

# Use of a Value-Balance Model to Guide Employee Behavior to Meet Customer Needs: An Exploratory Application

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**Zusammenfassung** Im Rahmen dieses Beitrags werden die Theorie des „Value Balance-Model“ sowie die Implementierung des Modells in dem mittelständischen Unternehmen A.M.F. Snaps dargestellt. Das „Value Balance-Model“ zielt auf ein Gleichgewicht zwischen den Werten, nach welchen Kunden streben, und den Werten, die für das Unternehmen gelten, ab, wodurch stabile Kundenbeziehungen aufgebaut werden können.

## 1 Introduction

The economy of the early twenty-first century is characterized by the creation of most value and economic performance from intangible assets rather than the classical factors of production, natural resources, labor and capital. Even though this underlying shift in the importance of the balance between tangible and intangible assets is well known and acknowledged, the organizational design of most companies' today remains fettered to the old model and is not centered on a paradigm that involves development of intangible assets in an ethical environment.

Typically **intangible assets** are clustered in three areas (Kinne, 2006):

- **Human Capital:** The qualifications, knowledge and experience off all the people, the potential of innovation from utilizing the talents and knowledge of employees and managers – the “brains” of a company.
- **Information Capital:** The sum of all transactional, analytical and transformational applications plus the necessary technology infrastructure of a company
- **Organizational Capital:** The company's values, culture and philosophy, and also leadership, alignment and teamwork

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The purpose of this paper is to review the theory and the implementation process used in a case study that developed and applied a **Value Balance-Model** (Kinne, 2006) that:

- enables a company to compete based on a value proposition that balances company identity and customer needs
- helps to establish a sound, value – based resource management system in the company,
- helps to acquire more knowledge about the company’s “value” attributes and their match to customer needs such as strong support for innovation driving to a unique, sustainable competitive advantage.

The Implementation Model for the case follows a step-by-step approach that is defined by the following process:

- Identify identity-building implicit and explicit company attributes.
- Evaluate the customer’s preference and their quality perception of company products, services, attitudes and behavior compared to competitors.
- Use these results, to define a company value proposition that is in balance with customer values,
- Define an internal value proposition and make the value proposition part of the corporate strategy.
- Specify performance values using identified attributes that support the delivery of value to the customer,
- Identify the resources, primarily people, which are involved in value delivery, and
- Define performance parameters for these employees to align resources with value proposition.

## 2 What Are Values, and Why Are They Critical?

**Value theories** investigate how people positively and negatively value things and concepts, the factors they use in making their evaluations and the scope of applying those evaluations held to be legitimate across the social world. In practice, these views are meant to explain our views of the “good.”

Philosophers define a difference between moral and natural “goods.” Moral “goods” are those that have to do with the conduct of persons, often leading to praise or blame. Natural “goods,” on the other hand, have to do with objects, not persons. For example, to say that “Mary is a morally good person” might involve a different sense of “good” than that in the sentence “A tummy tuck is good.” Ethics tend to be more interested in moral goods than natural goods, while economics is more interested in natural “goods.” However, both moral and natural “goods” are equally interesting to the more general theory of value.

In psychology, value theory refers to the study of the manner in which human beings develop, assert and believe in certain values, and act or fail to manifest them in their actions.

Attempts are made to explain experimentally why human beings prefer or choose some things over others, how personal behavior may be guided (or fail to be guided) by certain values and judgments, and how values emerge at different stages of human development (Kohlberg, 1958).

In sociology, value theory is concerned with personal values that are popularly held by a community, and how the evolution of those values under different sets of conditions. Different groups of people may hold or prioritize different kinds of values influencing social behavior. Major Western theorists including Max Weber, Karl Marx, Emile Durkheim and Jürgen Habermas have explored value theory in society.

## ***2.1 Economic Definition of Value***

Economic analysis examines the marketplace for products, and tends to use the consumer's choices as evidence that various products have value. In this view, religious or political struggles over what "goods" are available in the marketplace is inevitable, and consensus on some core questions about society is affected by market transactions, are outside the "goods" of the market as long as they are un-owned. Economic "goodness" is defined by ownership not by the externalities of transactions.

However, some natural goods seem to also be moral "goods." For example, those things owned by a person are natural goods, but ownership by a particular individual implies a moral claim to enjoy the results of that ownership. So it is necessary to make another distinction: between moral and desirable "goods." A desirable "good" is something that is wanted by someone; which may or may not include a moral "good." A moral "good" implies an obligation on the part of an actor to manifest that "good."

We need to turn to philosophy to drive this background section to its conclusion. The thinking of **Immanuel Kant (1724–1804)** greatly influenced the development of moral philosophy. He thought of moral value as a unique and universally identifiable property, as an absolute value rather than a relative value. He showed that many practical goods are good only in states-of-affairs described by a sentence containing an "if" clause. For example, in the sentence, "Sunshine is only good if you do not live in the desert". Further, the "if" clause often described the category in which the judgment was made (art, science, etc.). Kant described these as "hypothetical goods", and tried to find a "categorical" good that would operate across all categories of judgment without depending on an "if-then" clause.

An influential result of **Kant's** search was the idea of acting with "**good will**" as being the only "good" that is not contingent on the situation. Moreover,

Kant defined this as acting in accordance with a moral command, the “Categorical Imperative:” “Act according to those maxims that you would will to be universal law.” From this and a few other axioms, Kant developed a moral system that would apply to any “praiseworthy person” (Kant, 1927, pp. 446–447). Kantian philosophers believe that any general definition of goodness must define “goods” that are categorical in the sense that Kant intended.

## 2.2 *The Economic “Good”*

In neoclassical economics, the value of an object or service is defined as the price it would bring in an open and competitive market. This is driven by the demand for the object relative to its supply in a competitive market by classical economists. However, many neoclassical economic theories equate the value of a commodity with its price, independent of the degree of competitiveness in that market. As such, everything is seen as a commodity and if there is no market price then there is no economic value. In classical economics, the value of an object or condition may also be defined by the amount of discomfort/labor saved through the consumption or use of an object (**Labor Theory of Value**). Though exchange value is recognized, **economic value** under the Labor Theory is not dependent on the existence of a market and price and value are not defined as equal.

