



Innovation



A Growth Strategy that Creates and Protects Value

Four steps to build a continuous value creation cycle.

by **David A. Hofmann** and **John J. Sumanth**

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Ask any leader what comes to mind when they hear the word “innovation” and you’ll quickly hear examples of a new, user-centric product design, or an R&D team pursuing a new mission, or their company’s exploration of a new market opportunity to drive additional revenue. But what if this relatively narrow view captures only a slice of the potential innovation that resides within your organization? What if your organization could unlock non-traditional avenues and areas for innovation, experimentation, and value creation?

Consider the controller function, for example, where compliance and getting things right — but not innovation — is often the primary focus. Yet, one multinational organization we've worked with turned it into an engine of innovation after facing a cash flow shortage due to declining global demand. Upon conducting external research, the firm discovered an opportunity to improve its cash flow by extending vendor payment terms from the customary 30 days to 45–60 days, in line with industry norms. This singular move generated an additional \$1 billion in cash flow, which proved to be crucial for sustaining long-term investments during the industry downturn.

Here's another example of innovative thinking: Brian was a new attorney at a traditional law firm that focused on billable hours and utilization rates as its metrics of success. Frustrated by inefficiencies, Brian saw an opportunity to automate the negotiation process for fixed and alternative lease fees, a task repeated 100+ times annually. With support from senior partners, Brian implemented a client-facing survey tool integrated with draft contract templates. This innovation significantly reduced contract development time, minimized errors, and boosted utilization rates. It also led Brian to establish his own company, which specializes in data science connections and tech solutions.

Finally, Blue Ridge Power (BRP) — a leading solar engineering, procurement, and construction contractor we worked with — was dealing with unreliable delivery schedules and receiving damaged solar panels at U.S. construction sites from their overseas supplier. Rather than putting pressure on the supplier to improve performance, two senior managers decided to collaborate with the supplier on the issue. They proposed an innovative, renegotiated contract whereby the solar company would assume “final mile” delivery from the port of entry to the job site while the supplier maintained their

margins for the work they continued to do. This unlocked millions of dollars in immediate cost savings for the solar company. By managing the inland freight themselves, BRP was able to simplify the supply chain and bring transparency to costs that could more easily be benchmarked, negotiated, and controlled. This change also improved scheduling, strengthened the business relationship with the manufacturer, enhanced cash flow visibility, improved carbon emissions tracking, and enhanced build efficiencies for BRP's construction teams, enabling delivery of on-schedule, quality projects to their customers.

In each case above, individuals and functions that typically would not be charged with innovation saw opportunities to proactively create value.

Over the past 25 years, we have published a broad range of research focused on the critical issues of innovation/creativity, leadership, organizational culture, and creating and protecting value. We have worked extensively with global organizations in the for-profit, nonprofit, and government sectors, helping thousands of leaders understand how their organizations can unlock their value-creating potential as they seek to beat their competition. For organizations to truly innovate, grow, and win, we believe leaders in every role and at every organizational level must be attuned to how they are creating new value while simultaneously protecting existing value. In addition, we believe that applying these concepts to *teams* and *leadership* can be a powerful way to foster innovation that enables organizations to truly differentiate themselves from their competition. Here's how.

How Winning Organizations Continually Foster Both a Creating and Protecting Value Mindset

Recognizing Existing Mindsets

For your company to be on a path toward growth, individuals throughout your organization need to think in ways that encourage them to set goals and “win” within their sphere of influence. [Research](#) shows that individuals tend to approach “winning” with one of two mindsets: creating value or protecting value.

A *creating value* mindset is rooted in growth and advancement toward hopes, wishes, and aspirations — in other words, toward some ideal future success. Individuals who adopt this mindset are driven to move away from their current position, and thus when communicating with their teams, typically use visionary language that is future-focused. A creating value mindset also leads individuals to explore, discover, and proactively seek new opportunities. In short, individuals who employ this mindset are motivated to push past the status quo and are driven to beat their competition.

