Value Driven Management
How to Create and Maximize Value over Time for Organizational Success
by Randolph A. Pohlman & Gareth S. Gardiner, with Ellen M. Heffes

In today's business world, managers who make short-term decisions to simply maximize profit and create shareholder wealth run the risk of sabotaging the long-term success of their companies.

Value Driven Management explains how to make management decisions that create value that can be sustained over time. Its authors, business educators and consultants Randolph A. Pohlman, Ph.D., and Gareth S. Gardiner, Ph.D., in collaboration with business writer Ellen M. Heffes, provide clear direction along with plenty of case studies, exercises and examples to challenge business leaders to adopt a new decision-making framework.

Eight Drivers of Value

Value Driven Management (VDM) is a management philosophy, which begins with The Value Theory — what people value drives their actions.

Starting with this premise, the authors introduce eight major drivers of value:

1. *External cultural values* — these include values of the community that the organization resides in and those of the world as a whole.

2. *Organizational cultural values* are the values that define an organization's internal way of doing things — like treating employees with fairness, for example.

3. *Individual employee values* are the personal values that influence workers' decisions and actions — the more congruent these are with the employing organization's values, the more professional success the employee is likely to enjoy.

4. *Customer values* — these values include exceptional and consistent service.

5. *Supplier values* — these values include relationships where trust supports long-term relationships.

6. *Third-party values* are those held by regulatory agencies and other official bodies and often include the rule of law. Every business must deal with third parties. Enlightened organizations have learned that illegal and unethical business practices will destroy value so they scrupulously obey the law.
7. **Owner values** are usually fairly clear. Owners value profitability leading to a decent return on investment. These are the values that most often come into conflict with other value drivers.

8. **Competitor values** — their values (which include business philosophies and practices) have a tremendous impact on the way you conduct your own business. An accurate understanding of your competitors’ values is required to gain and maintain competitive and strategic advantages.

In order to achieve and maintain success, leaders must strike a careful balance between the values, interests, goals and objectives of the organization, and the individuals who work for it.

**The Creation and Destruction of Value Over Time**

Value drivers interact with one another in highly complex ways, and it is often difficult to determine which drivers are most important in a given decision-making situation. The authors offer a number of examples of decisions made by real companies to explain the influence of each of the value drivers on organizational decision-making. In some instances, the decisions were bad ones, which resulted in value destruction; in others, the decisions were good ones, which resulted in value creation over time.

For example, Exxon received tremendously bad publicity following the 1989 Exxon Valdez oil spill. The company’s insensitivity to environmental issues resulted in public outrage and a $5 billion jury award against Exxon. In this case, Exxon seriously underestimated the impact of their decisions on the external culture, and a great deal of value was destroyed.

In contrast, the upscale department store chain Nordstrom has developed a decision-making system with regard to hiring that takes into account the impact of individual employee values. The company utilizes the Reid Survey (a test that screens individuals for such things as violent tendencies, drug use and dishonesty), to identify potential employees who have values that match those of the organization.

Similarly, Nordstrom is noted for its devotion to developing value for its customers. Store sales associates provide impeccable customer service and, according to *The Nordstrom Way* authors Robert Spector and Patrick D. McCarthy, “It's part of a deeply imbedded culture that has taken the Nordstrom family nearly 100 years and four generations to perfect.”

**A Study of Personal Values**

The authors present an exercise that allows readers to carefully evaluate their personal values, and thus find a proper fit between them and those of an employer. By ranking alternative answers to each of 20 questions, readers can determine which of the following categories one's personal set of values most closely matches:
- Theoretical — values the discovery of truth
- Economic — values the practical and useful
- Aesthetic — values beauty and harmony
- Social — values love and philanthropy
- Political — values power and influence
- Religious — values spiritual peace

Here is an example of how people with different values would answer the question: "What would you do if you had sufficient time and money?"

Theoretical — write an original essay, article or book
Economic — increase my money-making ability
Aesthetic — study the fine arts such as theater, music and painting
Social — help those who are disadvantaged
Political — develop leadership skills
Religious — go on a retreat for spiritual renewal

In view of your personal value orientation, are you working for the right employer? How congruent are your values with those of your employer and colleagues?

Value Over Time

Pressured to achieve the goals of maximizing shareholder wealth and profits at any cost, many executives sacrifice good judgement by making short-term decisions that can damage their company in the long run. Consequently, many in the business community still judge companies by simple measures like Net Present Value (NPV).

The NPV model makes the assumption that a dollar received in the future is not worth as much as a dollar received today. Therefore, to evaluate opportunities, we simply discount back future cash flows at the cost of using all funds and compare them in total to the cost at day one to undertake the project. Since NPV measures value in dollars only, this model does not help organizational leaders gauge other important areas like reputation, customer loyalty and supplier relationships.

