Discussion Board Articles – Value Based Management

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Value Based Management

Valuations of Mergers & Acquisitions

The basic principle for valuing a business combination is similar to capital budgeting of projects. If the present value of incremental cash flows from the merger exceeds the present value of the amounts paid, than the investment should add value. This concept is referred to as Net Present Value. In order to calculate Net Present Value (NPV), you must:

- Determine the expected cash flows of the target company.
- Determine the effect the merger will have on the combined cost of capital of the new entity.
- Determine the amount that will be paid for the target company. A higher price should only be paid if there is definite synergy values.

Estimates of cash flows can be seriously distorted if management has plans to change the future operations of the combined entity. Make sure you have a good understanding of future strategic plans. Your estimate of cash flows should include any additional cash outflows that will be incurred from the issuance of new debt. Cash flow estimates need to be based on sensitivity analysis of how NPV changes when a critical variable is changed. Using a decision tree model will help determine the expected value from a range of possible values.

The discount rate you should use in discounting the cash flows should be the Cost of Equity of the combined company or the target company; depending upon which cash flow stream you are measuring. Remember you are buying the equity or ownership of the target company. You may need to adjust the discount rate for additional risks incurred from the use of funds. If you are using the Capital Asset Pricing Model, you will need to determine a new Beta coefficient. Finally, don’t forget to include an estimate for terminal values beyond your forecasted cash flows.

Obviously this overview touches on the very basics in acquiring the equity of another company. A good book on valuing companies is Valuation: Measuring and Managing the Value of Companies by three consultants with McKinsey & Co.
The Underlying Sources of Value-Creation: Innovation and Speed

If someone were to ask me what is the greatest strategic advantage any organization can have in the global marketplace? My response would be INNOVATION. Innovation is one of the greatest generators of value. Innovation can lead to new markets, new customers, new products; all of which generates a lot of value. Unfortunately, innovation is very difficult to achieve. One of the best places to find innovation is in France. The French are great at innovation, everything from eye surgery to flat free tires. Because of this incredible level of innovation, the French economy has the largest trade surplus of any nation.

So how do the French generate so much innovation? Well think about how the French approach business. They are very visual in how they solve problems; i.e. use gauges and pictures to explain and solve problems (Balanced Scorecard). The French allocate lots of time to creative thought, not to creative work. In fact the French tend to minimize work; they almost have a disdain for work. Because of this freedom, the French can react quickly to market conditions without having "work" get in the way. And remember what Tom Peters and others keep preaching: It's the fast over the slow that will survive in the future, not the big over the small.

The ability to react quickly to events, customers, markets, new technologies, and other issues can make or break companies in the future. For example, years ago Bill Gates, founder of Microsoft, dismissed the Internet as inconsequential. Year's later Mr. Gates changed his views on the future of internet. What's so amazing is that Microsoft (a very large company) was able to change directions so quickly. The ability to move fast is paramount to survival in the future.

Finally, you have got to create an environment that is conducive to creativity. This requires that you break down barriers and free people up so they can be creative. For example, one company discarded most of its personnel policy and replaced it with a single sentence on one page: "Use Your Best Judgement." Other companies are evolving into virtual organizations by having the customer run the company, not the CEO. Also recognize the importance of failure. Failure is normal and it usually comes before success. Remember innovation comes from some unusual places. You have to break away from old ideas, old values, and the status quo. Don't be afraid to challenge what is going on.
Lease Valuations

A lease is an agreement whereby the lessor (owner of property) allows the lessee use of the property in exchange for lease payments. Operating leases give the lessee the use of property without ownership. Operating leases are sometimes used to initiate off-balance-sheet financing of assets. Capital or Financing leases transfer ownership from lessor to lessee. Under capital leases, the lessee will record the asset at the present value of lease payments not to exceed the fair market value of the asset. The following examples will illustrate certain basic calculations in valuing leases. You will need to refer to present value tables to understand the source of present value factors.

Example 1: What is the value of the leased asset?
Annual lease rental payments are $10,000 under a 5 year lease. The financing rate for this lease is 12% and payments are made at the beginning of the year. Since payments are made at the beginning of the year, we will use a present value factor for an annuity due. Remember that many present value tables are based on year-end payments.
Step 1: Determine the present value factor to use, 4 years (n-1) and 12% gives us 3.0373 + 1.0000 = 4.0373 present value for annuity due at 12% for 5 years.
Step 2: Calculate the present value of cash flows associated with the lease.
$10,000 x 4.0373 = $40,373 Value of Leased Asset.

Example 2: What is the annual payment for a lease?
We will lease an asset that has a value of $50,000 over 10 years. Payments will be made at year-end with an interest rate of 14%.
Step 1: Determine the present value factor to use, 10 years and 14% gives us 5.2161
Step 2: Calculate the annual lease payments, $50,000 / 5.2161 = $9,586

Lease calculations are important when making a decision to buy or lease assets. Leases can help preserve cash flows, but leases carry higher costs over the long-run than outright purchasing of assets.
Focus on Free Cash Flow, not EBITDA!

When analyzing and determining values, there is a tendency to use shortcuts or recommended calculations. For example, Cash Flow Return on Investment is advocated by some while others like to measure value by calculating EBITDA - Earnings Before Interest Taxes Depreciation Amortization. The problem with these approaches is that they tend to bypass "free" cash flows. And free cash flows are the source of valuations.

Think of free cash flow as the amount of cash you can draw out of your organization after you've paid everything off. This is the amount you want to use for determining value. If you were to use EBITDA, you would falsely assume that the asset base will be systematically capitalized over time with no future additional reinvestments into assets. How long can your organization generate future revenues with a declining asset base? Consequently, you need to be careful about fashionable ways in arriving at valuations. Get back to Cash Flows. If you want to rely on the Income Statement, than add back non-cash items such as depreciation and subtract out future working capital requirements and future capital investments. Don't shortcut your analysis; go back to how you arrive at cash flows.

Valuation of Customers – Part 1

Most businesses recognize the importance of customers. However, few businesses will recognize customers like any other asset, assigning value to customers and categorizing this asset as the main asset for running the business. When you treat customers like an asset, you begin to manage differently. For example, some customers add value to the business while others remove value from the business. For those that add value, more resources are allocated to these types of customers. The net losers are transferred to the competition. Retaining the highest value-creating customers is the primary objective behind assigning values to customers.

The value assigned to customers is based on the future net profits generated by a customer, discounted back at the cost of service rate to a net present value. In some cases, it is necessary to account for additional values contributed by customers. For example, suppose you have a customer that refers new customers to your business or suppose you have a customer that is providing you with valuable feedback for improving your services. These types of customer attributes generate higher values.

