Harvard Business Review
ANALYTIC SERVICES

BRIEFING PAPER

Mastering Value Creation by Centering Strategy and Execution

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Mastering Value Creation

In today's rapidly evolving business landscape, measuring, understanding, deploying, and evolving the value drivers of success is paramount. Therefore the first principle necessitates a focus on one central aspect: value creation.

The briefing paper "Mastering Value Creation by Centering Strategy and Execution," produced by Harvard Business Review Analytic Services in association with CovQ by 8W8, a New York City-based technology and applied knowledge firm, emphasizes the crucial alignment between value creation, strategy, and organizational structure. Through insights from world-famous experts and real-world cases and data, we advocate for a paradigm shift toward value-creation-centric business building.

Companies that develop the right strategies driven by data, and execute those consistently and continuously to completion, delivering more often and faster than their competitors, are winning and realizing their full potential. In short, they are mastering value creation and enjoying the benefits of compounding effects to eventually become unstoppable and extremely valuable.

This is easier said than done unless companies and their partners are centering value creation in strategy and execution. Now everyone can embrace deploying a cohesive value creation management platform. We have pioneered this by introducing the highly innovative and dynamic Compound Value Creator Quotient (CovQ) solution.

CovQ encompasses a value-driver-based, circular corporate IQ assessment system to determine and develop the company's CovQ scores, a framework, a method, and knowledge embedded in software-as-a-service/platform-as-a-service for strategy development, tracking, and reporting as well as team communication, collaboration, and alignment measurement. CovQ+ allows customization, enabling partners to deploy their services, playbooks, and specific areas of expertise, and to engage in ongoing business relationships.

CovQ is designed for forward-thinking and ambitious management teams; investors, private equity, and venture capital; consulting and advisory firms; and investment banks and M&A advisors, and to produce desired outcomes for all stakeholders, including, shareholders, partners, employees, and clients.

The key is simply to get started ASAP, whether all in, in stages, or step by step, but with a high degree of urgency because nobody wants to be left behind.

We hope you will make great use of all the findings in this report.

Mastering Value Creation by Centering Strategy and Execution

Sophisticated software platforms have been widely deployed to bring data-driven insights and decision making to nearly every facet of the modern enterprise, except one: value creation. Yet value creation, along with the strategic planning and execution needed to focus the organization on maximizing its ability to create value, lies at the core of excellence for every business.

Without cohesive data-driven tools to help them identify, execute, measure, and continually align to the organization's true drivers of value, executives often fall back on traditional, function- or organizational chart-driven approaches to business building. That approach often keeps them locked in the status quo instead of rising above the pack by maximizing their value creation capabilities to deliver their missions, objectives, and plans for the benefit of all stakeholders.

"When it's done right, your strategy is really pulling you into the future. It's a set of consciously made choices about 'What are we going to do? What are we not going to do? How is that going to create a future that meets our growth ambitions?'" says Rita McGrath, professor at Columbia Business School in New York City. But management processes in many organizations, such as budgeting and governance, are often not aligned with a value-centered approach, she says. "So what you've got is a system of incentives that don't relate to value creation and that don't actually drive a strategy. It's very easy for those things to come unglued."

Many organizations turn to consulting engagements to help assess their value drivers based on the organization's mission and purpose. But a growing cadre of firms are seeking more extensive output than what is typically offered through those engagements. They're turning to an emerging category of value creation software to ensure value creation priorities and strategies are

HIGHLIGHTS

When organizations fail to account for value creation in their strategy, or do not set up ways to define, measure, and pivot to keep value creation and innovation at the center of strategic activities and decisions, **they often pay a high price**.

In keeping with the management truism that you can't manage what you can't measure, organizations are learning that **leveraging augmented metrics and data** reflecting quantified capabilities and deficits **can help keep value creation activities on track**.

Simply put, adopting a more rigorous, **data-driven approach to the value creation process** yields better internal alignment, higher-quality decisions, greater agility, **and enhanced talent recruitment and retention**.

