

Promoting Ownership

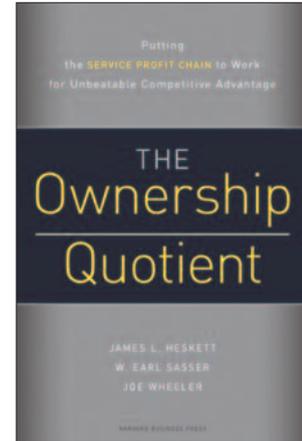
**Bringing Customers and Employees
into the Value Creation Process**



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POINT OF VIEW: *The Ownership Quotient*

Based on the book by **James L. HESKETT, W. Earl SASSER,** and **Joe WHEELER,** Harvard Business Press, December 2008.



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INTERVIEW: Putting the Ownership Quotient to Practice at TBWA\Helsinki

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INTERVIEW: Ownership Quotient at Cisco

Interview with **Jean-Marc GOTTERO,** European head of strategy, planning, and development WW Channels, Cisco, October 2009.



In brief

How can you create a sense of brand or company ownership among your clientele, and why is this good for business?

The Ownership Quotient authors James Heskett, Earl Sasser, and Joe Wheeler claim that the best way to create value for customers is to get them to put their noses to the grindstone. Having customers participate in the buying process, product and service improvement, and personal value creation are all excellent business strategies. But it is important not to forget that customer value is just as dependent on unfailing employee engagement.

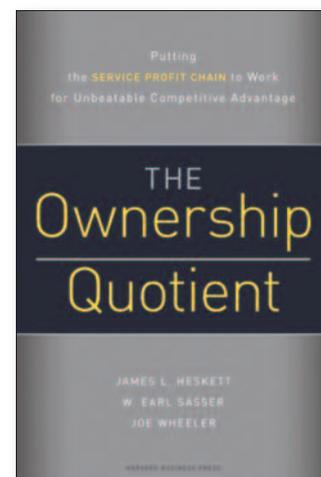
Jean-Marc Gottero of Cisco believes that customer value creation calls for a collaborative model. The more employees feel involved in business projects and decision-making, the more value they will create for their company, and thus for the firm's customers. Cisco has been applying this principle since 2003, when it shifted from a command and control model to a participative model for management. The results have been astounding: company revenue has increased 64% since 2001.

How did TBWA\Helsinki get out of its rut of a sluggish 5% annual growth?

By promoting "ownership" among employees and customers alike. In 2005, CEO Petteri Kilpinen launched a change initiative with this in mind, and it has paid off at many levels. Not only have company sales increased, but so have employees' positive feelings. Employees now feel proud to work for a change-oriented organization.

The Ownership Quotient

Based on *The Ownership Quotient: Putting the Service Profit Chain to Work for Unbeatable Competitive Advantage* by **James L. HESKETT, W. Earl SASSER**, and **Joe WHEELER**, Harvard Business Press, December 2008.



In a perfect world, you would have high-value products and services, loyal customers gushing with praise for all to hear, and exponential sales growth ... despite higher-than-average prices and only moderate investments in marketing. You can, in fact, turn this dream into reality. What it takes is making your customers feel that your company is their second home.

When Ikea goes to visit to their Hispanic customers in California in their homes, the company is interested in more than finding out about their needs or picking up new ideas. In fact, Ikea wants to get its customers directly involved in creating new value for the firm! The idea is pretty simple. Have customers take part in developing products that they will then buy, and cultivate their sense of ownership for the brand or company. But how do you go about generating such a sense of ownership? And how does this feeling contribute to business performance? The authors of *The Ownership Quotient*, James Heskett, Earl Sasser, and Joe Wheeler, provide convincing answers to these questions. They show that one of the best ways to create value for customers is to get them to do the work themselves!