In this tradition, according to Steve Keen (2001, p. 271) “value” refers to “the innate worth of a commodity, which determines the normal (‘equilibrium’) ratio at which two commodities exchange.” To Keen applying the tradition of David Ricardo, this corresponds to the classical concept of long-run cost-determined prices, what Adam Smith called “natural prices” and Karl Marx called “prices of production.” This view of value is part of a cost-of-production theory of value and price. Ricardo, but not Keen, used a “labor theory of price” in which a commodity’s “innate worth” was the amount of labor needed to produce it.

In another classical tradition, Marx distinguished between the “value in use” (use-value, what a commodity provides to its buyer), “value” (the socially-necessary labor time it embodies), and “exchange value” (how much labor-time the sale of the commodity can claim, Smith’s “labor commanded” value). By most interpretations of his labor theory of value, Marx, like Ricardo, developed a “labor theory of price” where the point of analysing value was to allow the calculation of relative prices. In this interpretation, Marx aimed for a theory of the dynamics of price formation, but did not complete it.

Economics, as well as marketing, asserts that “value,” meaning exchange value, is the result of subjective value judgments. There is no price of objects or things that could be determined without taking these judgments into account, as manifested by markets. Thus, it was false to say that the

economic value of a good was equal to what it cost to produce or to its current replacement cost.

Value in the most basic sense can be referred to as “**Real Value**” or “**Actual Value.**” This is the measure of worth that is based on the subjective utility derived from the consumption of a product or service. Utility-derived value allows products or services to be measure on consumption-based outcomes instead of demand or supply theories that are subject to all of the non-Value related complexities of market-failure mechanisms. For example, the real value of a book sold to a student who pays \$50.00 at the cash register for the text because it is required for a course and who earns no additional income from reading the book is essentially zero, since most of the utility is in the education received with none of that value reflected in the purchase of the text. However; the real value of the same text purchased in a thrift shop at a price of \$0.25 which provides the reader with an insight that allows him or her to earn \$100,000 in additional income is \$100,000 to the reader. This is value calculated by actual measurements of earned cash flow rather than the cost of production input and or the price paid. Therefore, no product has a fixed value across customers. Value is defined by the worth derived by the consumer.

However, the ethical dimension discussed earlier still remains. In 1860 John Ruskin published a critique of the economic concept of value from a moral point of view. He entitled the volume *Unto This Last*, and his central point was this: “It is impossible to conclude, of any given mass of acquired wealth, merely by the fact of its existence, whether it signifies good or evil to the nation in the midst of which it exists. Its real value depends on the moral sign attached to it, just as strictly as that of a mathematical quantity depends on the algebraic sign attached to it. Any given accumulation of commercial wealth may be indicative, on the one hand, of faithful industries, progressive energies, and productive ingenuities: or, on the other, it may be indicative of mortal luxury, merciless tyranny, and ruinous chicanery.” (Ruskin, 1860).

A premise of this paper is that employees will be pursuing a moral and an economic “good” when they act to manifest value for the consumer that is congruent with the values desired by that consumer. When an employee acts in this way, he or she is acting according to our view of “value-balance” theory. We are left with the problem of how to define that value balance.

### 3 Why Are Values Critical in Marketing Strategy Implementation?

As we can see, **values** may be viewed as the result of an individual’s judgment those values. If an individual regards an item as more valuable, she or he will **prefer** it to others. Preference is fundamental to the delivery of consumer value and marketing success. Successful companies compete based on a set of attributes customers regard as valuable. Value emerges from both the company’s

pursuit of its own values and its ability to respond to customer needs and desires. Few companies have a thorough understanding of this relationship and fewer still use that understanding to drive a core set of company values into the actions of company employees. Joining the ranks of these last few requires operating with corporate values that are congruent with the delivery of consumer value or with “value balance” (Kinne, 2006).

### ***3.1 The Value-Balance Challenge***

The achievement of the balance between the values sought by the customer and the values held by the corporation is the search for the mechanism to accomplish two things:

1. Define a reasonable value proposition that is compelling for the customers
2. Develop congruent company values and make them fundamental to the day-to-day activities of the company and its employees.

### ***3.2 Why Define a Value Proposition?***

A value proposition:

- Generates mutually shared self-understanding
- Helps generating common sense actions and problem solutions
- Builds the foundation of internal and external communication
- Enhances employee identification with the company
- Positions the company away from competitors
- Provides powerful arguments for attracting customers, smart employees, reliable suppliers, trustworthy business partners, and wealthy investors
- Helps to make quality management truly effective
- Fosters creating a strong brand, providing important opportunities for staying in business and growing

### ***3.3 The Value Balance-Model***

Value Balance exists if the manifested attributes of a company and its products are of equal importance to the company employees and its customers and if each delivered attribute value as perceived by customers is in accordance with its importance to the customer. (Kinne 2006) (Fig. 1)

$VB_{\max} = F(\text{internal significance} = \text{importance for stakeholders} = \text{perceived quality})$

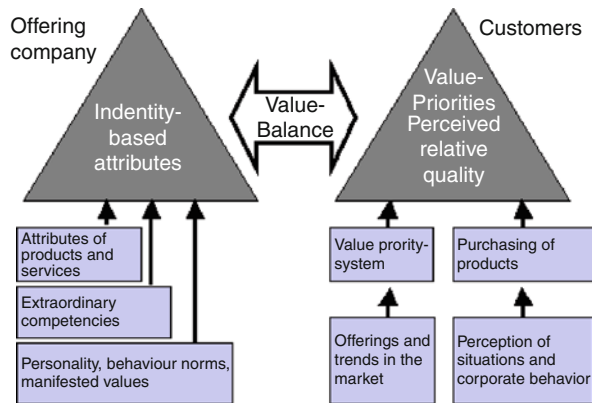


Fig. 1 Value balance-model. Source: Kinne (2006)

## 4 Value Balance – The Organization Side

Human, organization and management value capital influences and supports a value structure that is compelling for the customers, motivating for employees, and lays a foundation for building stable customer relationships.