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not only clearly identified but also subsequently developed, cascaded, tracked, managed to completion, and reported in a cyclical, continuous improvement cadence.

According to "Ten Lessons from 20 Years of Value Creation Insights," a November 2018 report by Boston-based consulting firm Boston Consulting Group (BCG), "Hardwiring value management principles into an organization's systems and processes—including target setting, planning, capital allocation and risk assessment performance reviews, and incentive compensation—is just as important as getting the metrics right."

This Harvard Business Review Analytic Services paper provides insight into the strategic importance of creating structure around value creation and identifies the obstacles that prevent alignment of value creation with strategy. The paper also explores how some organizations are placing value creation alignment and execution at the core of strategic and tactical activities by adopting and benefiting from emerging value creation software and best practices, and describes the results they are attaining from this approach.

The Value-Drivers Problem

Many executive boards periodically set out to redefine the organization's unique mission and values, producing often-inspirational themes to great fanfare—that then slowly get set aside and largely ignored as the business evolves and day-to-day pressures take precedence. That paradigm persists due to a fundamental division between what those organizations strive to be and the realities of daily business management. Strategy experts cite a variety of factors, including an emphasis on short-term results, disparate internal views on the scope of value creation, and a failure to view value creation as a true discipline or responsibility, as fueling this pattern.

Many executives "overemphasize the business processes of today, and they under-emphasize the investments that are needed for the future," says McGrath. "They misunderstand that the future 'big things' are today very small. It might be a couple of people in the garage fooling around. They get a proportionality wrong," and fail to recognize how quickly that next big thing can grow exponentially into what stakeholders now value, she says.

According to "The Value of Value Creation," a June 16, 2020, article published in the business magazine McKinsey Quarterly, "companies that conflate short-termism with value creation often put both shareholder value and stakeholder interests at risk."

Often fueling that short-term view is a narrow focus on value creation in terms of quarterly financial results, rather than a broader perspective that considers other stakeholders and what they value. That might be patients seeking good health, citizens seeking a sustainable climate, or employees being part of a workplace they can feel good about. In fact, accounting for what value creation means for these additional stakeholders and incorporating the outputs into strategy also supports an organization's long-term financial success, the McKinsey article notes.

In addition, few organizations treat value creation or alignment of value creation with strategy as skills they must develop. In many organizations, says McGrath, no one owns the strategy and value creation space. People tend to get tasked with "innovation" without clearly defined processes or training on how to achieve it.

"I doubt that many companies take value creation seriously," adds Simon Grand, professor of strategic management and management innovation at the University of St. Gallen in St. Gallen, Switzerland. "So they see no need to actually address value creation in a systematic way."

In addition, Grand notes, many organizations focus on what they can learn from data, and they lack data around value creation because some aspects can be difficult to quantify, such as carefully describing customer experiences or forging a culture that fosters innovation and allows for failure. "Not everything that is important for a company is also easy to grasp with data and numbers," he says.

The Impact of a Value-Driver Focus

When organizations fail to account for value creation in their strategy, or do not set up ways to define, measure, and pivot to keep value creation and innovation at the center of strategic activities and decisions, they often pay a high price. "Eventually they become uncompetitive," says McGrath. "Or they get caught behind. And then it's a frantic effort to try to get back in the game and be relevant."

At Billfold Solutions Inc., a New York City-based developer of point-of-sale software for events, lack of alignment on value creation priorities across the company's leadership team was causing the startup to overextend into adjacent markets, such as hotels and resorts, says Stanislav Chijik, cofounder and CEO. At senior leadership meetings, differing preferences meant the group could not come to a consensus on where to focus the small but fast-growing company. "Without that alignment, we spent months working on projects that were not core to our vertical, live events," he says.

