Managing by Values
Is Levi Strauss' Approach Visionary—or Flaky?

T
talk, talk. As a black mid-level executive at Levi Strauss & Co. in the early 1980s, that's all Louis Kirtman got from the white men above him in top management. Levi's had long enjoyed a reputation as a socially responsible employer. But that didn't mean much to Kirtman as he watched black executives he thought were highly qualified passed over for plum jobs, while his own career seemed stalled on a lonely plateaux. Top management always seemed to need diversity. Kirtman says, "But in the end, they chose people they were comfortable with for key positions.

Fast forward to 1994, and Kirtman is a much happier man. As president of Levi's Britanica Sportswear division, the 48-year-old executive is a step away from joining the company's senior management ranks. Life changed for him in 1985 when senior executives began feeling heavy pressure from above to make "workplace diversity" a reality rather than a topic of conversation. The chief of Levi's then-ailing European division asked Kirtman to help rescue the unit. The young executive made the most of his opportunity and landed on the fast track. "We started to improve at Levi's," he says, "when we stopped talking about values like diversity and started behaving that way.

Levi Strauss is embarked on a grand social experiment. It is struggling mightily, though not always successfully, to live up to a singular, lofty vision of how to run a modern corporation—a vision set forth by none other than Chairman and Chief Executive Robert D. Haas, the great-great-grand nephew of founder Levi Strauss (page 51). The vision combines traditional liberal ideals with a set of management precepts straight out of the '90s—egalitarianism, inclusion and "empowerment." Haas calls it "responsible commercial success. More competitive executive might call it flaky.

Haas believes the corporation should be an ethical creature—an organism capable of both reaping profits and making the world a better place to live. Creating tangible opportunities for minority employees such as Kirtman is only one part of the equation. Haas is out to make each of his workers, from the factory floor on up, feel as if they are an integral part of the making and selling of blue jeans. He wants to ensure that all views on all issues—no matter how controversial—are heard and respected. The chairman won't tolerate harassment of any kind. He won't do business with suppliers who violate Levi's strict standards regarding work environment and ethics. A set of corporate "aspirations," written by top management, is to guide all major decisions.

If many of these goals sound familiar, it's because countless other companies have tried to embrace them to one degree or another. Xerox, Johnson & Johnson, and MCI are all noted for their efforts to promote diversity of background and thought among their workers. Nike, Microsoft, and Federal Express are well-known for pushing authority down through the ranks and allowing employees plenty of latitude when it comes to running the business.

Some companies approach diversity and empowerment as competitive tools. "We don't encourage heterogeneity here," says Timothy F. Price, president of business markets at MCI Communications Corp. "The price you pay for conformity is lack of creativity." Others are learning to give ethnic minorities, homosexuals, and women power and respect out of a late 20th century defensiveness. In an ever more litigious society, they fear being sued.

No company, however, has embraced a values-based strategy the way Levi's has. Siting in his San Francisco office wearing a pair of pointy-toe boots, a plaid shirt, and stone-washed 501s, Haas explains why: "We are not doing this because it makes us feel good—although it does. We are not doing this because it is politically correct. We are doing this because we believe in the interconnected..."
WHAT LEVI'S ASPIRES TO

NEW BEHAVIORS
Management must exemplify "directness, openness to influence, commitment to the success of others, and willingness to acknowledge our own contributions to problems."

DIVERSITY
Levi's "values a diverse workforce (age, sex, ethnic group, etc.) at all levels of the organization... Offering points of view will be sought; diversity will be valued and honestly rewarded, not suppressed."

RECOGNITION
Levi's will "provide greater recognition—both financial and psychic—for individuals and teams that contribute to our success...those who create and innovate and those who continually support day-to-day business requirements."

ETHICAL MANAGEMENT
PRACTICES
Management should epitomize the "shared standards of ethical behavior. We must provide clarity about our expectations and must enforce these standards throughout the corporation."

COMMUNICATIONS
Management must be "clear about company, unit, and individual goals and performance. People must know what is expected of them and receive timely, honest feedback..."

