GROSVENOR consultancy

What is your vision for the future of your enterprise?

How are you going to get your enterprise to where you want it to be?

To determine this, the following questions clearly need to be answered: What will be its main lines of business, who will be its customers and how will it interact with them? What will the enterprise undertake itself and for what will it engage with partners and suppliers? What new facilities will it need, e.g. modified and/or additional production, warehousing and digital capabilities? How will it grow: organically or through acquisitions? Of course, due to the complexity of enterprises, all of these questions are interrelated.

Growth means selling profitably more goods and services to more people. That requires the capability to supply those goods and services which, in turn, requires staff, management, suppliers and partners. All of these have to be kept in step, for example, to avoid inventory write offs and disappointed customers who do not return.

Vision

Whether or not intentionally, many enterprises create vision statements which are extremely vague. Take the following which is on the website of a company with an annual turnover in excess of a billion pounds:

"*We have a simple strategy. With safety, health and environmental excellence as our primary value we will drive for absolute competitive advantage in the production and marketing of XYZ products. As a result of cost and quality leadership, efficiency based on technology and operational excellence we will increase our share of the global XYZ market and generate excellent financial returns across the portfolio.*"

This statement provides no indication of timescale or when any of these ambitions will have been achieved as there are no objective criteria against which to assess them. The enterprise seems to be setting off on a journey with no particular destination, rather than identifying a destination and striving to get there.

Value creation

All successful enterprises create value every day. And every day fickle customers and competition can erode that value. So effort needs to be expended continuously to sustain that value and further effort is needed to increase it. That requires co-ordinated changes taking place across the enterprise. All such change needs internal investments and is accompanied by risks.

Whose money are we spending?

The finances needed to fund that internal investment belong to the shareholders who will be expecting greater returns in the future from what would otherwise have been their near term dividends. Against the vague vision statement above, what reasonable expectations might shareholders have about the way their money is being used and how and when it will grow. That is not clear.

Even "excellent financial returns" is relative, so shareholders might decide they can do better in future by buying shares in another enterprise. A competitor might completely obsolete the need for XYZ products or, alternatively, through new uses of XYZ, there could be a boom in demand for them. How well positioned would the enterprise be to switch to another product line or massively ramp up capacity?

Success criteria

Interestingly, practically all of the objectives mentioned in the above vision statement could have criteria assigned to them with targets set out over time. That would make it much easier for management to identify what needs to be done to achieve them. Those tasks could then be aggregated into projects for those parts of the enterprise which would need to change and they could then be gathered into programmes of work which link to shareholder value.

Contribution to value & strategy

This then provides an opportunity, having estimated costs and assessed benefits and risks, to determine how each programme contributes to achieving the enterprise's strategy. Prioritisation for resources could then take place for those programmes which have exceeded some minimum criteria, e.g. a particular rate of return.

The most attractive programmes could then be selected for funding, subject to the total financial and human resources available. Crucially, many enterprises get this far and then board involvement tails off. It is like lighting the blue touch paper, withdrawing and then waiting for the rocket to land - anywhere.

So what should happen next?

Investment reviews
Just as with external investments, all significant internal investments need regular board-level reappraisal, say every 60-90 days.

Contrary to popular belief, whether the internal investments are running within budgets and timescales and delivering what is expected, is almost immaterial, other than for business control purposes and to learn lessons. What needs to be regularly assessed is what is being sought from the envisaged change at the time of review and how much more needs to be expended to get there – in other words, a foreward perspective.

At each investment review, every running programme and every proposed new programme needs to be assessed in the same way using rigorous criteria and they should all compete with each other. This approach might show it appropriate to cancel some projects (or even programmes) which have been going well to date, to free up money and resources to do something else which is even better.

The road to value
It's a hard truth that value gets destroyed before it is created. As an example, at the outset time and effort will be expended in the programme to create new capabilities, e.g. a new factory or system. So far these have just destroyed value.

The next step is to bring about business change, e.g. train sales people to sell the extra products or redesign jobs. This destroys yet more value.

These steps need to be followed by realising business benefits, e.g. winning new orders and customers and improving productivity. But before these can be realised, even more value is destroyed while people are getting used to new targets and ways of working, when they can make mistakes and lose customers.

And finally … value creation
It is only when the sum of all of the business benefits, made possible by exploiting the new capabilities, have exceeded the actual investments to date in the programme, plus their opportunity cost, will additional value be created.

Grosvenor's vision
The vision Grosvenor has for Value Management is that through its adoption and continuous active involvement by boards of directors, enterprises will substantially improve the returns that they achieve from internal investments in business change. Of course, exactly what "substantially improve" means would be one of the first conversations which will need to take place about the journey from 'Vision to Value'!

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

- investments,
- capabilities,
- business benefits,
- change and
- value.

These papers can be downloaded from www.grosvenorconsultancy.com .

For further information on what Value Management could achieve for your enterprise or to arrange your first conversation on Value Management, please contact:

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