# Connecting the dots: leveraging the value creation system to drive strategy

**About the author**

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**In the beginning there was the value creation system**

Ask the CEO of any business, big or small, 'do you have a strategy?' and they will all answer yes. They may even be offended you asked. What is a CEO without a strategy, after all? Presentations and documents, reviews, summits and implementation drives, investor pow-wows and shareholder meetings: formulating, communicating, implementing and refining the strategy is the name of the game for every CEO.

If the strategy fails to work, invariably it will be revisited.

But will the manner in which it was devised be revisited? Will the review ever tackle the question 'do we actually know our organisation and our "current state/present place" well enough to devise a roadmap to something different'?
Probably not.
And yet the single most significant question an executive must answer is does your value creation match your vision? Without visibility of the value creation mechanism, the question is impossible to answer.

A value creation system is the repeatable set of activities a company performs to transform materials, assets, risks, time and ideas into something the customer wants – and the structures, processes and procedures within which these activities are performed. For a corporate entity, the endgame is something the customer wants/needs and is willing to pay for. The system is how the requisite activities are rendered repeatable: building a structure around the manner in which people, systems, rules and procedures defining behaviour come together as connected components of a whole. External events trigger actions that, viewed over time, 'pass' information or products in varying stages of completion from component to component, transforming them in the process into a complete product or service delivered to the customer whose needs and desires were central to the original trigger setting everything in motion. This means that when viewing a company as a value creation system, the client is not simply a wallet at the end of the assembly line but a central pivot of the 'what' the 'how' and the 'why' of the company's operational setup whose raison d'etre is to generate value the client wants to consume. Full visibility of the end to end value creation, then, and the system that generates it, is essential to the formulation of sound revenue-focused strategy (see fig.1).

As I have argued in 'The Phantom Menace of invisible value creation systems':
> knowing how value is created within an organisation in real terms, depends on having high visibility of the organisation in question. For an executive managing a large corporation that carries the legacies of growth (achieved either organically or through acquisition) and spanning several jurisdictions globally, having full visibility of their entire organisation and the value creation system embedded therein is almost an impossible task. Naturally, executives understand the value proposition their organisation is putting forward but due to the scale and size of many corporate entities, there is often an inevitable mismatch between the executives' perception and the reality of value creation at work.