INTEGRATE OWNERSHIP INTO CORPORATE STRATEGY

■ Offer Customers Value Rather than Products

"Customers don't buy products or services; they buy value," say Heskett, Sasser, and Wheeler. Hence the importance for companies of constantly reconsidering and revising their value proposal to keep up with market changes. For example,

when electronics retailer Best Buy acquired the Geek Squad (a residential computer services company) in 2002, the purpose was not to develop new products or services. What Best Buy wanted to do was increase its customer value proposal by drawing on customers as sources of innovation. During visits to customers' homes, Geek Squad* "officers" were in a position to discover their needs and assess their desire for new products. Best Buy was counting on customers' progressing from simple curiosity about products to a true sense of ownership for the company (see "*The Ownership Pyramid*" on page 18).

■ Redefine Your Value Proposal

"Which customers do you want to serve? What specific, customized results are you trying to deliver for them? Will your customers and employees find value in the work you choose to do? Will you be able to deliver that value profitably?" Such are some of the questions companies need to ask themselves. Answering them will enable companies to adapt their value proposal to customers' expectations, which is the first step toward generating a sense of ownership. This was the goal of Rolls Royce when the firm launched an innovative program called TotalCare in its aircraft engine manufacturing business. Rolls Royce had realized that above and beyond products, its customers were primarily interested in long-term reliability. With TotalCare, customers (generally airlines) pay a fee for each hour of flying time, and in return, Rolls Royce ensures engine maintenance. "Shifting the focus from products to customer value enabled Rolls Royce to align business success with its customers' interests."

“Now more than ever, consumers own our brands, affirms Charlene Otto.”

PUT CUSTOMERS TO WORK

“Now more than ever, consumers own our brands,” affirms Charlene Otto, global external relations officer at Procter & Gamble. According to the authors, this is good news, because it means that customers can work for their favorite brands!

■ Encourage Customers to Create Value

For customers to play a unique role in the value creation process, companies must figure out what they do best.

- **Service delivery:** When it comes to delivering services that offer immediate benefits, customers may be more effective than professionals. That is why sales schemes that get customers involved in the purchasing process are so successful. Consider, for example, self-service gas stations.
- **Product and service improvement:** In recent years, the InterContinental Hotel Group (IHG) has significantly improved the quality of its services by inviting regular clients to make

Employee Ownership

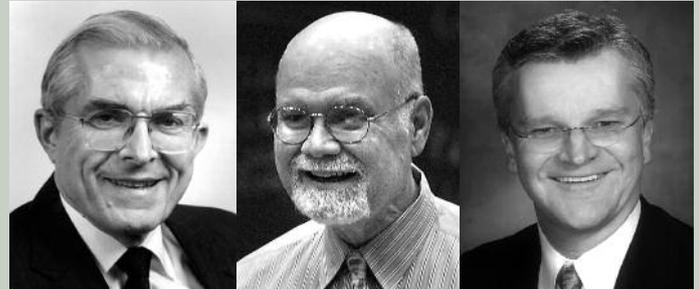
Customer ownership largely depends on the strength of this feeling among the members of the workforce. “That’s the primary tenet of the service profit chain, which maintains that employee satisfaction, loyalty, commitment, and ownership help foster similar attitudes in customers, leading directly to growth and profitability.”

What contributes to employees’ feeling of ownership for their company?

- A CEO who makes smart decisions;
- Learning and personal development opportunities;
- The excitement of working with winners;
- Satisfying compensation;
- Opportunities to show customers results—to succeed for and with them.

The Authors

James L. HESKETT and W. Earl SASSER are both professors at Harvard Business School’s Baker Foundation. They are co-authors of *The Service Profit Chain* (Simon & Schuster, 1997) and *The Value Profit Chain* (Free Press, 2003). Joe WHEELER is the executive director of the Service Profit Chain Institute, a consulting firm that helps companies develop customer-centered value chains in order to improve business performance.



James L. Heskett

W. Earl Sasser

Joe Wheeler

suggestions through online communities. This system has proven less costly, more effective, and more efficient than focus groups. The user community has enabled the hotel group to upgrade its service offer, reduce new-service launch times, and cut marketing costs by over 90%.

- **Personal value creation:** Consumers are increasingly involved in creating the value of the products and services they buy, and they are displaying an enthusiasm for the process that is sometimes called “the Ikea effect.” The Swedish furniture manufacturer has spread a taste for the do-it-yourself approach, which offers a means to reduce costs without sacrificing product quality. Customers thus play an active role in the cost reduction process.