When calculating net present values for customers, you will need to estimate the full costs of servicing the customer. This requires a cost allocation system, such as Activity Based Costing with an object layer that captures net profits by customer. Since most cost models will be hard pressed to capture all customer-related costs, you will probably have to apply some probabilities to certain cost
categories. Keep in mind that we are trying to calculate a comparison of values between customers so that we can distinguish between customers adding value and customers destroying value. Ranking customers according to value requires an understanding of how customers impact the bottom line. Once we have a ranking by value, we can allocate more marketing and customer service resources to the highest value generators.

Retaining "value-adding" customers is a major challenge for every business. The range of customer values will guide you on how to allocate your limited resources. Some businesses may have a very narrow range of values; i.e. every customer adds more or less the same relative amount of value. For example, a bookstore makes more or less the same amount on each and every customer. Other businesses may find a major divergence between customer groups. For example, airlines tend to make much more money from business travelers that fly first class as opposed to vacation travelers flying coach.

The valuation process is now an integral component of managing customers. And customers are the critical assets behind every business. When we recognize that customers are different, we start to move towards customization. The process of customization is the next phase in properly managing the customer. Part 2 of this article will explore how we leverage customization as a major strategy for retaining and building customer loyalty.

Valuation of Customers – Part 2

In Part 1 of this article, we learned that valuation of assets should be applied to customers. Once we assign values to customers, we can better allocate our limited resources towards retaining the highest value-creating customers. We will now expand on what we can do to retain and build the customer asset base.

One beginning question to ask is: What customers do we want to keep? The range of values we have calculated for customers will help us answer this question. Some businesses (like a foodstore) will have narrow valuations since almost all sales are marginal. Other businesses with wide variations in profit margins will have a much more diverse spread of valuations. Wide variations in valuations will give us a customer base with a high skew curve. Businesses with wide variations and high skew curves will tend to emphasize frequent marketing programs, special sales, and other strategies directed at the high-end of the skew curve. Businesses with low skew curves have a flat customer base and thus, they will allocate their marketing efforts more uniformly throughout the entire customer mix. For businesses with low skew curves, one way to segment out customers is by their needs. For example, a clothing retailer provides numerous needs - children's shoes, men's neck ties, etc. The greater the differentiation in needs amongst your customers, the greater the need to learn from the customer.
Therefore, retaining customers is a function of gaining new knowledge about the customer. This requires that you establish a relationship with the customer. Once you begin to interact with the customer, you start to identify unique needs of the customer. This is important since customers are not interested in making choices. Customers are best satisfied when you deliver products and/or services that are customized to their specific needs. Customer retention comes from treating each and every customer differently. The most loyal customers are those who expect you to remember what their specific needs are. The more specific a customer is with your business, the more you will be able to learn from the customer. And the less likely the customer will defect and move over to the competition.

As the organization learns from the customer, it will be necessary to deliver customized products and services. The organization will have to become increasingly flexible with marketing and production. Additionally, a needs specific program should be directed at high value customers. The high value customers are the ones that you must retain. In the book Enterprise One to One, the authors Don Peppers and Martha Rogers note that a learning relationship between the business and the customer can only take place if:

- The business has the capabilities to deliver customized products and services in a cost-effective manner.
- The business has intelligence about the customer and this intelligence allows the business to anticipate customer needs.
- The business is very flexible and there is a strong interface between production, marketing, and other components of customer service.
- The customer is required to tell the business what specifications are required. Customers direct production, marketing, and other parts of customer service.

Finally, the emphasis is not on trying to bring in new customers. The emphasis is on providing more and more unique products and services. This wider product mix brings in the new customers. Consequently, the organization must be customized to meet the needs of the customer. This may require changing the organizational structure.

We no longer live in a world where one common product or service can be spread amongst the customer mix. We are quickly moving into a world where products and services are customized to meet individual customer needs. Customization based on learning from the customer is critical to value creation in the future.
Lessons from the Entrepreneur
Lesson 1: Some Basic Concepts

One of the best ways to create higher values is to simply think like an entrepreneur. If we can think like an entrepreneur, we can find numerous ways of changing how we manage and create wealth within an organization. Over the next few months, I will summarize several concepts that I believe are paramount to creating higher values. All of these concepts come from thinking like an entrepreneur. Lesson 1 (which follows) will introduce some basic concepts. Lesson 2 will explore characteristics of the entrepreneur and Lesson 3 will outline the entrepreneurial culture.

One simple lesson we can all learn from the entrepreneur is how to manage risk. Entrepreneurs think in terms of stages or increments. They never commit large resources up-front, working within a single stage. The traditional manager, on the other hand, is given a budget to complete a project and he or she will force an outcome no matter what new facts may emerge during the life cycle of a project. Compare this approach to the entrepreneur who never takes such huge risks. Entrepreneurs manage risk by making decisions incrementally and they move forward very cautiously, moving to the next stage only if a specific event or action has occurred. This approach allows the entrepreneur to better control risk as opposed to the traditional manager who takes on major risk. By not wasting valuable resources, entrepreneurs not only manage risk better, but they preserve and protect value. They also have better control over the final outcome of projects.

Another key lesson from the entrepreneur is a never-ending search for new opportunities. Entrepreneurs enjoy experimenting with new ideas, seeking out new areas to exploit. Contrast this to the traditional manager who avoids experimentation, focusing on his or her career within the organization and not thinking outside the traditional box. Entrepreneurs live for new opportunities whereas traditional managers follow a sequential pattern of procedures that conforms to the corporate culture. A strong emphasis on learning is usually at the center of finding new opportunities. Entrepreneurs seem to listen and learn much better than anyone else and as a result, they can see an opportunity much easier than the rest of us. Therefore, a major commitment to learning is at the center of identifying new opportunities to exploit.

A third lesson we can learn from the entrepreneur is that execution is more important than the idea itself. Many organizations are searching for new ideas as a way of creating higher values. New ideas are hard to come by and they rarely result in the creation of value. Value comes from the ability to execute. Entrepreneurs seem to have an uncanny ability for executing an idea and turning something redundant into a great business. For example, something as simple as coffee all of a sudden becomes Starbucks, an international chain of coffee
shops. It's not the product or service that creates value, it is all of the intangibles associated with the product or service that seems to attract customers and creates value. Entrepreneurs understand this concept and they know how to execute an idea much better than the traditional manager. Keep in mind that over 70% of all new ventures come from existing ideas, not new ideas. Execution is how entrepreneurs create value.