Indeed, staying laser-focused on core values and value creation is challenging for organizations of all sizes. According to "The 2023 Value Creators Rankings: What Perennial Top Performers Are Doing Right," a May 5, 2023, report from BCG, virtually all companies struggle to beat the benchmark of value creation for their industries year after year. The report defines value creation based on total shareholder return (TSR), and measures it over 10- and 25-year intervals as well as annually. Of the 2,077 global companies with at least $1 billion in market capitalization the analysts studied from 2013 to 2022, just two (approximately 0.1%) outperformed their respective industries every year. **FIGURE 1** The largest portion of firms, numbering 522, were able to beat the benchmark only half the time, or for five of those 10 years.

What sets the most successful outliers apart, the report explains, is being unafraid to disrupt their businesses to pivot to a new opportunity, and competing through differentiation and innovation. "They identify durable and scalable strategies that allow them to penetrate markets globally (for example, Monster Beverage and Fast Retailing), become regional champions (for example, HDFC Bank, ICICI Bank, and Tractor Supply), or expand their footprint in focused markets (for example, CSL and Couche-Tard)," according to the report authors.

Organizations' inability to consistently beat industry benchmarks reflects the challenges of consistently maintaining alignment of value creation with strategy and execution over time.

"A lot of organizations talk about value and what value they create, but that's quite disconnected from what they actually

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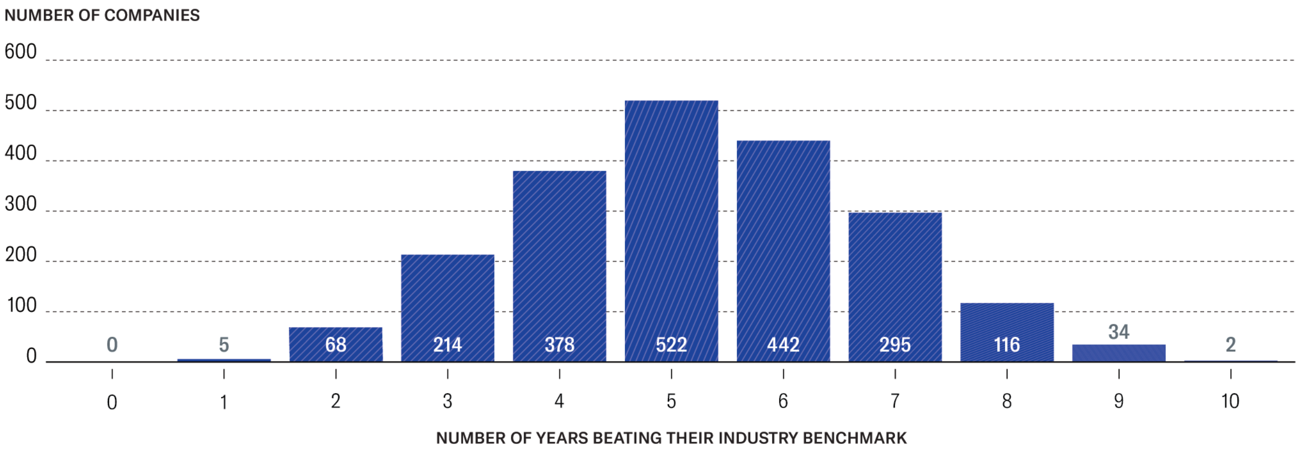
FIGURE 1

Organizations Struggle to Consistently Beat Industry Benchmarks

Most firms valued at $1 billion+ could not consistently best value creation benchmarks over 10 years



Source: Boston Consulting Group, 2023

address in their strategy," says Grand of the University of St. Gallen. However, he continues, "Strategy formulation and strategy realization are not two distinct things, they're very much intertwined."

To better connect values and strategy, Grand's recommended approach is to consider three components: the values themselves—the organization's purpose or identity; value creation—the organization's proposal or claim for how it creates value; and its valuation—whether or not internal and external stakeholders accept that value claim. "If organizations are successful in actually relating those three in a circular way, systematically, to me that would be very important to really address value creation in the strategy," Grand says.

