

Summary of Core Ideas

The legacy of good business leadership is an institution that not only outlives the tenure of the current board and executive team, but which prospers well into the future as a result of the decisions taken and capabilities established during their tenure.

This statement embodies a fundamental intent that is almost universally applicable within the business community. It is particularly relevant in the case of listed companies led by professional executives who are employees (rather than founders, owners or controlling shareholders) and who generally have a limited tenure as leader before passing the baton of leadership to another professional executive. The majority of listed entities and virtually all blue-chip companies would fit this description.

The most fundamental challenge facing every listed company board and executive leadership team is to build an enduring institution that prospers well into the future – delivering significant benefits to its customers and its shareholders along the way. The purpose of this book is to present a clear and compelling response to that challenge.

The response presented is both practical and actionable. Yet at the same time, it has a well-developed philosophical underpinning that has the potential to resonate with all relevant stakeholders – be they executives, institutional investors, retail shareholders, employees, customers, regulatory authorities or legislators. It is likely that it will also resonate with members of the wider community impacted by the policies, activities and operations of the company.

The first step is to be clear about the goal. Business leaders have many important responsibilities. But even under the *shareholder primacy paradigm* that is currently embraced by most within the international business and

investment communities, the primary economic objective of a listed company is not to maximise shareholder value or even to create shareholder wealth *per se*. It is to build an organisation that has the capability to create wealth for its shareholders *on an ongoing basis*.

There is a great deal more to this goal than is generally understood. Its very nature means that the way a company journeys towards it is just as important as eventually getting there. In fact, if pursued with integrity, the journey and the destination can become one. This is because the way a company goes about creating wealth for its shareholders has an enormous impact on its ability to continue to do so *on an ongoing basis*.

There are two essential components to the value or wealth creation mindset that emerges from this understanding. The first is that it is important for every listed company to have a noble intent or purpose that goes well beyond seeking to maximise value for shareholders during the tenure of the current leadership team. The second is the realisation that all the legitimate stakeholders in a listed company are *allies* in creating value over the long term – not *adversaries* in the pursuit of short-term earnings or profit targets. In fact, the longer the planning horizon, the more the interests of all stakeholder groups align.

Once these ideas are understood, it is possible to embark on a transformational journey armed with both a philosophy and a toolkit that together can enable almost any company to reach the destination successfully. At each step along the way, it will be apparent just how closely the tools and the philosophy are aligned. At the same time, a number of perhaps surprising insights will become apparent.

Often the first of these insights to emerge is the realisation that the way most shareholders measure company performance from an external perspective, is both different to, and quite difficult to align with, the way management traditionally measure performance internally. Bringing these two perspectives into alignment is essential if a company is to understand the link between its strategic decisions and its financial performance; as well as how the performance management achieves in the market for the company's products and services, translates into the capital market outcomes experienced by its shareholders. Both these linkages must be understood if company directors and executives are to act in the long-term best interest of shareholders. As is often the case, there is a relatively simple answer. In this particular instance, all that is needed is to shift from accounting to economic measures of performance.

It will also be evident that in most cases, building an organisation that can create wealth for its shareholders *on an ongoing basis* requires that customer

value creation and shareholder wealth creation be embraced as joint and mutually reinforcing objectives.

Most opportunities to create wealth for shareholders arise at the level of an individual needs-based customer segment – the same level at which most successful organisations seek to create value for their customers. The key to ongoing shareholder wealth creation is often the efficient delivery of incremental customer value – a reasonable proportion of which is then recaptured through price. However, to make full use of this understanding, it is necessary for a company to define its segments as *groups of customers whose needs are so similar that we can serve them in a way that is value creating for them and cost effective for us*. Once defined in this way, each segment can serve as a platform for ongoing value uplift within which it is possible to establish and maintain an enduring cycle of customer value and shareholder wealth creation.

It will also be apparent that once established, working effectively with this cycle to create customer value and build shareholder wealth *on an ongoing basis*, requires a hybrid form of thinking that draws on both creative and analytical modes of thought. This means learning how to operate in a whole brain state and deliberately make use of both the analytical left and the creative right hemispheres of the brain – not separately but at the same time. This is a deceptively easy skill to apply once developed, and the benefits that accrue from its use are simply enormous. It is the real secret to unlocking and then harnessing the creative potential of an individual or an organisation, and in so doing, making creativity a conscious rather than an unconscious process.

Having embraced customer value creation and shareholder wealth creation as joint and mutually reinforcing objectives, more forward thinking business leaders soon come to understand that they can make a conscious choice to pursue these two objectives in ways that preserve and wherever possible enhance community wellbeing – should they consider this an appropriate course of action for their company.

There is no obligation or externally imposed requirement for a leadership team to steer their company in this direction, unless the company has been set up explicitly as (or transitioned to the status of) a *benefit corporation*. However, those that do wish to move in such a direction will need to have a clear understanding of the nature of the value or benefit that they are setting out to create for their customers. Will it be real value stemming from the provision of useful, beneficial or healthy products or services, the consumption or use of which contributes to the long-term wellbeing of customers and end consumers? Or will it be artificial value arising in large part from the

satisfaction of desires created by their company's own 'clever' marketing campaigns?

If sufficient companies choose to extend their journey in this way, and elect to focus mainly on the creation of real or authentic value for customers, then there is every chance that this will open up the possibility of a new and more socially responsible business paradigm. Under that paradigm, the goal of listed company leadership teams would be to seek to build organisations that prosper well into the future through serving society; by creating real or authentic value for customers, by building significant wealth for shareholders, and by doing both in ways that quite deliberately set out to enhance the wellbeing of all legitimate stakeholders (including their employees, their suppliers, the wider community and the environment). The main pillars of this new paradigm are outlined in the last few chapters.

Perhaps the most important point to appreciate at the outset is that each element of this journey is applicable to almost every listed company – from the adoption of economic performance measures, to the application of needs-based customer segmentation, to the use of *Hybrid Thinking* employing both the left and right hemispheres of the brain, and even to the possibility of embracing a new business paradigm. It is not necessary to be a participant in a new, glamorous or high growth industry to benefit from this approach. In fact, it is companies participating in lower growth and less glamorous industries that have the most to gain from the thinking presented in this book.