

INTRODUCTION

The legacy of good business leadership is an institution that not only outlives the tenure of the current 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 with any one company 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 from a purely economic perspective their primary responsibility is to build an organisation capable of creating wealth for its shareholders on an ongoing basis.

There is a lot more to this goal than is generally understood. Its very nature means that the way a company journeys towards the goal 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 developing the ability to create wealth for its shareholders has a huge impact on its ability to continue to do so on an ongoing basis.

Once this is understood, it is possible to embark on the 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.

For example, it will be evident 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 its performance in the market for its products and services affects its performance in the market for shareholder capital. 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 customer value creation and shareholder wealth creation to be embraced as joint and mutually reinforcing objectives. In fact, 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 such a cycle so as 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.

More forward thinking leaders will also come to understand that having embraced customer value creation and shareholder wealth creation as joint and mutually reinforcing objectives, 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. However those that do 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 a desire created by their company's consumer marketing campaign?

If sufficient companies choose to extend their journey in this way, there is every chance that it will open up the possibility of a new and more socially responsible wealth creation paradigm. Under that paradigm, the goal of listed company leadership teams might well evolve into seeking 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 seek to enhance the wellbeing of their employees, the wider community and the environment.

The main pillars of this new paradigm are outlined in the last few chapters and developed fully in two further books in this series.

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 wealth creation 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.