Victorinox: 125 Years in The Cutting Edge

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Case

The case starts by describing the origin of the company through the mission and values of its founder, Mr. Karl Elsener. The case also shows how the culture that these mission and values helped create has been consistently applied over the last 125 years, despite fluctuations in business cycles, and despite wars and crises, including the loss of 30% of the knife business after the 9/11 ban to sell knives at airports. In the last years, under the leadership of the current owner and CEO (Carl Elsener Jr.), the company has developed a set of HR policies that are aligned with these fundamental mission and values. The company has diversified itself into various products lines (such as watches and luggage), and at the same time has acquired several companies in Switzerland and abroad. Now in 2009 the CEO Carl Elsener Jr. faces new challenges in leading the company to preserve the culture in the new competitive context and to extend this culture to the new companies that have been acquired.

Introduction – A Brief History of the Company

In 1884, 24 year-old Karl Elsener, opened his first cutlery workshop in the village of Ibach, in the Canton of Schwyz, Switzerland, with the objective to create jobs for the village. In 1891, he delivered soldier's knives to the Swiss Army for the first time. After subsequent innovations and improvements, he patented the model which became very well known all over the world as the "Original Swiss Army Knife" in 1897 (see Appendix 1). The worldwide success of the Swiss Army Knife started in the mid 1940s when it became a hit in the US Army stores.

In 1979, the old shop "Messerfabrik Carl Elsener" became the current family-owned Victorinox AG. The owner family didn't take any dividends from the company. Instead, that money was reinvested and managed by the Victorinox Foundation. Besides ownership, several members of the family were involved in the management. Family roots, however, didn't guarantee any privileges at work. For example, the office of the CEO was very simple and easily accessible for every employee.

In 1984, on its 100th anniversary, Victorinox doubled the size of its plant and office space, employed 810 people, and generated more than 80 million CHF of revenue. In 1989, through its US distribution partner Swiss Army Brands Inc, Victorinox entered the watch business. In 1992 the company created its first foreign sales subsidiary in Japan. Further subsidiaries followed in subsequent years: Brazil, Chile, Hong Kong, India, Mexico, Poland, USA, and Vietnam. In 1999, the company entered the travel gear market and issued a manufacturing and sales license to the North American company TRG Group. In 2001, through its own subsidiary, Victorinox launched a fashion line in the US.

In 2000, the Victorinox Foundation was established with the objective of keeping the company financially independent over the long-term and thus securing jobs in the best possible way as well as preserving the company culture and its philosophy. The foundation kept 75% of shares in Victorinox AG and was responsible for electing the company board. A further 15% of shares were held by the charitable Carl and Elise Elsener-Gut Foundation, and the remaining 10% was kept by family members.

After the New York terrorists attack in September 2001, new security regulations were introduced all around the world and it was no longer allowed to carry pocket knives on board. Those regulations had immediate effect on Victorinox, since sales of pocket tools at the airports and in the airplanes dropped to zero. Furthermore, a decline in sales in another important channel – corporate market, has followed because pocket tools became no longer preferable as corporate souvenirs due to such security restrictions. Within few months, the sales of Victorinox pocket tools dropped 30% and have never risen to the pre-911 level again.

As a response to that drastic decline of sales, Victorinox had to adopt several measures in order to avoid laying off employees. First, the company stopped hiring, canceled overtime work, and reduced the shift by fifteen minutes. Employees were encouraged to take vacation, both accumulated and in advance. Most notably, top managers of Victorinox visited other companies in the Ibach region to explain the situation and lent 80 workers to them for temporary work of up to six months. In the meantime, they accelerated investments in new products and markets in order to decrease the strong dependence on a particular product and sales channel.

In order to establish a high-quality brand around the world, Victorinox founded its own exclusive retail organization for selected products. This organization included brand stores in prime locations in New York (opened in 2001), Tokyo and Paris as well as a flagship stores in London (2008) and Geneva (2009). In addition to those stores, Victorinox global retail was supported by a large number of shop-in-shop retail locations.

