

Value Based Management

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Shareholder value constitutes one of the most "burning" subjects of today's management. Nevertheless, it's a very old concept that is used as a basis for both financial theory and strategic analysis. Its sudden appearance in senior managers' declarations as well as in their actions results from drastic changes in the economic environment and interactions in the capitalist system.

This trend will be amplified as we become aware that it does not constitute a financial revolution but a strategic and managerial revolution. Even if value based management has a financial aspect, namely because of measurement tools it necessitates, it results from a change in culture in order to improve the company's decision making and above all, strategic execution.

1. Value is an « old new idea ».

Shareholder value is an old strategic and financial concept, the measure of which measure is based on proved principles.

The value concept constitutes the basis of financial theory and strategic thinking. The fundamental management rule consists in launching an investment project only if the latter shows a positive net present value (NPV). Equal to the sum of the discounted free cash flows which will be generated by the investment project, minus the capital deployment upon launching the operation, the NPV represents the value created resulting from the decision to invest¹.

Strategic thinking is also hinged around the value creation. Jay B. Barney in « *Gaining and sustaining competitive advantage* »² emphasises that strategy is « *a pattern of resource allocation that enables firms to maintain or improve their performance (...) Conceptually, firm performance is defined by comparing the actual value created by a firm with its expected value* ». The aim of strategy is to create and sustain, defensible, and decisive competitive advantages. The competitive advantage may be expressed as the existence of an economic yield, which in turn creates value.

¹ Please see B. Husson et H.Delmas, « le choix des investissements », Delmas, 1988

² Addison Wesley, 1996.

For a long time, strategy and finance existed separately. Strategy was recommended by intuitive managers in view of a long term perspective whereas finance « followers », being more pragmatic minded, recommended a short term perspective. Such a distinction becomes less relevant with the strong return to value in company's management. On one hand, the strategist has now become part of the financial scope in managers' thinking, as shown in one of the most remarkable books in the field of valuation³. On the other hand, the financial function is an advantage linked to the non-financial decisions of the company. As shown in the survey performed by Price Waterhouse in « *CFO, Architect of the corporation's future* »⁴, the financial manager's role is to « match the shareholders' demands with the company's strategy and ability to execute ».

The value concept is old and clear. The same applies to its measurement principles : the market value of a quoted company is the sum of its market capitalisation (shareholder value) and of the sum of its indebtedness (net financing debt). When the company is not quoted, appropriate valuation methods must be implemented.⁵.

Based on the future profitability of the company, the market value generally varies from the accounting value posted in the balance sheet, as the latter is determined upon its cumulated historical results.

From a conceptual point of view, the breakdown of market value consists of two parts: one with respect to its capacity to generate profitability in the future; the other with respect to value of growth opportunities flowing from cash flows which the company's future investments will generate. Just as with the choice of a typical investment, the value of the company is equal to the sum of prospectual free cash flows discounted by a rate representing the funds providers' demand as regards profitability (cost of capital). The essential value of a company lies in its anticipated growth which in turn depends upon ability to seize future opportunities.

³ « Valuation : Measuring and managing the value of companies » , T. Copeland, T.Koller, J.Murrin, Wiley, 2nd edition, 1994

⁴ John Wiley & Sons, 1997

⁵ On valuation methods, please see J-F. Rérolle, « Valuation of enterprise : Principles and methods », Accounting fiduciary review n°223, November 1996

2. Today's management trend.

Shareholder value constitutes a central concept in business management as it is consistent with the essential management needs, the investors' increasing demand and the pressure resulting from the macro-economic requirements

Shareholder value represents a confirmed central concept in management as it constitutes more exact measuring means of a company's performance, than most of the indicators commonly used. It also forms one of the essential conditions for future growth and durability.

Generally, companies do set growth and profitability targets. A third dimension is often not mentioned, that of control of tied-up capital (net fixed assets and working capital⁶). In fact, the accounting information only partially takes into account the cost of such capital, which has been financed by shareholders and creditors. Only the financial expenses representing the latter's needs are explicitly taken into account. The shareholders' demand as to profitability appears nowhere. The resources that they bring into the company are nevertheless not free of charge ! The profitability demanded by shareholders is greater than that of the creditors, as they are exposed to greater risks.