### 4.1 Human Capital

The role of human capital is improved and developed (Kaplan and Norton, 2001, p. 231) in the following areas:

- **Knowledge:** There are two types of knowledge needed to perform a job. First is job-specific knowledge and second is contextual knowledge used to tailor the job-specific knowledge to the environment and context of the job.
- **Skills:** The skills required to complement the knowledge base including softer skills with people.
- **Values:** The set of personal characteristics or behaviors that produce outstanding performance.

Companies that develop these three elements in their people are more likely to enable staff to perform their job and deliver value to customers. In general, the better the people the better the customer outcome will be.

### 4.2 Organization Capital

Organization capital provides the environment to maximize the value delivered by the human capital. If the organization does not support the people with an appropriate environment superior performance cannot be achieved. This framework (Kaplan and Norton, 2001, p. 277) includes:

- **Culture:** Awareness and internalization of the mission, vision and core values needed to execute strategic initiatives.
- **Leadership:** Qualified leaders at all levels of the organization who follow leadership principles that support the strategy
- **Alignment:** Individual, team and departmental goals and incentives linked to the attainment of strategic objectives.
- **Teamwork:** Knowledge sharing and cooperative actions needed to achieve superior performance

### ***4.3 Management Capital***

Building a value-balanced company requires work on the part of all members of the company. Motivation is the energy and willingness to use that energy to accomplish tasks in the company. Motivation depends heavily on the skills and attitude of management and the values of the culture that management builds.

### ***4.4 The Impact of Culture***

A strong culture requires a basic set of values which are developed by company managers and accepted by all company members. In the management literature (e.g., Schmitz, 2005, Ch. 2; Thomen, 2004, Part 10; Brunken, 2005, Ch. 4), there are multiple definitions of core company values. However, most core value systems contain the following elements:

- **Trust:** Some management theories (Sprenger, 2002) are exclusively designed around trust and set trust in the middle of all management decisions. As a value, trust is defined as the willingness to believe that people are able and willing to act to the best of the organization/company. Trust allows managers to implement fewer methods of controlling employee behavior. Trust does not imply blind trust. Trust reduces fear and its inherent de-motivation within an organization.
- **Respect:** Respect means that everyone recognizes the dignity, beliefs and weaknesses of other people as long as those weaknesses do not violate the rights of other people. People are treated with politeness and as human beings. Defamation and discrimination are not acceptable.
- **Honesty:** All employees of a company and particularly managers need to be honest in all actions, statements and behavior.
- **Openness:** Openness means that personal feedback, the company's situation, future plans that affect employees and all other people related information should be communicated as soon as possible with openness. Openness implies that transparency in communication between management, colleagues and employees is required.



- **Integrity:** Especially for managers integrity is the most important value. Integrity requires that the personal behavior is consistent with the communicated values, standards and beliefs.

By building a company culture, management is the key factor for success (Schmitz, 2005, p. 43). Within an organization, values will only be lived, if the management shows by example that they fully support these values.

## 5 Value Balance – The Customer Side

Value-balance is critical because it is the delivery of customer value that builds stable customer relationships. Fornell and Wernerfelt (1987) used the term “defensive marketing” to describe attempts to reduce customer turnover and increase customer loyalty. This customer-retention approach was contrasted with “offensive marketing” which involved obtaining new customers and increasing customers’ purchase frequency. Defensive marketing focused on reducing or managing the dissatisfaction of your customers, while offensive marketing focused on “liberating” dissatisfied customers from your competition and generating new customers. Defensive marketing is an building block of an idea that evolved into the concept of relationship marketing.

Relationship marketing was also influenced by reengineering. According to reengineering theory, organizations should be structured to complete tasks and processes rather than functions. That is, cross-functional teams should be responsible for a whole process, from beginning to end, rather than having the work go from one functional department to another. Traditional marketing is said to use the functional department approach (e.g. Kotler et al., 1998). This can be seen in the “four P’s” definition of the marketing mix. Pricing, product management, promotion, and place are often functional silos that must be coordinated and integrated by the marketer if she is going to achieve marketing success. According to Gordon (1999), the marketing mix concept is too limited to provide a usable framework for assessing and developing customer relationships in many industries and should be replaced by an alternative model where the focus is on customers and relationships rather than marketing functions. Value-balance implementation is a direct application of this principle.

Relationship marketing is cross-functional marketing organized around processes that involve the entire organization. It is fair to call relationship marketing “relationship management” since it involves much more than what is normally included in marketing. In spite of this broad view, relationship marketing retains its core marketing orientation. It involves the application of the marketing philosophy to all parts of the organization. Every employee is said to be a “part-time marketer”. The way Regis McKenna (1991, pp. 65–70) puts it:

Marketing is not a function, it is a way of doing business . . . marketing has to be all pervasive, part of everyone’s job description, from the receptionist to the board of directors.

Because of this, he claims that relationship marketing is a more pure form of marketing than traditional marketing. Relationship marketing relies upon the communication and delivery of consumer requirements to existing customers in a mutually beneficial exchange (Gale and Chapman, 1994). The capability of a company to deliver value to the customer drives company sales. Accuracy of communication and overall relevance to the customer remains the key factor of success in relationship marketing. The key to relationship marketing success is customer retention, and the ability of a company to drive that retention depends on the achievement of value balance.