In 2008, after more than 100 years of exclusive cooperation with Victorinox, the Swiss Armed Forces started a bidding process for 75000 new soldier's knives. Seven invited tenderers came from all over the world and after the field and laboratory tests, the model with the best price/ performance ratio was selected. It was a new knife from... Victorinox. Elsener commented:

> *That bidding process was a special inducement for us and our employees. With a fighting spirit and a clear objective of retaining that order, we got down to work. Consequently, there was a great deal of satisfaction and joy when we were able to sign a new contract with the Swiss Armed Forces.*

Philosophy, Mission and HR Policies

In its long history, Victorinox survived several bigger or smaller crises caused by unfavorable external events, like a sharp decrease in orders from the main customer, the Swiss Army, after the First World War; or the lower overall turnover during the Great Depression; and, more recently, the 30% decline in the pocket tools sales as a result of the restrictions for the airplane hand luggage introduced after the terrorist attacks in 2001. During these, the company had been growing steadily (see Appendix 2). Moreover, regardless of those crises, Victorinox always stuck to its credo and core philosophy, introduced by its founder. Carl Elsener explained the two pillars of that philosophy:

Long-term job stability policy:

> *My great-grandfather opened his business with the primary objective of providing jobs and preserving them in the long-run. We really stuck to this goal, and for the past 80 years we didn't dismiss any single employee due to the economic reasons.*

Long-term financial independence:

> *We learnt from Henry Ford who maintained that you should be independent as much as possible from the banks, because they would support you in the sunshine, but they would take the umbrella away if it started to rain. We always kept that in mind and grew organically, avoiding external debt as much as possible*

To support that philosophy, countercyclical operational tactics were used in the company. On the one hand, during boom times they kept low inventory and didn't spend much on advertising, promotion, and innovation in order to conserve cash; however, they worked overtime to cover the increased demand. On the other hand, during recession time, they canceled overtime but built inventory, and spent accrued savings for additional advertising, promotion and R&D.

In the late 1980s, it was clear to the top management that those measures were not enough in the changing business environment. The company started to underline the importance of the Victorinox brand, which stands for high quality and functionality, as well as for reliance and confidence. Such notion was incorporated into the company's mission statement:

> *Our effort to provide consumers around the world with functional and practical high-quality products at affordable prices gives our lives deeper meaning and adds joy and satisfaction to our work.*

In the early 1990s, Victorinox formalized a staff strategy for the Swiss offices and factories, which was built on the three pillars:

- Integration policy for:
  - young people (as of 2009, 5% of the staff were apprentices and trainees in four different professions);
  - handicap people (7% of the workforce, out of which 70% is not supported by the state);
  - people from other countries through social events with employees from both HQ and subsidiaries;
  - retired people through preparation workshops, excursions and year-end event;
  - new staff through an intense on-boarding process.
- **Long-term employability through:**
  - education and advanced training for all employees during their tenure at the company;
  - after hours German and English language courses designed for immigrant workers but opened for all, individual support in other languages;
  - health management program (since 2002), including enhanced ergonomics at work and other concepts which helped to reduce absences from 55 thousand hours to 28 thousand in seven years.

- Equal opportunity through:
- policy of the same wage for the same job, regardless of an employee's gender;
- ratio between the highest and average worker salary of 5:1[1]; blue collar workers were paid 10% higher than the industry average (excluding bonus), middle managers were paid the industry average, while top management had salaries lower than the industry average;
- profit sharing program since 1948, for all employees from apprentice to the top management, in the form of bonus of up to 3 monthly salary;
- Promotion politics: internal candidates were preferred if they had the same qualifications as an external one;
- Participation policy: internal trade union since 1958; for more than 80 years no dismissals due to economic reasons; short-time work avoided as much as possible, even though it was allowed by the Swiss law for up to 18 months;
- Pension fund since 1934, much earlier than legally enforced in 1975;
- Social politics: family and children allowances, paternity leave for up to 10 days, break from noon to 1:15 pm designed for lunch at home.