The fact that shareholders' funds appear as free of charge has often lead companies to make bad decisions on the basis of the sole cost of debt. Value based management consists in reintroducing in company management an essential element which is the global cost of resources. The common transactions and investments must yield economic profitability at least equal to such cost. If not, the company is in fact "destroying" value. In consideration of this new pattern, it would best to minimise the resources tied-up for the same volume of activity. A company aiming to maximise its value should accelerate its growth, increase its profitability, and minimise its invested capital.

Quoted companies know that : a high market value is a condition for future growth and durability. A market value, based on a strong strategic position, offers to the benefiting company all the means necessary to its expansion. Should the value decline, then the growth projects must be abandoned or deferred, with the risk of seeing a financially stronger

⁶ The working capital is equal to inventories, accounts receivable and other trade receivables minus accounts payable, and other trade payables.

competitor take advantage of such situation. If finance represents a tool to control execution of a strategy, it is above all one of the conditions which is essential to its success.

Shareholder value is a sign of a successful anticipated long term strategy. This is the reason why it is useless to try to consider the various « *stakeholders* » (shareholders, clients, suppliers and employees) apart from the company. It becomes obvious that a company cannot be built-up without the support of its clients. R. Wayland and P. Cole demonstrate in their book⁷ how to reconcile, if necessary, the shareholder logic with client satisfaction. Standard economic exchange (goods and/or services against money), may be superseded by a complex offer including two new supplementary dimensions : that of information and emotion⁸. Examples of companies giving out their products for free to their clients (such as software programs for the purpose of Internet navigation), and which shareholder value is considerable, show the long term concurrent interests of shareholders and clients. What is sought is a close relationship with the client so that it may really be long lasting. Similarly, the rise of interdependence between the company and its suppliers has lead to complex partnership as shown, for instance, in the example of subcontractors in the automotive industry. Finally, thanks to T. Stewart's⁹ efforts and those of Leif Edvinson's¹⁰, the awareness of the company's intellectual capital as an essential criteria, re-places man and his intelligence at the centre of value creation. It is the role of the company to develop and to structure such intellectual capital.

Value is like a molecule which consists of three main components (shareholder value, value for the client, and value for the employee) which cannot be dissociated but they reinforce one another. Shareholder value reinforces the created value for the employees and for the clients. It ensures durability of the company, and therefore that of its employment; it reinforces the company's economic power, and therefore that of its ability to serve clients on a long term basis and to imagine value creating innovation for them (a weakened company no longer invests nor innovates).

⁷ « Customer Connections », Harvard Business School Press, 1997

⁸ Please refer to « BLUR, The speed of change in the connected economy », Stan Davis, Christopher Meyer, Addison Wesley Longman, 1998

⁹ Intellectual Capital, the new wealth of organisations, Nicholas Brealey Publishing, 1997

¹⁰ "Directeur du Capital Intellectuel" (*Manager of intellectual capital*) edited by Skandia.

Even if the constantly increasing need to give a shareholder a logical explanation for each action is not naturally proven by the company, the management should take into account two external pressures : the explicit pressure of investors, and the implied pressure of the bright public authorities.

M. Useem describes in his book « *Investor capitalism* »¹¹ the increasing pressure by investors on the management of companies. One of the essential features of this trend in today's capitalism is that which tends to replace managerial capitalism by investors' capitalism. The new situation results in the presence of professional investors who progressively manage to compel companies to engage in new "behaviour" and new strategies in order to ensure better returns for stakeholders, and to match their demand for profitability. In this respect, the United States is ahead of Europe. The purpose of active thinking as to "Corporate Governance" aims at solving the well known problem of "the agency theory" (divergence of interest among shareholders and management). This gave rise, as in France or Great Britain, to a lot of changes in internal control of companies (independent administrators, audit committees, strategy committees, etc.).

However, this does not represent the essential part which stands in the implementation of powerful process of external control. A dynamic financial market together with active shareholders have triggered important restructuring, which turned out to be high value creating.

