



Adopting the Value Habit

(And Unleashing More Value for Your Stakeholders)

Produced in co-operation with the Economist Intelligence Unit

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Introduction and Survey Background

Every company's mission is to create and protect value, but some clearly do a better job of it than others. While almost all companies have a vision of what they would like to accomplish, the much greater challenge lies in shaping and optimizing the company's processes, people, systems, and projects to align with that vision. Even the smallest misalignments in these crucial areas can prevent a company from reaching its true potential. As such, this vision and strategy must be clearly communicated and resonate both internally and with the company's other stakeholders including shareholders, customers, and suppliers. In the worst case, an over-emphasis on short-term results or the failure to consider the interests of all stakeholders can severely inhibit the value creation process.

In November 2004, Deloitte* published "The Value Habit – A Practical Guide to Creating Value" authored by Bob Dalton and Brent Wortman, principals at Deloitte Consulting LLP. The research findings in this report build on that original work and further substantiate the importance of adopting the value habits as a means of unleashing more value for your stakeholders.

The basic formula for creating value has not changed much since Adam Smith's days. You earn an appropriate return on the capital provided to the company. In today's global financial markets, shareholder value (and Total Shareholder Return) is driven by market expectations of future cash flows based on the company's ability to sustain performance and grow over the long term. Sustaining performance and growth is a function of the four primary levers defined in the top layer of Deloitte's Enterprise Value Map (see Exhibit 1) and it is actually a lot harder than it looks.

Anyone can write a "mission statement;" that's the easy part. Putting those ideas into action is a much more difficult task that involves the entire company. While the twin concepts of vision (the destination) and strategy (the means to get there) may be carefully discussed and debated in the executive suite, these concepts often fail to permeate the entire company. Many employees may not even be aware of them at all.

When it is all said and done, the discipline of execution across the enterprise is always a key to success. Thus, it is extremely important to appropriately communicate the vision and strategy of the company to all stakeholders involved. It's not good enough for top management alone to understand these concepts. All employees and stakeholders must have a sufficient and clear understanding of the "game plan." If, for example, employee compensation is not aligned with the company's objectives, creating value will be an even more

elusive, if not impossible task. Likewise, all processes, systems, and the company's project portfolio must be aligned with the vision and strategy.

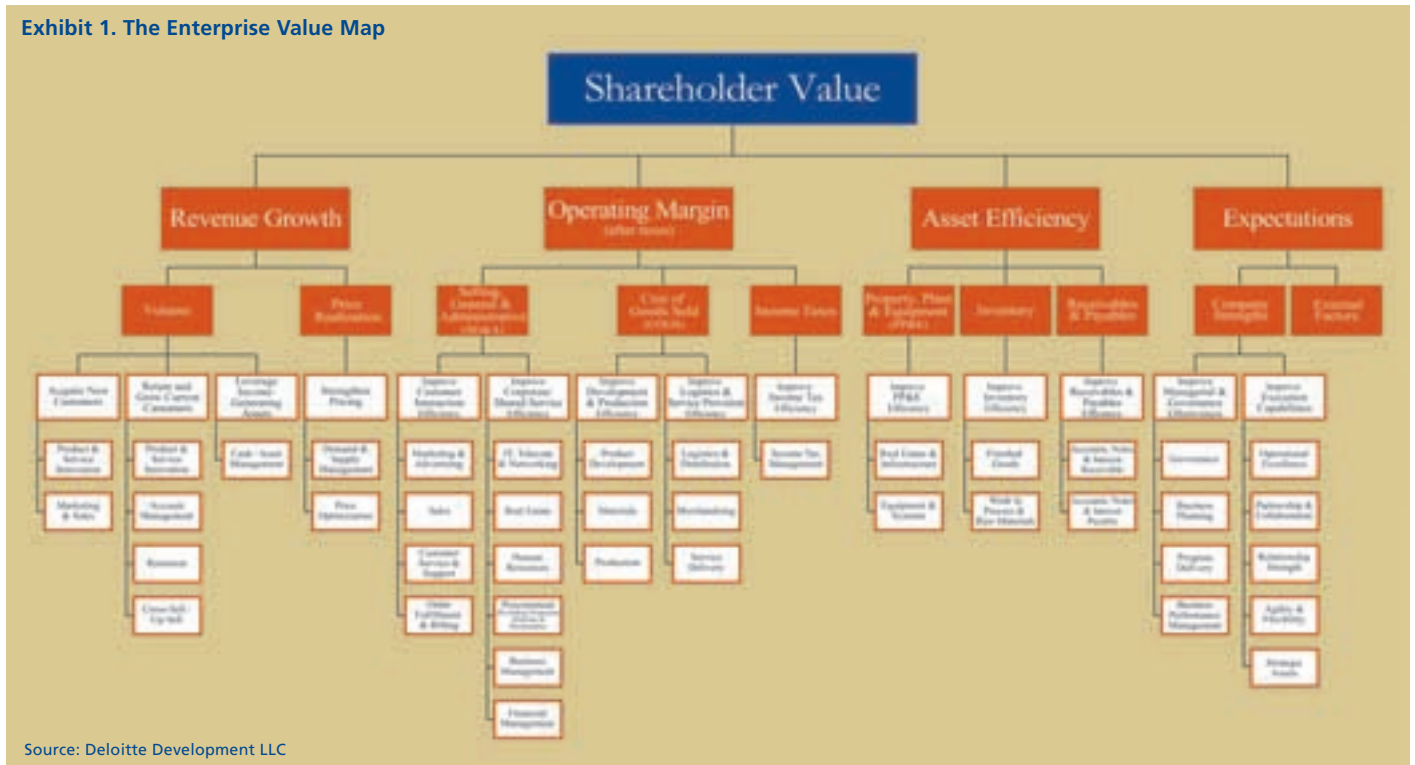
As intuitive as these principles of value creation may sound, it's amazing how few companies actually put them into practice. In many situations, it's not because they are poorly managed companies. The culprit is almost always a lack of alignment and incomplete execution. The company's strategy may not be aligned with its vision or its processes, people, systems, and projects may not be aligned in a way that supports the objectives of the strategy. Performance management and accountability for execution may not be tightly connected with the vision. All of these problems can be solved, but it takes a significant amount of effort from the entire company.

Creating value consistently requires linking high-level strategy with day-to-day behavior at all levels of the company. It's a matter of adopting some habits and doing simple things over and over that contribute to value creation. This involves thousands of small execution decisions each day, as well as the big ones. In order to maximize value, a company's entire culture must often change, and it cannot be done overnight.

To understand how value creation is being approached in today's marketplace, in January 2006 Deloitte worked with the Economist Intelligence Unit to survey global executives and board members about their companies' current practices. Among other questions, we asked how well their people, processes, projects, and systems were aligned with vision and strategy. Are the company's projects specifically linked to its strategic objectives? To what extent are other stakeholders considered? And, among them, which groups are the most important?

*As used in this document, "Deloitte" refers to Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP.

Exhibit 1. The Enterprise Value Map



Source: Deloitte Development LLC

We conducted an online survey of nearly 150 senior executives around the world to determine whether their companies were following the key principles of value creation—and to what extent. About half of the respondents were C-level executives or board members. The single largest group was chief financial officers, followed by chief executives. Other respondents were business unit and department heads, senior vice presidents, and other senior executives. The executives surveyed were based in the U.S. (36 percent), followed by the U.K., Germany, India (6 percent each), and Canada (5 percent). The average annual revenue of the companies was about \$5 billion. The single largest revenue category was companies with sales of more than \$10 billion.

The survey approached the value-creation process from a number of different perspectives centered on a single theme: Has your company embraced the “habits” that are essential to creating long-term value?

The results of the survey reveal several major misalignments. Respondents said that their companies come up short in the following areas:

- Alignment of processes, people and systems with strategy
- A consistent link between value creation and the approval, execution, and tracking of projects and initiatives
- Emphasis on long-term and non-financial objectives

These are all significant obstacles to value-creation. In this study we will explore the results of the survey in greater detail and present eight case studies of companies that have effectively incorporated a focus on value in the way they do business.

Start with Alignment

Ensure the moving parts are in synch

The first step in the value process is to align strategy with vision. Most respondents indicated that they get this part right. Nearly 80 percent of our survey respondents reported that their company's vision and business strategy are "mostly" or "completely" aligned.

Once a company develops a clear vision and a detailed strategy to accomplish its goals, the next step is to make sure that its processes, people, systems, and projects are arranged in such a way that supports the realization of the company's strategy. This part of the task is much more demanding.

One of the more disturbing results of the survey was just how few respondents agreed that these components are "completely aligned" with strategy. As Exhibit 2 shows, the worst score of all, with just 8 percent indicating complete alignment, was in the category of people. Granted, an additional 51 percent of respondents said that their people were "mostly aligned" with their business strategy and about 36 percent said the two were "somewhat aligned", with a final 4 percent being "not aligned". That may not sound so bad at first glance, but in a highly competitive global economy, "mostly, somewhat or not" just aren't good enough.

The results on the alignment of processes and systems weren't much more encouraging. In both cases, fewer than 10 percent of respondents labeled these categories as being in complete alignment with strategy. Projects, however, fared the best of all, with nearly 23 percent of responses indicating complete alignment. In all cases, responses of "mostly" and "somewhat" dominated the results, suggesting considerable room for improvement for most respondents.