■ Minimize Negative Customer Experiences

Research shows that a satisfied customer tells five people about a positive buying experience, but a dissatisfied customer speaks to ten or more about a negative one! Moreover, the Internet means that news of negative experiences spreads faster and further. How should companies deal with unhappy customers? According to the authors, they should leverage dissatisfaction to strengthen loyalty. Listening to customer complaints is an ideal opportunity to build trust and take steps to improve products or services. However, not all customers are interested in or capable of getting involved in value creation. Companies must therefore identify the specific tasks they would like customers to do (*i.e.*, promote a service, reduce costs, evaluate performance, etc.), as well as which customer group it makes the most sense to give them to (*i.e.*, early adopters, difficult customers, etc.).

A BUSINESS ENVIRONMENT OPEN TO SHARED OWNERSHIP

■ Inter-departmental Coordination

The challenge remains how to strengthen and maintain customers’ feelings of ownership. Companies that have achieved ...

... this goal have all displayed a strong capacity for planning and coordination between organizational divisions. Indeed, it takes more than the marketing or R&D department to create value. Information needs to be shared throughout the company, using, for instance, an inter-departmental database. This is what the casino chain Harrah's Entertainment has done, integrating data from marketing, operations, and human resources. Assembling the information from these departments revealed that the company's best customers were not, in fact, the "heavy gamblers" that their industry traditionally focused on. Rather, they were teachers, doctors, bankers, and generally speaking, small-scale gamblers in their fifties. Identifying this new target group enabled Harrah's to adapt strategies throughout the organization.

■ In-house Alignment

What does it take to ensure total organizational coordination in the interest of customers?

- Clearly communicated strategy: Everyone should have an unambiguous idea of why it is worth striving not only to live up to but also to go above and beyond customer expectations.
- Systematic alignment of jobs with customer value creation objectives.
- Simplified operating processes, to enable the people who are in direct contact with customers to give them their undivided attention.

“Culture is an advantage that competitors find hard to duplicate”

- Predefined measurement criteria, standards, and safety nets, to be used to establish performance forecasts and trouble-shooting procedures.
- A management planning system: This helps connect workers', customers', and investors' value creation initiatives.

■ Develop an Ownership Culture

“Culture is an advantage that competitors find hard to duplicate,” say Heskett, Sasser, and Wheeler. A clear-cut, well-grounded culture strengthens employee engagement and customer loyalty. There are five culture-building actions that companies should concentrate on.

- Develop strong leadership: This is indispensable to ensure that the organization remains focused on its specific goals, values, and vision. Business leaders should set the example.
- Invest in the culture: It takes more than pretty words to implant values and norms. Companies should celebrate team achievements and reward individual accomplishments.
- Get the entire workforce on board: When it comes to cultural issues, employee approval is critical. Employees should be asked to evaluate and express their opinions about leadership's strategic decisions.

The Ownership Pyramid

Employee Ownership

- Offering ideas about how to improve processes
- Recruiting potential new employees
- Testing, recommending new products and services

Customer Ownership

- Offering constructive complaints
- Recruiting new customers
 - Testing, recommending new products and services



Source: *The Ownership Quotient*, by James L. Heskett, W. Earl Sasser and Joe Wheeler, Harvard Business Press, December 2008.

- Sanction deviant customer behavior: Following the example of ING (where several thousand clients are “fired” each year), business managers should not hesitate to stop working with customers whose demands are impossible to satisfy.
- Keep changing: The best companies review and redefine their core values and behaviors on a regular basis.

Once customers and employees have accepted and integrated the concept of ownership, “[it] is not a fragile one, especially if it is thoughtfully practiced and ingrained in the culture of an organization.” Still, companies should make a point of cultivating a mindset that favors a long-term sense of ownership. On the other hand, Heskett, Sasser, and Wheeler warn companies not to lose “interest in change” and to remain flexible. For while making customer ownership an element of organizational culture is indeed a factor of success, this position should not hinder a company's capacity for change or prevent it from pursuing new opportunities. ■

*See interview with Robert Stephens, CEO of the Geek Squad, “Customer Experience: Yes. But Without Neglecting the Essentials,” in *Business Digest* no. 137, January 2004.