M. Jensen, Harvard Professor, reckons that between 1976 and 1990, USD 650 billion worth of shareholder value was created through acquisition operations, divestment, demergers or LBOs (leverage buy outs). Such operations generally result in replacing the inefficient managing teams and determining new strategies. Such figures should be increased by improvements which have been conducted simply through threatening to implement such action.

Progressively, we realise that the presence of professional shareholders constitutes a stimulus for the management : when it is not satisfied with the management of a company, the famous Cal.P.E.R.S investment fund, does not hesitate to publish a letter of reserve. A study performed by Wilshire Associates on such funds' portfolio, reveals that during the 5 years preceding such a letter, the companies concerned show an average 10% under-performance in comparison with the S&P 500 index. Over the

¹¹ Basic Books, 1996

following five years, they show a 7% over-performance in comparison to the same index !

European countries cannot escape from such developments. A large number of French Groups already have large foreign shareholders (at least 40%) : Elf, Total, Eridania Béghin-Say, Valéo, Rhône-Poulenc.... This trend is likely to be amplified with the opening of the markets and the new European dynamic economics marked by the Euro currency.

To the explicit pressure by investors must be added the required economic general interest : that of growth and employment.

A large number of studies (as well as observations from American experience) show that there exists a strong correlation between the creation of value, the wealth of a country and the creation of employment, as noted by T. Copeland : « *Within an industry, and in the long run, companies that are winners are more productive, create more shareholder wealth, and experience higher growth in employment* »¹².

The requirement of value contributes to the enhancement of an active financial market, which in itself represents an essential condition for economic efficiency and development. An active market will cause investors to request more information. Such transparency will in turn increase market efficiency, and hence, the flow of capital. Capital then turns to the most profitable investments, discrediting the less efficient management teams. Promotion of shareholder value creates an environment favourable to allotment of invested capital in view of optimal profitability.

Many signs show that even the governments, which are most resistant to international investors, understand the economic necessity to attract capital, and for this purpose, they understand the need to offer a modern financial infrastructure which, gives preference to a shareholder approach. To deny involvement in adopting a new approach will lead only to economic and financial deterioration and isolation.

¹² ibid

3. **A new requirement : marketing of listed securities**

Managers must understand market logic and adopt new behaviour in order to satisfy investors' expectations.

The implementation of value based management necessarily requires recognising the essential feature of financial market, that of being ... a market ! The company naturally focuses on the market of tangible assets where its clients and competitors are found. In fact, the financial market is just as important : that is where its shareholders but also its competitors may be found. The company must show excellent performances on those two markets. The financial market is the mirror of the real market. To neglect one would generate tragic consequences for the other.

On the financial market, the manager must adopt behaviour which will be identical to that which he adopts on the real market. He must first understand what are his client's/shareholders' expectations. Then, he must arrange to be organised in order to satisfy such expectations (manufacturing of a product, risks/profitability corresponding to such expectations). Finally, he must honour his promises and inform the market as to how he intends to honour such promises. Let's borrow P.Vernimmen's expression «the financial professional person is a financial listed securities tradesman»¹³. Facing competitors who are also seeking resources in order to accelerate their development, a company's success will be increasingly dependant upon the implementation of an equity marketing policy which will enable better control of shareholders' anticipation. The sign of successful strategy shows in the company's share in the financial market within its own sector.

One of the prerequisites to the implementation of equity marketing is the comprehension of functioning of financial markets. Contrary to what one may sometimes think, financial markets are efficient or "semi-efficient". This means that the value of a company's securities reflects all of the information available at a given time. The hypothesis of efficiency, is that which is most often demonstrated based on research. The market represents an essential indicator for the management.

¹³ « Finance d'entreprise » ("Enterprise finance"), Dalloz, 1996

Knowing that the market proceeds to complex investigations of information, how could what is most important to the investors possibly be identified. A recent survey performed by Ernst & Young (« Measures That Matters ») shows that 35% of the decisions to invest are based on non-financial criteria. Among those, the most significant ones concern application of strategy. (the company's ability to apply its strategy, what ever it may be), management's credibility (a serious analyst seldom ever gives an opinion as to a company without meeting its main managers), the quality of the strategy, the company's ability to innovate, its ability to attract and to keep new talented associates, management experience, adjusting remuneration to creation of value and the quality of the company's main processes.