When the question is asked a different way, the results continue to disappoint. As shown in Exhibit 3, vision and strategy are tightly synchronized: only 1 percent say vision and strategy are not aligned and 19 percent somewhat aligned, leaving 80 percent completely or mostly aligned. But the farther one goes from high-level concept to daily execution, the less alignment there is. The number of respondents saying there was no alignment or only some alignment was:

- 31 percent when asked about strategy's alignment with processes and systems
- 47 percent when asked about processes and systems versus the behavior of employees

Optimal value creation rarely results from these levels of misalignment. You can help your company create more value by "connecting the dots" relative to alignment.

Participants were asked to what extent they believe that processes, systems, and employees are aligned with vision and strategy. We found that people, systems, and processes rarely display a strong degree of alignment with overall business strategy – and the farther one gets from the vision, the less alignment exists.

We believe alignment is one of the most important themes in value creation, but our survey shows that it is an area where most respondents have implemented partial solutions at best. The good news is that you may be able to unleash more value by improving your alignment.

Exhibit 2. People and systems are least aligned with strategy

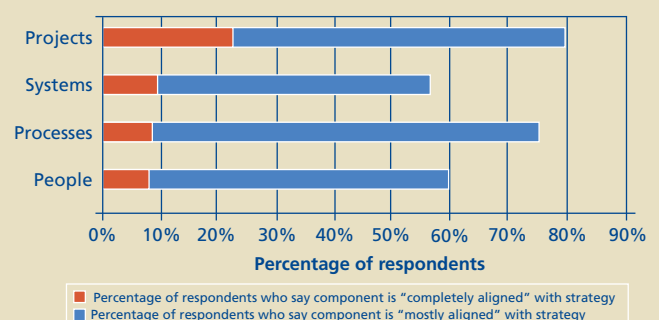
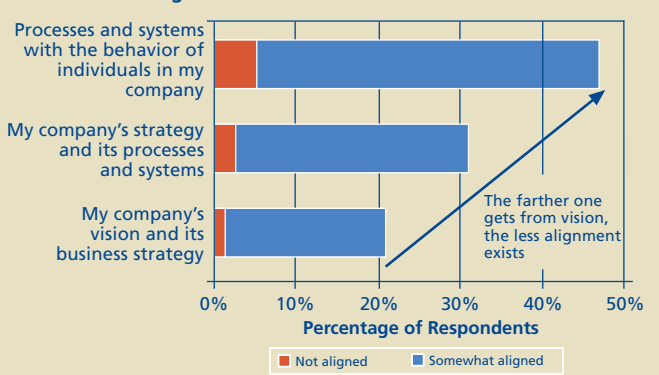


Exhibit 3. Almost half say processes and systems are not aligned or somewhat aligned with behavior



Case Study: Domino's Pizza

Domino's Pizza ("Domino's") has a short history as a public company, but it has been a very rewarding one for shareholders. Since its July 2004 initial public offering, shares of Domino's have nearly doubled versus just a 16 percent gain for the S&P 500 index. Lynn Liddle, EVP of Communications and Investor Relations at Domino's, explains some of the ways that the company keeps its vision, strategy, and people in alignment.

Keep the message simple. For Domino's, everything begins with the company's concise vision statement: "Exceptional people on a mission to be the best pizza delivery company in the world". At many other companies, mission statements can be long, vague and confusing. By keeping its mission statement short, Liddle says, Domino's is able to ensure that all of its 150,000 employees worldwide can understand exactly what the company wants to be.

Constantly reinforce the message. A short, clear mission statement is also easy to use as a unifying theme for all training programs, procedural manuals, and motivational posters in both its corporate offices and pizza shops. The slogan even appears on the company's business cards. Domino's takes it one step further, by ditching traditional department names in favor of ones that reflect principles embedded in the mission statement. For example, what others might call a COO is known as EVP of "Flawless Execution" at Domino's. Human Resources goes by "PeopleFirst" and the marketing department is called "Build the Brand." More than just cute semantic variations, these unique department names and titles serve as constant reminders of the role that each job function plays in fulfilling the company's overall vision.

Connect vision and strategy. The biggest strategic message reflected in the Domino's mission statement is its focus on delivering pizzas rather than being in the restaurant business. Unlike competitors such as Pizza Hut, Domino's does not operate dine-in restaurants except for a handful of locations overseas that have limited seating areas. The average area of a Domino's outlet is just 1,200 square feet, the size of a small apartment.

Domino's is focusing on delivery because that segment of the pizza business (along with take-out) accounts for more than 75 percent of U.S. market share. Delivery is also the fastest growing category, largely at the expense of dine-in. In 1991, for example, 33 percent of pizza sales were in sit-down restaurants and 26 percent came from delivery (the remainder is take-out). By 2004, dine-in had slipped to 26 percent, while delivery grew to 36 percent of the market.

For Domino's, being the "best" pizza delivery company requires speed, accuracy and consistency of quality in the preparation of the 1 million plus pizzas it delivers each day. During orientation for new hires, all employees—even top executives—must attend "Pizza Prep School" and learn to make a pizza in less than 60 seconds. The exercise helps reinforce the concepts of speed and

efficiency that are essential to a company with a delivery-based culture. Domino's saves customer address data in its store computers to cut order-taking time and limits its delivery radius to a maximum of 9 minutes of driving time so that most pizzas can be delivered in 30 minutes or less.

Create an efficient support structure. To help keep Domino's franchise owners free to concentrate on running their stores with as few distractions as possible, the company provides a one-stop-shop for all supply needs from its distribution facilities in 17 U.S. cities and eight locations overseas. The company also makes its own pizza dough, which contributes to the consistency of the product's quality nationwide. "The last thing we want is for our franchisees to be worrying about where they're going to source their pepperoni," says Liddle. "We are our own supply chain."

Tailor your marketing effort to support your vision. The company's delivery-centric vision ultimately shapes the Domino's marketing strategy as well. The company concentrates its television ad spending on prime-time spots including programs such as Monday Night Football, NASCAR racing (slogan: "Race day is Domino's day"), and the popular reality-television show *The Apprentice*. Not only does this provide national exposure

for the brand, but it also puts the Domino's brand in front of a large "staying-in" customer base that is more likely to order pizza while watching such events. The corporate vision also manifests itself in the Domino's advertising slogan: "Get the door. It's Domino's."

Create incentives, beyond compensation, to motivate employees. Under the stewardship of chief executive David A. Brandon, a former University of Michigan football player, Domino's has created a culture of friendly competition and constant recognition of achievement. As Liddle explains, it's not always about money. Domino's employees compete year-round for prizes based on everything from the best franchise owner to the top-selling store to the "fastest pizza-maker" contest. Awards may involve cash prizes or "iconic" gifts such as Rolex watches, Liddle says. Above all, winners receive recognition throughout the company.

Liddle is quick to point out, however, that Domino's doesn't simply hand out expensive watches to anyone. Rewards are based on performance, not seniority. "We're very careful to only reward behavior that moves the company forward," she says. "Ultimately it builds a culture where people want to do the right thing. The payoff is in getting the results that you want and in retaining great people because they enjoy working here."

Constantly monitor quality. Domino's franchise stores, which account for the vast majority of the company's 8,000 locations, are subject to two to four evaluations or "operational audits" each year covering everything from cleanliness, food preparation speed, order accuracy, sales growth, and dozens of

Value Habit:

Connect your vision, your strategy, and your business processes with what you need to do to succeed. And put mechanisms in place that encourage your people to do the right thing.

Domino's Pizza, cont.

other metrics. Stores are ranked on a scale from 1 (worst) to 5 (best). Higher-ranking stores are rewarded, while laggards are subject to warnings and given the support they need to improve their business. The approach seems to work. The average franchise length is 9 years and annual turnover is just 8 percent.

Apply winning formula almost identically overseas. Doing business overseas can often be a challenge. Many companies feel the need to "reinvent" their business to suit local tastes. Apart from offering different toppings and side dishes in certain markets, the Domino's approach in global markets is almost identical to the processes it uses at home. The company operates about 3,000 stores outside the United States of America. In all cases, the brand and logo are the same, the franchise system is the same, and the distribution system is the same. The goal is also always the same: to be the #1 pizza delivery company. By using a consistent approach, Domino's has achieved market leadership in six of the ten global markets where it does business: Mexico, the U.K., India, the Netherlands, Taiwan, and Australia. These cultures may differ in significant ways, but the basic principles of Domino's mission, delivery speed and accuracy, a reliable brand, and consistency of quality have universal appeal.



Harness Your Project Portfolio

Confirm that projects are aligned for value creation

If a company's projects are designed to create value, each one should contribute to such objectives as building revenue, increasing the company's operating margin, or using assets more efficiently. Projects may also be focused on building core capabilities and strengths that enable the company to sustain performance on these three value levers in the future. Of course, not every project is well understood in this way.

The survey responses imply that many projects or programs are approved for reasons other than value creation. They often fill a political or other agenda that lacks a connection to the company's value creation objectives.

Only 30 percent of respondents agreed that "project approval is only given when it is clearly understood how value is being generated." This leaves 70 percent who only somewhat agree, are neutral, or even disagree that projects are approved without clarity as to how value will be generated. Certainly tightening this initial link could help drive better outcomes.