EMPOWERMENT
Management must "increase the authority and responsibility of those closest to our products and customers. By actively pushing the responsibility, trust, and recognition into the organization, we can harness and release the capabilities of all our people."

*DATA* FROM STANFORD, p. 15

Between liberating the talents of our people and business success."

Haas points to a study issued on May 30 by Gordon Group Inc., the California Public Employees' Retirement System (CalPERS). Its conclusion: Companies that involve employees more often in decision-making boost stronger market valuations than those that don't. The report suggested that CalPERS might see stock gains by pressuring companies to improve workplace conditions. Says Richard H. Koppes, the pension fund's general counsel, "This is one of the screens we'll use in looking for whom companies we target."

Levi's, of course, won't be on Koppes' list. Ever since the $1.5 billion leveraged buyout Haas led in 1985, the world's largest apparel maker has been a private company. CalPERS would probably like a piece, though. Record sales and earnings for five of the past six years culminated in a 26% rise in profits last year, to $492 million on sales of $5.9 billion. And Morgan Stanley & Co. estimates the stock—94% of which is in Haas family hands—has appreciated 1,300% since the LBO.

But this year, sales have slowed to a crawl, and operating profits will likely decline. A big problem is that Levi's is proving clay-footed when it comes to developing new products and getting goods into its retail outlets. Has the company's emphasis on "value" distracted it from the nuts and bolts of running its business? Haas says no, but plans to spend $500 million starting this
summer to restructure Levi's manufacturing, marketing, and distribution systems. He feels the company is in a temporary lull in the long run, he insists, the cultivation of a culture devoted to such values as diversity and empowerment will make Levi's all the more responsive in the marketplace.

The jury is still out on that. Everyone wants the opportunity to travel within the world of Levi's this spring and glimpse firsthand how Fisz's experiment is proceeding. The following set of snapshots provides ample evidence that Fisz is a long way from realizing his vision. "We are only a few steps along in our journey," he agrees, "We are far from perfect. We are far from where we want to be. But the goal is out there, and it's worth striving for."

"WHAT'S NEXT? CRYSTALS?"

Margaret A. Lawrence wasn't so sure about this values stuff when she first came to Levi's. A 32-year-old, cant-get-off-the-finance-planner J.P. Morgan & Co. in New York for San Francisco in 1986. She remembers her reaction when she was first given the "Aspiration Statement," the corporate credo at the center of Fisz's values-based strategy. "When I first read it," she recalls, "I said 'What are we going to have next, crystals?'"

A lot of people have that reaction. Printed on paper made from recycled blue denim, the Aspiration Statement hangs on office and factory walls throughout Levi's. To emphasize its gravity, Fisz has made sure it is crafted by top management, not the human resources department. At Levi's, one-third of an employee's evaluation is based on "aspirational" behavior; ignore issues such as diversity and empowerment, and you might not get your raise.

After the button-down atmosphere at Morgan, Lawrence was bemused by the "I'm O.K., you're O.K." nature of Levi's culture. But then she took a chance and politely criticized her boss for what she considered lousy-handed behavior. To her surprise, he agreed and changed his act. "I found that Aspirations isn't about holder value."

"New Age feel-good," she says, "about being open and direct. It's about getting rid of hidden agendas."

For his part, F. Warren Hellman worries that all this management-speak risks clogging up the works at Levi's. Doing the right thing is fine, he says, but there's a danger that this will degrade into a touchy-feely, look-at-me, creativity-stifling style of management." Hellman is hardly a disinterested observer. A San Francisco investment banker, he's Bob Han's distant cousin and a Levi's director.

Don't get the idea that Hellman is not foursquare behind the chairman. Even though he thought it was a terrible idea to leave Bob a potentially lucrative market, he joined the unanimous board vote to pull $40 million of Levi's business out of China in protest of human-rights violations there. "Frankly, we love Bob." Hellman says, "Bob has made a fortune for everyone, and you owe Bob one. Still, he says, "the challenge for Levi's is to be sure that decisions are not just nice decisions, but decisions that are meant to enhance share-owners' value."