## 5.1 Retention

The key principle of relationship market is the retention of customers by delivering more value to those customers than competing companies (Gordon, 1999, p. 336). According to Buchanan and Gilles (1990), the increased profitability associated with customer retention efforts arises from several factors that occur once a relationship has been established with a customer:

- The cost of acquisition occurs only at the beginning of a relationship so the longer the relationship the lower the amortized cost
- Account maintenance costs decline as a percentage of total costs (or as a percentage of revenue)
- Long-term customers tend to be less inclined to switch and be less sensitive
- Long-term customers may initiate free word of mouth promotion and referrals
- Long-term customers are more likely to purchase ancillary products and high margin supplemental products
- Customers that stay with you tend to be satisfied with the relationship and are less likely to switch to competitors, making it difficult for competitors to enter the market or gain market share
- Regular customers tend to be less expensive to service because they are familiar with the process, require less “education”, and are consistent in their order placement
- Increased customer retention and loyalty makes the employees’ jobs easier and more satisfying with happy employees giving better customer service.

Successful customer retention efforts involve several considerations including the following:

- Customer value to the company – Gordon (1999) describes how to value customers and categorize them according to their financial and strategic value so that companies can decide where to invest for deeper relationships and which relationships need to be served differently or even terminated.
- Customer retention measurement – Dawkins and Reichheld (1990) calculated a company’s “customer retention rate”. This is simply the percentage

of customers at the beginning of the year who are still customers at the end of the year. As an aside, they say an increase in retention rate from 80% to 90% is associated with a doubling of the average life of a customer relationship from 5 to 10 years.

- Defection analysis – This involves probing for details when talking to former customers. Other techniques include the analysis of customers' complaints and competitive benchmarking.
- Corrective planning and implementation – This could involve actions to improve employee practices, using benchmarking to determine best corrective practices, visible endorsement of top management, adjustments to the company's reward and recognition systems, and the use of "recovery teams" to eliminate the causes of defections.
- Team-based implementation – Customer retention efforts depend on the coordination of many company activities. Achieving this coordination requires cross-functional cooperation, which can be enhanced by the use of cross-functional teams.

All of these activities are part of the implementation of a value-balance initiative.

## 6 The Value Balance Case Application

The exploratory application of the value-balance process was performed within the company A.M.F. Snaps. A.M.F Snaps is a medium-sized company founded in 1996 as a supplier of snaps for the premium clothing market. By 2007 the workforce had grown to 100, with sales of 150 million snaps per year. Products include buttons, buckles, rivets, snaps, and labels. The company's core competencies include product design, prototyping, development and logistics. A.M.F. has a dedicated design department and facilities to make customized prototypes for clients. The company sells primarily to the apparel industry in Europe. Clients include Giorgio Armani, Dolce e Gabbana, Hugo Boss, Bogner, Max Mara, Versace, Ermenegidio Zegna, Fendi, Bally, Hermes, Luis Vuitton, Escada, Laurel, Marc Cain, and Donna Karan. The key value driver for the business is the maintenance of good relationships with customers. The company is located in Bassano del Grappa, Italy. (AMF, 2007) (Fig. 2)

### 6.1 *The Implementation Methodology*

The process for implementing the value-balance model in this exploratory application involved four steps. First, we defined the values currently held by the employees and management of the company using in-depth personal interviews during the first workshop with done in Bassano – Italy together with Mr. Peter Kinne in 2006. Second, we assessed similar information from

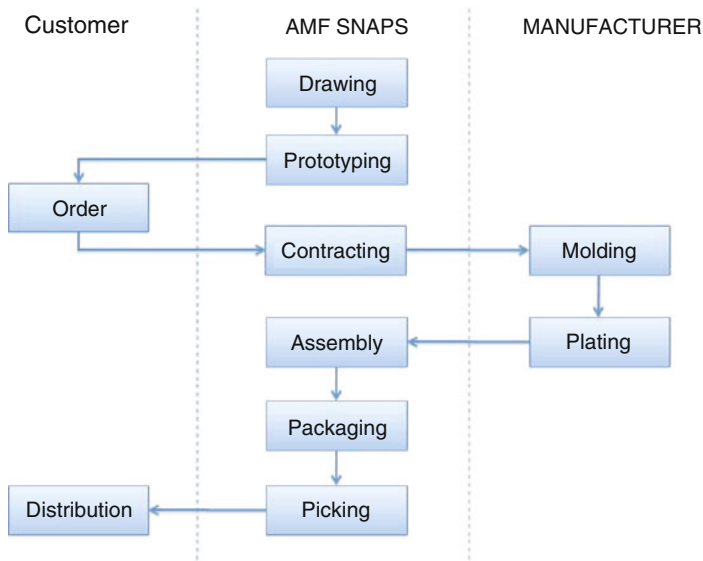


Fig. 2 The AMF snaps value network. Source: AMF (2007)

customers. Third, we derived the current value proposition. Fourth a plan was developed to drive congruence between the value proposition and employee behavior norms. Follow-up control studies and program adjustments are planned to test the effectiveness of the implementation of the value-balance program from both the company and customer viewpoints, but these studies have not been complete when this paper was written. Figure 3 outlines this approach. The objectives for the stages of the process are developed on the right side of the figure.

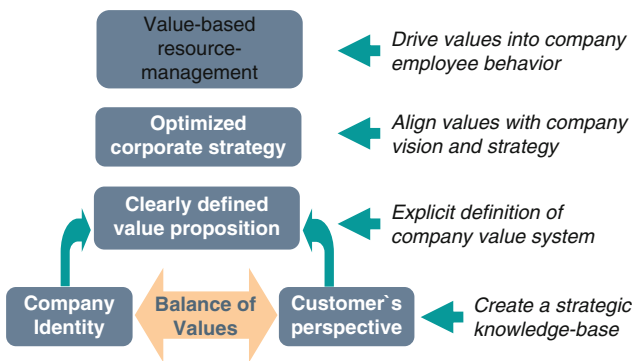
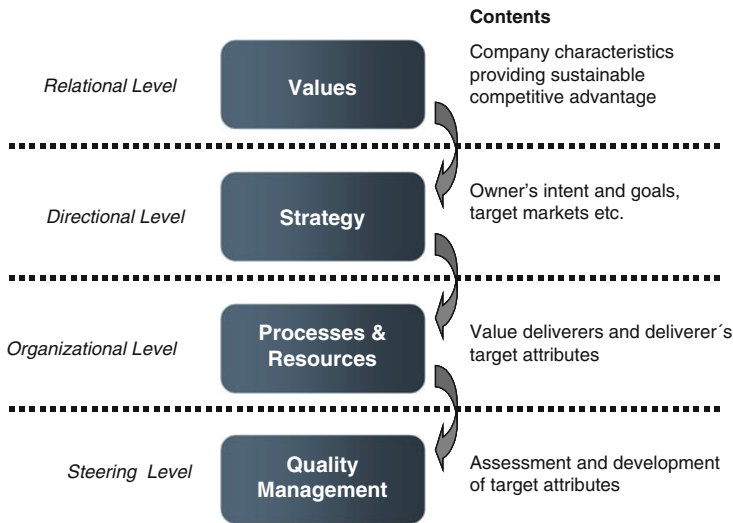