The above policies were communicated by the department heads to all employees. In the case of the bonus system, the top management was proud that employees understood it very well and trusted it. As a matter of fact, only few workers complained or questioned their bonus each year.

Victorinox also developed eleven management instruments in order to:

- decrease high employee turnover of 15%,
- introduce personal reviews, including 360° feedback
- create qualification and knowledge database
- implement the concept of individual development, especially soft and management skills, using personality types.

They organized regular leadership programs which aimed to help the deployment of those management instruments. Such programs were scheduled usually for a few months and consisted of several workshops and follow-up sessions with top and middle managers, and subsequently with other employees.

1 1 The ratio between the highest and average worker salary for US corporations was 275:1 in 2007, and around half of it for European companies (from Lawrence Mishel's study The State of Working America 2008/2009). In the US, this ratio increased from 25:1 in 1965, through 90:1 in 1990, achieving record value of 300:1 in 2001.

Also, the company set up a program of corporate ethics, as a moral platform that everybody could identify with and relate in his or her daily work. The objective of the corporate ethics was to create an ethical consensus that would in return offer a moral comfort to all the employees, to strengthen the team spirit and increase the productivity as well as to help in creating company guidelines. Such a moral platform included the following values:

• Trustworthiness • Respect • Solidarity • Helpfulness • Loyalty • Serenity • Fairness • Role Model	• Appreciation • Tolerance • Charity • Honesty • Fidelity • Simplicity • Responsibility • Motivation

All the above values had influence over the corporate mindset and policies. As an example, environmental responsibility was taken seriously at the headquarters: the warmth generated in the production plant was used to heat almost the entire facility as well as 120 further apartments in the village through a heating distribution network. The company had also a comprehensive recycling and waste utilization solution for liquids and solid materials, reusing 600 tons of metal shavings sludge. In 2007, Victorinox launched the "Green Shield" program, which encompassed a series of technical and process-related initiatives for improving the ecological balance. In a professional assessment conducted by the University of St. Gallen in 2008, Victorinox was placed among the top five organizations in Switzerland with the highest ethical standards. Moreover, in 2009, Victorinox received the Swiss Fairness Prize for its *fair, independent and forward-looking model of human resources management*.

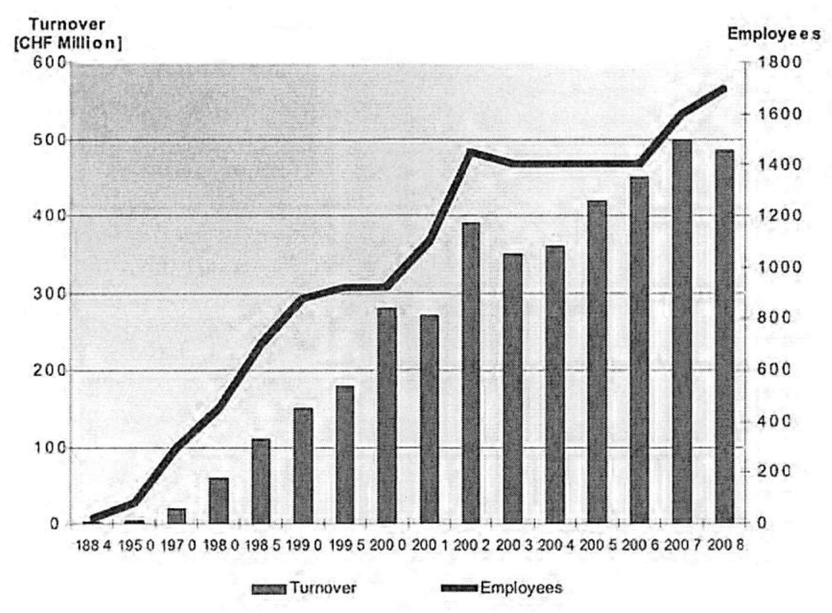
At the end of the summer of 2009, with 125 years of experience and a unique set of values, Victorinox seemed to be well prepared to survive the current economic crisis. However, 51 year-old Carl Elsener Jr., the CEO of the company, was wondering whether the measures taken so far to fight back the crisis would work, taking into account that the current crisis was much deeper and wider than the previous ones. In addition, Victorinox made its first substantial acquisitions in the past few years and was still in the integration phase. In this regard, Elsener was also wondering whether and how the culture of Victorinox should change in the new global context and how could it be transplanted to those acquired businesses.

