

Creating additional value for your enterprise - the final destination

Successful enterprises create value every day for their shareholders. Fickle customers and competition can erode that value, so enterprises continuously need to identify and execute plans for creating additional value.

Value creation

Of course, value can only be created for shareholders by providing good value for money and good experiences to customers, securing good value for money from suppliers and valuing employees. But whilst many types of value exist, what ultimately matters for commercial enterprises is increasing shareholder value.

Time and risks

That takes time and requires investments in developing new capabilities which can be used by the enterprise, its customers, its suppliers and others forming part of the ecosystem of the enterprise and requires them to behave in new ways.

The passage of time brings risks, both in the ability to execute those plans and the viability of their outcomes when external factors affect them. Thus the required programmes of change need continual steering by the Executive to ensure scarce investment funds are used to create the maximum amount of additional value, even if the methods used to create it have to be changed en route.

Whose money is being spent?

The funding for investments typically comes from retained earnings which means shareholders are being denied higher dividends. So more needs to be provided to shareholders in the future to compensate them for using their money.

Loans might be secured from financial institutions and used to fund investments but these come with repayment obligations, usually taking priority over shareholders, which must be taken into account in how that money is invested. The shareholders take the brunt of the risks and so should be the ultimate beneficiaries of extra value created.

Investments which do not create value, only destroy it

Ultimately, such investments must create more value than if they had never been made. If they

do not, value will certainly be destroyed. Some investments will have the potential to create value and others to destroy it, so a portfolio of a variety of different types of investments is needed to balance the risks.

Executive attention

Some investments, e.g. those applied to changing the internal operations of the enterprise with which management has had prior experience, might carry less risk than, say, entering new markets with new products. This calls for the Executive to devote more attention to some investments than others.

Regular investment reviews

Like the contents of all investment portfolios, they should be fully reassessed on a regular basis, say every 60-90 days and appropriate action taken to rebalance the portfolio. The Executive cannot reasonably expect that it can approve any investments and, without it providing any further direction, let them run smoothly through to creating the value originally envisaged.

This particularly applies where change is being brought about simultaneously across different parts of the enterprise, where high-level co-ordination is needed, and/or where external factors have a material bearing on the success of the investment about which executives might be much better informed than internal management.

Looking forward

In order to conduct these reviews and assess new proposed investments which might become part of the portfolio, the Executive needs detailed information and to apply judgements. Transparent criteria are needed for making these assessments, so those preparing the information are aware of what is required. Consistency in preparation is also needed to be able to compare different types of investments.

These re-appraisals should look forward to what is being sought by way of additional value creation and what still needs to be done and spent to achieve it. Whether past activities are within budget and timescale and delivering as planned, are secondary considerations but might be useful for learning lessons which could be applied later in the programme or to other programmes.

Other than aggregating lessons learned, post implementation reviews in their current form would be redundant as reviews need to be conducted repeatedly before all the money has been spent, so what remains can be spent wisely.

Monitoring should continue beyond the delivery of new capabilities. It should also take place during change, benefits realisation and into value realisation until additional value is being delivered in a sustainable way.

Flexibility

The Executive will need flexibility so that it can alter direction and cancel further work on unpromising investments. This means that very careful consideration has to be given to how external capabilities are acquired and what commitments are made.

Discounts given by suppliers in return for committing to large quantities of goods or services might cause cancellation costs to be incurred, far outweighing the discount, when an investment is curtailed or cancelled. Pilots, prototypes or other methods of inexpensively assessing the practicalities of what needs to be done might take up extra time but they might point to a better route to that extra value or help avoid wasteful cul de sacs.

Likewise, flexibility is needed to enable staff to be redeployed on to other work or released rather than allowing more value to be destroyed.

Resourcing

Fundamentally, the re-appraisals should consider what needs to be done to achieve the extra value. Resources are still needed to undertake current work and, in addition, further resources are needed to change how that work is to be performed in future. Most people are fully engaged on their daily work (and if they are not, why are they still there?) so it is unreasonable to expect them to undertake additional work on such change projects.

These costs are invariably opex, not capex, and frequently are not taken to be part of the investment, but they might be by far the largest part of what needs to be spent to create more value. If there are insufficient resources to bring about change, then the value to be created will be delayed and fall short of expectations.

The journey from vision to value

Additional value should be the ultimate destination. Getting there takes investments, capabilities, business change and benefits in sufficient quantities to create and sustain additional value.

The journey only ends when the additional value becomes part of the day to day value created by the enterprise. The actual route of that journey might turn out to be very different from the one originally envisaged. But that does not matter if the shareholders receive a greater return on their money as a consequence.

This is one of a series of papers on Grosvenor's Value Management. Others cover:

- vision,
- investments,
- capabilities,
- change and
- benefits.

Together they describe the journey from envisioning the future state of the enterprise to bringing it about through the selection and management of investments in business change.

For more information or a conversation on Value Management please contact:

Chris Tiernan on +44(0)7831 664 281 or c.tiernan@grosvenorconsultancy.com

Carolyn Jacks on +44(0)7775 811 502 or c.jacks@grosvenorconsultancy.com

Grosvenor Consultancy Services LLP
Thames House
5 Church Street
Twickenham
Middlesex
TW1 3NJ
United Kingdom
Telephone: + 44 (0)20 8891 6767
Fax: +44 (0)20 8891 1177
www.grosvenorconsultancy.com