Fig. 3 The milestone approach. Source: Kinne (2006)



**Fig. 4** Orientation cascade. Source: Kinne (2007)

## 6.2 Creating the Orientation Cascade

In daily business it's necessary establish desired values at the operational level. As Fig. 4 shows, we will create an orientation cascade on 4 different levels:

- The Relational Level
- The Directional Level
- The Organizational Level
- The Steering (Implementation) Level

The content of the Value-Balance-Model will be an integration of existing management initiatives (e.g. the value-balance assessment system will be an integration to the ISO 9000 quality management and not replace the ISO 9000).

The following implementation process was used to build this cascade system within the A.M.F. company.

## 7 Implementation of the Exploratory Case Application

The application of the value-balance was performed in four steps as described below.

### 7.1 Step 1 – Define and Evaluate Current Internal Company Values

In depth personal interviews were completed with 12 employees including senior, middle and junior executives. The interviews were structured to allow

participants to describe the corporate value structure using their own value (positive and negative) constructs and their own structure for defining those values. This means responses were given using the **respondent's own descriptions and words** based on their own experiences within the company and with the company's customers. The responses were analysed using a simple content analysis process that was designed to identify commonalities between the responses of the participants. The values and descriptions of the respondents fell into three primary groups including performance and features of products and customer service; special or core company competencies; and the internal values lived by the company. Similar responses were counted and the frequency of responses were used to create the **company profile**. A simple categorization process was used. Attributes mentioned by more than 50% of were defined as being important in assessing **competition** within the industry. Attributes mentioned less often helped to define the **identity** of the company, but they were held to be less critical in helping to understand customer perceptions of the company.

### 7.1.1 Value Descriptors Defined from Internal Company Respondents

Descriptors of company attributes as perceived by respondents to represent the company in the minds of external stakeholders were analyzed first. Attributes were included if they were mentioned unaided by a minimum of 25% of the respondents. The list of the positive descriptors that met this criteria are listed in frequency of mention order are:

- Customer oriented
- Flexible
- Product quality
- Competence in Design
- Fast prototyping
- Solution provider
- Service
- Competence in fashion
- Young
- Reliable
- Quick response to inquiries
- Competence in product development
- Honest
- Dynamic
- Pleasant relationships

The first six positive attributes were mentioned by at least 50% or the respondents. Four negative external attributes were also mentioned by 25% or more of the respondents. These were in frequency order:

- Order information system
- Reliable delivery

- Time needed to respond
- Lack of sales training

Similarly, respondents were asked to characterize attributes of the company for those who work within the company with six attributes mentioned by 25% or more of the respondents. The outcome of internal values is:

- Good cooperation
- Good work environment
- Self responsibility
- Open minded
- Employee oriented
- Respectfulness

## ***7.2 Step 2 – Define and Evaluate Current Values of the Company from the Customer Perspective***

In this step, the **customers' perspective**, the objective is to compare and to balance the now potentially **valuable attributes** with the value system and quality perception of strategically significant customers. In that way we will create a **balanced value profile** that will be the basis of the future company strategy, for internal and external communication and a value based quality management program.

### **7.2.1 Methodology – Customers**

Employees, including one designer and one from purchasing, from three strategic customers were interviewed about their perceptions of A.M.F. The interviews for this exploratory study were structured as follow: Face-to-face interviews with contacts at key customers (Table 1)

- Part one – unprompted open-ended questions:  
What's important for you?  
Why does A.M.F belong to your suppliers?  
How are they different?  
Are there attributes that are significantly well developed? (among others)
- Part two – prompted questions, based some of the attributes identified in step 1:  
**Industry-related:** Product Quality, Competence in Design, Competence in Fashion, Competence in Product Development  
**Service Quality:** Flexibility, Fast Prototyping, Competence as Solution Provider, Quick Response to Inquiries  
**Relationship:** Reliability (also applicable for service quality), Honesty, Pleasant Relationships  
**Personality:** Dynamic

**Table 1** Frequency of unprompted mentions of value attributes of suppliers

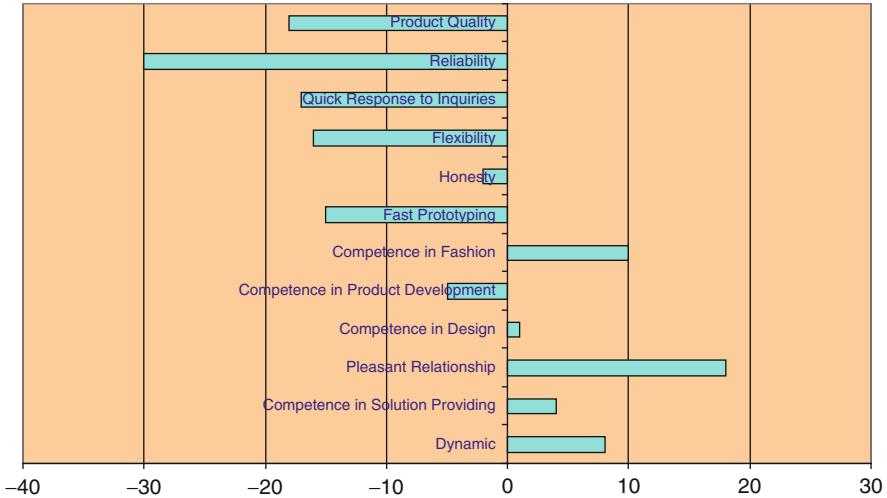
Value attributes (unprompted)	Frequency	Attributes of A.M.F.	Frequency
Reliable delivery	4	Mrs. Staff Person	3
Price-performance-relationship	4	Collaborative relationship	2
Product quality	2	Product quality	1
Smooth communications	2	Creativity	1
Quick understanding	2	Fast sampling	1
Countable prices	2	In-house support	1
Keeping promises	2	Innovation power	1
Innovative design	1	Quick response-time	1
Fast delivery	1	Future orientation	1
Creativity	1	Design of metal trimmings	1
Honesty	1	Rich ideas	1
Technical support	1	Products more interesting	1
Date confirmation	1	Flexibility	1
Problem solving	1	Competence in development	1
Meet technical demand	1		
Variety of collections	1		
Ethical values	1		