In conclusion, we have learned three important concepts from the entrepreneur:

1. Thinking in stages or increments is a value-creating approach to risk management.
2. Allowing experimentation to take place is paramount to value creation. This requires a very strong commitment to continuous learning; otherwise you will have difficulty identifying new opportunities.
3. Existing ideas are much more important than new ideas when it comes to creating value. The challenge is to transform an existing idea into something that is new to the marketplace; i.e. execution.

In our next lesson, we will learn some of the basic characteristics behind the entrepreneur.

**Lessons from the Entrepreneur**

**Lesson 2: Characteristics of the Entrepreneur**

In our first lesson, we described a few basic concepts that entrepreneurs follow in managing a business. We will now expand on how entrepreneurs create value by looking at some characteristics of entrepreneurs. One common characteristic behind almost every entrepreneur is a strong commitment to a set of skills. Invariably you will find that entrepreneurs are extremely highly skilled in their chosen profession and as a result, they can attract customers based on this high level of expertise. Entrepreneurs are able to exploit this expertise and build a business around what they are good at. Entrepreneurs do not digress or move into areas where their skills are weak. If an entrepreneur requires other skills, the entrepreneur will seek out partners or build a management team. Keep in mind that almost every entrepreneurial business will require at least three skills: marketing, product, and finance. You have to be able to sell and reach the customer. You have to be able to create a product that creates value for the customer. Finally, you must be able to raise the money to execute your business. Entrepreneurs know how to cover all three of these skills.

Another common characteristic to most entrepreneurs is a love for what it is they do. Entrepreneurs have a passion for their work which helps them persevere through hard times. This strong commitment allows entrepreneurs to compete and overcome numerous obstacles. Failure is part of the process of building the entrepreneurial business. Most entrepreneurs will experience a lot more failures than successes. However, they persevere through failures by learning from failures and they build on
this new knowledge. Therefore, "intelligent" failing is an integral part of how entrepreneurs create value.

A third characteristic common to most entrepreneurs is a low resource need. Entrepreneurs are customer dependent and not resource dependent. Entrepreneurs seem to create value with minimal resources. This low support need is one of the reasons why so many entrepreneurial businesses create so much value. Contrast this to the big corporation where huge resources are plowed into projects, resulting in wasted resources and the destruction of value. Entrepreneurs create businesses with minimal capital investments. This in turn generates an extremely high return on invested capital and thus, high valuations for the business.

In summary, we can list several characteristics common to entrepreneurs:

- Extremely high skills resulting in benefits to customers.
- Strong commitment to building value with failure as a normal part of the process.
- Low support needs and thus, high valuations are possible.
- Focused on the needs of the customer. The customer is the ultimate solution within every business.
- Does not follow a pre-set path or structure; experiments through a meandering journey.
- Informal, open communication style that allows a conversation to take place and thus, entrepreneurs are always learning.
- Very sensitive to what works and what does not work. Entrepreneurs are very observant.

In our final lesson on entrepreneurship, we will look at how your organization can create an entrepreneurial culture.

**Lessons from the Entrepreneur**  
**Lesson 3: The Entrepreneurial Culture**

It should go without saying that we now function in a world of intense competition. Additionally, those who invest in companies are becoming less and less confident in management’s ability to create value. As a result, financial markets are becoming increasingly volatile. We also need to consider things like shorter product life cycles. Because of these factors and many more, it is absolutely imperative for every organization to build an entrepreneurial culture. This article will summarize some key components within the entrepreneurial culture.

As you may recall from Lesson 1, entrepreneurs never manage projects in a single stage. They think in terms of increments and they always learn from their mistakes. Traditional organizations destroy the project spirit by prohibiting people from going back to design or planning and thus, changes are not allowed. This in turn forces an outcome that never fits. Entrepreneurs have the freedom to
experiment. People can stretch and take risk, bringing new ideas into the organization. Traditional organizations restrict experimentation through an array of memo's, meetings, policies, politics, etc. Therefore, an entrepreneurial culture allows people to experiment in a "non-judgmental" environment. No idea is judged or ridiculed.

An informal management style is also important to the entrepreneurial culture. Informal and open organizations allow anyone to communicate with anyone else anytime, anywhere. This fosters innovation and change. An entrepreneurial culture will reinforce innovation through incentive programs, rewarding people for their new ideas. Entrepreneurs also create informal environments by making everyone equal. This is symbolized by not having lush offices, large bonuses, private parking, and other special perks. Everyone exists within the same environment. Contrast this to the traditional organization where numerous perks and other attributes segment the workforce. Only when you minimize all differences can you expect people to be viewed equally. Once everyone is equal, an entrepreneurial culture of open communication and new ideas will emerge. And don't forget to share the power and the rewards. Empowerment is part of equality.

In order to have creativity and innovation, we need to have an environment that is fun. For example, Southwest Airlines has a "fun" corporate culture thanks to its President, Herb Kelleher. As Kelleher has pointed out, intangibles like a "fun" culture are extremely difficult for the competition to replicate and as a result, this becomes the competitive advantage for a company like Southwest Airlines. Creating these intangibles is a major challenge in building the entrepreneurial culture.

One way many organizations create innovative cultures is to get into the habit of introducing new products and/or services. A continuous flow of new products or services seems to ensure that the organization is operating in a creative mode.

Finally, don't forget to communicate your strategies over and over again. It is absolutely critical that everyone has a clear understanding of the strategic objectives of the organization. According to Kaplan and Norton, less than 10% of the people in a typical organization will truly understand what the organization is about and where it is going.

In conclusion, all organizations can gain enormously by simply changing their cultures over to an entrepreneurial culture. In today's world of intense competition, an entrepreneurial culture is critical to staying ahead of the competition. Learning from the entrepreneur is one of the best approaches to creating long-term value for each and every organization.
Intangibles over Tangibles

In today’s information age, the emphasis is on intangibles. We no longer live in a world where physical assets are more valuable than intangible assets. High levels of business performance are more dependent upon intangible characteristics:

- Ability to innovate
- Ability to change
- Speed to Market
- Develop and Retain the Best People
- Create a One to One Customer Relationship

The marketplace also recognizes the value of intangibles. For example, companies like Microsoft have a market capitalization driven by intellectual and intangible attributes. And companies like Microsoft have market capitalization’s well above companies operating with heavy loads of physical, tangible assets.