To keep the organization moving forward, he adds, organizations must take value creation into account across three time horizons: operational, over the next two to three years; strategic, a five- to-ten-year timespan; and speculative, extending into the more distant future. "If you only have the first two without the speculative dimension, you are much too close to the present, and you just extrapolate what you do today. You are not able to really open up for new opportunities and possibilities," Grand adds.

Best Practices for Value Creation

Organizations are turning to a variety of tactics to maintain a more sustained focus on value creation over all these time horizons, in both strategy setting and execution. Many are particularly motivated to better enable innovation, a key driver of developing new sources of value.

One growing trend is to remove hierarchies, instead empowering teams with the autonomy and resources they need to achieve value creation goals, says McGrath, with periodic check-ins with other groups to learn and stay on track. Others are reimagining the budgeting process, replacing siloed budgeting processes based on past allotments and governed by people disconnected from the projects they fund with new approaches based on more dynamic alignment of resources that are clearly linked to specific goals, metrics, and strategy.

McGrath points to San Francisco-based CRM software developer Salesforce Inc.'s approach, which empowers each worker and team to create a statement it calls "2VMOM"—Vision, Values, Methods, Obstacles, and Measures. When employees or teams begin working together, they can view and align on their objectives to clearly understand and articulate how they will work together to contribute to the company's future, she explains. Such communication and visibility of what everyone is doing helps keep value creation aligned and centered in the work.

Value creation management platforms are emerging as another tool to help organizations identify, align on, measure, and execute on value drivers.

"Strategy formulation and strategy realization are not two distinct things, they're very much intertwined," says Grand.

Billfold uses a value creation management platform to resolve its value alignment challenges. The nine executives that compose the company's leadership team began the process by independently completing an extensive assessment built into the platform that asks respondents to score the organization on multiple aspects of value creation and hence understand their corporate IQ, described in Jim Underwood's 2004 book, *What's Your Corporate IQ?*, as "the interrelationship between a firm's strategy, organization, character, and competitors."

Comparing individual executives' results of the initial assessment revealed that, as the disagreements in meetings had indicated, the team was not aligned on where the company should focus its efforts. Billfold executives used those results to choose a set of six value drivers to turn into "action items" for team members, cofounder Chijik says. These value drivers include defining what the company's focus will be and what not to waste time on; ensuring employees understand the company's vision, mission, and the why; and successfully developing and executing all the strategies that set the firm up to win.

"We came up with action items for each of the team members for the value driver that they're going to be responsible for," says Chijik. To reinforce the second value driver, for example, executives feature the company's mission, vision, and values at every all-hands meeting and cite the company's values whenever they applaud an employee. That way, "we can consistently remind people what Billfold is and what keeps us coming to work every day," he says.

Billfold initiated the process in August 2023 and is repeating the assessment process every three to four months. By accessing results on a portal that offers best practices and benchmarks to chart and guide progress, the company plans to keep its activities and value creation strategy aligned. While right now they simply share insights with employees, eventually they plan to also translate value drivers into department-specific strategic initiatives and use the platform to assemble action items and track them across the directly responsible individual's KPIs.

“The companies at the top of our long-term value creators ranking have found ways to overcome the gravity that pulls most companies’ TSRs [total shareholder returns] back to average.”

Boston Consulting Group

Despite some leadership changes and distractions between its first and second assessment interval, after the second, "we actually did show a higher alignment of 20% amongst the leadership," Chijik says. "Even if you take [the assessment] and you don't develop action items, it's still in the back of your mind."

Despite some leadership changes and distractions between its first and second assessment interval, after the second, "we actually did show a higher alignment of 20% amongst the leadership. Even if you take [the assessment] and you don't develop action items, it's still in the back of your mind," says Stanislav Chijik, CEO and co-founder of Billfold Solutions Inc.