Two executives at each of three customer organizations were also interviewed for this part of the study. The interview is based on a structured questionnaire, consisting of two parts. In part one, the customer was asked for an unprompted list of attributes that are important in selecting a supplier. Then each respondent was asked the reason why the customer does business with A.M.F., how A.M.F. differs from competitors, and how well the relationship with A.M.F. is managed. Finally, in-depth questions about the future of the supplier/customer relationship were used to explore future customer needs and relationship possibilities (Fig. 5) (Tables 2 and 3).

**Table 2** Importance ranks by customers of supplier attributes

	Rank
Pleasant relationship	4
Competence in fashion	3
Honesty	2
Competence in design	3
Competence in solution providing	4
Product quality	1
Competence in product development	3
Dynamic	5
Flexibility	2
Quick response to inquiries	2
Reliability	1
Fast prototyping	3





**Fig. 5** Relative comparison of A.M.F. performance to customer prioritie. Key: The length of the bars indicate the extent to which A.M.F. performance on an attribute is in Value Balance with the priorities of the customers in the sample. Bars to the left show poor rated performance relative to the importance of the attribute to the customer. A.M.F. reliability has the lowest rated performance relative to its priority to the customer. Pleasant relationship is the opposite, good performance on a less important attribute. Competence in design is the most in balance

**Table 3** Ranks of A.M.F. performance on supplier attributes rated by customers

	Rank
Pleasant relationship	1
Competence in fashion	2
Honesty	3
Competence in design	4
Competence in solution providing	5
Product quality	6
Competence in product development	7
Dynamic	8
Flexibility	9
Quick response to inquiries	10
Reliability	11
Fast prototyping	11

7.3 Step 3 – Value Proposition Definition

The information gathered from the exploratory sample was evaluated with full awareness that the sample was quite small and data from that sample can only

be used to help frame the description of the value proposition. Clearly, the sample is too small to allow drawing valid observations about the actual values of the entire customer base. A few observations are possible.

- The interviewed customers in the unprompted part of the interview do not show consensus about important value attributes of A.M.F.
- **Product quality** and **reliability** are the most important attributes for *all* of the respondents but no conclusions are possible for the population of all customers.
- The importance of the other values differ by respondent. Most respondents ranked **quick response to inquiries**, **flexibility** and **honesty** in the second importance category.
- The quality of many of the value attributes is perceived differently by different customers. This implies the existence of customer-specific differences in either communication or customer treatment regarding.
- On some attributes, A.M.F exceeds competitor performance including **product quality**, **competence in fashion**, **competence in design** and **pleasant relationships** among the sample members.

A.M.F. managers established the face validity of these conclusions. They felt the results generally represent A.M.F's situation, even with the small number of respondents. The managers were comfortable using the results as a starting point for creating a reasonable and challenging value proposition. The concept of value-balance can be used. **Value-balance** describes the relationship between the within-company significance of an attribute, its importance for customers and the delivery on each attribute as perceived by those customers. In a perfectly balanced situation, those items are congruent, which as argued earlier should be a pre-condition for increased marketing effectiveness and efficiency.

### 7.3.1 Value Proposition

An executive team analyzed twelve value attributes of A.M.F identified in Step 1 (the internal definition of value attributes) and linked them by cause-and-effect relationships with seven resulting behavior norms that will drive the effective delivery of value to customers. These norms are: We will

1. think like our customer,
2. make extraordinary efforts for our customers,
3. help our customers to be different from their competitors,
4. help our customers deliver on time,
5. help our customers be more efficient,
6. help our customers innovate, and
7. be trustworthy.

The executives defined three values that would be used to guide the behavior of all A.M.F. personnel. The idea was that these three values would become part of the organization's culture. The values are:

1. Self-responsibility
2. Performance-target orientation
3. Continuous learning

Since this set of values will be the core of A.M.F's competitive profile and culture, it should become a fundamental underpinning of both internal/external communication and quality management.

### 7.3.2 A.M.F's Value Landscape

These components were combined together in order to design A.M.F's value landscape developed on three levels:

- external values
- supporting attributes
- internal values

## 7.4 Step 4 – Value-Based Resource Management

Many companies in their corporate communication promote values or products that are far from the reality perceived by their customers. To avoid this outcome, managers must identify organizational elements that effect perceived value, and develop guidelines and tools that will guide organization behavior so that it will manifest the desired values. That's what the **value-based resource management** step is all about (Kinne, 2006). In this method, four organizational elements are needed to deliver the desired values. They include:

1. Value-supporting behavior norms of the organization, indicating how the organization is going to do to deliver the values
2. Resources, people, systems, procedures and other organizational items that contribute to value delivery (value deliverers)
3. Performance targets needed for the value deliverers to deliver desired values
4. An assessment system allowing for systematically monitoring the achievement of performance targets and the perceived value delivered to customers.

Value deliverers include **fixed resources** (buildings, machinery, technical devices etc.) and **variable resources** (people, processes, policies, behavior norms, culture, etc.). This complexity requires a diverse set of assessment systems (Fig. 6) (Table 4).