# Example Value Creation System



**Level 1**
**Enterprise / business model**

**Level 2**
**Value creation system / primary processing system**

**Level 3**
**Primary processing systems/ processes**
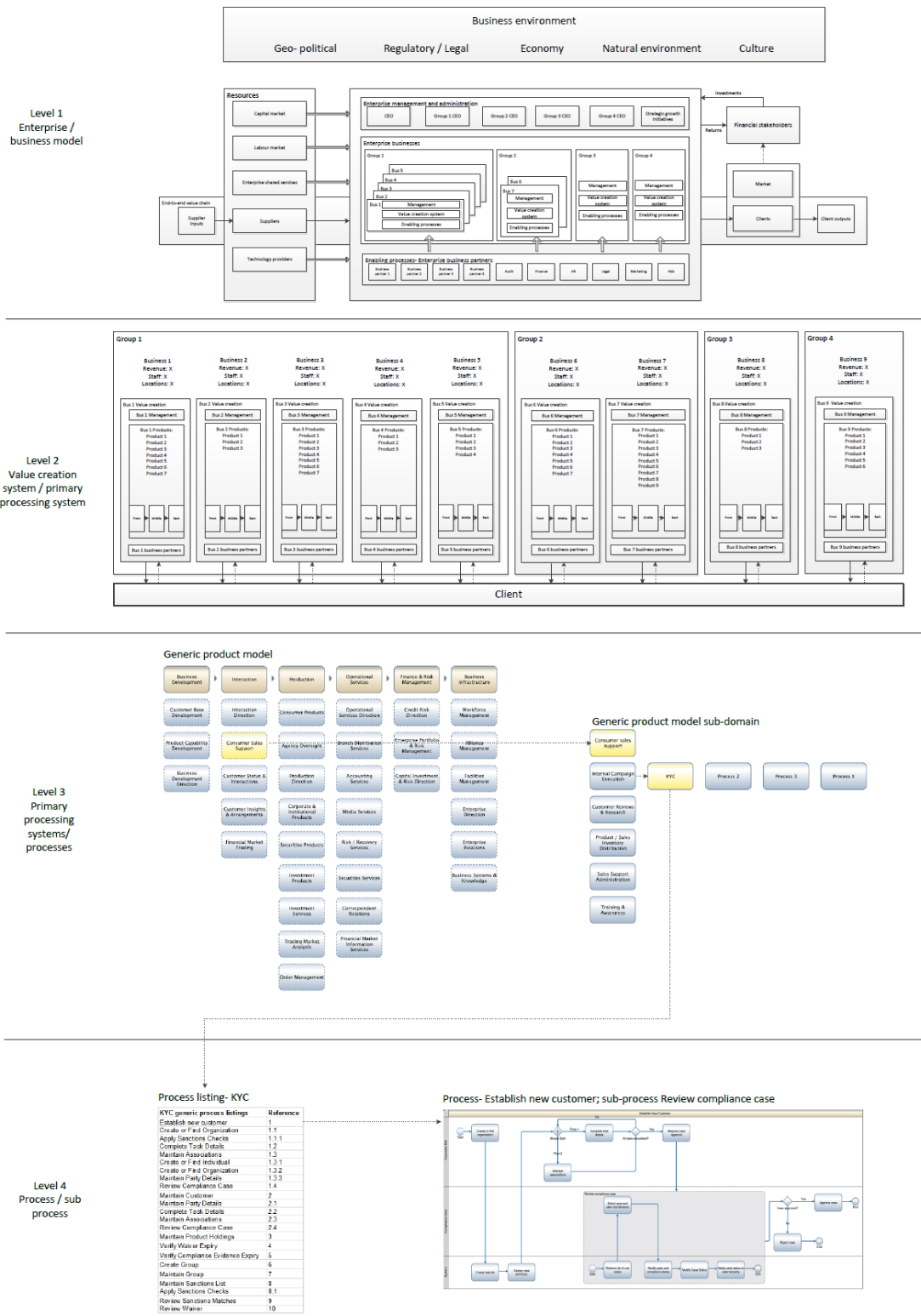
**Level 4**
**Process / sub process**

*Figure 1*

Without a full view of the value creation system strategy will almost entirely be based on legacy and historical knowledge, instinct and external information such as competitor research and market intelligence. Although all those inputs are vital, no strategy can be complete without a full, current view of the internal workings of the organisation as it pertains to value creation. Most organisations fail to map their value creation systems, leaving executives without the necessary visibility of the internal workings and having to rely on peripheral information: the result of this is invariably incomplete strategy.

Taking the time, however, to understand how value is created within an organisation and visually represent it in a way that the executive can leverage, is vital. In fact, any executive's strategy, unless derived from a fully analysed value creation system, should entail achieving full transparency through the creation of a value creation system as part of the strategy. This exercise entails both the analysis and understanding of all the moving parts that contribute in a variety of ways to the commercial output of an organisation *and* the actual value creation system artefact: a visual representation of the system, kept constantly up to date, that can communicate in a succinct and powerful manner to the executive what the system is made of, how different components interact with and influence each other and what chain reactions change in one place may start.

Clichés exist because they are often true and an image is worth a thousand words, particularly in the case of a value creation system showing on one page how the innards of a company fit together to fulfil its purpose. With a value creation system diagram at the executive's disposal, commercial strategy can be validated and adjusted to align fully with client needs, ensuring customer retention as well as growth.

Moreover, although the value creation system is central in driving strategy formulation, that is not the full extent of its usefulness. Once the strategy has been devised, implementation relies heavily on the value creation system and the information it conveys particularly as it is updated to reflect each incremental change brought about in pursuit of the strategy.  In order to deliver specific products and services to a client, in order to improve specific processes and service delivery mechanisms, one needs to move from the abstract (strategy) to the concrete (delivering product and operational excellence, building and sustaining client intimacy). The leap is bridged by understanding the value creation system and leveraging Business Process Management (BPM) to adjust the specifics in line with strategy.

