THE BUSINESS TIMES BTINVEST

Published on Monday, 14 September 2015

In the Company of Value Creation
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EVERY business has goals. Some want to be the top brand in their category while others aim to expand their business globally. Though their goals may be diverse, the common thread among all companies is the aim for value creation.

Value creation is the process through which a company creates value for its customers, employees, investors and shareholders. It could be by adding new services for customers, or including training to improve employees' skill sets. But the focus of most companies is to create financial benefit for their shareholders.

The board's role

While every person in a company has a stake in value creation, the main driver should be the board. The board's role is akin to that of a parent – to guide and ensure that their child, the company, grows and develops well.

In fact, the Code of Corporate Governance outlines the board's role in value creation, although not in those exact words.

This includes reviewing management performance; setting the company's standards and values; establishing a proper risk management framework; and providing strategic aims for the company. In short, the board provides the direction for the company and oversees its progress.

Many boards, rightfully or otherwise, have chosen to place a greater focus on conformance to rules and regulations than performance of the company, perhaps as a result of various corporate scandals that have occurred in the past. The increasingly robust regime of laws and regulations does not help.

However, over the years, the role of the board has evolved to focus on improving performance. According to a 2012 *Harvard Business Review* article, "A More Effective Board of Directors", it was found that companies that were led by more strategy-focused boards had better business performance.

Making strategic decisions will inevitably affect the performance for which directors are accountable. Decisions and outcomes are two sides of the same coin. Hence, strategic decisions affect the ability to create value.

There are many situations in which decisions of the board can create value; for example, through acquisitions and divestments.

When a board approves an acquisition, the firm buys over customers, intellectual property, talent and other assets. The synergy between the old and the new is intended to create new value. Likewise, a divestment is intended to unlock shareholder value.

When a company is expanding overseas, board members are commonly relied upon to connect and open doors, which hastens business expansion efforts.

There are many ways to create value for a company, but in recent times innovation has taken centre stage as a key driver of value creation. Innovation is the act of introducing new ideas or methods. Businesses must create unique ideas in order to capture new markets and to generate new income streams.

Innovation is commonly categorised as disruptive or progressive. Disruptive innovation is dramatic - it catches notice, but progressive innovation which includes product innovation, market innovation and business model innovation, can produce good results more steadily over time.

Product innovation is increasingly valued as a key component of the sustainable success of a business. It forces a business to redefine and improve its current product mix.

Clear examples of companies that do well through product innovation are Apple and Samsung. Time and again, victory over each other's competitors is centred on product innovation, which would place either of them in the lead. Other less-innovative companies have started to disappear from the scene.

The traditional Chinese medicine (TCM) category is another good example. Many can remember the dark halls of foul-smelling Chinese medicine in the past. Eu Yan Sang innovated and the entire TCM industry transformed. Eu Yan Sang created inviting storefronts, filled with well-designed products created within a stronger revamped brand identity.

Structural changes in the marketplace have made it inevitable for companies to innovate their business models and make them constant works-in-progress. Business model innovation involves organisational change. It challenges present leaders to rethink how future revenues are to be generated.

Game changer

In this regard, the Nespresso story is instructive. Over the last few decades, there has been a rapid growth in the global emergence of coffee brands. Nestle needed an innovative strategy to maintain its lead position in the coffee beverage category.

In 1976, an employee of Nestle invented the Nespresso system and the first patent application for its process of brewing espresso from capsules containing ground coffee was filed in 1996.

Using a smart combination of product and business model innovation, Nespresso was Nestle's answer to the growing competition. The Nespresso Company manufactures both machines and capsules, which generate the bulk of its revenue. Nespresso machines and their capsules can be purchased in Nespresso stores, by mail order or from consumer appliance stores.

This game-changing business model has kept the Nespresso brand as an industry leader since its successful launch.

If boards are focused on value creation, then it follows that management should focus on innovation and this will result in greater benefits being generated for all stakeholders.

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