So, projects aren't always approved and implemented based on their potential to create value. Even if companies track their projects, they don't usually formally or consistently quantify the benefits of their projects, which was the case for more than half of the respondents. In other words, management often has no way to measure how much value is added by a particular project or the portfolio overall.



As Exhibit 4 shows, the most aligned companies with respect to project portfolio management make up a clear minority, with only 18 percent of the respondents who "maintain an ongoing inventory of projects, quantify benefits consistently across the company, and align benefits with our core business strategy." A further 14 percent are both aligned and agile, meaning that they do all of the above plus adapt their project portfolio as business needs change and constantly push to improve these processes as well.

Exhibit 4. Only 14 percent of respondents have all of the necessary processes to achieve significant value creation in their project portfolio



To find out how companies identify and track project benefits and communicate them internally and externally, we asked respondents “How are the costs and benefits of your company’s project portfolio (the total of all of your company’s projects) integrated into your company’s operations?” The results are shown in Exhibit 5 and described below.

- Sixty-four percent of respondents incorporate project portfolio costs into the budgeting and capital allocation processes, but that leaves 36 percent who aren’t taking that step in their investment planning processes.
- Sixty-six percent of respondents incorporate project portfolio benefits into their business plans (e.g., revenue and cost targets), but that means 34 percent aren’t making that important link in their financial planning.
- Thirty-nine percent integrated their project/ program tracking into their ongoing performance management processes. This leaves 61 percent that have launched and executed projects but never quite “closed the loop” to tie project outcomes directly into their performance management processes, scorecards, and enabling systems.
- Fifty-one percent of respondents communicate their project/ program plans and results to their people, leaving another 49 percent that haven’t articulated “the game plan” and “resulting scores” to their employees.
- Finally, 49 percent of respondents communicate (selectively) project/program plans and results to their boards, shareholders, and the financial markets, thus implying that it is often difficult for many important stakeholders to gain a grasp on how management intends to achieve its change strategies.

Case Study: Logitech

Switzerland-based Logitech began its business 25 years ago as a manufacturer of computer keyboards and mice, which have since become commodity products. It is now shifting its focus and deploying R&D resources to faster-growing, more profitable product groups such as sophisticated universal remote controls, wireless headsets, iPod speakers, and high-end Webcams. All of these projects are designed to support Logitech’s vision of the PC as an increasingly important communications and entertainment device.

Joe Greenhalgh, VP of Finance at Logitech, says that his company relies on two primary methods of “checks and balances” to confirm that the project portfolio is aligned with the company’s strategic vision.

The first is a formal project review process beyond the project group level, in which senior executives have the opportunity to review all major initiatives. The exercise is designed to ensure that these projects fit the company’s core strategy and that there is no overlap across the company.

The second important source of feedback, Greenhalgh explains, is the company’s sales force. “No matter what we think internally, the most important feedback is always going to come from the people whose jobs depend on getting the product sold. If something’s not selling very well, they’re going to be extremely vocal about it.”

As a maker of computer peripherals and other electronic gadgets, Logitech is highly sensitive to rapidly changing customer tastes. The sales team provides important feedback on what is actually selling in stores. Logitech adjusts its product portfolio accordingly.

For example, Logitech had high hopes for its I/O Digital Pen, launched several years ago. While some early adopters liked the product, Greenhalgh notes that it wasn’t much of a hit with the average consumer.

“We got feedback from sales on that really fast,” he explains. “They were having a hard time getting the product placed in stores.” As a result, Logitech shifted gears on the product, moving it from the retail to enterprise market, where it got a much better reception.

In the case of major new projects and initiatives, the entire senior management team can be involved. A few years ago, for example, Logitech noticed that a huge opportunity was developing in digital music, an area in which the company had almost no products. Management agreed that it was too important to ignore and made a decision to commit significant R&D resources to development of new products such as iPod speakers.

“Everyone thinks their own project is the most important thing that needs to be done,” Greenhalgh says. “But it’s important that senior management be in alignment about what our priorities are and how we are going to manage those projects going forward.”

Because top management recognizes that it cannot directly supervise every project in Logitech’s entire portfolio, each product group is responsible for meeting financial and operational goals that are consistent with the company’s overall vision and strategy. “With as many products as we have, it’s impossible to prevent a few ‘pet projects’ from creeping in here and there,” Greenhalgh explains. “But it would be very difficult for a business unit to go off and do a lot of projects

that are at odds with how we are trying to run the company. They would quickly find out that they’re not going to be successful that way.”

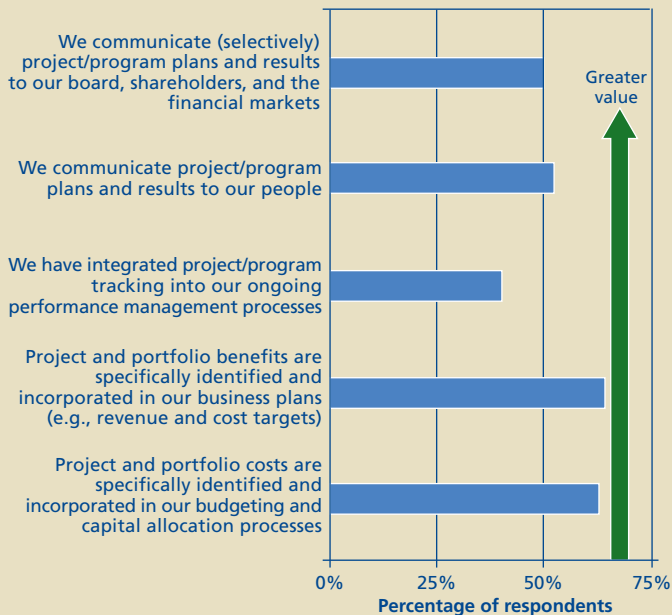
Once a year, Logitech’s business units must present a “road map” for their project portfolios to senior management. Each presentation is highly detailed and must involve not only product development teams, but also input from the sales, finance, marketing, and legal departments. “When you have all functions of the company presenting at one time like that, any potential problems or project overlap is going to come up pretty quickly.”

Compensation is also another tool that Logitech uses to align the project portfolio with the company’s objectives. Project managers are compensated not only for meeting deadlines, but also for the ultimate success of the product relative to the company’s initial expectations. In turn, the managers who supervise them are compensated both on the results of sales and profitability goals. “If everyone from the project manager up to the Senior Vice President is going to be successful, we’re going have to have alignment in the goals that we establish at the beginning.”

Value Habit:

Align your portfolio of initiatives with your objectives and strategies.

Exhibit 5. More than half of respondents say that their companies identify project costs and benefits, but far fewer incorporate them into performance management processes



Have the flexibility to adjust your project portfolio as needed

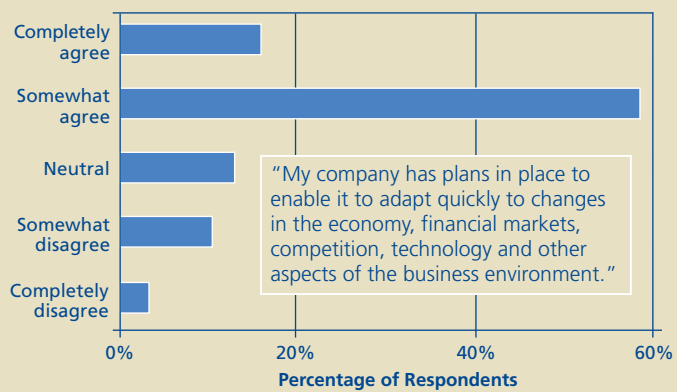
Change is an inevitable fact of life in business. Technology often creates products and services that render old business models obsolete. The political and regulatory environment can create compliance headaches or open the door to completely new markets. Mergers and acquisitions can transform the competitive landscape. Natural disasters, terrorism, and war all add an unpredictable dimension of risk.

While alignment is critical to value creation, being blind to the forces of change can destroy value in a heartbeat. Companies must be focused enough to create value, but at the same time remain nimble enough to deal with sudden challenges and opportunities as they arise.

Strategic flexibility is all about positioning yourself to not only respond to these changes, but also to profit from them. It's about understanding the possible scenarios and adjusting your strategy and project portfolio as these scenarios play out in real time.

As shown in Exhibit 6, most survey respondents (58 percent) "somewhat" agreed that they have plans in place that enable them to adapt quickly to changing economic, financial, and business conditions. Only 16 percent of respondents "completely" agreed with the statement, and more than a quarter either disagreed or were neutral. In other words, more than one in four respondents is not confident in their ability to quickly adjust their project portfolio to adapt to changes in the business environment. Are you one of these? Changing economic, financial, and business conditions are inevitable. Companies that cannot adapt quickly can beat a severe competitive disadvantage.

Exhibit 6. More than a quarter of respondents aren't confident that their companies can respond quickly to changes in the economic, financial, and business environment



Case Study: Chicago Mercantile Exchange

While the basic business of delivering a pizza hasn't changed much over the years, the derivatives trading world has been in a constant state of flux. Few companies have had to reinvent themselves as often as the Chicago Mercantile Exchange ("CME"). Founded in 1898 as the Chicago Butter and Egg Board, an offshoot of the Chicago Board of Trade, the CME is now the world's largest and most diverse financial exchange, trading \$638 trillion worth of contracts in 2005. The exchange has come a long way from trading butter and eggs.