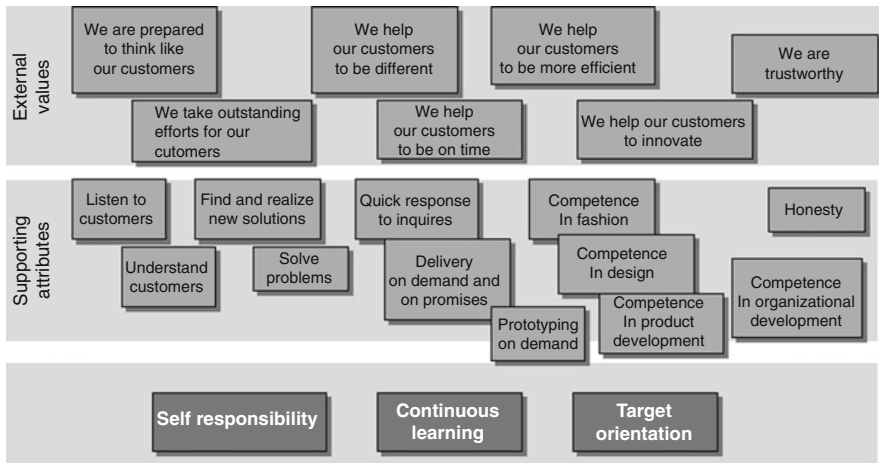


Fig. 6 A.M.F.'s value landscape. Source: Prepared from materials given in Kinne (2006)

#### 7.4.1 Value Deliverers and Their Influence

Since people in A.M.F.'s value proposition are by far the value deliverers with the most impact on manifested customer value, a critical success factor for value realization is to set expectations for those people by effective communication and guidance in order to manage for effective value delivery. For example, A.M.F.'s supervisors (C-Level and below) could hold "value-meetings" and face-to face dialogs to make A.M.F.'s value landscape transparent and help company staff understand their performance targets, the assessment system, and available support from the organization to help meet performance targets.

#### 7.4.2 Assessment and Management Methods

Simple assessment procedures were developed as a method for tracking improvements in value delivery:

- For people, internal rating scales will be used to monitor performance. The scales will be completed by both the individuals and their supervisors
- For processes, policies, machinery, and other tangible factors – a binary exists/does not exist rating will be generated.
- Ratings by customers will be used or all attributes that can be perceived by them. External judgment of course may eventually be extended to other stakeholders and even employees if they have knowledge of the external situation.

Management also defined a set of documents that are needed to guide employees, describe processes and set procedures in order to have specific,

**Table 4** Influence of value deliverers external value delivery and internal values.  
Source: Prepared from materials given in Kinne (2006)

Value Deliverers	Function	Attributes supporting external values											Internal Values			
		Useful to the Customer	Unique value for customer	Find and realize new	Solve problems	Response to inquiries on	Reliability on demand	Prototyping on demand	Competence in solution	Competence in design	Competence in product	Competence in	Morale	Self Responsibility	Team Orientation	Continuous learning
People	All people												●	X	X	X
	Supervisors													X	X	X
	C-Level											●				
	Customer contact	●	●													
	Sales				●	●	●	●	●							
	R&D			●					●							
	Design									●						
	Project Management			●		●		●								
	Product Management										●					
	Planning						●									
	IT			●												
	Task force/PIP			●		●										
Processes	Communication among sales, product management, planning		●													
	Communication Sales-R&D								●							
	Order taking						●									
	Product development										●					
	Target setting														X	
	Knowledge Management															X
Policies	Framework for self responsibility													X		
	Characteristics of targets														X	
Devices	Knowledge Management-system															X
Machines	Prototyping							●								

written guidelines to drive value-delivery behaviors. The document inventory is presented below.

In summary, the successful implementation of the value-balance model in this situation depends on accomplishing six factors (Kinne, 2006):

- Getting and keeping employees trained and motivated
- Keeping processes and procedures simple, certainly simpler than ISO9000 processes

- Extend customer analysis from value-balance implementation to a broader framework for strategy development and market segmentation
- Design a usable framework to organize change management
- Implementation will cause stress as people wrestle with a new system requiring understanding of new ideas and concepts
- Make sure that the ideas, expectations and assessment processes are communicated clearly and in advance of full program implementation (Table 5).

**Table 5** Implementation process documentation list. Source: Prepared from materials given in Kinne (2006)

No.	Title of the document	Value deliverers	Company attributes/values
1	Framework of knowledge about the customer's organization and needs	People with customer contact	Understand the customer
2	Structure and process of internal communication to understand the customers	(2a) Communication process (2b) People involved in communication on customers	
3	Fashion industry and fashion market	People in R&D	Find and realize new solutions
4	Production process, supply chain and suppliers	People in project management	
5	Effective information to people involved in projects (PIP)		
6	Effective information to task force/ PIP	People in sales	Solve problems
7	Acting immediately and coordinated to solve problems	Member of task force/ PIP	
8	General production lead time	People in sales	Delivery on demand
9	How to balance customer's demand with company's capabilities		
10	Process to ensure balancing demand and capabilities	Order taking process	
11	Framework of knowledge about fashion and life style	People in sales	Competence in fashion
12	Recent trends in fashion	People in R&D	
4	Production process, supply chain and suppliers	People in project management	Competence in product development
13	The process of product development	Process	
14	Framework of acting self-responsible	Policy	Self responsibility
15	Targets and the process of target-setting	(15a) Policy (15b) Process	Target-orientation
16	How knowledge management works	(16a) Process (16b) Device	Continuous learning

## 7.5 *Implementation Summary*

The implementation of the value-balance model was performed in four steps as follows:

- Value Measurement: Company's perspective
- Value Measurement: Customer's perspective
- Definition of a value proposition
- Design of the Implementation of Value-Balanced Resource Management

The analysis of the values identified in the first two steps were pushed through the process with seven value statements emerging as the value proposition. The seven statements included:

- We are prepared to think like our customer
- We take outstanding efforts for our customers
- We help our customers to be different
- We help our customers to be on time
- We help our customers to be more efficient
- We help our customers to innovate
- We are trustworthy

Based on this value proposition, the management identified three action descriptors to lead the actions and development of the employee stakeholders in the company. These descriptors were incorporated into a universal guideline statement for company employees: Employees are to act with self-responsibility to achieve company objectives with effort given toward continuous learning.