“Our primary assets, which are our software and our software development skills, do not show up on the Balance Sheet at all.” – Bill Gates of Microsoft

When Financial Analyst were asked to rank the best non-financial measurements, they listed the following:

1. Execution of Strategy
2. Management Creditability
3. Quality of Corporate Strategy
4. Innovation
5. Ability to Attract and Retain Talented People
6. Market Share
7. Management Expertise
8. Alignment of Compensation with Shareholder Interest
9. Research Leadership
10. Quality of Major Business Processes

If you look at this list, most of it relates to the intangibles within the business; things like leadership, quality of management, people, ability to innovate, etc. This is what investors are looking for within a business. So how do you manage in this world of intangibles? In comparison, the World of Intangibles is considerably different than the traditional business world of physical, tangible assets.

Tangible Assets => Readily Visible, Easy to Quantify, Reported on the Balance Sheet, Easy to Duplicate, Depreciate over time, limited application, managed through control, accumulate and store.
Intangible Assets => Difficult to Recognize, Difficult to Quantify, Not Reported on the Balance Sheet, Difficult to duplicate, Appreciates over time if managed properly, Has multiple applications to the business, Managed by alignment, and tends to be very dynamic with a short life span.

For financial professionals, this presents numerous challenges. For example, much more emphasis must be placed on growing the intangibles within the business. Within finance, this can involve things like rethinking the budget models, allocating resources differently, shifting the cost structure, and moving towards virtual financial functions.

The trend towards intangibles is real and extremely profound for business. In fact, Tom Peters in his Project 50 series of books declares that those organizations that survive will have to adopt these types of intangible attributes. Peters refers to these surviving organizations as “Professional Service Firms.”

“These firms can be tiny or huge. But regardless of size, they perform purely intellectually based services, own damn little in the way of hard assets, and sometimes deposit billions of $$$ on the bottom line. Those who survive – on or off a corporate payroll will jettison (almost) everything they’ve learned and adopt the attributes / attitudes of a PSF / Professional Service Firm” - Reinventing Work: The Professional Service Firm 50 by Tom Peters

The Marketplace is clearly indicating a preference for intangibles over tangibles when it comes to running a business. Therefore, businesses will have to recognize new drivers of value, such as customer led business processes, increased specialization, and an emphasis on knowledge workers. Physical assets, which are easy to duplicate in the marketplace, will no longer provide a competitive advantage. This shift from tangible to intangible is one of the reasons we are experiencing so much change. If you expect to manage change, you will have to function in the World of Intangibles.

The VDF Tool

One of the major challenges facing strategic planners is to bridge the gap between strategizing and building a performance measurement system (Balanced Scorecard). Despite attempts to bridge this gap, strategic thinking is often isolated or apart from those who develop measurement systems such as the Balanced Scorecard. In an effort to close this gap, we can focus on assets; i.e. identify those assets that we must develop for meeting strategic goals and objectives.

Similar to how the structure of a balanced scorecard allows us to reframe strategy into four or five perspectives, we can structure our strategic assets into a framework known as the Value Dynamics Framework (VDF). VDF is an organized approach to
categorizing all assets that are required for strategic execution. Assets can fall into several categories, such as the following:

- Physical Assets such as inventory, facilities, equipment, vehicles, etc.
- Customer Assets such as strategic partners, suppliers, distributors, and other assets needed to service customers.
- Organizational Assets such as employees, executives, board members, organizational structures, culture, processes, reputation, etc.
- Financial Assets such as cash flow, revenues, debt, equity, and other financial resources needed for the strategy.

In his article, “Putting Strategy into the Balanced Scorecard”, Peter Brewer outlines four steps to building the VDF:

1. Identify the assets you will need to execute your strategy.
2. Map your assets into a framework, making sure everything relates to one another resulting in one cohesive model.
3. Do SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis of your VDF - make sure it works against the current competitive environment.
4. Connect critical success factors in the strategy to the assets within the VDF.

Once we have the VDF established, we can now select the appropriate measurements for the Balanced Scorecard. Measurement selection becomes easy since assets are the focal point of measurement. Therefore, the VDF Tool connects assets that drive strategy to measurements that populate the Balanced Scorecard.

Arthur Andersen, once a major accounting firm, has described the VDF Tool as a means of “cracking the value code.”

“. . . companies in today’s superheated economies are in a race to discover the underlying code of value creation. That is, they are trying to find out which combination of assets – tangible and intangible – create the greatest economic value and to avoid those combinations that destroy it. How do companies create value today? Our answer: To succeed, they need to see what matters – all of the assets contributing to value creation.”

- Cracking the Value Code by Richard E.S. Boulton, Barry D. Libert, and Steve M. Samek

By using the VDF Tool, we can help ensure that we invest in those assets that have the biggest strategic impact. Once we know where to invest, we can budget our resources accordingly. This in turn links our budgets to our strategy, something that often escapes the strategic process. Overall, the VDF Tool can be a powerful technique for exposing those assets that require major emphasis for value creation.
From Shareholder Value to Stakeholder Value

Some of the most significant sources of value for an organization are elusive, non-quantifiable and not easily discerned. One way to cast a wide-enough net for capturing these elusive elements of value is to take a stakeholder approach to the business as opposed to the traditional shareholder only view of everything. By taking this stakeholder view, resources are better utilized for long-term value creation. This approach to business can be bold in contrast to the shareholder type view, which tends to be somewhat traditional. We can begin by contrasting these two approaches:

A shareholder only approach usually has several characteristics, such as:

- Narrow Focus, driven by numbers and things that have been quantified and measured.
- Executive Management may react to valuations in dramatic ways (mergers, layoffs, etc.).
- Performance evaluation tends to be financially focused with little emphasis on intangible drivers of performance.
- Sources of value tend to be isolated systems, fragmented, and not coherent.
- Slow to respond to change; new ideas are not easily understood.
- Management tends to quickly embrace a quick fix solution, sometimes adopting the latest fad despite the fact that it may not fit or it is not well-tested.
- People who create value may be viewed as “too radical” and somewhat out-of-step.
- The bottom line focus is on earnings.
- Traditional approaches to growth – allocate resources to marketing, acquire other companies, control costs, etc.
- Business success is what we create for our shareholders.

Contrary to a “shareholder” only viewpoint, stakeholder thinking tends to be deeper and broader. A stakeholder approach may include the following characteristics:

- Sustainable, competitive thinking that tends to be visionary.
- Multi-view of the organization regardless if it is quantifiable.
- Performance evaluations follow strategic issues, not just operations.
- Strong value systems across the entire value-chain, extending to external stakeholders.
- Easy flow of new ideas and innovation (very change oriented).
- Management does not embrace quick fix solutions; instead opting to move cautiously and incrementally to avoid paying a heavy price.
- People who create value are most likely to advance within the organization.
- The bottom line focus is on value – what value are we adding?
- Growth through the intangibles – relationships, competitiveness, knowledge workers; thinking in terms of opportunities for growing the business around core competencies.
- Business success is what we create for all stakeholders, not just shareholders.