This study reinforces what managers have always wished to be true : markets "behave intelligently". They take into account the company's reality of strategy, management and human factor.

Through complex statistical techniques, it is even possible to perform an accurate study of the stock market in order to determine and compare the investors' expectations and queries as to a company against investor's opinions of the main competitors.

Financial communication of companies must be carefully considered.

Only a few dozen shareholders really matter. It is possible to have a real dialogue with them, i.e., an exchange of points of views. Their point of view is essential to the improvement of the companies' operations, as such a point of view is based on an analysis which is different, but nonetheless thorough (as shareholders do not have the same information as the management). The managers are often surprised to see to what extent the strategy which they had carefully hidden to the market is understood and dissected in the analysis reports issued by the best « *brokers* ». As their job consists in focusing exclusively on the analysis of a few companies in the same business sector, they manage to investigate the core of the company's policies.

The messages which are conveyed must be significant, i.e. they must enable the market to anticipate the future profitability of the company. The annual report contains historical information which is of no use to the analyst or the investor. Moreover, such a report must mention the companies' pattern of development and emphasise the company's ability

to execute such a strategic decision and the strategic willingness at all levels within the organisation¹⁴.

However, beyond all declarations, only actions matter. It is not a question of revealing the company's confidential strategic axes, nor to make promises expressed in figures in terms of results. It is a matter of showing the understanding of market expectations and explaining how the company intends to satisfy them. The implementation of an organisation chart, procedures and relevant policies showing that above all, the company's main concern is to increase its shareholder value, is determining. Too many companies consider that the manager's convincing or well adjusted speech is sufficient to obtain the financial community's trust. If such speech is followed by true mobilisation of the associates, then such reflection is consistent. In the adverse case, the stock market's sanction will be speedy.

4. A complication : the uncertainty of shareholder value

The changing economy renders the value concept more difficult to identify and to control.

A new assignment for the managers: the difficult task of value based management and that of anticipating investors' expectations. The development of several factors together make the notion of value more complex to determine and to control. Value creation first consists in building-up competitive advantages. Among three generic means described by G. Hamel in his book « Competing for the future »¹⁵: the « *smaller* » (restructuring activities' portfolio and policy of « *downsizing* »); the « *better* » (reengineering of processes and policy of continuous improvements); the « *different* » (reinvention of the field of activity and restoring of strategies), only the third one is able to create real competitive advantages, i.e., those which cannot be imitated. That is the one which requires most imagination. Furthermore, a constantly rising strong economy of intangible assets complicates this revealed difficulty. The volatility of value increasing even faster, makes its control more uncertain. Economics based on intangible assets affects the offer, the stock market and the means of production.

¹⁴ The Coca-Cola annual report represents good model

¹⁵ HBS press, 1994

C. Meyer and S. Davis in BLUR¹⁶ describe the deep transformation in the buyer-salesman relationship : « it is like the transformation of a two-way road into a six-way motorway. On a traditional road, there was only one way for each opposite direction ; the client came on one side with the money and the salesman from the opposite side with a products or services. Now there are three ways for each direction. One of which is devoted to economic traffic, the second to exchange of information, and the third to exchange of emotional value ». Hence, complex exchanges take place making it difficult to determine who are the salesmen and who are the buyers (for instance, think of companies such as Netscape which gives away its products free of charge in order to establish - or recuperate - in the fastest possible way, a dominant share in the stock market).

A new economic logic is also being formed. It is described by A. Brandenburger and B. Nalebuff¹⁷, or even by James Moore¹⁸. Such logic, gives priority to what HEC school of strategy has been referring to for a long time as « relationship strategies » between the economic agents. The dawning of « *business web* », is drastically changing the relationship between the former partners or competitors. It is no longer rare to see two competing companies combining their efforts in order to take advantage of a growth opportunity. (creation of Power PC by IBM and Apple), or even to see a company help its suppliers or help companies manufacturing complementary products to develop (launching by Sun Microsystem of venture capital in the amount of USD 100 millions in order to help *start-ups* specialising in complementary products in Java).