Since going public in 2002, CME shares have risen more than nine-fold. As the first U.S. exchange to go public, the results of its initial public offering have been used as a blueprint for others such as the New York Stock Exchange and the Chicago Board of Trade ("CBOT"). In the early 1970s, the CME launched the first financial futures contract, a revolutionary idea at the time. It has since developed a number of pioneering products and today offers the most diverse number of products on every major asset class, including foreign exchange, stock indexes, interest rates, and more, many of which have become key benchmark products in their respective asset classes. Rick Redding, managing director of product development at the Chicago Mercantile Exchange, explains how the CME has consistently stayed ahead of the competition in a rapidly changing field.

Your customers are often an excellent source of ideas. "We go back to our user base and try to figure out what risk-management needs they have," says Redding. "We're constantly looking at asset classes where there is risk, and where people want tools to help mitigate that risk."

One relatively new product is a futures contract based on U.S. housing prices. "It's easy enough for institutions to hedge their interest rate exposure (via CME Eurodollar interest rate futures and options)," Redding explains, "But how do they hedge the value of the property itself?"

Another example: Weather futures. "The initial idea came from the utilities industry," Redding explains, "But weather affects a lot of businesses from amusement parks to soft drinks to retail—if it's wet and cold, people don't go out shopping."

Don't expect overnight results. As you work through all of the different scenarios about the future, you just might find that the one that ultimately comes true isn't immediately obvious. In such a case you need to be prepared to stand behind your research in the face of skepticism. By definition, being ahead of the crowd can mean that your idea won't catch on right away.

"In 1972, people said 'why in the world would anyone need currency futures?'" Redding explains. "In 1983 people said the same thing about stock index futures." Both products have since become staples of the futures trading world, and the CME is the largest trader of such contracts.

To help determine what comes next, the CME uses a rigorous 12-factor product planning system. These criteria, Redding says, are designed to gauge things like the size of the potential market, the type of risk that clients would be trying to hedge, and what means are currently in place. Besides direct feedback from clients, Redding and his team spend a lot of time looking at over-the-counter markets to take the pulse of what's being traded by investment and commercial banks. Once a product appears to reach a certain level of interest, the CME will consider creating a standardized contract that trades on the exchange.

Test the waters. "There's never a shortage of ideas," Redding says. "The key issue is whether or not we have the right timing in the marketplace." The only way to know for sure, he says, is to roll out the product on a limited basis. If it works, as in the case of stock index futures, then you can put more resources into similar products. CME began trading S&P 500 futures contracts, but quickly launched contracts based on other equity indexes, such as the Russell 2000, once it was clear that they had a winning formula.

Value Habit:

Position yourself to deal with a range of possible futures, but then home in on what you need only for the future that actually arrives.

Sometimes things don't work as well. CME once created a contract to hedge broiler chickens. It seemed like a good idea, Redding recalls, but ultimately there just weren't that many major chicken producers in the U.S. who wanted to manage that risk and the contract no longer trades.

Embrace technological change. It wasn't long before the CME noticed that its business was being profoundly affected by the prospect of electronic trading. While some financial exchanges resisted this and others adopted a 100 percent electronic system, CME took a hybrid approach. It immediately embraced the new technology, but it didn't change its entire "open outcry" trading system overnight. Today, more than 70 percent of CME's business is transacted online compared to only 15 percent in 2000. Technology also has allowed CME to expand its service offerings. CME began clearing every trade of the CBOT in January 2004, creating nearly \$2 billion in savings for the industry. In April 2006, CME reached an agreement with the New York Mercantile Exchange to list energy and metals products electronically.

Take a global approach to planning. With the advent of electronic trading, obstacles of time and space were removed making it easier to expand trading of CME products globally. Financial futures, whether based on currencies, interest rates, or stock indexes, have a global appeal, but not if they trade only during Chicago business hours. Through the exchange's CME Globex electronic trading platform, nearly every contract can now be traded virtually 24 hours a day. The CME itself has offices in Europe and Asia so it can be close to customers who may be eager to trade a variety of benchmark products, as well as those that haven't even been invented yet.

Communicate the Message

Align your words and action with your goals

Effective communication at all levels, from top management to support staff, is essential to the alignment of your people and your value-creation goals. By extension, it is equally important that all stakeholders have a clear understanding of your game plan.

Survey participants were asked to identify the importance of various words and phrases used in their daily discussion of business activities. The most popular response was “Meet customer needs” (61 percent), followed by “Improve profitability” (53 percent). (Participants were allowed to choose up to six words or phrases.) Encouragingly, “Hit your quota” was the least popular response, mentioned by fewer than 6 percent of participants.

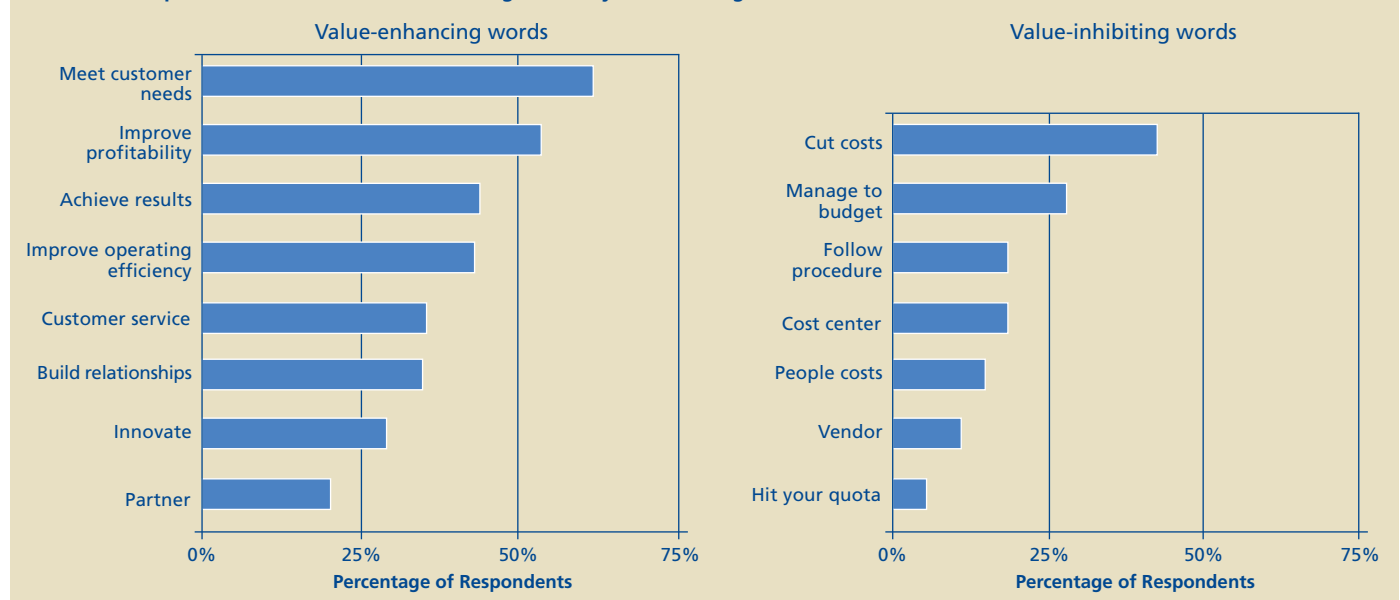
It’s important to choose your words carefully. The specific language you use to communicate with your people, shareholders, and other stakeholders can inspire value creation or destroy it.

Don’t use the term “cost cutting” when what you’re really trying to accomplish is greater profitability or efficiency. Do you want to “hit

quotas” or provide great customer service? It might be possible to do both, but if you emphasize the importance of sales targets, that’s what your people will hear, and the customer will likely suffer. Simply talking about avoiding risk won’t do much good if your goal is to create innovative products and services. And using a term like “people costs” isn’t a great way to boost morale.

Employees—and investors—are always listening to you. They hear what you *really* say day in and day out, regardless of what the company’s mission statement may be. If you’re not “talking the talk” they’re not going to respond the way you want them to. Worse yet, they may come up with their own vision about what you stand for, based on the words you have chosen.

Exhibit 7. Respondents favored value-enhancing words by a wide margin



In general, survey respondents grasp the importance of communication within the company. Still, there is room for improvement. Participants were asked, for example, to indicate their level of agreement with the following statement:

“The goal of creating value need not be articulated as long as employees do their jobs well.”

Nearly 65 percent of respondents disagreed with this statement. However, that suggests that a significant number either agree or are neutral. While employees need not be privy to every decision made by management, it is difficult to believe that any company can hope to maximize value if its people are left in the dark about the company's basic value creation goals.

Case Study: AstraZeneca

Using the right words helps to reinforce your strategy and speed you in the right direction. Using the wrong words can lead you away from your goals. What kinds of processes can help get employees – particularly managers, who have a central role in setting a tone and driving behavior – to use language that consistently supports the company's objectives?

