

Steps To Value Creation

This article discusses the steps one can take to create value in an enterprise. The steps begin with understanding the value creation process. Then, specific action steps are suggested to create value. The steps start out with the simple process of thinking about and brainstorming the main value drivers in the enterprise. The steps then use more sophisticated and complex management tools to identify value drivers and strategies to create value. Finally, suggestions for implementing the value creating strategies and incorporating a feedback loop are suggested. Once one has gained an understanding of the value creation process, as outlined below, it is a fairly simple matter to apply this knowledge and understanding to analyzing the value that has been created in enterprises for those considering making an investment in such enterprises. Here are the steps:

1. Study this workbook to gain an understanding of how value is created; in particular, study the following workbook articles:
 - Preface
 - Chapter 5 of *A Theory of Value Drivers: A Grounded Theory Study*
 - Value Creation Chart
 - Intrinsic Value and the Intrinsic Value Line™
 - Management Tools
 - Chief Value Officer (CVO)
2. Think about the organization under study and try to determine what the three or four main value drivers are in that organization (you can have more than three or four – just try to figure out a few of the main value drivers that are driving value in the organization).

3. Brainstorm with others to try to determine what the three or four main value drivers are in the organization. Often times, more heads are better than one at figuring out complex problems.
4. Refer to the *Value Creation Process Chart* and its description to help you think through the value creation process and identify areas for creating value.
5. If appropriate to your organization, appoint a Chief Value Officer (CVO) to oversee the value creation process. In any event, in order to ensure that value creation receives the proper attention it deserves, one or more people in the organization should take responsibility for the value creation process.
6. Next, start using more formal management tools to identify the value drivers that exist in the organization, and which ones might lead to better value creation. A good management tool to start with is *SWOT analysis*.
7. Use other management tools, as appropriate. See the article in this workbook entitled, *Management Tools*, to get ideas. Remember that management tools fall into three general categories (as described in the article on management tools): (1) exploratory management tools; (2) strategic management tools; and (3) management tools that address a specific issue or solve a specific problem. Use of the management tools in keeping with these three categories and their functions will lead you to the identification of the important value drivers operating in the organization and effective ways to use these value drivers to create value.
8. Spend some time thinking about and brainstorming the organization's competitive, industry, and economic environment. As you advance in your knowledge of value driver theory, you may want to refer to *Porter's Five Forces Analysis* of industry competitiveness

to gain an understanding of the competitive nature of the industry in which the organization operates¹. See the article in this workbook entitled, *A Simple and Effective Economic Forecasting Model*, to learn how to gain an understanding of the economic environment that confronts the organization.

9. Study and read the other articles in the four parts of this workbook on understanding, creating, sustaining, analyzing, and investing in value. If financing for the organization is needed, review the articles related to financing business enterprises.
10. Before taking steps to create value, establish a valuation benchmark by computing the organization's intrinsic value. If you are not familiar with calculating intrinsic value, you can skip this step. However, if you would like to gain an understanding of and learn how to calculate the intrinsic value, which is always a good idea, Damodaran's book on valuation, *The Little Book of Valuation*², is an excellent reference. It would also be helpful to construct the Intrinsic Value LineTM for the organization, as described in the article in this workbook, *Intrinsic Value and the Intrinsic Value LineTM*.
11. Based on your analysis of the organization, and using your knowledge and understanding of value driver theory and management tools, design and construct value creating strategies for the organization.
12. Plan and execute the value creating strategies that you identified in the previous steps.
13. Use the *Problem Solving Framework* to address specific problems or challenges facing the enterprise. The Problem Solving Framework can also be used as a general model and framework to form organizational teams to create value in the enterprise.

¹ Porter, M. E. (1980). *Competitive strategy: Techniques for analyzing industries and competitors*. New York, NY: The Free Press.

² Damodaran, A. (2011). *The little book of valuation: How to value a company, pick a stock and profit*. Hoboken, NJ: John Wiley & Sons.

14. Re-calculate the organization's intrinsic value on a continuous basis to check the progress of creating value in the organization.
15. As part of a feedback loop, repeat all of the preceding steps, and make adjustments as necessary, on a continuous basis to keep the organization on track for creating value.