BPM as a discipline is committed to rendering the invisible, visible and, by extension, improvable because, at the risk of stating the obvious, no-one can knowingly fix something they cannot see. In applying BPM to the fundamental question of how an organisation generates value, artefacts are created that can be used to analyse and educate. Hence slowly an organisation comes to be regarded by those who manage it as a system where everything, even the most mundane part of business as usual, is part of the whole and as such a potential source of strength or weakness depending on a variety of factors.

A value creation system is in some ways a visual representation of all the manners in which things can go both wrong and right in an organisation's pursuit of value (as per fig.1). That means that the system is holistic in its approach and complete in capturing all aspects of an operating model. That includes **people** at all levels of the hierarchy within an organisation; **ownership** and drive, again spanning all layers from strategic direction through to the ownership of particular steps in a process; organisational **structures** (both tangible such as location and accessibility as well we intangible such as reporting structures etc), all **processes** and **technology**, including the absence of requisite processes or enabling

technology (see fig.2) and laying them out in a way that enables strategy to be created and implemented: weak spots, under-developed spots and opportunity spots are rendered visible taking decision-making to a new level.

## Operating Model Components

Operating model: the way people, technology and process interact to deliver a common objective



*Figure 2*
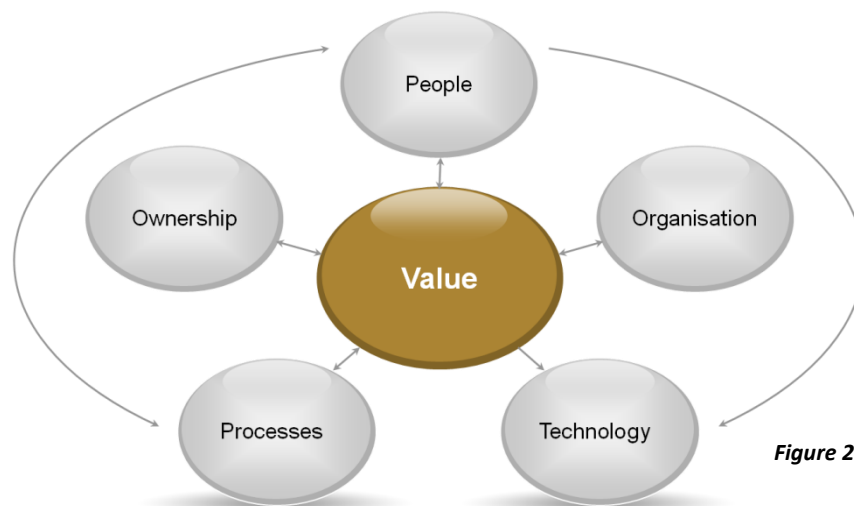
Once strategy has been formulated on the basis of facts generated and displayed in the value creation system, a series of models can be created: templates and tools that are abstract enough to provide a sorting, analysis and benchmarking mechanism and yet specific enough to the realities of the organisation to capture nuances of culture, market specificities and bespoke client service. The toolkit encompasses classic Lean and 6Σ tools as well as bespoke templates tailored to answer specific questions or measure specific requirements – such as service quality matrixes reflecting the priorities of individual clients etc. This allows executives to leverage the visibility of their value creation system in order to align every aspect of the actual system of value creation with client needs, strengthening their value proposition and competitive advantage.