Finally, the increasing portion of intangible assets in the economic assets of companies constitutes one of the transformations which renders more difficult the traditional methods of analysis as to management control. This is how the Microsoft market value is over 16 times its net worth. The true value of Bill Gates' company does not appear in its books, it is elsewhere : it lies in the company's intangible capital.

When facing value based management, we can say that the managers are in an uncomfortable position. On one hand, value must be maximised in order to secure the future and to make sure that the stock market demands have been satisfied. On the other hand, economic developments make daily assessment and measures more and more difficult. Nevertheless, it is necessary to manage them. Far from leading to a feeling of helplessness, those elements should be considered as incentives to

¹⁶ *ibid*

¹⁷ « Co-opetition », Currency Doubleday, 1996

¹⁸ « The death of competition », HarperCollins, 1996

envisage value based management as a management discipline with strong strategic connotation before even thinking of the financial concern.

5. A management discipline

Value Based Management is above all a discipline the target of which is to improve strategic decision by introducing the value concern at all levels within the company.

Value is not the result of random creation, specially in an environment which is more and more uncertain, intangible and volatile. The process of value creation must be organised in order to be efficient. Two attitudes of extremes are often observed. The first one, being that of minimalism, consists in setting-up measures considered as "revealing" value creation (economic profit, EVA[©], VEC, ROCE ...)¹⁹, and to use them as communication vectors. The second one, being that of maximalism, which consists in placing around such measures, systems and strict procedures which aim to guide management decisions and to partially remunerate the managers according to the financial rules established within the company. Neither of those two attitudes correctly satisfy the challenge of value creation.

The first one is obviously not satisfactory. The implementation of measuring tools, even if they are very sophisticated, will not create value. Measuring tools are by nature historical, whereas the essence of value lies in the company's ability to snap up most interesting opportunities. However, no independent research has documented the existence of any general strong correlation between those indicators and the shareholder value performance.

Publicity done around some examples (IBM or Coca-Cola) would in no case constitute evidence of a general and absolute rule. Such measures are based on the accounting value of the economic assets whereas the investors' demand for profitability is based on the stock market value of their investment. The use of such indicators is relevant for companies that have a market value that is less than their book value. It is not so relevant in the opponent case.

¹⁹ Economic Profit, (or EVA[©] or even created economic value) is the difference between the operating profit after tax and a capital charge in order to remunerate the relevant contributors. This charge on capital may be calculated by multiplying the capital employed at the beginning by cost of capital of the company ; the ROCE or « *return on capital employed* » is the operating profit over capital employed at the beginning.

The second attitude leads to "perverse behaviour". In this case, managers focus on the short term, and this may incite them to under-invest. « should you have no opinion on a long term basis, then you will have no means at all to create new markets », declares Gary Hamel. « AT&T invented the video phone in 1939, demonstrated it in 1964, and launched it in 1992. JVC studied videotape recorders for twenty years. Sony's Walkman and the Motorola's mobile phone were the result of extensive study and research over a long period (...). You cannot write up a case study each time. You must get emotionally involved ». The above observations are corroborated by the bad shareholder value performances booked (except for Coca-Cola) by companies which have set-up rigid value management systems²⁰.

Truth, hence, lies somewhere between those two attitudes.

Let's take for instance, the two most well known « *value companies* », Coca-Cola and General Electric (GE). Those two groups constitute world references in terms of value creation. Yet their strategic approach and their management systems are very different.

Coca-Cola focuses its energy on the one unique business, whereas GE, basing its activity on over ten divisions, appears more like an heterogeneous group.

Coca-Cola gives priority to EVA[®]²¹ in its daily management and strategy, whereas GE refuses the use of this indicator to in fact concentrate on the cash generation, and also on the « *quarterly earnings* », as required for quoted American companies. The financial system is hence not a determinant factor.