Putting the Ownership Quotient to Practice at TBWA\Helsinki

Interview with **Petteri KILPINEN**, CEO and chairman of the board, TBWA\Helsinki, October 2009.

In 2005, TBWA\Helsinki was facing next to nothing annual growth (1%). To turn the situation around, CEO Petteri Kilpinen launched a change initiative based on value profit chain concepts he had learned during an Advanced Management Program at Omnicom University¹. Within three years, sales doubled. The key to success: close client relationships and employee collaboration.

BIOGRAPHY



Petteri KILPINEN is CEO and chairman of the board at TBWA\Helsinki, the leading marketing consulting and planning group in Finland. He is also a member of the European Executive Committee of TBWA Global Network as well as chairman of the board at AmCham Finland and Thermidas Ltd. Kilpinen holds a master's in engineering from the University of Technology (Finland).

Fostering an Ownership Attitude Among Employees and Customers

Petteri Kilpinen is a firm believer in customer and employee ownership. "For years, management has been control based—it's a one-way street. I think it's more of a 2-way street. You have to inspire your people; management is about collaborating with them at the highest possible level. That gives them a feeling of ownership. Employees aren't just working for you, they're working with you—if you can [create this feeling of ownership among] employees, you can then do it with clients as well. That's what we've been trying to do for the last three to four years with our company." In effect, Kilpinen has been using service profit chain² thinking since 2005 to foster "ownership³" among customers and employees and, in turn, increase growth.

Creating Employee "Owners" Through Creative Collaboration

To create employee ownership, TBWA\Helsinki uses various methods, including creative workshops. Held on a monthly basis, the workshops are conducted with a small group of employees from different functional areas. "The goal is to create new angles to company strategy," explains Kilpinen. "It's not like an ordinary company, where you have a fixed strategy and vision [decided upon by a small group of leaders]. We think strategy is a dynamic process and try to involve employees as much as possible." According to Kilpinen, this makes them feel as if they are "owners" of the organization, and motivates them to use their creativity to change the company.

Forging Close Client Relationships: Pack Your Bags for Camp!

For managers from client companies,

the company offers two different two-day camps, which are held outside Helsinki: brand camp and growth champions. In brand camp, a group of about 30 marketing and finance managers receive training on marketing and branding strategies. In growth champions, roughly 15-20 managing directors come together for management skills training (e.g., managerial responsibilities, relationships with employees, motivation).

Just like summer camp, participants never pass a dull moment, says Kilpinen. "In growth champions, for example, I present participants with different ideas, and then give them a chance to talk about their own failures and successes. Next, they try to help each other solve their problems." The aim of both camps, especially growth champions (a more intensive, intimate format), is to build a community. ...

... “At the end of the day, participants all share the same idea of marketing and branding and create close ties with each other.” Since launching the camps three years ago, TBWA\Helsinki has held 27 brand camps and 5 growth champions.

Not Your Typical Ad Agency!

According to Kilpinen, the shift to a customer focus hasn't always been easy. “When I introduced the change effort and all the training programs in 2005, some of the older partners weren't pleased. They wanted to keep everything as it was. They said, for example, ‘Come on, this isn't our business.’ For me, changing to a customer focus is our business. Getting closer to our clients enables us to be more creative, and it creates a trust relationship. In the end, we did lose some good people, but as CEO, I believe you have to stick to your plan.”

Growing, Growing, Gone!

Sticking to his plan proved to be the right strategic choice, both in terms of financial results and client relationships. “In the first year following the change program, annual growth increased by 20% (prior to that, average annual growth was only 5%); the next year, it was up by 30%. And three years later (in 2008), we had doubled our sales (from 24 to 42 million US dollars).” To add to the company's glory, it went from being the number two agency in the country to number one. And while revenues are down this year, Kilpinen says the company is still making good profits.

