Differentiating and Generating Value: A Business Leader's Challenge

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Lately, we've been hearing our clients talk more and more about value differentiation. Often, these discussions are theoretical or abstract, and we're committed to making this idea of value differentiation accessible and applicable.

The simplest definition of the word value is relative worth or importance; differentiation is about contrast, or how something is distinct from something else. When businesses look at value differentiation, they tend to look at it in a couple of distinct ways. One way is to differentiate the value of their product or service in terms of safety, speed, durability, reliability, consistency, etc. Another is to look at purely financial metrics, leading or lagging indicators like return on total or invested capital, or profitability indicators like capital employed. Most organizations use a combination of both operational and financial metrics. However, all of these beg the question: how is value actually being generated?

The problem with focusing on differentiating the product or service itself, or focusing on measuring or monitoring value, is that it does not leave business leaders with a way to generate value in a sustainable way. That's because these methods focus on the answer, and while we're addicted to answers, value creation lives in the questions.

Let's take a closer look at what it takes to generate value in a meaningful way. We worked with a senior executive of a multinational engineering services firm who took on a branch of the business that had been failing continuously for eight years. The firm was planning to shut down the branch if there wasn't a turnaround in performance. When the executive took on the job and looked at indicators like profit and business pipeline, things did not look good. Although he did do all the things a good manager does, such as restructuring the business to set up more efficient ways to deliver services, the commitment he focused on was not just efficient service. He shared with his team that what he was really committed to building was a hub of engineering excellence for that part of the world. Over the next two years, the organization saw an over 300% increase in growth, going from eight straight years of losses to 15% bottom-line increase year on year, and that growth continued through the following six years.

What's the moral of the story here? Although he did address some of the "answers", like processes, structure, metrics, etc., his real focus was on creating a context that differentiated the value of the service that his organization provided to its customers. In essence, value differentiation is a context or a place to come from, a matter of leadership versus a product or service.

Let's look at another example, this time in the area of product value differentiation. A client operated a plant that had been failing to deliver budgeted performance for several years. Production efficiency was in the 70-80th percentile, there were high levels of LTIs, and employee engagement was at an all-time low. When the leaders discovered that the context for the people at their plant was "we'll never get it right", and "this is just business as usual", they set about altering that context. They replaced it with a conversation about creating a sustainable future by providing fertilizer for people to grow produce for that region and for the world. When they got to see that they were working not just on some metrics, but on creating a sustainable future and enhancing people's quality of life, the value they were contributing through their work completely altered. That shift in context led to three consecutive years of 98th percentile production efficiency, no LTIs, and a 23% improvement in employee engagement. These metrics were all expressions of people being up to something bigger than themselves. In our view, differentiating value is, in some ways, about calling forth the greatness in the people delivering a product or service; the metrics are simply indicators of that greatness or purpose being fulfilled.

If we can give up our addiction to having the answers for a moment, we can start to engage in the question of how to create a business, division, or team that continually generates value. At the end of the day, what enables value to be created, what creates that context, is conversation.

The simple truth is, there's no inherent worth or importance to anything, because value is relative. The source of that relativity is the interpretation or perception that people bring to the product or service.

In and of themselves, value indicators like profit, TRIF, ROTC, etc. are just numbers. What do they actually mean for the people who are engaged in and contributing to delivering value? Particularly when financial indicators show that value isn't being met, leaders' tendency is to stare harder at the scoreboard. Whether you're a player or a fan, you know that staring at the scoreboard is not the way to make the score go up; it's really easy to lose focus on the possibility of what you're contributing to if all you're looking at is the score. The only way to actually impact the score is to play the game, or put another way, to get your "eyes on the ball". The ball, in the case of business, is the conversations that you and your people generate. That conversation, that bigger context, is what really brings the "score" to life.

We're not saying that you can't have answers, ideas for technical solutions, etc.; that's part of your job as business leaders. But are you willing to have those answers and solutions be a platform to ask questions to generate new possibilities? Can they be the start of a conversation, rather than the endpoint? Giving up knowing the answer, or even trying to find "the" answer, can be tough. But the truth is, there really is no answer, because there's nothing definitive about value. If you're looking for more than just business as usual, or a better or different version of what you've seen before, you have to give up knowing what is possible and engage people in a conversation that allows something bigger to emerge. That is the access to differentiating value, and ultimately, to generating higher performance.