Using Data to Guide Value Creation

In keeping with the management truism that you can't manage what you can't measure, organizations are learning that leveraging augmented metrics and data reflecting quantified capabilities and deficits can help keep value creation activities on track.

When Billfold leaders take the assessment associated with their value creation software again at the next interval, they will use the collective ratings to see whether the company has made incremental progress on achieving the value driver. That creates trackable metrics around the driver. Such an approach helps organizations overcome what many find a big barrier to value creation: the difficulty of measuring it, particularly for soft drivers such as people and culture.

Hard drivers such as new techniques, new practices, or new materials are typically easier to measure. But even those must be calibrated and refined to measure true value creation.

By instrumenting organizational activities, teams can self-govern without needing management interventions. Amazon, for example, uses lagging, current, and leading indicators to help teams understand where their efforts contribute to corporate results, McGrath says. The company depicts its strategy in terms of a flywheel—more variety helps ensure that more customers turn to Amazon, which in turn makes the site more attractive for vendors. As the company moved from selling books exclusively to additional items to build its customer base, its value creation metrics evolved, from the number of product pages generated to page views to pages viewed for in-stock items to in-stock items available for two-day delivery, in order to keep the work aligned with how the company perceived value creation. "What happens when you instrument that way is you don't have to tell the team they're missing their targets. They can tell that," she says, adding that this allows them to course correct.

To place metrics around softer drivers of value creation, Billfold uses the assessment results. "The assessment acts as the real thing that's measurable," Chijik explains. By periodically re-rating progress on activities such as transforming the culture or encouraging more risk-taking, the organization can analyze real data about progress to reinforce or course correct on value creation activities. And because Billfold can view the results of its assessment on a reporting dashboard maintained by the software-as-a-service (SaaS) provider that created it, the company can benchmark not just against its own definition of what drives value creation, but against similar organizations as well, to see if its value creation progress is on track, he explains.

"Without that, we'd still be in the same meetings talking about what are we focusing on this quarter, with a hundred ideas on the board, and we wouldn't know how to measure our progress," says Chijik.

Taking stock of softer drivers of value helps strengthen alignment between value creation and strategy even for value drivers that also produce more clear-cut metrics. For example, says Grand, if the goal is customer centricity, simply tracking turnover and profitability or successfully turning leads into actual business may not really tell an organization if it's achieving the value creation it's claiming. A more complete assessment might include whether the organization is having recurrent open conversations with customers or is including those with environmental, social, and governance interests in the strategy process. "So if you revise your strategy, do you talk to them about how they see your strategy and how it changes your value creation? What about making the planet part of your discussion about strategy?" he asks. These insights enrich more objective measures for a more holistic picture of value creation progress.

Benefits of Data-Driven Value Creation

Organizations taking a more structured and measurable approach to value creation and strategy alignment are finding it can yield considerable benefits, creating a virtuous cycle that comes from focusing activities on those things that truly drive value for stakeholders.

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ROE, ROI, Cash Flow, and Building a Culture of Value Creation

Advanced business building and value creation require accelerating productivity and increasing the frequency and yield of timely, value-driver-based strategy execution and completion. Therefore, it is necessary to cut through complexity, streamline processes, assess the latest status of a company's qualities and opportunties at regular intervals, visualize scores and data on the management team's dashboard, and monitor and proactively manage the progress.

Deploying a value creation management platform at the center of these efforts can achieve this in unprecedented ways, ultimately leading to an increased return on equity (ROE), transparent and improved return on investment (ROI) from strategic initiatives, and a boost in cash flow and valuations.

That view is seconded by Alasdair Trotter, national managing principal and head of Growth Advisory for Grant Thornton. "Organizations all too often lose sight of what really matters: value," Trotter says. "They obsess over share price, they pay for quarterly valuations, but when it comes time to manage the business, they play whack-a-mole with investments and tactical initiatives rather than systematically working the underlying drivers of value creation."