From an Ad Agency to a Change Agency

As for client relationships, Kilpinen says they have vastly improved. “Before, we had brief meetings with our clients, and then met again with them three weeks later. Now, we have a really rich, constant dialogue with our clients. We're not just one of their advertising agencies—we operate on a higher level.” This has also had a positive impact on employee engagement: “I believe that employees are very proud of what we're doing. They think they're not just working in an ad agency; they're working for a change agency.”

Ownership: the Key to Lasting Change

What does it take to create successful change and to build an ownership culture? For Kilpinen, it all comes down to the employees. “[In any change effort], employees need to be involved from the start. Keep them close, give them the freedom to create something—those people who feel they have been part of the change effort will be the most committed. Of course, management needs to make the final decisions, but it's easier when people provide their input. Also, managers should spend time with employees and keep track of that information. In many companies, managers hardly interact with employees. But the more they sit down with people, the better the results.” Because the greater the level of employee ownership, the greater the level of customer ownership! ■

1. In 2005, Kilpinen attended an Advanced Management Program organized by Harvard

FACTS AND FIGURES TBWA\HELSINKI

Parent company: TBWA

(<http://www.tbwa.com/>) is a US-based agency network made up of 258 full service agencies around the world with expertise in positioning, launching, and managing brands. TBWA is a part of Omnicom Group Inc., a leading global advertising, marketing, and corporate communications company.

Established: 1998

Employees: 205

Headquarters: Helsinki, Finland

Sales (2008): 42 million USD

For more information: <http://www.tbwa.fi>

Business School professors, including James Heskett, co-author of *The Ownership Quotient*.

2. The service profit chain involves developing a working environment in which engaged employees interact with customers to create superior customer value.
3. “Ownership” refers to the rates of satisfaction and loyalty among employees and customers.

A New Client Experience: Pfizer

To illustrate the type of comprehensive client services TBWA\Helsinki offers, Kilpinen refers to an ongoing project with Pfizer Finland. “Over the past four years, we have provided tailor-made training for all their marketing people. We have also spent a significant amount of time with their top management. It's not just advertising work—we do training, innovations, and so. We've built a new vision for them: to make Finish people the healthiest in the world by 2015. All their marketing is based on that.”

Ownership Quotient at Cisco

Interview with **Jean-Marc GOTTERO**, European head of strategy, planning, and development WW Channels, Cisco, October 2009.

In the context of virtual and creative economies, the key factor for success is the commitment of employees. “Employees who are prepared to launch new initiatives will create wealth for clients and for the company,” observes Jean-Marc Gottero, of Cisco. With a commitment rate of 90% and sales growth of 64% since 2001, Cisco is an example to be followed.

BIOGRAPHY



Jean-Marc GOTTERO who has been at Cisco for nine years, has occupied several positions. He first worked as an adviser to senior management, financial services, and then sales development. Today he is head of strategy, planning, and development WW Channels for all of Europe. He is a graduate of ESSEC.

From Command and Control to a Collaborative Model

Today Cisco promotes the collaboration and participation of all employees in the development of new projects, but this was not always the case. Until 2001, the company had a very traditional command and control model: leaders gave orders and employees carried them out, performing precisely specified tasks. According to Jean-Marc Gottero, the shift toward a more collaborative model occurred after the company became aware of the limits of this almost military model. “We realized that with a command and control model, we were barely able to develop one or two strategic priorities each year. So we decided to decentralize responsibilities throughout the organization; we put into place completely different processes that

encouraged the creation of a collaborative culture. Thanks to this remodeling, we now have 50 strategic priorities, and more and more initiatives coming from employees”—which results in greater value for the client.

Decision-making Power Decentralized

In order to decentralize decision-making, in 2003 Cisco created three different types of bodies: councils, boards and working groups. The council is an inter-departmental committee that manages an important strategic priority with a value of about 10 billion dollars (for example, entry into a particular market). The board, situated at the level just below, focuses on priorities with a value in the range of a billion dollars. Working groups, composed of experts or

individuals with known value added, work on smaller-scale priorities. In total, the council, the board and the working groups involve more than 3000 people, who devote 30% of their time to inter-departmental or collaborative activities.