At the highest level, once the value-conscious strategy has been formulated, the next step is to align process with strategy. This entails process selection and goal-setting in line with this strategy and the performance of each process. To achieve this, organisations can leverage their structure in a way that retains full visibility of the value creation system and drives the value-focused strategy both at the highest and most granular levels. This can be done through distilling the strategic direction tier by tier through a governance structure such as the process office (offering governance, process library management and process metrics) that can manage the identification and prioritisation of initiatives, programmes and projects (through process selection and prioritisation – see fig. 3). This is where the visibility of the value creation system comes into its own allowing not simply for a deeper understanding of the workings of the organisation but for the creation of appropriate governance structures as well as the creation and management of a process library that can in turn feed into strategic decisioning (see fig.4).
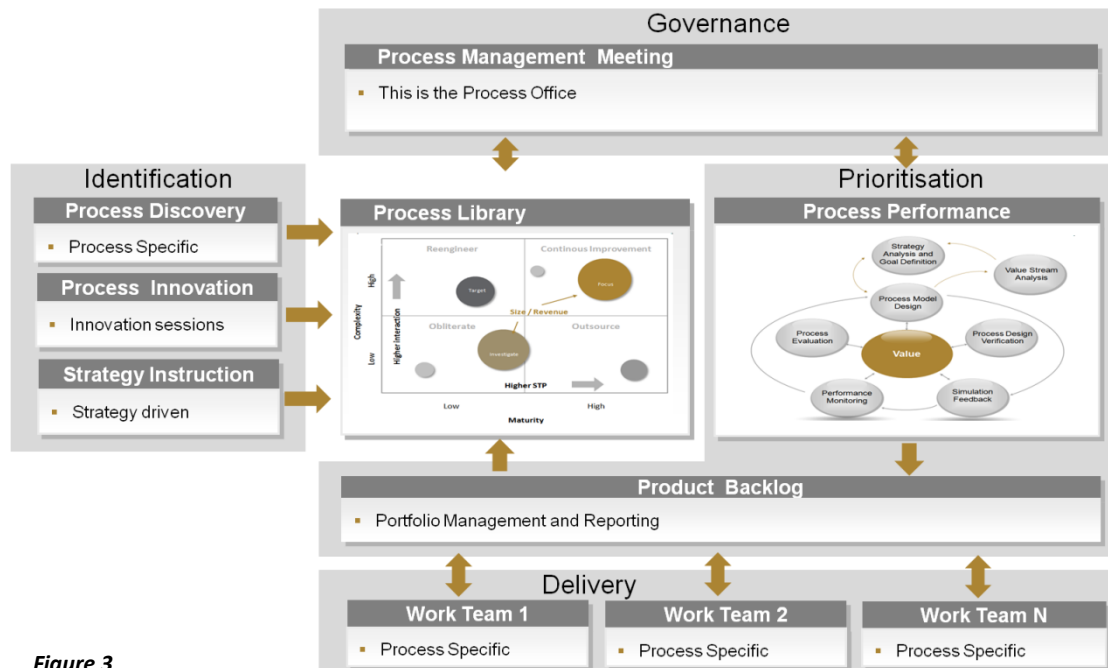
# Value Creation System, Practical Model



*Figure 3*

A process of identification, prioritisation and execution and an appropriate governance structure will ensure the retention of full visibility, strategic alignment and drive as well as allow for the selection and measurement of processes and project prioritisation in line with strategy (see fig. 4 & 5).