AstraZeneca is a global pharmaceuticals company with \$24 billion in sales and 65,000 employees formed in 1999 through the merger of Sweden's Astra and Britain's Zeneca, with its corporate headquarters in London. Because AstraZeneca is a decentralized company spread across more than 100 countries, driving company-wide initiatives is more problematic than at most companies.

Katharina Auer is a communications professional who was hired from GE in 2001. Her mandate: Develop an internal communications strategy aligned with the company's business objectives. The strategy she implemented incorporates the following elements:

Educate management on the importance of internal communication.

Top management often has a simplistic view of the internal communication function's role in the overall value-creation process, says Auer. One of her ongoing tasks is to continue to educate management about how a strong internal communications process can help to drive the strategic goals of the enterprise. “Effective internal communication (the process, not the function) is what supports the business and enables the business process,” she says.

Redefine the mission of the internal communication function.

Many senior executives and managers still see internal communications as the home of the employee newsletter. But that's merely a tool, not a mission or a strategic approach. But that's merely a tool, not a strategic approach. The real job is translating high-level strategy into value-creating actions at the level of the individual employee. Auer focuses on improving awareness, buy-in, commitment, behaviors, and engagement with the big picture inside the company.

Find the most appropriate channels for internal buy-in. Auer, through internal surveys, has attempted to discover which communication channels work most effectively for different types of communications. Not surprisingly, one of the discoveries is that print and online media often fail to make much of an impact. Most AstraZeneca employees prefer to get important information on a face-to-face basis from their managers.

Identify the communication priorities of different stakeholders. Auer finds that top management and regular employees can have almost diametrically opposite communication

priorities. Management likes to focus on the big picture. For employees, the focus is often “What's in it for me?” The task for management is to link the value creation strategies of the company to the individual interests of each employee. Conversely, employees need to better understand how their jobs contribute to the company's strategic goals. This is where communication acts as enabler and facilitator, and managers need to act as communicators.

Provide managers with the support they need to spread the value gospel.

“To help managers communicate effectively, we have the ‘Manager Communication Toolkit.’” The toolkit helps managers understand why they should communicate, when they should communicate, and which medium may be the most effective for the message, be it a briefing, a large meeting or one-on-one meetings. “It describes what employees want to know, the best ways to present it, and practical tips on getting points across,” says Auer. “We also give them briefing materials with speaker notes. And, we use consistent language in everything we do.”

Monitor management communication and measure it against business strategy.

Says Auer: “We measure line manager and senior manager communication effectiveness every quarter, including whether they put business strategy and global themes into a local and individual context for their teams.” Given the decentralized and multicultural nature of AstraZeneca, this last point is particularly important.

Measure the performance of the communications function.

In an effort to support the goals of the company in delivering the right messages and information to those who need it, Auer conducts quarterly performance reviews, which show how she is performing against her own objectives and those objectives of the senior executive team. These reviews are fairly exhaustive, with 31 detailed questions, covering such topics as business objectives, corporate responsibility, and leadership communication. An example of a typical question: “I understand how my job contributes to AstraZeneca's business performance.”

Then, based on the responses, each question is ranked according to three categories following the example of a traffic light: red, amber, and green, divided into five groups: red, red/amber, amber, amber/green, and green. Any question ranked red or red/amber means that only zero to 39 percent of those surveyed gave a favorable response, which means the value proposition was “not delivered” to the company. Amber or amber/green means that 40 percent to 79 percent of responses were favorable, meaning the value proposition was not yet delivered but underway. The final green ranks 80 percent to 100 percent and indicates that the value proposition was delivered.

Value Habit:

Make sure the words you use inspire the actions you want.

AstraZeneca, cont.

Through this process, Auer is checking to determine whether the internal communication is strategic and effective. One of the weaknesses in many companies is that there is often a system to distribute internal communications to employees, but there is little attempt to discover whether the information is being understood and supporting behavior that result in value creation.

Use the results of the performance review to refine objectives. So far, Auer has been getting green or amber/green in all categories except for an amber on the “increase confidence in and credibility of AstraZeneca through improved leadership communication.” So Auer has made a priority to get senior executives to spend more time and effort on delivering the right messages to the right people through the right media.

In order to keep these surveys manageable, Auer takes a representative sample of about 200 employees, 100 executives and global internal communications network members out of AstraZeneca’s 65,000 employees. Every two years the quarterly surveys are replaced by a full census, global employee survey, with questions focusing on key business drivers that reflect business challenges, opportunities, strategy, and employee engagement. Response rates have been good, with 74 percent in 2002 and 80 percent in 2004.

Seek links between communication practices and value. Do Auer’s efforts add to the performance of the company? Do they result in higher revenues, wider operating margins, greater asset efficiency, or a stronger brand?

Auer argues that the communications function drives a measurable return on investment. She cites the example of employee retention. Hiring and training new employees costs more than retaining existing employees. If employees feel more motivated and engaged, they are less likely to leave the company. Because effective internal communication is a key cultural trait of motivation and engagement, the financial benefits of retention are measurable. Another correlation could be made between how well employees are equipped to act as ambassadors for the company, and the strength of the company’s reputation and brand.

Create Value through internal communications. Today, AstraZeneca has an integrated internal communications system that covers the entire global operations of the company. The advantage of the current system, says Auer, is that “we can identify if we are doing something that doesn’t add value, review it, and stop doing it if necessary, reallocating the budget to value-adding activity.” Most important, says Auer, “We have a communications strategy that is totally aligned to our business objectives and that works across all business areas.”

Auer’s system could be applied to any company seeking to implement processes that can help build value. She says that she often gets queries from other companies hoping to apply such methods inside their own company. These companies are hoping, in part, to institutionalize the value habit, which stresses the importance of consistently choosing the words that will inspire the actions you want.

Communicating for Long-Term

Once you have communicated your vision and strategy to your employees, if you are a public company, you must also explain your message to the financial markets. We believe the focus of such communication remains as shortsighted today as ever before.

As shown in Exhibit 8, survey respondents said, on average, that their companies typically spend only 21 percent of their time discussing their long-term vision and strategies with analysts, investment managers, and other market participants. About 37 percent is spent on short-term (quarterly) financial results, 19 percent on short-term, non-financial performance, and nearly 23 percent on current initiatives.

Exhibit 9 indicates about 66 percent of executive time is spent on *financial* goals that have a three-month to one-year horizon. Only 3 percent of time is spent on goals with a horizon beyond two years.

We believe that this is a misallocation of time. The process of quarterly earning releases and the movement of share prices on quarterly results often lead companies to believe that the market only cares about short-term results. However, many other factors, including non-financial information, affect the expectations value lever (see Exhibit 1). These other factors should be considered by management if the true value of the company is to be communicated.

The discussion of *non-financial* goals follows a similar pattern. Most discussion time (42 percent) is spent on plans one to two years out, while the two-year-plus horizon gets the least attention at 12 percent.

Exhibit 8. When it comes to communicating with investors and analysts, respondents spend the largest proportion of their time explaining quarterly results

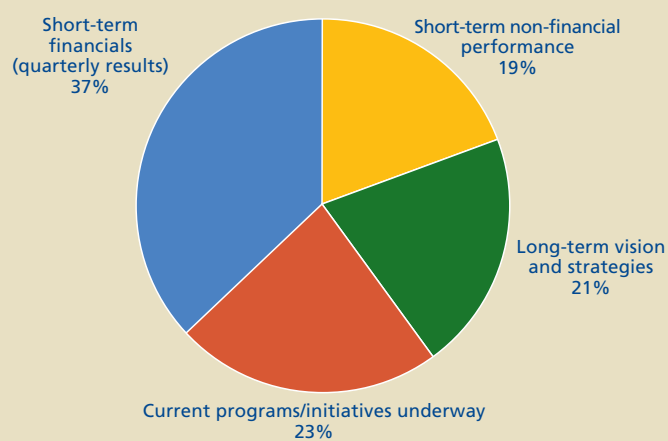
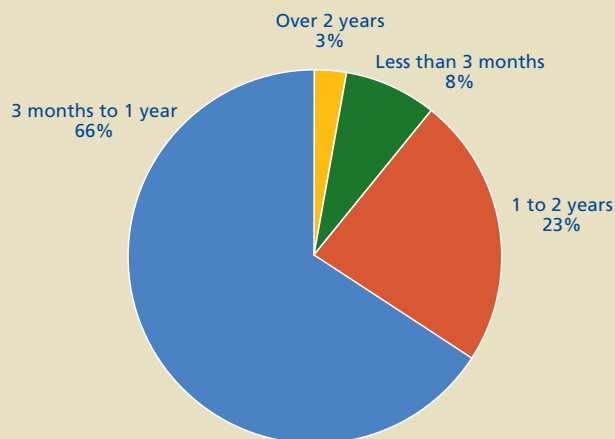


Exhibit 9. When it comes to communicating financial goals to investors and analysts, the three-month to one-year horizon gets the respondents' biggest allocation of time



Case Study: Lenovo

If you don't fill in the blanks for investors, they will fill in the blanks themselves, and you won't always like the results.

Look at the Chinese PC maker Lenovo's purchase of IBM's personal computer division from IBM in May 2005. According to conventional wisdom, PCs had become such commodities that even the strength of IBM's brand name couldn't ensure a profit. Therefore, only a Chinese manufacturer could profitably produce and sell PCs.