A *protecting value* mindset, in contrast, is concerned with fulfilling duties, responsibilities, and obligations and preserving and protecting what’s working well. Such a mindset strongly values analytical thinking, vigilance, accuracy, and careful evaluation. Thus, a protecting value mindset motivates individuals to review and scrutinize a given situation to minimize errors, mistakes, and other gaps between actual and expected performance, and to ensure that key aspects of the organizational identity are preserved. In short, individuals with a protecting value mindset are driven to avoid losses or failures and to preserve the status quo.

Adopting New, Broader Mindsets

Although the research on protecting and creating value is rich and rigorous, much of it has focused on how *individuals* approach specific

goals. Yet, most leaders today operate within collaborative, team-based environments that require them to think and work across functional areas. Thus, applying these concepts to *teams* and *leadership* can be a powerful way to encourage innovation that enables organizations to win.

Within any organization, the nature and context of individuals' work will certainly influence their orientation toward creating value or protecting value. For example, individuals developing new products or services might emphasize value creation while those focused on cybersecurity, operational execution, financial reporting, and/or audit would focus more on value protection.

However, we contend that *winning* organizations continually foster *both* a creating *and* a protecting value mindset. Just as a soccer coach must simultaneously pursue both scoring and defending, leaders must constantly focus their attention on opportunities to create value — through innovation, risk-taking, and experimentation — and to protect value — by preserving and defending key aspects of their responsibilities. Because both approaches are essential to success, organizational leaders must proactively and continually encourage their teams to adopt both a creating value and protecting value mindset when tackling their day-to-day responsibilities.

But how can leaders do this? More specifically: *Where and how do leaders deploy these two approaches, and how do these approaches change over time?* Below, we offer four steps leaders can take to ensure that they're on the right path.

4 Steps for Creating and Protecting Value Within Your Organization

Step 1: Communicate clear expectations to all leaders.

Every individual, regardless of where they are situated organizationally, should be expected to pursue value-creation opportunities. By clearly communicating this as a performance expectation of effective leaders, individuals can begin to better monitor and adapt their in-role responsibilities to ensure that they (and their teams) are meeting this expectation. By regularly identifying the areas in which they will seek to experiment and apply an innovative mindset, leaders can better align their behaviors (and their team's behaviors) with the organization's stated goals and measures of success. Drawing a clear line of accountability between performance evaluations and value creation can also enable organizations to build a high-performance culture that ensures the right winning behaviors and mindsets are being rewarded.

Step 2: Craft focused priorities.

To create organizational value that is transformational, leaders must focus their energies and efforts on a few key areas where value creation is possible. Rather than trying to innovate in every area of responsibility, leaders should ask themselves: "*What are the two or three things under my control where we can create exceptional, additional value and truly beat the competition through innovative thinking?*" By limiting their innovation efforts to just a few things, leaders can better focus their limited resources and strategically position themselves to have the greatest positive organizational impact.

Step 3: Ask critical questions and define the criteria.

Taking steps to create value can often pose a significant perceived threat to established organizational processes, cultures, norms, and stakeholders. Leaders at all levels must also ensure that their efforts are aligned with other initiatives being undertaken within the organization. Start by asking the following questions:

- **Is the initiative/change aligned with and supportive of the organization’s larger vision, mission, and strategy?** Leaders need to ensure that their value creation efforts align with the organization’s overall vision, mission, and strategy. This likely is understood, but it is an important reminder to leaders, as it creates clarity for team members seeking to understand where they should focus their time and energy.
- **Is this a critical bottleneck or constraint?** Identifying the biggest bottleneck or constraint on your team’s performance has the potential to unlock significant value. This could be a frustration, a workaround or inefficiency, a place where mistakes happen disproportionately, or where a large gap between current and ideal performance exists.
- **Does this leverage our current knowledge, skills, and abilities (KSAs)?** Address the problem by leveraging your team’s skills and capabilities as resident experts or by engaging other experts, either within or outside the organization. If you don’t have the requisite KSAs and cannot quickly acquire them, consider focusing your value creation efforts in other areas.
- **Will this be hard to imitate?** Organizations must create a competitive advantage over their opponent(s) to truly win. Thus, creating value in ways that are difficult for competitors to imitate will help ensure that your organization experiences sustained benefits.
- **Does this lay a foundation for the next innovation?** Opportunities to create value should not be viewed in isolation, but rather considered within the broader context of time. Wise leaders ask themselves and their teams: What foundation was created by our last innovation that we can now leverage for the next one? How have prior value creation efforts equipped us to create new innovations?

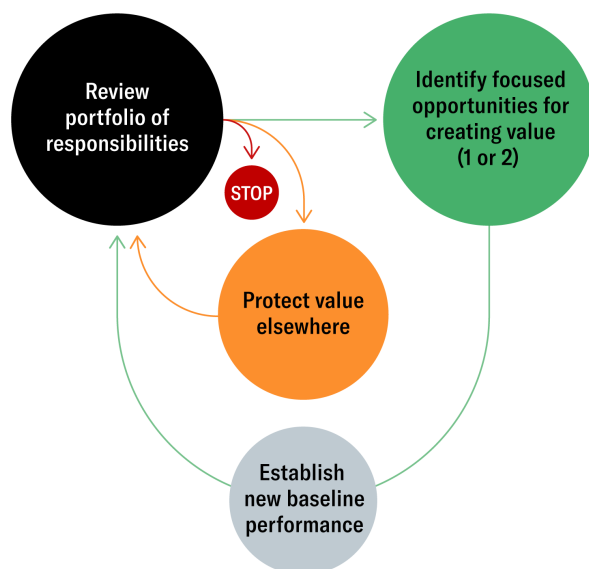
Step 4: Evaluate and repeat.

Finally, leaders must remember that value creation is not a one-time proposition, but rather an ongoing cycle of identifying value creation opportunities, pursuing them, and re-evaluating them, as depicted in

the graphic below. Eventually, innovations that once created value become the new normal and thus opportunities to protect value. So, an iterative cycle develops in which leaders must: a) review their portfolio of responsibilities, b) identify a few focused opportunities for creating value, c) protect value elsewhere, d) normalize creating value successes, and e) return to their portfolio of responsibilities to look for the next value creation opportunities. Wash. Rinse. Repeat.

The Continuous Value-Creation Cycle

Leaders should critically review their portfolio of existing responsibilities and then regularly sort them into one of three categories: ① opportunities to create value, ② opportunities to protect value, and ③ opportunities to stop doing things that are not adding value. The one or two creating-value opportunities are the focus of the innovation. Over time, with success, these creating-value opportunities establish a new level of baseline performance. At that point, the leader again reviews their portfolio of responsibilities to identify the next creating-value opportunity.



Source: David Hofmann and John Sumanth

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Importantly, by making one choice — where to focus their value creation efforts — leaders are implicitly making two choices, namely 1) where they will focus on creating value and 2) where, by definition, they are protecting value. As this process unfolds, focusing leaders' efforts on just a few areas will necessitate a consideration of what activities they can *stop* doing to free up resources and focus them more effectively.

In the examples highlighted earlier — controllers, attorney contract negotiations, and logistics and supply chain — and in many other functions and organizations, the overarching goal is value protection. However, as these examples illustrate, effective leaders can be powerful agents for value creation if they are willing to proactively think differently. For this to happen, however, leaders must step back, think about doing something innovative and/or experimental, and take prudent risks. The leaders highlighted above did just that and, because of their efforts, their organizations benefited, often with new potential lines of business and revenue enhancement. In short, for organizations to survive and thrive, they must employ a continuous value creation cycle.

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