

[EDHEC Value Creation study]

Digital transformation: an opportunity to change the paradigms of financial performance

Press release

Paris, 20 February 2020 – **How to measure value creation and value companies in this digital era of social, societal and environmental transformations?** The EDHEC Value Creation research centre is publishing the first part of [Performance 21](#), a research study presented in several chapters and focusing on the measurement of corporate performance in the 21st century. The researchers believe we are on the verge of genuine disruptive change, with management set to switch from a one-dimensional focus on margins, to a three-dimensional performance culture embracing margins, capital and risk.

In this first part of their research work, the authors show that most companies continue to make strategic, commercial and financial decisions solely from the standpoint of margins. **Less than 1% of businesses worldwide** – primarily listed companies – use the three dimensions of margins, capital and risk as the basis for their decision-making, with those that do having adopted the three-dimensional approach several decades ago under pressure from investors.

The vast majority of unlisted companies pursue a one-dimensional approach primarily focused on the P&L and the calculation of various margins (gross, EBITDA, EBIT and net margins). According to the researchers, **this 50-year gap in financial sophistication between listed companies and most unlisted ones** is not linked to technical implementation difficulties, but solely to the cultural inertia of the companies concerned.

“Digital transformation and the values of millennials are calling companies’ existing cultures into question. And what if these societal changes create an opportunity to change the paradigms of financial performance?”, asks Philippe Foulquier, Director of the EDHEC Value Creation research centre. **“Now’s the right time to re-think how to manage companies”**.

Cultures based solely on margins are outdated

The research centre produced a taxonomy of performance measures according to the number of dimensions incorporated in them: one-dimensional measures based on margins, two-dimensional measures founded on margins and capital and three dimensional measures embracing margins, capital and risk. *What kind of measure should be used for what kind of objective? What kind of measure for what stakeholder? What kind of measure for what degree of complexity? In what way is the trio of margins, capital and risk the most appropriate measure?* The study aims to analyse the strengths and weaknesses of current indicators, in order to offer businesses relevant codes for interpreting them and making decisions, by enabling them to negotiate their way through this new jungle of performance measures.

“The trio of margins, capital and risk can be used to render decision-making objective. It forms part of an overall approach for companies and also offers a common language of communication. In this sense, it is also a privileged management tool offering greater transparency, a value particularly appreciated by millennials”, underlines Philippe Foulquier.

The following parts of the study will notably deal with the impacts of the digital era and social, societal and environmental transformations on business models, on measuring their performance and on valuing intangible assets and companies. The last chapter will be geared to creating a new index, taking into account four criteria: financial, environmental, social and societal.

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Founded in 1906, EDHEC is one of Europe’s top 15 business schools.ⁱ Based in Lille, Nice, Paris, London and Singapore and counting more than 90 nationalities on its campuses, EDHEC is a fully international school directly connected to the business world. With more than 40,000 graduates in 120 countries, it trains committed managers capable of dealing with the challenges of a fast-evolving world.

Harnessing its core values of excellence, innovation and entrepreneurial spirit, EDHEC has developed a strategic model founded on research that is of true practical use to society, businesses and students and which is particularly evident in the work of the EDHEC-Risk Institute and Scientific Beta.

The School functions as a true laboratory of ideas and plays a pioneering role in the field of digital education via EDHEC Online, the first fully online degree-level training platform.

These components combine to make EDHEC a centre of knowledge, experience and diversity, geared to prepare new generations of managers to excel in a world facing transformational change.

EDHEC in figures: 8,600 students in academic education, 23 degree programmes from Bachelor’s to PhD level, 184 professors and researchers, 11 specialist research centres.

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ⁱ FT EBS 2019 ranking