“A value is a belief in action. It is a choice about what is good or bad, important or unimportant. Values shape behavior. Until a value is acted upon it remains an aspiration. Values are hard to detect; yet they underpin organizations like the foundations of a house. If the foundation is weak, then the house falls down.”
- Unblocking Organizational Values by Dave Francis and Mike Woodcock

One way of moving away from shareholder value to stakeholder value is to identify the real drivers behind value creation for your stakeholders. These bottom layer drivers will give you great insight into what really works on reaching the upper shareholder layer of value. This type of thinking needs to permeate all levels of the organization so that eventually, everyone is asking the question: How does my behavior or actions impact value and what can I do to create more value?

“What people value causes organizations to have cultures and acquire the reputations they have. World-class companies usually have cutting-edge technology, superior management systems, outstanding electronic systems, and database management, but their reputations all come back to human beings – the people who make decisions and take actions in these organizations, while using technological and management systems and tools. One of the critical characteristics of successful companies is a careful balance between the values, interests, goals, and objectives of the organization, and the values of the individuals who work for it.”
- Value Driven Management: How to Create and Maximize Value over Time for Organizational Success by Randolph A. Pohlman and Gareth S. Gardiner with Ellen M. Heffes

One common trap to value creation is to become overly pre-occupied with metrics. You should not confuse value creation with value-based metrics. Value type metrics are widely accepted and understood – things like EVA, Cash Value Added, Return on Investment, etc. However, the biggest sources of value (things like leadership, innovation, ethical behavior, knowledge, etc.) are not easy to quantify.

“Value is added in the sense that the situation is better than if nothing was done at all. But value is destroyed in the sense that the optimal value has not yet been implemented.”
- The Value Mandate by Peter J. Clark and Stephen Neill

Value-creation is a constant and difficult struggle since we can’t predict the future and many of the most important drivers of value are not measurable. Therefore, it may be appropriate to focus on only a few key drivers of value since organizational resources are limited. For example, one of the ultimate drivers of value resides in your people. So if you want to start at one single point on real value creation, begin with your human resource capital. One reason this is important is because people transcend and help you meet the value-proposition required by your other stakeholder groups – customers, suppliers, partners, etc. People represent the fluid dynamics that binds all
stakeholders, covering the full range of value-creation in this age of stakeholder value and not just shareholder value.

“We don’t believe in the word ‘measurement.’ We don’t supervise or manage people here; we lead. And we don’t have employees; we have people. We don’t have human resources; we have a people department. Our emotional contract with people is to treat them with respect, allow them to have input into the company, and allow them to self-actualize within their jobs.”
- Stephen Smith, CEO of WestJet

Value through Strategy

Appropriate strategies are at the cornerstone of shareholder value since creating value is a function of doing things better than the competition. If you can't out-strategize the competition, then investors will show a preference towards your competitors. Therefore, creating value is very much a function of great strategic execution, done in such a way that you somehow “re-invent” the rules of the game.

“The companies that will prosper and outpace their competitors during the next two decades will be those that will be able to outthink their competitors strategically, not out muscle them operationally. The winning CEO in the future will be the one who can craft a singular strategy that gives the company a distinctive advantage.” - Strategy Pure and Simple II: How Winning Companies Dominate their Competitors by Michel Robert

The link between strategy and value-creation is very profound, yet most people seem to put little energy and emphasis behind serious strategic decision-making. By shifting more of your energy on strategy, you are spending more of your time on things that matter most; i.e. things that will have the highest impact on value. So how can we get the organization to strategize more effectively? The answer is basically a three-fold proposition: Understand Yourself, Understand the Customer, and Understand the Competition.

Understand Yourself: You must understand what drives value within the organization. And strategies change and move so fast, formal approaches to strategic assessment may not work. More informal, quick approaches that focus on the real drivers or value systems seem to work best. For example, “Appreciative Inquiry” is now considered a good model for focusing on what employees, customers, and other stakeholders appreciate about the organization. This becomes the building blocks for fast, effective strategic execution.

Understand the Customer: You must understand what the customer values and what values you can provide for not just meeting the customer's requirements, but turning the customer into a loyal and long-term partner within your business.
Understand the Competition: You must understand the strategy of your competitor's. Markets are now very competitive; you cannot just narrowly focus on the customer alone. You must understand what makes the competition tick – otherwise you're in for some nasty surprises.

“Strategic Planning is seen not so much as a mathematical activity, juggling with various forecasting techniques, although some forecasts remain vital, but as an ability to understand how a business can prosper through skilful positioning in the market place. It is an exercise in vision which must be fostered; the vision must also be informed by a concentration on the need for profit.” - The Visionary Executive: Strategic Planning for the New Business Leaders by Michael Z. Brooke and William R. Mills

One of the biggest inter-dependencies between value and strategy has to do with communication. Its fine to have a good strategy, but it's all for nothing if you are unable to clearly communicate it to those who must execute on it. Keep in mind that strategy is about moving and changing things in relation to the past based on what you understand in relation to customers, competition and other forces impacting your business. From all of this, you must define a compelling vision and future before others, energizing them around this strategy, allowing you to change the organization.

Creating value through strategy requires several dynamics, things like getting close to the customer and a solid understanding of competition. Perhaps the real underlying force for driving value through strategy is getting people to change. This requires that you continuously articulate a vision and strategy that people can truly execute on. Somehow you must be able to energize everyone around a common cause, communicating in such a way that it is our survival at stake – we must do these things if we expect to stay in business!

“A company that demonstrates concern for long-term success in the best interests of all stakeholders (not merely directors or shareholders) is most likely to win the respect of everyone involved in supporting it including employees, customers and suppliers. Instead of being frightened of difference and conflict, instead of pursuing power, wanting to be right, wanting to win arguments, wanting to be better than, we need to learn to welcome difference and conflict, let go, acknowledge that we don't know, that we are traveling and learning, that we will succeed better when everyone wins, that there are, most often, win-win situations. We need to learn to listen with interest and open minds and engage in dialogue. We need honesty, rigor and challenge. This will encourage learning, flexibility of response and creativity and help in solving problems and deciding the most appropriate way forward.” - Making a Difference: Strategies and Tools for Transforming Your Organization by Bruce Nixon

In his book The Art of the Strategist, author William A. Cohen, PhD describes in detail ten principles for strategic success:

1. Define and commit fully to a set of strategic objectives.
2. Analyze and move forward quickly – don't sit there and wait for the ideal conditions to unfold before launching your strategic initiatives.

