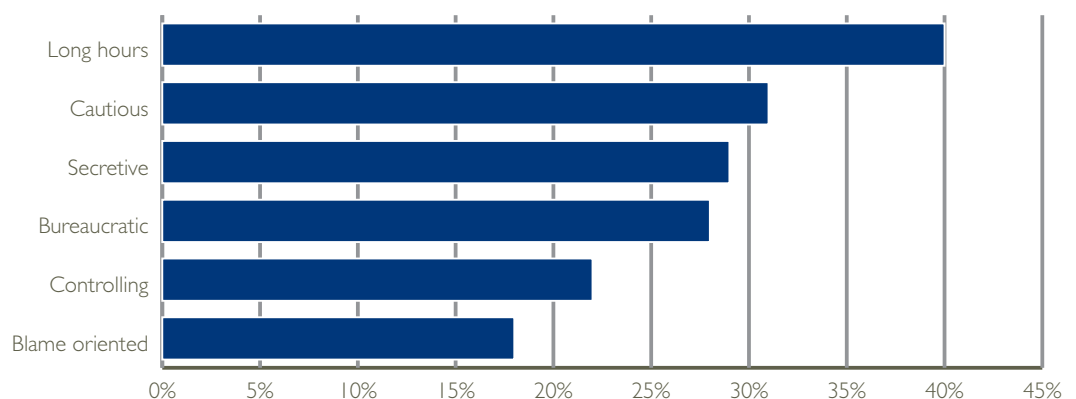
The values that seem particularly associated with profit are thrown into even sharper relief when compared to the values that are most frequently cited by members of the firms who participated in the survey, regardless of firm performance. The following chart lists the six most popular:



Only one of these 'core values', quality focused, also appears on the previous chart which attempts to distinguish more profitable firms from less.

It would be wrong, of course, to hypothesise that the values on the chart above define the differences between successful firms and others. Perhaps they suggest values that might lie at the heart of what it means to be a professional services firm – or maybe just 'professional'.

What about the most commonly cited negative values or inhibitors? The following chart lists these:



Given the negative connotations of the items on the list, it is not surprising to find them receiving lower scores than the positive values. But the relatively high score given to long hours is interesting, and again highlights a commonly acknowledged characteristic of professional services firms.

# Initial findings

## The significance of the core values

We have found that the six core values have another significance. On many performance criteria the firms in which the six core values are most characteristic do significantly better – when compared with the firms in which the same core values are less strong.

In particular:

- operating profit as a proportion of fee income is 18 per cent higher
- fee income growth is projected to be 62 per cent higher
- average fee income per employee is 14 per cent higher
- chargeable output as a proportion of employee remuneration is 35 per cent higher
- marketing spend as a proportion of fee income is 24 per cent lower
- total employee remuneration as a proportion of fee income is 16 per cent lower
- employee turnover is 4 percentage points lower (22 per cent versus 26 per cent)
- employee engagement is 13 per cent higher
- perceptions of leadership effectiveness are 22 per cent more favourable.
- employees are 35 per cent more positive that their firm is better than the competition.

On the face of it, this finding seems to contradict the findings we reported first about the values reported by members of successful firms. For example, haven't we demonstrated that only one of the six core values also distinguishes the most profitable firms from the least profitable? And yet here we are noting that firms which are more strongly aligned with the six core values seem to be 18 per cent more profitable than those which are not so strongly aligned! Which is right? The data can be used to derive both conclusions!

The truth is that we need to do much more work on this subject. But it is possible to reconcile these positions. One hypothesis that is worth exploring further is that firms which invest in and work hard at aligning themselves around a set of values – any values – are more likely to do better across many performance dimensions than firms which leave such matters to chance. On the other hand, if we wish to examine the profit performance criterion in isolation, particular values seem to matter more.