Exhibit 1: **ORIGINAL SWISS ARMY KNIFE**

The Swiss "Officer's Knife" from 1897

Swiss Army Knife 2008

Exhibit 2: **COMPANY GROWTH**



Discussion

What is special about the culture of Victorinox?

What are the strengths and weaknesses of such culture?

How did Victorinox create its culture?

What is the role of leadership in the process?

Key Lessons

The role of responsible leadership in creating a culture with exceptional employee commitment.

The value of having committed workers who understand and share the company mission is the goal of many businesses.

The power of consistency (1) between words and deeds, and (2) at both good times and bad times in creating exceptional employee commitment.

Creating competent culture by dual focus on both people and results.

BIOGRAPHY

Yih-teen Lee is assistant professor at IESE Business School, University of Navarra (Spain). He obtained his Ph.D. from HEC, University of Lausanne (Switzerland). His teaching activities cover courses such as leadership, cross-cultural management, and human resource management in MBA as well as executive programs. He has offered executive training to Banco Santander, Nestle, ENEL, Schneider Electric, among others. His research topics include person-environment fit and its possible variation in different cultural contexts, intercultural competences and cultural intelligence, multiple cultural identities, and leading multicultural teams. His article on culture and person-environment fit has won the Best International Paper Award of the OB Division of Academy of Management 2006 Annual Meeting (which is also one of three finalists for the academy-wide Carolyn Dexter Award). His papers appear in scientific journals such as Personality and Individual Differences, and International Journal of Cross-Cultural Management. His current research involves understanding the joint effect of multiple cultural identities on individual attitudes and behaviors (e.g., performance and leadership emergence) in multicultural teams. He is co-editor of books on cultural competences (Harmattan, 2007), and another on the cultural context of human resource development (Palgrave, 2009). He was the convener of the sub-themes related to cultural competence for the European Group for Organizational Studies (EGOS) in 2008 (Amsterdam) and 2009 (Barcelona).

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BIOGRAPHY

Professor Pablo Cardona has been teaching Leadership at IESE Business School since 1997. He is a full professor since 2008. From 2008 to 2010 he served as Department Head of the Managing People in Organizations Department at IESE. He has been teaching at UCLA in the US, and in several business schools in Latin America, Central Europe, Africa, and China. From 1997, professor Cardona has designed, directed, and taught in numerous open enrollment and custom programs in several countries for companies such as Oracle, Abbott, Siemens, Nestle, or Roche. The topics of his lessons cover the main leadership areas, from competency development and high-performance teams, to building mission-based organizational cultures. In 2007, professor Cardona started a collaborative research network (Cross-cultural Management Network) that includes business school professors from 25 countries. Among other projects, the network is working on a book on how trust is developed between managers and subordinates in different cultures. Other research interests include High Performance Teams, Proactive Behavior, and Cross-cultural Intelligence. Professor Cardona has published in leading academic journals, including *Strategic Management Journal, International Journal of Manpower, Group & Organization Management, Leadership & Organization Development, and Motivation & Emotion.* He has received three awards from the Academy of Management (1999, 2003, and 2008). He has edited and collaborated in several research books such as *Trust Development in Hierarchical Organizations:*

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A cross-cultural review and *Handbook of Chinese Organizational Behavior.* His research has also been published in practitioner journals such as *PKU Business Review* or *Harvard-Deusto Business Review.* He has written several practitioner books on Leadership and Management, such as *How to develop Leadership Competencies, Growing as a Leader,* and *Management by Missions.* Professor Cardona has consulted with organizations such as Sony, Danone, Volkswagen-Audi, and Camper. He has founded various companies including an on-line market place and a musical production company. He has also served in several boards for non-for-profit organizations in the educational sector.

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