3. Clearly understand your competitive advantages and focus your resources into these competencies for strategic success.

4. Push hard on the things that are opportunistic to your organization in relation to the competition – move on your strong points before competitor's erode them away.

5. Don't be afraid to make some bold moves – experiment to keep competitors off balance.

6. Keep the organization simple so you can execute. Overly complicated structures and systems will impede strategic success.

7. Don't forget to develop some exit or alternative strategies since your current strategies will invariably run out of gas.

8. Take an indirect path to reaching your strategic objectives. For example, you may need to partner with some unfamiliar companies to reach your objectives.

9. Distinguish the cost benefit of going to market before your competitors. Timing is an important element, but you could get burned with first mover advantage. Pioneers often suffer large losses, paving the way for others to follow on the heels of the so-called first mover advantage.

10. Don't bail out too soon on your successes. Mature and modest success is a lot easier to manage than short-lived success.

Finally, here are a few key points to consider for effective strategizing:

- Strategies that have some original ideas, giving some distinction to the organization apart from the competition can be more value-added than a strategy that simply goes head-to-head against the competition on their terms.
- Strategies that imply a need to change or improve can be more value-added than a strategy that rarely changes what the organization is currently doing.
- Strategies that are easy to understand can be more value-added than a strategy that is complex and fails to take advantage of the resources that the organization has.
- Strategies formulated in isolation of stakeholders can be risky, superimposing dramatic changes upon others. Strategies must fit with others who have an interest in the strategy.
“For vision and strategy to be motivating and spark people's imagination it has to be challenging yet at the same time it has to be attainable. If the reaction is, ‘Yes, of course we can do that,’ the target is probably not challenging enough. If the reaction is, ‘Not a chance in hell,’ it has probably overshot the goal. If it is, ‘Can we do this? Well, perhaps we can . . .,’ it is probably about right.” - The Innovative Wave: Meeting the Corporate Challenge by Bettina Von Stamm

Value through Innovation

Peter Drucker, the father of modern management once declared that the one core competency every organization must have is the ability to innovate. One of the reasons innovation is so critically important is because of change. With change, you are forced to innovate and you can elect to be reactive, forcing yourself to innovate (change what you are doing) or you can be pro-active, purposely seeking to innovate so as to control the changes forced upon you. As you might expect, the latter, the deliberate pursuit of innovation is the “value added” option.

So how do we create innovation? Start by fueling innovation through ideas. Ideas bring about innovation and ideas are fueled by creativity. Creativity emerges from people with varied skill sets, working together to spark innovation from one another. One ingredient behind creativity is having the right environment. People need to feel they can raise questions and take initiatives for innovation. The combination of competent people and the right environment is a powerful driver for creativity and innovation.

One common approach to innovation is through new product development. There’s nothing wrong with redesign of products and services. However, you shouldn’t confine innovation to this single area. For example, innovation can take place by changing the customer mix, adjusting the business strategy, rethinking how you apply your core competencies and managing complex differently. There are numerous areas where innovation can take place.

The timing of innovation can be important. The best time to pursue innovation is when you least need it! Since innovation is not easy to come by, it’s best to pursue innovation when all is going well. You do not want to find yourself trying to force innovation during bad times or especially, during a crisis. You need time to test alternatives, run pilot programs, and discuss “lessons learned” before full-scale implementation of new ideas can be launched.

In his book Idea Power: Techniques and Resources to Unleash Creativity in Your Organization, author Arthur B. VanGundy outlines seven important factors for creating a climate for innovation:

1. Risk Taking – Any change requires some acceptance of risk.
2. Autonomy – Creative ideas are best generated when there is some degree of freedom of thought.


4. Tolerance of Differences – An innovative climate recognizes that everyone is not alike and innovation works when everyone can express their ideas.

5. Top Management Support – Creating an innovative climate begins at the top, not at the bottom.

6. Initiating and Encouraging Ideas – Innovation requires a continuous flow of ideas – lifeblood of the organization.

7. Positive Response – Innovative ideas should receive strong positive response, not just passive encouragement.

Another powerful driver behind innovation is comparing what you are doing against others. Study the ideas of your competitor's, other companies, monitor business innovation on a large scale and see how you can adapt it to your organization. The best ideas that fuel innovation usually come from existing ideas. This is how the Japanese captured market share in the United States.

"It's OK to borrow an existing idea. The genius comes in adopting it for your needs:

- What could you adopt?
- What could you substitute in the approach, materials, ingredients, or appearance?
- What could you combine with an existing idea?
- What could you magnify or minimize?
- How could you put it to other uses?
- What could you eliminate?
- What could you reverse?
- What could you bring back?

And the best news of all – you can do it! Are you ready to borrow the best of existing ideas?"

- IdeaWise: How to Transform Your Ideas into Tomorrow's Innovations by Steve Rivkin and Fraser Seitel

In conclusion, most business experts seem to agree, innovation is what drives business growth. Over half of all growth in the United States comes from new products and services. We now see books titled: If It Ain't Broke, Break It – emphasizing the need to jump start innovation or in Tom Peter's book The Circle of Innovation – the transformation of the CEO into a Chief Destruction Officer. Two major drivers behind innovation are creativity and existing ideas. Creativity involves risk and the acceptance of failure while ideas are usually a function of
watching and learning from others, finding ways of how you can apply and fit the best ideas of others into your business.

“. . . the greatest rewards go to companies that create new business models – ideas that spark new sources of revenue based on changing technology, demographics, and consumer habits. By definition, new business models destroy old ones, which is why creating new wealth is a threat to every traditional, unimaginative business. Never before have strategy life cycles been shorter and has market leadership counted for less. Call it the First Law of the Innovative Economy: Companies that are not constantly pursuing innovation will soon be overwhelmed by it. Strategy innovation is the only way to deal with discontinuous – and disruptive – change.” - On Creativity, Innovation, and Renewal, edited by Frances Hesselbein and Rob Johnston

**Value through Ethical Behavior**

There is a growing body of knowledge to indicate that organizations that act in a socially responsible manner, following high ethical standards will in the long-run outlast and outperform companies that pursue profits at all costs. This connection between value and ethics has been around for a long-time, but several studies have confirmed it:

- “The financial performance of companies stating a commitment to ethics is better than those that didn’t based on the annual rankings of companies.” – Business Week Magazine
- “Of the 87 companies where an ethics code was clearly stated, the average Market Value Added (MVA) was 2.5 times larger than those not mentioning a code of ethics or conduct.” – Corporate Performance is Closely Linked to Strong Ethical Commitment by Dr. Curtis Verschoor
- “Companies that routinely practice high business ethics and principles also attract the highest quality recruits and retain employees longer.” – Ethics Research Center