THE LEADERS

ALTHOUGH LOUIS KIRTMAN (ABOVE) IS ON THE FAST TRACK TO THE TOP, LEVI'S UPPER RANKS REMAIN LARGELY MALE AND WHITE

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not just by his or her superior but also by subordinates and peers, isn't always pleasant. Rockey says his own evaluation "upset my self-image. I thought I was more visionary, I thought I was more caring. I was afraid to be personal." The reviews caused Rockey to loosen up somewhat, to command less, to listen more. But as his fellow workers can attest, the former Navy reserve captain still feels no need to be nice.

"WE'RE NOT A PERFECT COMPANY"

As far as some of the company's customers are concerned, Levi's has been a little too nice to its competition for the past few years. W.arger Tygart, J. C. Penney Co.'s top merchandiser, finally has his wrinkle-free Dockers. But he had been clamoring for them for a year while Hagar Apparel Co. and Farah Manufacturing Co. stocked up sales in the hottest segment of the men's pants business. "They don't have the flexibility" to move on fashion trends, Tygart gripes. Levi's admits that it already has lost at least $200 million in sales by sliding down into the wrinkle-free market. This year, the turned opportunist will contribute to Levi's first profit decline since 1968. It has been a long time since retailers have been happy with Levi's customer support. Good thing the company offers high-quality clothes and a great brand name. "If you weren't Levi's, an executive at California's Mervyn's department store would have sold you the best. If you'd gone, Tygart notes that Levi's might take 26 to 30 days just to replenish a standard lot of pants. Hagar or Farah do it in 10. "That's a 15 or 20 days when all your sales are the competing product," Tygart says.

Such problems raise the question of whether Levi's emphasis on its values is so disrupting. If it is, his executives believe it is not the case. Levi's, he argues, allowed its product developments and customer service in the U. S. to slip because the company had been struggling to keep up with steady growth at home and explosive growth overseas. "We're not a perfect company," he says. "We could be doing a better job in customer service.

Haas believes the problems would be worse if it weren't for the company's free exchange of ideas. "If anything," he says, "I think our values help address the problems because we get more two-way communication." Levi's is counting on communication more than ever as it moves toward a solution. This summer it should be doing differently. Within, that is, in hand, nearly 360 of the company's key managers took over an entire floor of cubicles at headquarters and spent more than a year planning at a cost of $2.9 million. The company's Diversity Council, which is a direct link to senior management for groups representing Blacks, Asians, Hispanics, gays, and women, also played a role in the decision.

The process took much longer and involved far more people than advisors at Andersen Consulting thought wise. But Haas says orienting the organization toward a common goal will prove more efficient in the long run. He sees the Acquirement Statement serving as a mountain climber's rope. "It allows individuals to take risks that they couldn't take if they weren't bound together by a common understanding," he says.

"I'M NOT A SEVENTY-EIGHT-yr-old WOMAN"

A diverse workforce, unafraid to volunteer innovative ideas and opinions, reads to Levi's marketing decisions, insists Daniel M. Chew, Levi's director of corporate marketing. "That doesn't mean market research and focus groups can be dispensed with. But an employee base that's more reflective of the customer base can make a company hipper and more responsive, Chew believes.

Long gone are the days when everyone wore the same kind of style. Today, the company sells 220 styles of blue jeans alone. There is no way, Haas says, that top management can stay on top of fashion trends without help from deep within the organization. "I'm not a 35-year-old woman," says Haas. "I'm no hopper. I'm not the target customer."

An example of diversity in action: While the gritty, independent hipsters in Levi's "501" jeans ads have drawn young customers like a strong magnet, they didn't click for Levi's Hispanic employees and customers. "Why is that guy walking down the street alone?" they asked. "Doesn't he have any friends?" Scenes of friends and family would resonate better in their culture, they said, and given that Hispanics buy 50% more Levi's than the average consumer, this was important information. So, Levi's launched a fresh series of 501 ads for the Hispanic market that downplayed individuality to emphasize camaraderie instead. Sales in the Hispanic community have been booming.