The Web 2.0 Movement in Support of Employee Collaboration

Other employees also have the opportunity to become “owners” of the company, thanks to Web 2.0. “The use of Web 2.0 tools is developing rapidly,” which facilitates collaborative work, explains Gottero. “For example, participation on company blogs has increased by 1600% compared to last year. Cisco Vision, a tool that allows each employee to record video messages, has seen growth of 3500% since 2008. WebEx¹, a tool for collaboration, telephone ...

... conferencing and work sharing, has grown by 3900% ...”

Creating Links with the Outside World

Cisco also calls on the outside world to generate innovations. For example, the i-Prize² competition rewards the creators of the most promising project with \$250,000. “This year, the winning team, composed of Germans and Russians, contributed to the development of the Smart Grid³,” recounts Gottero. The Smart Grid uses the intelligence of the network to optimize energy consumption. This ambitious project is accelerating thanks to our ecosystems and to external contributions.”

Committed Employees: at the Heart of Customer Satisfaction

According to Gottero, this collaborative model has a direct impact on employees’ satisfaction, and thus on that of clients as well. “With this model, we offer employees the means to develop their projects and to change Cisco at their level. This allows us to develop pioneering technologies that anticipate and respond to customers’ needs. Customer satisfaction and loyalty is the result of a range of acts and stances—notably the company’s ability to deliver on its promises and to act in response to client feedback.”

How can a company increase customer satisfaction and loyalty? “65% of client satisfaction comes from employee satisfaction,” answers Gottero. “Here we come full circle. Cisco also aims to respond as rapidly and proactively as possible to customers’ problems. In this context, customer relations technologies are also vehicles for performance.”

Impressive Results

In terms of results, the numbers speak for themselves: “Compared with 2001, our sales have grown by 64%, from \$22 billion to \$36 billion. Net profit has grown from \$3 to \$8 billion. In 2001, we were leaders in only two categories of products; today we are leaders in 12 categories. Our objective is to become a leader in 30 categories.” But this process of change didn’t come without

Innovation Forum and TelePresence

“The Innovation Forum, which we launched two years ago, allows employees to publish recommendations on tomorrow’s innovations,” explains Jean-Marc Gottero. The most promising innovations are pursued by an emerging technologies team, made up of five to ten people, who between them have all the necessary competencies, from R&D to sales. This team develops a concept and incorporates feedback from customers far upstream: the product can be developed, tested, and improved in less than six months—right up until it’s ready to be brought to market.”

A particularly remarkable innovation developed in this way is Cisco Telepresence*. This product, introduced on the market 18 months ago, is a “new generation of video conferencing which offers users the experience of live, face-to-face meetings,” says Gottero. “To date, we have taken 60% of the market with this product.”

* <http://www.cisco.com/web/FR/solutions/telepresence/home.html>

movements of personnel: “20% of our leaders didn’t manage or want to shift toward a collaborative model, and left the company,” explains Gottero.

Key Factors for Success

Gottero credits several key factors for the dazzling success of the company:

- **A common culture:** “An organization without a common (and customer-oriented) culture cannot develop a collaborative model.” One of the tools that allowed Cisco to build such a culture is a common language: “For example, we have a tool called VSE—vision, strategy (how to differentiate ourselves), execution (the three to five actions to be taken in the 12 coming months). Every organization must have a VSE.”
- **Credible and recognized leaders:** “To carry out change, charismatic leaders who are close to employees are indispensable.”
- **A vision of the future:** “In order to inspire employees, the company must seek to motivate, inspire and communicate about the direction to be followed.”
- **Patience and conviction:** “To shift from a command and control model to a collaborative one, you have to reflect, step by step, on the right changes to make—which doesn’t happen from one day to the next. It took us eight years!”

The Crisis: A Source of Acceleration

Faced with the crisis, companies have a natural tendency to concentrate on the short term. This is a mistake, according to Gottero. “We’ve changed our strategy very little. We view crises as tremendous opportunities to accelerate, to go faster, to seize more opportunities.” ■

Useful link:

<http://www.ciscoinnovationsforum.com/>

1. www.webex.com
2. http://newsroom.cisco.com/dlls/2008/prod_101408b.html
3. http://www.cisco.com/web/strategy/docs/energy/aag_c45_539956.pdf