Instead, the authors prefer to use the notion of Value Over Time (VOT). While a focus on shareholder wealth emphasizes short-term profitability only, VOT takes into account the long- and short-term consequences of a decision or action and attempts to link them together to consider the overall effect of the decision or action.

VOT is a methodology that measures personal and organizational value creation, but not simply in terms of profitability. Instead, the analysis also considers other factors like suppliers, customers and employees. This philosophy of Value Driven Management seeks to take a more multidimensional view.

11 Underlying Assumptions of VDM
These 11 underlying assumptions create the foundation of Value Driven Management. They help us to identify the business practices and organizational development tools that are necessary to its successful implementation.

1. Value creation is good. Organizations that do not create value will cease to exist, and individuals that do not create value will lose their jobs.

2. What is valued drives action. Or, as Stephen Landsburg, author of The Armchair Economist, would say "Most economics can be summarized in four words: people respond to incentives. The rest is commentary."

3. The creation of knowledge and its appropriate use leads to value creation. Individuals must continue to acquire knowledge if they and their organizations are to thrive.

4. Value is subjective. For many years we have made systematic attempts to take the subjectivity out of business decisions on the assumption that subjectivity is bad. However, most important business decisions are not only complex, they are highly subjective.

5. There are value adders and destroyers. While de-motivated employees are a major cause of problems, we can't overlook the internal systems that also cause problems. "Poor management systems routinely lead to poor performance and to the destruction of value over time."

6. Markets provide vital information. Decision-makers who hope to create value for their firms can take a lesson from free market economies to discover the liberating power of free enterprise in an organization.

7. Opportunity costs affect value. Every major decision we make involves significant opportunity costs. When we pursue one opportunity, we forsake others. While this concept is quite simple, it's surprising how often it is not applied in the real world.

8. Order is spontaneous. Therefore, flexible strategies create more value than rigid plans.

9. Values can compete or be complementary. While many believe that work and personal values are competing priorities, some forward-thinking managers treat the work-life question as complimentary and therefore create value by adopting a win-win philosophy.

10. Any action may have unintended consequences. That's why training in complex information-processing techniques is required, so serious unintended consequences of decisions made in haste can be avoided.

11. All employees are employees. All members of the organization, no matter their job title, are responsible for value creation.

Making Value Driven Management Work in Your Organization
Pohlman and Gardiner offer a seven-step process for implementing VDM.

The first step is making a commitment throughout the organization. It starts at the top, but does not end there; leaders must communicate the essentials of the process down to the last person in the organization.

Step two is ensuring employee empowerment. Authoritarian organizations will not survive in today’s globalized business setting; all employees must be given the opportunity to make decisions and take risks.

Step three involves rethinking compensation schemes — such as profit sharing and employee stock ownership plans — so they stimulate productivity and value creation.

Step four is restructuring the organization to facilitate value creation. Twenty-first century organizations are decentralized, based on work teams, and reliant upon employees with strong problem-solving and analytic skills. Furthermore, managers are less “boss” and more “facilitator.”

Step five is the systematic and organization-wide selection of employees who will create value in the positions they fill. Southwest Airlines, for example, seeks out employees who can think for themselves and use their own judgment.

Step six requires that value creation be the topic of the day, every day, affirmed by frequent recognition of individual and organizational achievements.

Finally, step seven — the most crucial — involves lifelong education. It is the ongoing, comprehensive, and lifelong commitment of all employees in the organization to utilizing VDM in the decision-making process. Comprehensive training will eventually produce an organization whose members are both consciously and unconsciously competent, and who can use a complex information-processing set of techniques to systematically create value. The authors include advice on how to develop such a training program, including identifying issues through brainstorming exercises and evaluating each with regard to specific value drivers.

What’s In It for Me?

Maximizing personal value over time is, according to Pohlman and Gardiner, the responsibility of the individual. Gone are the days when an employer was a sort of “parent” looking after the welfare of the employee. The continued waves of downsizing in corporate America that began in the 1980s have all but destroyed employee loyalty, but they have also created a career-resilient workforce, where employers offer opportunities to workers to continuously upgrade their skills. Indeed, in the rapidly changing workplace of today, new opportunities to maximize value are appearing everywhere.

People identify themselves by their professions, and most want to be proud of
their jobs and their employers. Because so many Americans — up to 50 percent — are unhappy with their occupations, it’s important to try to make what we do for a living to be a more "value-creating" and positive force in our lives. If we decide to stay with an unsatisfactory employer, that is our choice and our responsibility. In some cases, we may do so in order to take advantage of opportunities to upgrade our skills, which maximizes value in the long run. This, however, should be a conscious decision with an end in mind.

The philosophies contained within the covers of Value Driven Management are, in the words of the authors themselves, "a classic example of 'win-win' management in action." As they continually repeat throughout the text, those who can and are willing to grow, cope with change, and remain coolheaded in crisis situations will maximize value in their lifetimes for themselves, for everyone they work with, and for their families and friends.