But even Levi's diversity at the top is a troublesome goal, Haas's executive management committee is composed of seven middle-aged white men and one middle-aged white woman. While Haas openly recognizes the disparity between work and deed at the upper echelons, he explains that building talent takes a long time. Levi's has doubled the percentage of minority managers, in 30%, since Haas became CEO in 1984. "We have climbed from 32% of the management ranks to 54% in the same period. In both cases, Levi's vastly outperforms the average U.S. corporation," according to federal labor statistics.

Louis Kirkman, who is Levi's top black executive, says the company still has work to do, but he's happy with the fact Levi's has moved more than a dozen
Cover Story

Minorities and women in the manufacturing industry are highlighted in this article.

IN BANGLADESH
LEVY'S PAID TUITION FOR A CONTRACTOR'S UNDERAGE WORKERS

Salaries have undergone one-day layoffs, along with private consultations. But even that hasn't done the trick, "We're trying to find a more effective way to do it," Alvarado says.

Levy's President Thomas W. Taher says the company simply had no choice. The San Antonio plant made Dockers, which required the labor of blue jeans. Levy's had to move to a low-wage country to compete on price in what has become a brutal market for casual all-cotton slacks. Other companies make Dockers too, but only Levy's does.

But because of Levy's self-conscious reputation as an employer who cares, it opens itself up to plenty of criticism.

Alvarado's standard reply in that guaran
teed employment is not a part of Levy's values system. Such a pledge would be "unwise and dishonest," he says. Still, as the restructuring program goes forward, more dislocations and layoffs are likely. When they ask questions, Bob Hass will have a lot more explaining to do.

"WE DON'T SUPPORT CHILD LABOR"

The simple truth is, living up to a values system as comprehensive as Levy's is hard. It takes hours and hours of work. Today, near the Levy's contractor in Dhaka, Bangladesh, you can see young girls in pigtails, clutching textbooks to their side for some white males at Levy's. Several executives say, though not for attribution, that they've heard pinny of the white males grumble about feeling "disempow-
ered" as they try to ad

vance within the corporation. Hass doesn't offer such employees much in the way of salaries. For those white males who focus on self-improvement and their contributions, the chances are good," Hass replies. "We've eliminated the automatic promotions based on the

old-boy network."

'PEER PRESSURE CAN BE BRUTAL'

Salvador Solis is a long way from the

old-boy network. Finger tips wrapped in green adhesive tape to prevent cuts and scratches, Salinas blue-jeans wire-

hands all day at the nonunion Kasten Street factory in El Paso. If Hass's ideals

are running into reality when it
comes to white male ego in the executive suite, consider the factory floor. Empowerment and teamwork can be all

en, uncomfortable concepts for those

who have spent their working lives tak-
ing orders.

Salas likes his job, but he's got so

not too sure about the new team system Levy's is introducing. In its 27 U.S. sewing

plants. Instead of grouping workers by

function—all the zipper sewers in one area, all the belt-loop attachments in an-

other—Levy's has created multitask

teams of 30 or 30 workers each. They

are responsible for completing individual orders by assembling full pairs of

plant, from waist to hem. After 18 months of teamwork in El Paso, turnover time from or-

order to shipment has dropped from seven days to three—but the workers aren't all getting along.

Under the team system, a worker's incentive pay is tied to team perfor-
mance. A poor performer or absent worker affects everybody's paycheck.

When someone is perceived to be taking sick days or loafing at the sewing machine, tempers flare. Says Salas:

"Somebody's feeling around, and some-

body else calls attention to that, and

the first guy will just flip him off."

Supervisor Gracella Cortes says that "it
gets tough out there." She finds herself

intervening to prevent "big fights." Says

plant manager Edward Alvarado: "Peer pressure can be vicious and brutal."