Therefore, the morality of management has a lot to do with the overall value system behind any organization. In his book Saving the Corporate Soul, author David Batstone outlines eight principles of ethical corporate performance:

1. The directors and executives of a company will align their personal interests with the fate of stakeholders and act in a responsible way to ensure the viability of the enterprise.
2. A company’s business operations will be transparent to shareholders, employees, and the public, and its executives will stand by the integrity of their decisions.
3. A company will think of itself as part of a community as well as a marketplace.
4. A company will represent its products honestly to customers and honor their dignity up to and beyond a transaction.
5. The worker will be treated as a valuable team member, not just a hired hand.
6. The environment will be treated as a silent stakeholder, a party to which the
company is wholly accountable.
7. A company will strive for balance, diversity, and equality in its relationships with workers, customers, and suppliers.
8. A company will pursue international trade and production based on respect for the rights of workers and citizens of trade partner nations.

“Truth be told, the corporate crisis is as much spiritual as it is financial. Yes, fortunes are won or lost on the ability to anticipate trends and create products that meet these demands. But capitalizing on innovation is not enough today. A company’s success also hinges on whether in the eyes of its employees and the public it honors a common sense of justice.”
- Saving the Corporate Soul by David Batstone

The marketplace and business are usually driven by “commercial” type decisions. However, people are not necessarily driven by commercial or business related values. Individuals and organizations need to take it upon themselves to set a moral compass that is not driven strictly by commerce. Businesses can take several steps to establish a moral compass – transparency and honesty in reporting financial results, assuming responsibility for bad decisions, sharing of wealth to all, service to community, humanizing the workplace, and other decisions of integrity.

“A value is a belief in action. It is a choice about what is good or bad, important or unimportant. Values shape behavior. Until a value is acted upon it remains an aspiration. Values are hard to detect; yet they underpin organizations like the foundations of a house. If the foundation is weak, then the house falls down.”
- Unlocking Organizational Values by Dave Francis and Mike Woodcook

Ethics is about the choices we make – the wisdom we display through our decisions, and ethics ultimately defines how we want to live – the standards of acceptable behavior that tells the world what is right. When we do these “right things” we create strong, sustainable relationships with our stakeholders, creating positive value for everyone. Thus, the connection between value and ethics!

Finally, what success represents to the “ethical” business leader may contrast sharply with the typical business leader. The typical business leader is often preoccupied with meeting the numbers, defeating the competition, and being on top. Ethics is more concerned with doing the right things, not looking at business in terms of profits and financial results, but creating a sense of dignity and prosperity for everyone touched by the business.

“Getting business’s ethical house in order starts with people. Consider that ethical transgressions can occur on countless levels. As social psychologists, we look at two variables, the environment and the person. Consider how your ethical miscues can affect people – employees, colleagues, and superiors, suppliers, customers, internal regulators (lawyers, auditors, the board of directors), external regulators (government, interest groups, and the like), shareholders, or the public at large in
your community. You can affect any or all, separately or combined, consciously or not. And you can have an impact on how they think of you in numerous ways – through corporate citizenship, product quality, your business plans and strategy, how openly and candidly you communicate, by the clarity of your business reviews and reports – internally or externally, by the transparency of your financial and other public statements, and you certainly have an impact on your image if you commit premeditated fraud or deceit, or even violate criminal laws. These can be acts of commission – or acts of omission, venial – in the moral theologian’s view – or moral.”
- The Ethical Challenge: How to Lead with Unyielding Integrity, Edited by Noel M. Tichy and Andrew R. McGill

**Value through Leadership**

People invariably drive performance and given the right leadership, people will perform at very high levels. Understanding the dynamics and attributes behind leadership is critically important to overall performance for any organization. One of the best ways to understand leadership is to connect it to value-creation. For example, leaders who comprehend value take into consideration the needs and values of all stakeholders. They balance each stakeholder when making a decision – what’s best for maximizing value for everyone. This tends to contrast sharply with non-value based leaders who are overly bottom-line driven, focused on a select group of stakeholders, failing to recognize how a decision positively impacts one group at the expense of another.

“There are two kinds of leaders: the ordinary ones and the visionary ones. Only the latter are truly successful.” – The Visionary Executive: Strategic Planning for the New Business Leaders by Michael Z. Brooks and William Mills

In his book *Value Leadership*, author Peter S. Cohen outlines seven principles of value leadership:

1. **Value human relationships:** Treat people with respect so they achieve their full potential consistent with the company’s interests.

2. **Foster teamwork:** Get people, particularly those with different functional skills and responsibilities, to work together to advance the interests of the corporation.

3. **Experiment frugally:** Harness accidental discoveries to create value for customers and partners.

4. **Fulfill your commitments:** Say what you intend to do; then do what you say.

5. **Fight complacency:** Weed out arrogance.

6. **Win through multiple means:** Use strategy to sustain market leadership.

7. **Give to your community:** Transfer corporate resources to society.
Leaders create value through their ability to bring about change through other people. Perhaps this is the best definition of leadership: The capacity to create change in others. Creating change requires that you effectively reach people. One of the drivers behind making this happen is something called emotional intelligence. The ability to convey things in a passionately or emotional way gets people to commit to the cause. High emotional intelligence also enables leaders to read people and situations better.

“Lasting success lies in changing individuals first and then the organization follows. An organization changes only as far or as fast as its collective individuals change. Unlocking individual change starts and ends with the mental maps people carry in their heads – how they see the organization and their jobs. And if leaders cannot change individual's mental maps, they will not change the destinations people pursue or the paths they take to get there.”

- Leading Strategic Change: Breaking through the Brain Barrier by J. Stewart Black and Hal B. Gregersen

One of the greatest challenges confronting any leader is bridging the gap between strategy and getting people to execute. Leaders direct people to focus on the right strategic issues. Too often people cannot identify with an organization's strategy and likewise, too often leaders are disconnected from the realities that people must face within the organization. If the leader can properly bridge this gap (strategy vs. organizational capacity), then the leader should be able to create value.

An organization must be managed in such a way that a strong dialogue takes place between the leader and its people. If the right people are engaged, then everyone should be able to cut their way through the strategic jungle. If leaders fail to engage people in strategic execution, then creating value through leadership will be exceedingly difficult. Although it is true that most people are not good strategic thinkers, it is also true that people want to contribute to a larger purpose that only the leader can convey. Therefore, communication is at the cornerstone of creating value through leadership. And given great communication, leaders can close the gap between strategy and strategic execution.