ROE, ROI, and cash flow can be optimized and a culture of value creation can be built. Integrating these elements ignites superior performance and success, providing a strong foundation for profound momentum and maximizing the compounding effects to the full extent. Taking the initial step is of utmost importance.

BCG's research found even the "weakest" of the top value-creating companies studied returned 17% annually, resulting in a more than 50-fold increase in value over 25 years. "By comparison, money invested at the overall 9% market return achieved an eight-fold increase in value over this period," the report notes. "The companies at the top of our long-term value creators ranking have found ways to overcome the gravity that pulls most companies' TSRs [total shareholder returns] back to average."

Billfold's experience has taught the firm to embrace the use of metrics in value creation. "We were providing businesses with data to improve their operation while not using the data to measure our own progress," says Chijik. "We quickly saw many benefits after implementing the SaaS solution." This not only strengthens the core of the company, but also makes it more appealing to investors, he says.

Perhaps one of the clearest benefits is faster and higher-quality decision making. "When [an organization] discusses innovation projects, they can be rather clear in saying, actually, that makes sense in the context of our company or it doesn't," says Grand. "I think that's very much related to their values and their understanding of value creation and a recurrent reflection of its valuation."

When organizations are aligned on how they drive value, they also tend to be more agile, and can respond to new opportunities or disruptions in the context of that definition of value. According to BCG's 2023 analysis of top value-creating organizations, "Compelling value creation strategies have turned volatility and downturns that were catastrophic for other companies into mere bumps in the road for these perennial value creators."

Talent recruitment and retention is another common area of benefit. McKinsey's report found that the U.S. and European companies that created the most shareholder value in the past 15 years have shown stronger employment growth.

"We are successfully attracting top talent to the company," says Chijik. "Internal alignment and one voice help attract people who understand the company and the product." Its value creation process also assures employees that the executive team is addressing the issues that stand in the way of better value creation.

Working with metrics also provides invaluable feedback to employees on their value creation activities, enabling them to build skills in innovation and value creation.

"Having a very strong focus on value creation gives you that meaning and creates that sense [of mission] for all levels in the organization," adds Grand. "I think that's probably one of the most fundamental positive implications we can gain from taking value creation seriously."

Aligning Value Drivers and Strategy

While most every aspect of running an organization is now enabled by technology for data-driven decision making, value creation remains stubbornly analog. While many organizations undertake exercises to define their mission and how they create value, few employ any structure to ensure value creation ideas are developed, communicated, broken into tasks, assigned, measured, and enhanced on an ongoing basis. As a result, value creation becomes less top of mind, connected to strategy, and impactful on the daily operations of

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the organization. This scenario reduces organizations' agility, ability to compete, and appeal as a vendor, investment target, employer, or partner.

One reason for that lack of structure and rigor is the difficulty of quantifying and tracking value drivers, which can often include softer elements such as the quality of communication or innovation. Without data, organizations struggle to monitor, analyze, and adjust their activities to ensure value creation is on track.

By better aligning their actions and decisions with their sources of value creation, thanks to an emerging category of software that seeks to apply data and structure to the task, organizations can rate and assess their own progress using the value creation metrics that are most meaningful for them, benchmarking against themselves as well as comparable companies. "New technology is making the possibility for all of this to be very instrumented and structured and transparent," says McGrath.

Simply put, adopting a more rigorous, data-driven approach to the value creation process yields better internal alignment, higher-quality decisions, greater agility, and enhanced talent recruitment and retention. Using value creation software can help management teams, their partners, and their investors elevate their value creation capabilities; positively impact their growth, change, and transformation efforts; and ultimately deliver on their purpose as an organization.

When value creation is truly reflective of the values of an organization, "You're able to build what I would identify as a strong brand, and strong brands are probably the most valuable asset a company can have," says Grand. "You gain attention, you gain interest, and you gain commitment internally and externally to your company. It helps you to become distinct and valuable as an organization."

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