Kasten Street plant workers got two

weeks of training before the team sys-
tem kicked in, part of it devoted to

Dynamics, Alvarado allows it

' wasn't enough.' Since then, 4 of 39

teams have undergone one-day layoffs in a private consultation. But even that hasn't done the trick, "We're trying to find a more effective way to do it," Alvarado says.

Still, critics charge that Levy's pays a lot more attention to workers and training at headquarters than in the factories. Milton Maskowitz, co-author of The 200 Best Com-

panies to Work For In Ameri-

ca, dropped Levy's from the list in the most recent edition, partly because of what he sees as a double standard. Although Hass has assured, for instance, that the partners of gay employees get health ben-

efits—something that resonates loudest in San Francisco—he has shut down a pants factory in San Antonio in favor of moving the business to low-

cost overseas workers.

Levy's has 1,100 workers.

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A MILD-MANNERED MAVERICK PUTS HIS BRAND ON LEVIT'S

By Ray Burtis of the class of 1964, Haas is a fine grain/pipe finisher in his firm, Francis Haas & Co., 4310 Old San Diego Road, San Diego.

In 1960, he founded Levit's, named after the initials of his son, and has since made the name his own. He has built his company into one of the largest in the country, with sales of over $250 million annually.

Haas was born in San Francisco in 1916 and grew up in the city's Chinatown. He attended Stanford University, where he studied engineering, and later worked as an engineer for the U.S. Navy during World War II. He returned to California after the war and began working in the construction industry.

In 1960, Haas had a vision of creating a company that would be different from others in the industry. He wanted to build a company that was more customer-focused and less concerned with profits. He believed that by focusing on the needs of his customers, he could build a successful business.

Haas's approach to business was unique. He believed in treating his employees fairly and giving them the tools they needed to succeed. He also believed in giving back to the community and supporting local charities.

Haas's approach to business was not without its challenges. The construction industry is a difficult one to work in, and Haas faced many obstacles along the way. However, he never gave up on his vision, and his hard work paid off.

Haas's legacy lives on today in the form of Levit's, a company that is still run by his family. His approach to business, which was built on a foundation of integrity and customer service, continues to inspire people around the world.
thousand dollars. Besides, says Haas, such actions pay dividends in terms of brand image and corporate reputation. Just ask such companies as Wal-Mart Stores and Nike, which have come under fire for their Third World subcontracting practices. "In today's world, a TV exposé on working conditions can undo years of effort to build brand loyalty," says Haas. "Why surrender your investment when, with commitment, reputational problems can be prevented?"

IT'S A MATTER OF LEADERSHIP

Bob Haas doesn't have to meet with stock analysts. He feels no pressure from Wall Street for next, predictable quarterly results. Even the banks that funded his leveraged buyout arc off his back: The company's mammoth cash flow has shaved debt to 4.6% of total capital. Would the company behave any differently if it were publicly traded?

"It would take a lot more fortitude on the part of Levi's executives," Haas says. But he insists that "this is not a matter of structure, it's a matter of leadership."

Public company or not, Levi's experiment in corporate culture will attract attention and invite criticism. Noted apparel consultant Alan G. Millinoff speaks for the many cynics when he says: "The company has the P.C. mindset. The Haases think they talk to God."

Now that enough operational problems have cropped up to slow financial results, Haas has given his critics some ammunition they didn't have before. But he goes out of his way to say that you can't abandon management-science efforts simply because things get rough. Too many managers, he feels, use that as an excuse to hold their "resistance to the idea that the soft sides and hard sides of management can be combined."

It's not so much that they can't be combined but that they may have unintended consequences when they are. Dealing with the surprising, often contradictory results of managing by values may be a manager's toughest task. Many managers are likely to ask themselves: Is it worth the trouble? Many, perhaps, would say "no."

"People are comfortable with the traditional ways of doing business," Haas says. "They might say, 'We aspire to do the things you've done, but we don't have time for it, the stock market wouldn't value it, or we're not as prosperous as Levi Strauss is.'" When it comes to managing by values, Haas has a way to go to meet his own exciting standard. But he can't be faulted for bowing to what's comfortable.