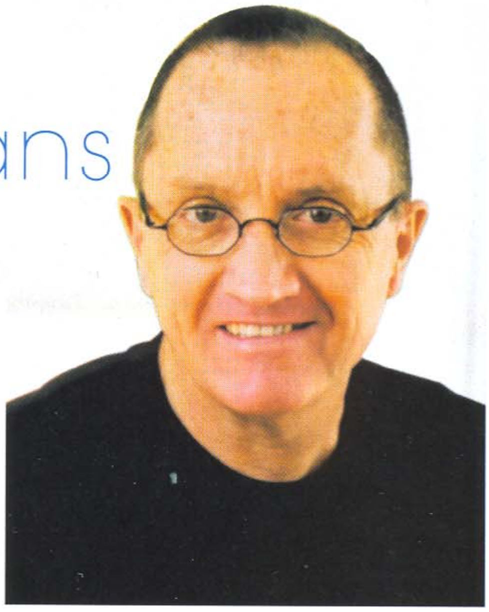
What value management means

by Tony Manning



Let's begin at the end – because that's where you've got to get to. "The first executive function," says Bruce Henderson, founder of the Boston Consulting Group, "is preservation of the organisation." "Corporate executives," observe Gordon Donaldson and Jay Lorsch of the Harvard Business School, "are primarily concerned with long-term corporate survival."

Preservation. Survival. Hardly exciting, but hard to argue with. Particularly since most start-ups die within five years and few firms last more than 40 or 50 years. (A study cited by *The Economist* found that the life expectancy of the average Japanese and European firm was less than 13 years). The job tenure of CEO's is falling fast. Durable companies are few and far between. Dead companies are no use to anyone. Staying in business is a very big deal. So the fundamental task of a leader is to produce the results that will keep their company alive.

But it's not enough that you can merely feel a pulse. Companies that cling to life aren't attractive to anyone. They may linger for a long time, and be admired for longevity. But they can't fulfil their economic or social obligations.

As their competitiveness is blunted, the cost of keeping them on life support becomes unjustifiable. Attracting and keeping customers gets costlier and more difficult. The best people no longer want to work there. Suppliers don't seek their business. Other stakeholders get restive.

As important as it is to survive, however, companies need a larger goal.

- "A firm's capacity for growth has important influence on its survival," says Amar Bide, a Harvard Business school academic.
- "Like all organisms," says Arie de Geus, formerly worldwide planning co-ordinator at Royal Dutch/Shell, "the living company exists primarily for its own survival and improvement: to fulfil its potential and to become as great as it can be."

Growth. Improvement. Potential. Now we're getting somewhere. These are matters of utmost importance to any living thing. They're also ambitions that give meaning to work, and that most people are likely to sign up for. When managers are given stewardship of a company, they surely have an obligation to make it all it could be, rather than to settle for mediocrity.

They need to test themselves – and be tested – against this question: Do we deliver as much value from the assets entrusted to us as the best performer in the world could do?

If the answer is no, they need to reconsider what they're about. For stakeholders are being short-changed if someone else could do better with the same capital, people, ideas, patents, brands, plant and equipment, or distribution channels. Managers are squandering precious resources. And that can't continue forever.

"Value" is a favourite word in business. "Adding value" has become a synonym for almost any work. Every job-seeker boasts about their ability to "add value." Most products and services promise "added value." And of course, Value Management has become a hot management fad.

But what is "value?" And how can a company add value without incurring extra effort or costs. Begin with how different people view *"value"*:

- To customers, value is a perceived level of quality or performance at an acceptable price;
- To shareholders, value is a real financial return;
- To employees, value is a secure job, income, training, and development, respect, social contact, and the prospect of doing something worthwhile;
- To suppliers, value is regular orders, satisfied buyers, ideas for improvement, few hassles, and payment without delay;
- To society, value is a clean environment, jobs, and support for healthcare, welfare, education, the arts, and sport;
- To government, value is taxes, job creation, training, and social services and support.

"Value" is not the same thing to everyone. We all interpret it differently. What is value to one stakeholder is unimportant to another. What one buyer will pay a premium price for is taken for granted by another. Beauty really is in the eye of the beholder. This means that it's the beholder's perception of value that matters most. Your opinion doesn't count for much. So put yourself on the receiving end. The deeper your understanding of your stakeholders' expectations, values, beliefs, goals, and intentions, the better your chances of moving ahead in partnership with them. Hard data can produce valuable insights. But less tangible perceptions and impressions often matter even more. Facts help us make up our minds. But feelings tip the scales. Logic tells a story about what, how, when, and where. But intuition reveals "the reason why."

Companies have many stakeholders, each with their own view of what's acceptable and right. Growing numbers of activists demand attention for their causes. It's only logical that current thinking in corporate governance should emphasise the "triple bottom line" – shareholders, society, and environment. (Or, as Royal Dutch/Shell puts it, "people, planet, profits.")

To some managers, all stakeholders are merely a nuisance to be humoured and outdone in a battle of wits. They think about customers one transaction at a time, and aim to screw maximum returns for themselves from every deal. And they're equally expedient when it comes to employees, investors, suppliers, and all the rest. Enlightened executives know this is a short-term attitude. They understand that relationships are their most valuable assets, and that only by building deep, enduring bonds can they expect a long-term flow of revenues – and thus real corporate wealth.

In the years ahead, more companies will get the message. Either they'll do it voluntarily, or they'll be forced to accept reality. Business is a cooperative venture. You can't do it alone in the global marketplace and hope to win. Symbiosis – living in harmony with the world around you – is more than just a feel-good attitude. It is a fundamental factor in your firm's survival and growth.

As important as all stakeholders are, no business person should be in any doubt: shareholders come first. The interests of other stakeholders must be managed to create shareholder value.

Not everyone wants to hear this. It goes down better in the US, for example, than in Europe. There's a risk that emphasis of the "triple bottom line," now fashionable in debates about corporate governance, will cause shareholder primacy to be watered down. But managers should understand the consequences.

There appears to be a distinct link between an explicit commitment to shareholder value and effective implementation of value management. Firms making such commitments also report improvements in their share prices. Those whose commitment is implicit, or that adopt a balanced stakeholder approach, do less well. You ignore this reality at your peril.

Let me put that another way: If you make it clear that you aim to deliver value to all your stakeholders, but that shareholder wealth is your number one goal, you'll be most likely to satisfy everyone who matters and drive up your share price.

The business of business is business. By focusing on creating value for shareholders, firms can also create value for other stakeholders. If they put other stakeholders first, they're likely to create value for no one. S

This article is an extract from ***Competing through Value Management*** *by Tony Manning, published by Zebra Press. It is on sale in bookstores now or visit: www.tonymanning.com*