# Process Matrix
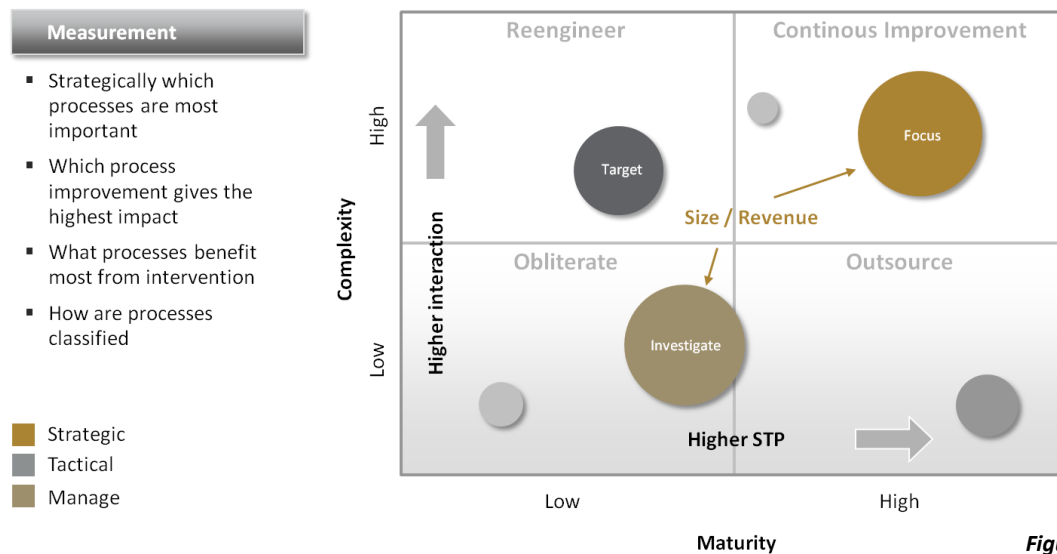
Process Library Value Component



*Figure 4*

As findings are applied to adjust the value creation system to provide the future state vision as per the strategy and ensure that activities are aligned to achieve goals: everything from process re-engineering, new product design, employee training etc. In applying them, the models are in turn 'tested' and continuously adjusted to fit the realities of the value creation system and the imperatives of the strategy (see fig.5).

## Process Prioritisation
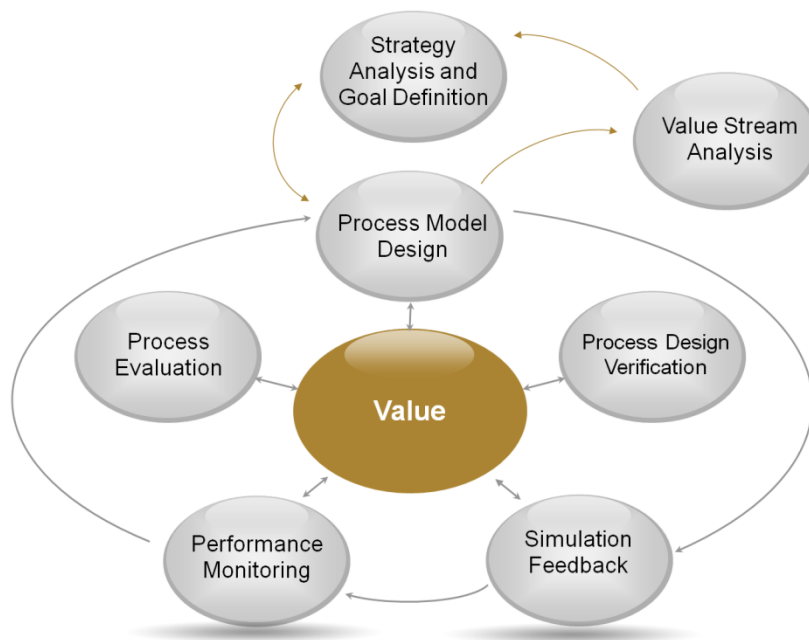


*Figure 5*

The picture, hence, is constantly evolving as are the tools employed to constantly further alignment with client needs. Without such models it is hard to generate a client overlay for organisational policies and without such an overlay it is hard to know whether particular strategies will bear fruit. Is geographical segmentation and location-driven management a sound strategy, for instance? It depends. It depends on how your clients are organised and structured, how they operate, grow and make investment or purchasing decisions. Moreover, such models allow us to simultaneously keep an eye on core services and utilities – existing as well as utilisation strategy for the future – ensuring that delivery remains aligned and monitored at all times and people at all levels within the organisation are poised not simply 'to do a job' but to actually be a part of a mechanism for value creation.

As the value creation system demonstrates people at all levels of the organisation contribute in an immediate way to the client experience, creating moments of truth in day to day encounters with often very junior staff with no appreciation of the relative significance of their tone and work. The strategist can leverage the value creation system to generate a culture wherein there is no such thing as a thankless job. Where everyone, regardless of where they sit geographically or organisationally, feel part of the whole in a way that is inspiring and empowering. Similarly, the system can be employed to forge deep, stable bonds with customers enabling both parties in the partnership to weather uncertain markets and build mutually assured futures. A committed executive ready to take charge of the value creation system once it has become visible and willing to manage it can accelerate value creation and, rather than chasing after value defined by competitors or clients after the fact, be uniquely placed to meet client needs as they arise, dominating their market.

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