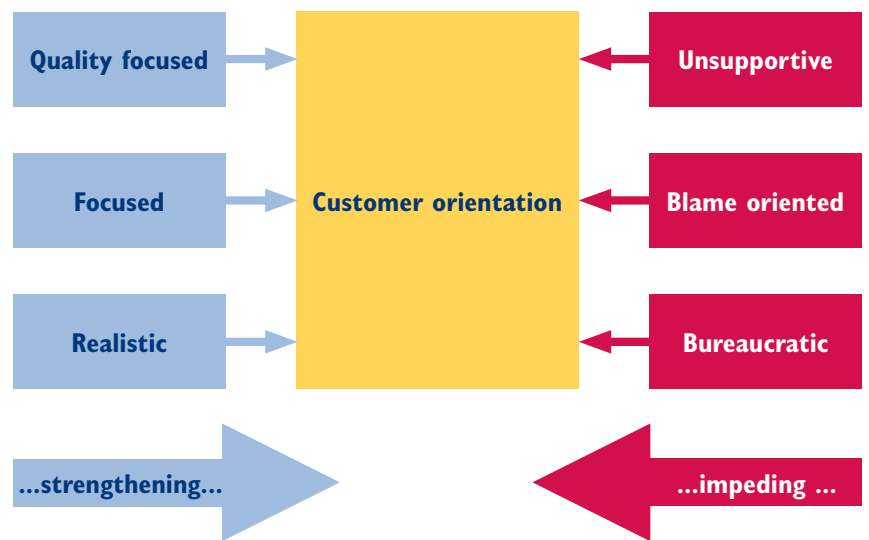
# The importance of two values in particular

Further comment is worth paying to the values customer oriented and professional. These two values stand out head and shoulders above the others as the most characteristic of professional services firms.

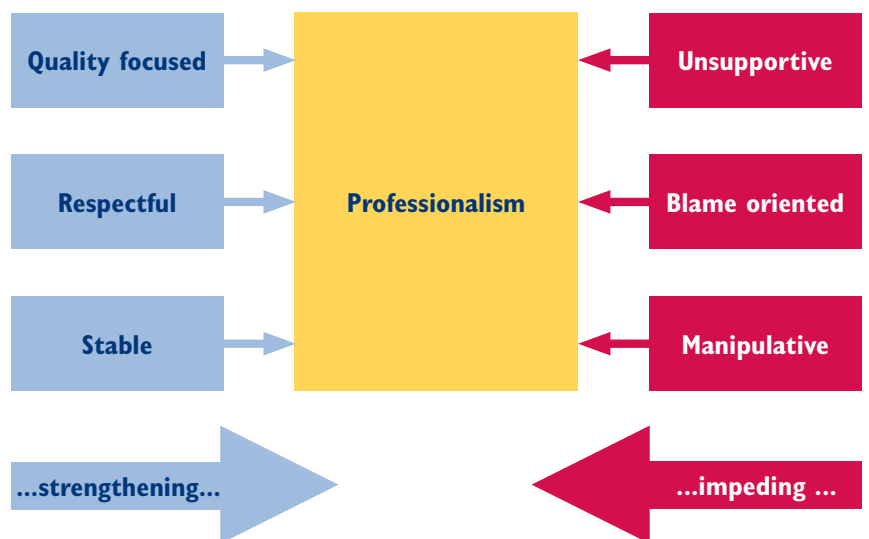
The two charts shown need some explaining. They seek to dig a little deeper under the surface of these two values. Based on the responses of the survey participants, the charts illustrate the other positive values that are most clearly associated with these two values; and the performance inhibitors which are most likely to impede them. (The statistically-minded should note that these associations have been established using regression analysis.)

The importance of quality focused as an ancillary value is striking – as are the roles of blame orientation and unsupportiveness as inhibitors. Professional service is a team game, evidently.

## Key drivers and inhibitors of customer orientation



## Key drivers and inhibitors of professionalism



# Initial findings

## Implications for human resources and development strategy

A picture is beginning to emerge.

