The value creation imperative

It's been just over 400 years since a Dutch company became the first organisation to sell shares and became publicly traded. By 2007, more than one billion people owned a stake in the world's companies worth more than $75 trillion.

Kevin Kaiser, INSEAD Affiliate Professor of Finance, says that’s a dramatic change from the days when monarchs and dictators owned everything and used their country’s resources for their good alone.

Now, *we* own the companies as shareholders and Kaiser says that has a number of consequences. “One of the key themes is integrity,” he says.

As consumers, *we* demand that these companies work for us, always providing better products and services at cheaper prices. We want safer, more reliable, more feature-rich products and services, and we have the tools to help us get the best deal available.

As shareholders, employees and ‘global citizens’, we want corporate managers to treat our communities and our planet with respect and consideration.

As employees, we want to be treated with respect and be paid fairly for what we contribute, and we want to see that promotions and compensation are fair and based on merit.

“It’s very relevant for people to feel good about what they do in order to feel motivated to do their jobs,” he says.

All of this is a revolution in the ownership of the world’s resources, Kaiser says. We are moving towards a world where we all share in the ownership of companies and organisations: it’s almost a form of pure communism called capitalism.

“It’s a process that’s only just beginning - the democratisation of capital,” Kaiser says.

However, success brings other challenges. Global warming and opportunity for abuse are two big challenges.

“The beauty is also the potential peril. As we’ve introduced the technology for communication, for transportation, for education and for medicine, we’ve created technologies that were unfathomable to the world’s rich 100 years ago or even 15 years ago, but at the same time that brings with it opportunities for abuse as well as positive use,” Kaiser says.

For managers this means creating value with every decision. He sets out five important requirements for any manager:

In the old world of business, it was more important to know the right people, go to the right school and pull the right strings. Now, Kaiser says the only way to be sure to survive as a company and to keep your job as an employee is to create value.

"Integrity is needed for people to be positive about the company they work for," Kaiser says. "It isn't about who knows whom and who gets promoted. It isn't about who lies and cheats the best who gets promoted. And it isn't about who politics the best to get promoted. Few of us will feel those systems are fair. We'll feel it's fair if it's the guys who create the value who get promoted. All of us are born with a fairness meter inside of us."

This means successful companies become learning organisations designed to understand and create value, and they operate within a system of integrity, he says.

The job of management is to study the consumer's interests and trends, the employees' motivation for working, the competitive landscape, technological innovations, as well as industry developments to understand the impact of decisions, Kaiser says.

That’s a lot for any manager. One key is to look at the shareholder value metric, he says. Shareholders are not the most important stakeholders, but this is the metric that reveals whether the manager is really creating value.

Looking at shareholder value requires managers to minimise costs, inefficiencies and waste, to allow the company to deliver higher quality products and services efficiently at lower cost. Kaiser says that tells a manager whether they are creating value.

But getting at shareholder value isn’t easy.

“Even for shareholder value there are many different metrics. Try to think about a way to manage for shareholder value, which is a quite different metric than simply share price,” says Kaiser.

Share price is one indicator but it isn’t always accurate. Kaiser offers the example of Enron, where the share price soared as senior managers quietly destroyed value in the company. He suggests a better indicator for internal decision-making is the current value of expected future cash flow.

Kaiser says managers need to know what is reasonable to expect, so they can adopt ideas that create value and reject ideas that destroy it.

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