The PC-as-commodity story may be accurate for other Chinese PC manufacturers. But while it informs Lenovo's strategy, it is not a major value driver. Certainly improving operating efficiency is one of the company's major objectives. Equally important, however, is its focus on differentiating its products through innovation. It is this value-creating strategy that has enabled Lenovo to gain a 28 percent domestic market share in PCs, the largest in China, despite the fact that it has not matched its competitors' lower prices.

So rather than allowing investors to create their own story based on stereotypes about Chinese computer manufacturers, Lenovo set out to present to investors a credible and convincing picture of where it is headed.

In its end-January 2005 earnings release, Lenovo reiterated three long-term value creation goals: operating efficiency, innovation, and a more flexible sales model. William Amelio, the company's CEO and a veteran of IBM, Honeywell, NCR, and Dell, said:

"We must first keep a laser-sharp focus on our cost and expense structure to continue to drive operating efficiency. Second, we must drive product competitiveness with innovative, high quality, appropriately priced products that address key growth areas. Third, we must leverage our success in China and the success of the dual transaction/relationship model in support of our products."

Operating efficiency. First, Lenovo made it clear that it isn't pursuing operating efficiency to become the lowest-cost producer. Instead, it was focusing on efficiency to build operating margins and to gain pricing flexibility and because inefficient, high-cost companies simply couldn't survive in the relentlessly competitive PC market. So far, Lenovo has avoided having to slash prices to meet the challenge of its smaller competitors. As stated in the company's 2004/2005 annual report:

"With a clear focus on the PC business, Lenovo pre-empted irrational competitive pricing tactics of second-tier domestic PC producers and withstood intensified competition from foreign brands."

Innovation. Second, Lenovo is communicating to investors – as well as other stakeholders – its goal of producing innovative and high-quality products. The company's slogan is "Innovation that matters."

In all public pronouncements, Lenovo emphasizes innovation. Its

corporate branding brochure has headlines such as "We reject the status quo. We reject mediocrity. We choose not to follow. We choose to innovate."

Nearly half of the new employees of Lenovo's personal computer division come from IBM, including Japanese computer scientist Arimasa Naitoh, now VP of notebook development. Naitoh had previously spent 30 years at IBM, where he was the lead architect and chief designer of the ThinkPad series of notebooks. Naitoh's widely copied ThinkPad innovations included the thin-frame LCD screen, removable drive bay, and intelligent battery pack.

Naitoh says that Lenovo is as committed as IBM to delivering value through innovation. "Lenovo is consistent with IBM in that we are not just selling PCs or laptops but we see ourselves as providing productivity to customers," he says. Lenovo's approach is to ensure that every new innovation provides some meaningful increase in productivity.

Value Habit:

Use your concrete strategies (and the value drivers that support them) to present a credible and convincing picture of where you're headed.

Lenovo, inc.

Lenovo innovations include:

- A ThinkPad battery that lasts up to 11 hours. (Naitoh says this is just the beginning: “In the next few years we may see some even more dramatic improvements.”)
- A roll cage and airbag system to protect laptops when dropped or hit

In the future, the company hopes to incorporate diagnostics that could communicate PC problems to the corporate IT department, so they could be fixed virtually from afar.

Reiterating its commitment to innovation, Lenovo is opening a network of what it calls Innovative Centers in North America, Asia, and Europe. These centers will be responsible for R&D, innovation, and design strategies and development for the company's full line of products including desktop PCs, laptops, servers, and handheld devices.

The company is also setting up “councils” comprised of various groups of stakeholders. One is for high-level customers; another includes industry leaders, journalists, and analysts. These councils are asked to contribute ideas for product improvements.

Says Naitoh: “As long as you continue to be frustrated by a product, then it means there is more innovation to be done – there is plenty of capacity to make it more productive.” So the PC division under Lenovo continues to maintain a commitment to adding value through innovation. Communicating the goal of innovation to investors and other stakeholders is a major challenge, especially for Lenovo, which is still a relatively new brand outside of China.

Non-Chinese consumers have to be educated that a Chinese brand can be synonymous with quality, innovation, and even high prices. In fact, the ThinkPad series continues to be a relatively high-priced product compared to others now available. In keeping this commitment, Lenovo is staying on the path of the value habits by presenting a credible picture of where it is headed and how it plans to create long-term value for its customers.

Relationship sales model. The “dual transaction/relationship model” is another initiative to build distance between Lenovo and commodity PC players. Commodity producers pursue a transaction model – high-volume unit sales through a variety of distribution channels. The relationship model focuses on providing customers with a favorable experience, and a product or service that matches their needs. Lenovo retains a transaction model where appropriate (consumer PCs, for instance) and pursues a relationship model for sales to companies and governments.

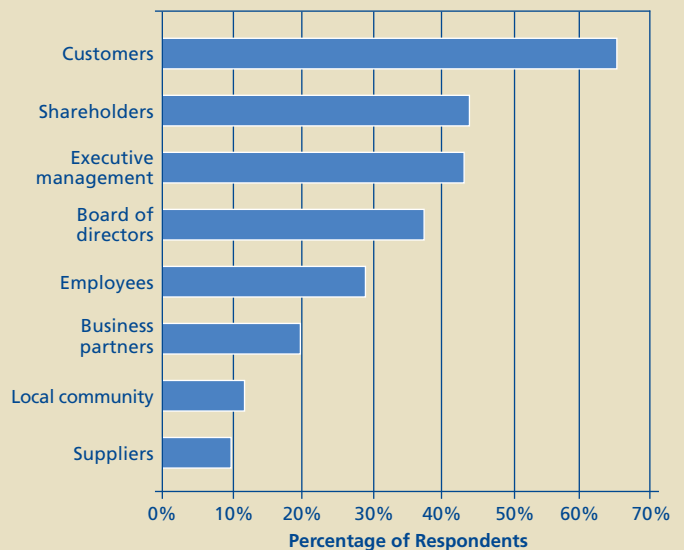
Focusing on Stakeholder Connections

If you had to prioritize your various stakeholders, who would come first? Customers? Employees? Shareholders?

Nearly two-thirds of survey participants ranked customers as “more important” than other groups of stakeholders. Shareholders came in second at 44 percent, suppliers (10 percent), and the local community (12 percent) got the lowest marks. Actually this is a trick question— they're all extremely important. Value creation comes from understanding the *connections* among stakeholder groups. It may be true that “the customer is always right,” but how can you provide great customer service if your employees are unhappy? And who is going to buy your product if your company is disliked in the local community?

The reality is that all stakeholders are important. The secret to value creation is not trading off among them but finding ways to have them reinforce each other. Serving the communities that you live in may create a positive environment for your people and your customers resulting in more value for your shareholders. Employees, for example, are typically the ones who drive the key “moments of truth” with customers, and thus, can have a huge impact on customer satisfaction. Companies that ignore suppliers and the local community are missing out on an important source of value creation.

Exhibit 10. Respondents value their customers most and their suppliers the least
Stakeholders judged “more important than other stakeholders”



Case Study: Panera Bread

The best way for us to take care of our shareholders is to *not* focus on them in each and every instance,” says Ron Shaich, founder and chief executive of Panera Bread. “Our first focus is on the customer. I would wait on every single one of them myself if I could.”

This is more than just a new spin on the old “the customer is always right” yarn. Shaich believes that all stakeholders benefit when the customer is taken care of properly.

One thing’s for sure: Shaich’s customer-friendly approach has paid off for shareholders too. Over the past ten years, Panera’s stock price has risen more than 15-fold, outpacing every publicly traded restaurant chain. Panera was also the top performer in its peer group over a five-year and one-year horizon.

We’ve had great shareholder return, but we haven’t had it because we focus on it in the short term,” Shaich explains. “It’s because we’ve had a continual vision of how to delight the customer.”

In Panera’s case, delighting the customer involves offering things such as freshly baked artisan bread, all-natural antibiotic-free chicken, and free Wi-Fi Internet access in its 900 bakery-cafes throughout the United States of America. It also involves great service, which can’t be accomplished without the help of another important group of stakeholders: employees.

“To take care of your customers, you need to take care of your employees,” Shaich says. “We give our team members a working environment they can respect. They can wear their own clothes; they don’t have to take the bus home wearing a polyester uniform. They’re not working in a grease-laden environment. Believe me, that all comes across to the customer.”

Panera also takes care of its employees by offering health care benefits to everyone who works at least 25 hours a week, employee stock purchase eligibility to everyone who works at least 20 hours, and by paying higher wages than most of its competitors. All of these things cost money, however, and are not always the most effective way to impress Wall Street analysts and some aggressive investors in the short-run. For Shaich, however, they are essential investments.

“I could cut my labor costs, I could cut my food costs, and I guarantee we could drive up the price of our stock tomorrow,” he says. “But we’d be left with a carcass.”

Take chicken, for example. “We buy the most expensive kind of all-natural chicken available,” Shaich says. “That’s something we could easily save money on. But if we provide a more expensive product that’s *better* for people, that’s ultimately taking care of our shareholders. I could do a lot of things to save a couple of bucks, but that isn’t any way to run a company.”