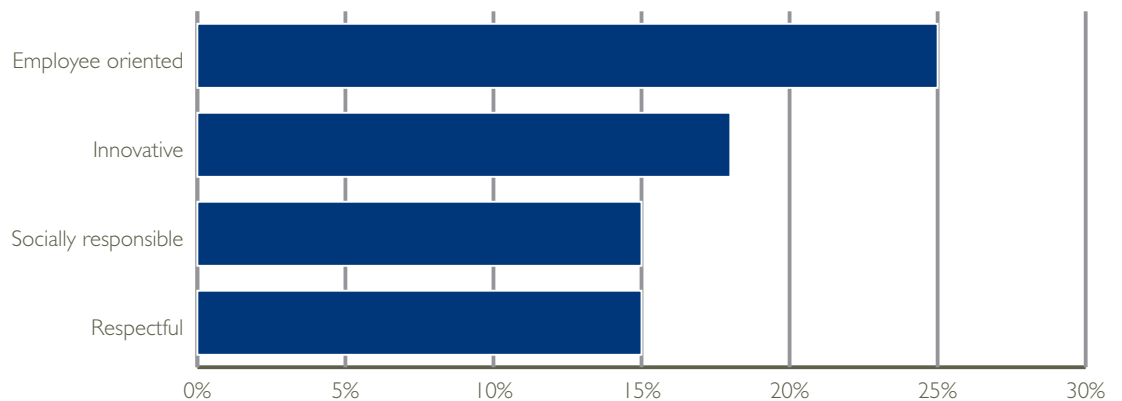
Firms in which values are more sharply defined, and which have a set of values around which their members are more closely aligned, seem to be doing better than firms with less well defined values. Some values seem particularly significant in professional services firms in general, and some of the most significant values seem to be closely aligned with others that might have less significance on their own. And some values appear to have a particular relationship with some key performance measures, such as profitability.

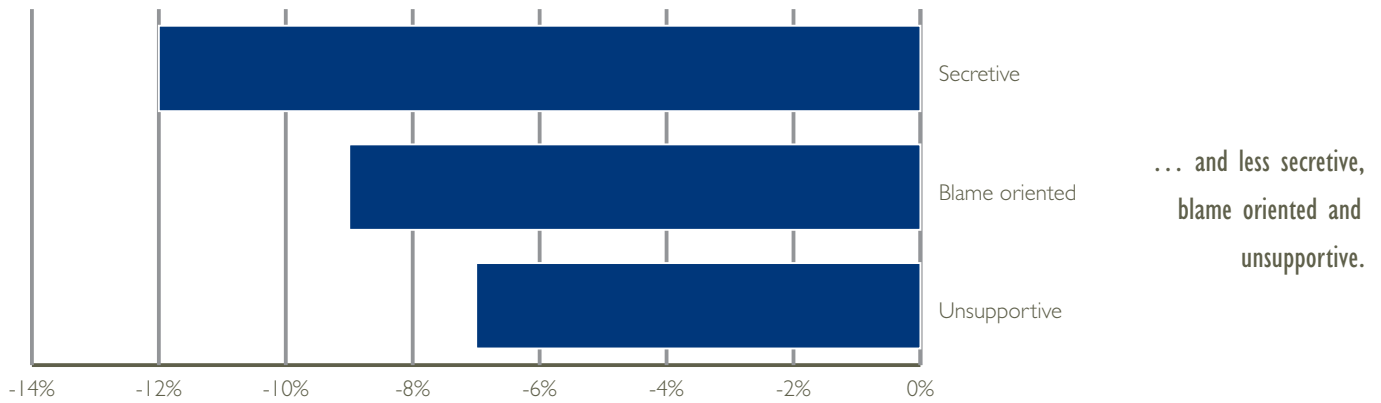
Can we go to the next step and suggest that firms which actually invest time and effort in their values will give themselves a good chance of performing better than the competition?

We think so. But of course we recognise that such an investment requires time and energy.

When we focus on the values that are particularly associated with high training spend we notice the following differences between value patterns, compared to those who spend less:

Firms with higher training & development spend per employee are perceived as being more employee oriented, innovative, respectful and socially responsible ...





There are some interesting differences in this chart – but on their own they do not present a compelling case for increasing investment in training and development. However, let's look a bit more closely at the firms which are more closely aligned with the six core values – firms which, as noted above, perform significantly better across a whole range of performance criteria. We can also report that these same firms' training & development spend per employee is 81 per cent higher than those firms not so closely aligned with the core values. This indeed does suggest that there might be a relationship between training investment and values alignment – and with performance success as well.

# What now?

## Taking the research further

In this report we discuss what are only initial findings. We hope you agree they are exciting. But we need to do much more. In particular we are keen to:

- extend our research to other professional service firms so as to corroborate our findings and investigate more of the detail
- extend our research to other industries, so that we can investigate differences between industries.

## Making the research live

Above all we are keen to make our research live and breathe. We don't want it to die on a book shelf.

At BDO Stoy Hayward we have worked hard at defining our own values. They have played a significant role in our own recent successes. We are keen to use our own experience – and our increasing expertise in this area – to help other firms in their own search for value definition and enhanced performance.

If you are interested in a chat about how we might help you benefit from what we have learned already, please feel free to contact Rupert Merson:

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