“Above all, leadership communication entails nuturing and maintaining a workplace environment in which communication flows freely and quickly in all directions with minimal distortion or lag time. The leader of an organization is automatically the designated chief communication officer and is accountable for all communication in the organization – not only his or her own, but that of the entire workplace community. As such, communication demands a deeper understanding, and some new perspective.” - The Leader as Communicator by Robert Mai and Alan Akerson
Value through Marketing

For any organization that must compete for customers, there is a real need to have a viable and strong marketing effort. Unfortunately, marketing may not get the attention it deserves by senior level management. Given the new challenges confronting most organizations, finding and keeping customers has become mission critical. And traditional approaches to marketing, such as introducing more products or increasing advertising, may not add value. A “value-added” approach to marketing is much more complex than traditional approaches.

“In today’s world, customers are scarce – not products – and classic marketing needs to be deconstructed, redefined, and broadened to reflect this new reality. It calls for a fundamental rethinking of corporate strategy to enable the ongoing creation and delivery of superior value for customers in both the marketplace and the market space. And it appoints marketing as the lead driver in shaping and implementing this strategy.”
- Market Moves: A New Approach to Profits, Growth, and Renewal by Philip Kotler, Dipak C. Jain, and Suvit Maesincee

One way to get more out of marketing is to elevate marketing into your strategic process. In fact, your strategy should be dominated by marketing since customers drive so much of what a business does. And when you create more value for your customers than your competition, then you have a more sustainable future.

Another key part of creating value through marketing is through alliances and partnerships. In order to execute across the entire marketing chain (supplies, public relations, advertising, product innovation, etc.), you must align yourself with some critical partners. Just like building a great sports team, you need highly talented players that can execute on their part of the marketing mix. This will require strong collaboration within everyone, connecting the knowledge in a way that marketing is now fully integrated as opposed to fragmented silos of activity. Fragmented pieces of marketing are less value added since too many errors and miscommunication problems take place in the absence of a single, cohesive effort. Once again, you can think of it in terms of a sports team where everyone on the field clearly understands how they must execute.

“Marketing is a matching process, one that pairs the capabilities of a company and the wants of the customers. What is the unique value that you will create? What steps will you need to take to create this unique value? What steps will you need to take to insure that you continue to have a competitive advantage?
- Marketing Plans that Work by Malcolm H.B. McDonald and Warren J. Keegan

Finally, your marketing effort will need to have processes in place to monitor and react quickly to changes demanded by your customers. One way to accomplish this is to fall back on your “integrated” marketing chain since this is an invaluable source of knowledge. By tapping into this knowledge, you begin to “manage” the entire
process. This is commonly referred to as Customer Relationship Management or CRM. CRM is the process by which you learn about opportunities on how you can add value to customers in the chain (supplier, vendor, end-user of products and services). And as long as you can create and build more value, then you are creating value through your marketing effort.

“Customer relationship management (CRM) can be the single strongest weapon you have as a manager to ensure that customers become and remain loyal. Implementing CRM is nonnegotiable in today’s business environment. Whether your customers are internal or external, consumers or businesses, whether they connect with you electronically or face to face, from across the globe or across town, CRM is your ticket to success.”
- Customer Relationship Management by Kristen Anderson and Carol Kerr

### Value through Information

When you attempt to create value, you have to make a choice between alternatives and this requires reliance on information. Understanding how to create “quality” information is paramount to decision making. One way to improve the quality of information is to make sure there is a strong flow of external sources – looking at market trends, surveying the customers, pursuing new technologies, and of course, competitive intelligence. These external sources provide the “reality checks” we need to remove internal bias, common to so many organizations.

“For managers to produce information required for their work, they have to address two broad questions:

1. What information do I owe to the people with whom I work, and on whom I depend? In what form? And in what time frame?
2. What information do I need myself? From whom? In what form? And in what time frame?

- Competing with Information: A Manager’s Guide to Creating Business Value with Information Content, Edited by Donald A. Marchand

Another way to improve the quality of information is to look at your people. Information is how people communicate their knowledge so things get accomplished. Since information relies on people, it only stands to reason that the quality of information has a lot to do with the quality of people; i.e. the skills, expertise, training, experience as well as their communication skills. This can greatly impact the quality of information – improve your people if you want to improve your information.

The quality of information also follows certain characteristics. These characteristics can lend serious value to information. Here are a few examples:

- Up to Date – Information that is current usually has more value than old, outdated information.
• Accuracy – Some sources of information tend to have higher accuracy than others.
• Impact on Decision Making – Information that is useful to decision making will lend value to the organization.

One common problem in creating value through information is putting the information in front of the decision maker. This requires that people have access to information. Too often, organizations have fragmented silos of information, contributing to inconsistency in decision-making. Pulling all of these stovepipes of information together into one common repository can yield numerous benefits, such as: Faster response time by decision makers, better creditability with stakeholders (employees, customers, suppliers, etc.), improved accuracy through verification, and more value added through the application of analytical tools.

Obviously, technology plays a big role in making this happen – everything from better access to filtering of the information overload. Perhaps the single biggest technology behind the management of information is something called the Data Warehouse. The Data Warehouse pulls together all of the desperate databases, providing not only wider access, but also increased analytical capability through the understanding of relationships between all of this data. So if you are serious about creating value through information, you’ll probably have to consider some form of a data warehouse.

“Capitalizing on the information a company owns about its customers, suppliers, and partners is now the value proposition for sustainable long-term growth. Better information, then, transforms business. Better information also transforms the terms of collaboration between businesses.”
- The Value Factor by Mark Hurd and Lars Nyberg

Finally, the roadmap to value through information is creating systems and processes for learning. Author Peter Senge popularized this concept in his book The Fifth Discipline – namely that we all need to become systems thinkers, having the ability to fit the pieces together. This entire process is commonly referred to as the Learning Organization. And this is a big factor behind creating value through information! And when coupled with the right people and the right technology (such as a data warehouse), information can add a lot of value for anyone touched by the information.

“The knowledge economy stands on three pillars. Knowledge has become what we buy, sell, and do. It is the most important factor of production. The second pillar is a mate, a corollary to the first: Knowledge assets – that is, intellectual capital – have become more important to companies than financial and physical assets. The third pillar is this: To prosper in this new economy and exploit these newly vital assets, we need new vocabularies, new management techniques, new technologies, and new strategies. On these three pillars rest all the new economy’s laws and its profits.”
- The Wealth of Knowledge by Thomas A. Stewart