Since this set of values (self-responsibility, objective orientation, and continuous learning) is about to be the core of A.M.F's competitive profile and culture, they should become fundamental in both external communication and advertising, and internal communication and quality management. Only if the company behaviour as perceived by the internal and external stakeholders meets given promises, can that company succeed in building long-term relationships and trust with its employees and customers.

Since people in A.M.F's value proposition are by far the most influential value deliverers, a critical success factor of value realization is providing orientation by communication and guidance in order to manage resource development systematically and targeted because "... Effective value selling is a corporate activity that is beyond the skills and abilities of almost any one individual (Buss, 2005).

### 7.5.1 **Marketing Impact**

Relationship marketing requires internal marketing. This refers to using marketing techniques within the organization itself. Many of the traditional

marketing concepts can be used to determine the needs of “internal customers”. According to this view, every value deliverer whether employee, team, or department in the company is simultaneously a supplier and a customer of services and products. An employee obtains a service at a point in the value chain and then provides a service to another employee further along the value chain. If internal marketing is effective, every employee will both provide and receive exceptional service from and to other employees. It also helps employees understand the significance of their roles and how their roles relate to others (Buss, 2005). If implemented well, it can also encourage every employee to see the process in terms of the customer’s perception of value added, and the organization’s strategic mission. Manifesting appropriate internal values is a prerequisite for effective external marketing efforts.

Value creation must directly benefit the customer. Increasingly, companies are coming to realize that their survival, first and foremost, depends on their capacity to create direct and tangible customer value in every part of their enterprise (Rackham, 1999). Values are related to the norms of a culture, but they are more general and abstract than norms. Norms are rules for behaviour in specific situations, while values identify what should be judged as good or bad.

Members take part in a culture even if each member’s personal values do not entirely agree with some of the normative values sanctioned in the culture. This reflects an individual’s ability to synthesize and extract aspects valuable to them from their multiple subcultures. This is the reason why the value balance model is more practice-oriented than most of quality management systems like ISO 9000 and can be integrated very easily. It requires significantly less managerial and staff overhead to implement. In some ways, it drives more directly to the delivery of desired customer values to those customers.

## 8 Postscript to the Value-Balance Case Implementation

Implementing the Value Balance Model based on the set of values as self-responsibility, objective orientation, and continuous learning as the core of A.M.F.’s competitive strategy and the foundation of the culture of the company, allowed company management to identify improvement opportunities including improvements in all of the following:

- customer loyalty and repeat business
- market share from new customers (Luis Vuitton, Hermes, Christian Dior, . . .)
- operational efficiencies
- flexibility and ability to respond to market opportunities
- effective and efficient use of resources
- cost reductions
- competitive advantages
- participation and motivation of company personnel



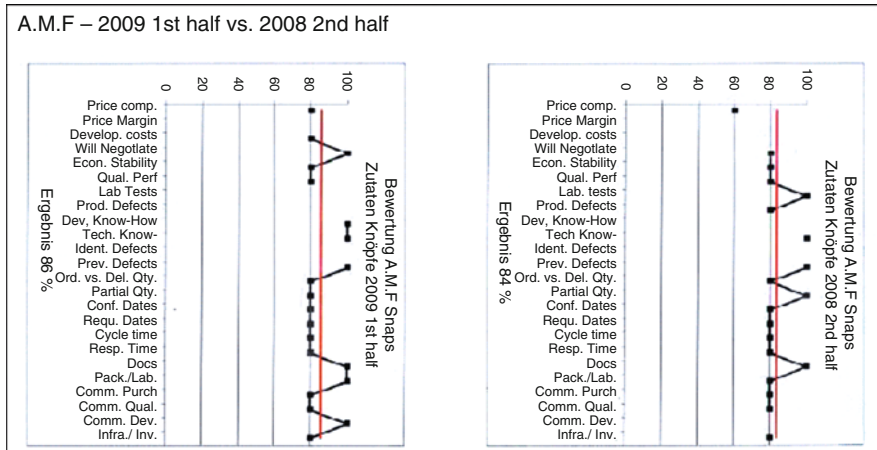


Fig. 7 Supplier rating 2009 1st half. Source: HUGO BOSS

- industry reputation
- control on processes
- product quality (fewer claims)

These results emerged because people in A.M.F became more interested in understanding customer products, problems, implications of these problems and finding customer need payoffs than in their previous focus on company products and internal processes. The value-balance implementation has become an effective Quality Management System. Difficulties are more faced as challenges to be overcome and as a learning/development processes, not as obstacles that stop forward progress. Even with the economic difficulties, in 2009, A.M.F performed much better than all the other competitors in their market. An example is shown in the following chart (Fig. 7) that shows HUGO BOSS' supplier rating referred to A.M.F was rated in the 1st half of 2009 as their overall best performing trim supplier!

The case study demonstrates in the 12 months since implementation, it is very important to make both internal assessments and evaluations of external changes such as changes in customer ownership, new customer purchase strategies and competitor behaviour changes.

Other important issue are:

- using the correct market segmentation strategy when seeking new customers
- maintaining or even increasing the training budget to sustain core values
- developing good internal and external “value communication”
- Celebrating small victories, especially if it's difficult to win big ones.

Failure to market to the correct customers, to maintain core corporate values, to achieve effective internal and external communication of value strategies, and to celebrate victories will translate into a lack of motivation, and as time goes by, the demoralization of the organization. To conclude, everything depends on the attitude with which employee teams perceive, manage and manifest critical corporate values that balance with values required by company customers.

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