Instead of focusing on the P&L statement, Shaich evaluates the company’s performance on a detailed set of metrics. These variables measure such things as the sales growth of individual product categories, accuracy of speed and service, hygiene, employee morale and turnover, variances in food and labor costs, growth in transaction per customer, and so forth. “Profit is a by-product of getting a whole bunch of other things right,” says Shaich.

I’m not interested in what my labor costs are,” he explains “I’m interested in whether or not they

are in balance. It’s just as bad for them to be too low as too high. I’ve never seen a company go out of business because their sales are too high, but I’ve seen plenty go bust because they had too much cost control.”

Give something back to the community. The benefits of corporate philanthropy can be hard to measure in precise terms. For Shaich, it’s almost second nature to give something back to the communities in which Panera stores operate. After all, that’s where his customers come from. Panera gives away leftover bread to homeless shelters and collects money for other causes in its stores.

Shaich believes that all stakeholder connections are naturally related. “Anyone can create a transaction that generates a profit,” he says. “We want to provide something so that people will come back. That’s how you build something of sustaining value.”

Value Habit:

Focus on the connections between stakeholders that create value for everyone.

Drive Performance and Accountability

Clarify roles and integrate performance management

Integrated performance management is a holistic approach that spans all of the processes and technologies related to enterprise performance – from planning, budgeting, and forecasting to reporting, performance measurement, and compensation.

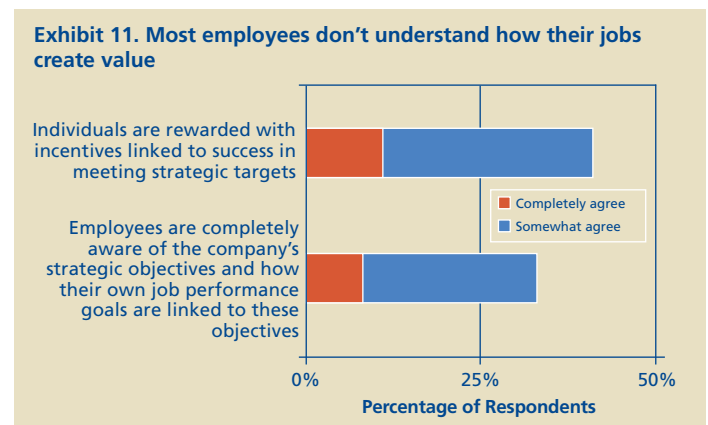
One of the keys to integrated performance management is the relationship between individual employees and the strategies of the company. The results of this survey might be considered troubling on this point. As illustrations of this issue, consider the responses of participants to two statements posed in the survey (Shown in Exhibit 11):

- “Employees are completely aware of the company’s strategic objectives and how their own job performance goals are linked to these objectives.”
 - Only 8 percent of respondents completely agreed
 - Another 26 percent agreed somewhat
 - Leaving over two-thirds of respondent companies where employees either aren’t aware of the strategic objectives or they can’t articulate how their own job performance impacts these key goals. How might one expect employees to consistently execute the right priorities with this disjoint?
- “Individuals are rewarded with incentives linked to success in meeting strategic targets.”
 - Only 10 percent of respondents completely agreed,
 - Another 31 percent agreed somewhat
 - Leaving 59 percent of respondents where incentives don’t necessarily help drive enterprise strategic targets

Given that alignment is considered one of the keys to value creation, it is not surprising that many companies struggle. If the full cycle of performance management is going to encourage the right value creating behaviors, we believe linking rewards and recognition to measures that are aligned to the company’s strategy is a critical success factor.

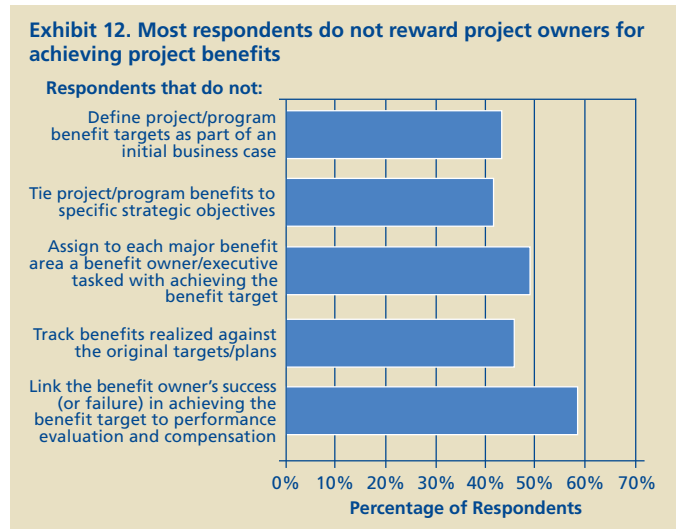
Exhibit 11 shows very few respondents indicated a strong linkage between compensation practices and the company’s objectives:

- Only 8 percent could completely agree that employees are aware of how their job performance goals are linked to company performance
- Only 11 percent could completely agree (i.e., answered 1 on a scale of 1-5) that individuals are rewarded with incentives linked to specific targets



Another reason that many people are not tied into strategy is that the projects they work on often lack a clear link to the declared strategies of the company. Exhibit 12 shows the five stages in aligning projects to strategic objectives. More than 40 percent of the companies surveyed say they do not tie project benefits to specific strategic objectives. Even when there is a link between strategy and project benefits, half of the respondents have no specific individual who owns these benefits and is responsible for seeing that they are realized. Optimal value creation doesn't happen with such an accountability gap.

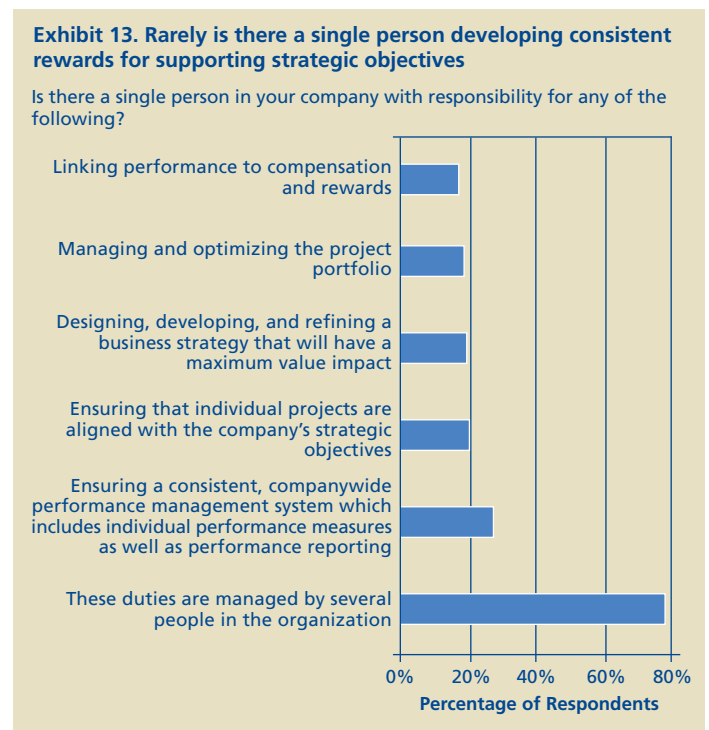
Finally, 59 percent of respondents say that their companies fail to make the final leap: rewarding benefit owners – in terms of a positive performance evaluation, more money, or both – for achieving project benefits.



Who's in Charge? The Need for a Chief Value Officer

Few companies have what the Deloitte* team terms a "Chief Value Officer," a single high-level person responsible for aligning a company's strategic objectives with its processes, people, systems, and projects. It's not that companies don't care about alignment; rather, as indicated by more than three-quarters of the respondents, several different people usually manage these responsibilities. Unfortunately, dispersing authority too broadly across several people may equate to a lack of accountability. At a minimum it may be a cause of alignment challenges.

Exhibit 13 shows how most companies disperse authority for aligning strategy, projects, and employees. Only 27 percent employ a single person to run a consistent, companywide performance management system. As for the rest of the alignment tasks, only 17-20 percent of companies hold a single person accountable.



*As used in this document, "Deloitte" refers to Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP.

Case Study: Costco Wholesale¹

As the results of this survey demonstrate, the lack of alignment between a company's value creation goals and the behavior of its people can be disturbing. The classic solution is to link employee compensation with performance. This is much easier said than done. All of the people in a company—from entry-level workers to top executives—should play a role in the value creation process. But fostering true alignment of individual behavior and the corporate vision is a lot more complex than simply handing out stock options or year-end bonuses.

Not only is each individual's role in the company unique, but also their perceptions of how they contribute to the company's positive results may vary widely. "Performance" might mean one thing to a Senior Vice President of marketing and something entirely different to a store manager. The challenge is to create the right strategic targets for everyone and make sure they understand how their job is related to those goals.

Costco Wholesale uses specific metrics that are most relevant to its business when determining variable compensation. One key example is inventory shrinkage.

"No matter who you are in the company, one-fifth of your bonus [is tied to] inventory shrinkage," says Costco chief financial officer Richard Galanti. "We all have a role in it."

Inventory shrinkage is a critical metric for Costco. The basic definition of the term, which includes things like shoplifting and employee theft, would seem to be confined to operations at the store level. But it's important to remember that inventory ultimately represents capital, and anything that diminishes it in an improper way hurts everyone—merchandising staff, buyers, and even the accounting department.

"Low inventory shrinkage indicates a clean operation because shrinkage is not just pilferage," Galanti explains. "It includes things that are damaged, get stale, or lost. It can be caused by paperwork problems in accounting due to discrepancies between

the actual shipments and billings. So low shrinkage is indicative of a clean operation in our mind, from many operating perspectives."

Costco's emphasis on maintaining low levels of inventory shrinkage is reflective of a broader corporate philosophy of keeping things simple. In our survey, more than two-thirds of our participants said their employees either don't know the company's strategic objectives or can't explain what part their job plays in achieving those goals. If you want your people to help create value, you need to send an extremely clear message.

As a CFO, it's Galanti's job to worry about the financial details of running the company. But these concepts can be translated into simple terms that all employees can understand. "We're not going to explain the Capital Asset Pricing Model to a buyer," he says. "We try to keep things basic and simple—much like our business itself."

Costco doesn't need to explain inventory accounting to all of its people. All it needs to do is be sure that everyone knows that theft, pilferage, paperwork errors, etc., will take a bite out of a significant portion of their bonuses. Once that's been established, the next steps flow

naturally. Buyers, store managers, accounting personnel, and others throughout the company can be trained on ways to curb inventory shrinkage in their daily work.

The Costco example is just one possible approach to integrated performance management, but there are many others, based on different metrics, that can be tailored to the unique circumstances of other industries. As in the Domino's Pizza case study on strategy and vision, one of the most important factors in effective implementation is the clarity of the message. Employees cannot be expected to perform well if they are confused or unaware of their mission, their role in executing the strategy, and the potential for reward.

Value Habit:

Make value-creation central to how you evaluate and manage your people. And how you reward their performance.

¹This case study was drawn from "Different Paths to One Truth: Finance Brings Value Discipline to Strategy Execution," a 2006 research report prepared by CFO Research Services and sponsored by Deloitte Consulting LLP.

Case Study: Irving Oil

Creating value is not a part-time job, nor is it an exercise confined to the finance and accounting departments. Adopting the value habits requires active participation across the entire company, and it is only likely to be successful when driven by a committed, passionate leader.

In other words, you need a Chief Value Officer.

As the survey results show, over three-quarters of respondents (78 percent) said that the key duties of value creation are managed by several people in the company. While these individuals may do a good job performing their respective tasks, the survey results imply a lack of companywide coordination of all value-creation efforts.

While day-to-day implementation can be delegated to several people or teams, the CVO's role is to make sure all the pieces of the puzzle fit together, and to be certain that everyone stays focused on the strategic vision, even when times are tough.

Kenneth Irving, chief executive of Irving Oil, has embraced the value habits at his company and considers the stewardship of value-based initiatives to be a central part of his job. "This is not just a project. It's a core activity at the heart of my job description," Irving says. "It's what we all do now."

Based in Saint John, New Brunswick, privately held Irving Oil runs Canada's largest oil refinery and one of the country's leading chains of convenience stores. The company was founded in 1924 by Kenneth's grandfather, K.C. Irving.

Since the company's inception, Irving Oil has been managed in a very entrepreneurial way. This worked well for decades, but as the industry changed and the company became larger and more complex, it was clear that Irving Oil needed different processes and systems to institutionalize the entrepreneurial spirit of its founder and shareholders. This type of transition is typical of private companies planning to move to the next stage of their growth cycle.

Before Irving Oil could adopt a value-based approach, it needed to enhance its financial accounting systems. The next step was to lay out the company's vision and strategy.

"We certainly knew what our core values were, but we had never had the need to write them down when our company was a certain size," Irving says, "So the first thing we did was to write down the mission that had guided us in the past and would guide us in the future. We also needed to set economic profit

goals for which more people in the company would be accountable."

The results were very positive. "The whole organization becomes more demanding," Irving says. "People start to ask for more detailed information, and they ask tougher questions too."

While a lot of this information will naturally come from the accounting and finance departments, it is only useful if the entire company understands and incorporates these principles. Value-based management methods, such as Economic Value Added ("EVA") and Cash Flow Return on Investment ("CFROI"), are powerful concepts, but they can be measured in many different ways, and are subject to a wide range of interpretation.

That's why you need a CVO to manage the initiative. The last thing you want is the finance department to hand these ideas down from the top with little practical guidance.

"It's more of a human resources exercise than anything," Irving says. "Most of our energy was put into organizing people around the metrics and communicating what we're trying to do."

Once your people are on board, you need to align processes,

projects, and systems. Since this involves numerous departments, it can best be coordinated by a single leader with companywide value-creation responsibility and a full-time commitment.

At Irving Oil, it required a different approach to strategic and operational planning, budgeting, and performance management. All requests for financial expenditures, for example, must now be accompanied by an economic profit analysis. Compensation is linked to specific metrics that are most relevant for the employee's role in the value-creation process. A convenience store manager's performance is judged differently than a refinery worker's or senior executive's.

Irving is happy with the results so far. The company is now planning another comprehensive review of its strategy, operations, processes, and systems—this time with an even deeper analysis of economic profit.

Keeping the momentum going may be the most important part of the CVO's job.

"It's a continuous process," Irving says. "I refuse to let anyone step back from the commitment of managing for value."

Value Habit:

Put a single person in charge of aligning strategies, actions and performance management.

Conclusion

In a highly competitive and increasingly global economy, creating and protecting value is no easy task. The principles of value may appear simple, but implementing them, especially in a large company, is another story. Your processes, people, systems, and projects should be tightly aligned with your vision and strategy, or it's unlikely you will ever reach your desired results. And you've got to have the execution discipline and the right incentives to get the job done right throughout the entire enterprise.

Old habits die hard. If you are not vigilant, you can easily fall prey to value-destroying behavior such as failing to connect your processes and systems to your people, allowing pet projects to undermine your company's focus, and short-term thinking. The importance of communication is also easy to overlook. You can end up sending mixed signals—or worse yet, no signals at all—to your own people and shareholders about where you are going and how you intend to get there.

Every company has room for improvement. But our survey results show a glaring lack of alignment in several important areas:

- Employees who are unaware of how their jobs contribute to the company's strategy
- Project portfolios that have no link to the company's strategy and managers who have no direct incentive in the success of their projects
- A focus on short-term results at the expense of long-term planning and nonfinancial thinking
- Processes and systems that are only "somewhat" aligned with the company's people
- Failure to consider the important *connections* among stakeholder groups and their contribution to value creation
- Lack of alignment between incentives and the creation of value

These are not isolated situations. These problems apply to a significant portion of the companies participating in our survey. They are also problems that appear on a continuous basis, each and every day, and affect both large and small decisions alike. It is normal for them to occur every now and then in the course of business, but when they permeate a company's culture, these habits can have a destructive impact on value.

The solution is to change your behavior and to develop better habits. You need to establish: A strong link between vision and strategy. Clear communication both inside and outside the company. Processes and systems that support what your people are trying to accomplish. A tightly focused and consistently executed project portfolio. Compensation policies that link specific performance metrics with raises and bonuses. Accountability when things go wrong. These are the ideas that form the foundation of the "Value Habit."

These habits are expected to yield suboptimal benefits when done on a "mostly" or "somewhat" basis. Creating value is a full-time commitment and requires the effort of the entire company.

It is not an easy journey, but it is well worth the effort. So how can you help your company unleash more value for its stakeholders?



Value-Inhibiting Behavior	Observation	Value Habit	Case Example
You ignore the disconnect between what makes you valuable and what you and your people are doing about it	Get the means right, and the right ends will follow (The path to value may not be easy, but it should, at least, be clear)	Connect your vision, your strategy, and your business processes with what you need to do to succeed. And put mechanisms in place that encourage your people to do the right thing.	Domino's Pizza
You rely on established business models and technologies after changes in the marketplace render them obsolete	Build a backup plan for your backup plan (the road to value is full of potholes and detours; plan for them now)	Position yourself to deal with a range of possible futures, but then home in on what you need only for the future that actually arrives	Chicago Mercantile Exchange
You allow your portfolio of initiatives to be driven by individuals and advocacy	Align thyself (Speed is a wonderful thing – unless you're headed in the wrong direction)	Align your portfolio of initiatives with your objectives and strategies	Logitech
You use language that obscures or undermines your focus	Was it something I said? (If you don't say what you mean, you won't get what you want)	Make sure the words you use inspire the actions you want	AstraZeneca
You take some stakeholders more seriously than others	Play the field or play for real (Stakeholder interests should inform – but not drive – your value plan)	Focus on the connections between stakeholders that create value for everyone	Panera Bread
You focus obsessively on short-term financial measures	See the forest and the trees (If you don't give investors a reason to believe, they won't)	Use your concrete strategies (and the value drivers that support them) to present a credible and convincing picture of where you're headed	Lenovo
You rely on performance management processes that don't connect individual contributions with the creation of value	Reward what you (really) want to achieve (Compliance with your old performance management standards is no way to create value)	Make value-creation central to how you evaluate and manage your people. And how you reward their performance	Costco Wholesale
You manage value-creation off the side of too many desks	Now hiring: Chief Value Officer (Creating value across your organization is a full-time job)	Put a single person in charge of aligning strategies, actions and performance management	Irving Oil

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