Those two companies stand out due to the quality of their analysis, their decisions and their strategic execution. The financial communication, and internal mobilisation are hinged on growth on a long term basis, client and employee satisfaction, and value creating for the shareholders. Coca-Cola emphasises that its growth is « infinite » and that it will be able to exploit it due to the quality of its products, the intelligence of its marketing policy, its financial power and the quality of its decision making. GE emphasises above all, on the « inputs » : the rapidity, quality,

²⁰ By taking the most famous « EVA[®] companies » (Amp Inc, At&T Corp, Ball Corp, Briggs & Stratton, Coca-Cola Co, Equifax Inc, Fingerhut Companies Inc, Fletcher Challenge -Adr Fst, Furon Co, Grainger (WW) Inc., Harnischfeger Industries Inc, Manitowoc Co, Outboard Marine Corp, Premark International Inc, Quaker Oats Co, Scherer (R P)/De, Transamerica Corp, Wellman Inc, Whirlpool Corp) we notice that their shareholder performances are similar to that of market. By withdrawing Coca-Cola from the samples, their performance is much lower than that of the market.

²¹ If Coca-Cola favours EVA[®], then it must be noted that Coca-Cola Enterprise (its bottling subsidiary) shall not use it. For a detailed presentation of EVA[®], please refer to « The Quest for Value » from B. Stewart III, Harper Business, 1991.

employee and client satisfaction. GE management reckons that by putting the emphasis on those concepts, the group will create competitive advantages on a long term basis, and hence, immediate value.

The shareholders know the difference between "froth" and substantive movement. Upon examining value creating companies, we notice that the key to success lies on the implementation of a managerial systematic and formalised approach aiming at maximising value creation on a long term basis by developing competitive advantages. It is not so much a matter of setting up measuring tools or even that of their accuracy, but the real matter lies in the question of quality of the strategic decision making process, and consequently that of the company culture.

In particular, all the value creating companies have the same following features :

- a company and people mobilised around value creation on a long term basis
- strategic decision taking grounded on value creation
- budgetary procedures and allocation of resources consistent with the long term plan
- a system for measuring performance enabling the follow-up of the building-up of competitive advantages
- a financial strategy and a corporate governance, significant for the investors

The aim of *Value Based Management (VBM)* or management through value is to improve strategic decision making. The main merit of VBM is to introduce a financial market logic in daily management of a company. In addition to his standard responsibilities, the manager also becomes an "asset manager". He must consider the expectations of shareholders who demand a minimal profitability on a long term basis. But the deciding manager must not make financial analysis the dominant purpose. He must use it to improve his strategic choice. It is not a matter of forbidding intuition or betting, but to introduce financial rationality in order to enrich perspectives. The implementation of a value discipline may be done in three stages : prerequisite analysis, company aligning and value creation.

Prerequisite analysis consists in identifying which activities are value creating and which are value destroying. Relying on examination of the strategies per each business unit, on the financial perspectives and their respective risks, such analysis enables to evidence the financial levers of value creation.

Application of standard evaluating methods (such as discounted cash flows) leads to valorisation of business units. When the company is quoted on the market, then it should be necessary to proceed to analysis of the variation between the intrinsic value obtained through evaluation of business plans and the market value of the company. Also, an analysis of development of the company's share in the financial market in its sector brings further information as to investors' anticipation. The main advantage of this type of analysis is to generate hypotheses to improve strategy (sale or acquisition activities, modification of strategy in one field or the other etc..). The relevance of such strategy must, however, be tested later.

Aligning of the company is essential. It consists in setting-up tools and procedures that are necessary to managers' thoughts and strategic action. Generally, they are more or less sophisticated tools for the purpose of financial simulation according to the operating needs. They are particularly used in the course of building long term business plans, budgetary procedure, and choice of investment. With the implementation of such tools, awareness training programmes are usually provided for the main deciding managers.

New indicators are set-up in order to control financial quality of decisions (Economic profit, ROCE, etc...). However, they do not suffice to supervise the quality of strategy execution which represents a determinant element of value creation. Non-financial indicators must also be set-up within a value score card. The choice of indicators is particularly difficult, as they must be directly tied to strategy, and competitive advantages which the company wishes to develop, and hence, to value creation. Methods inspired from R. Kaplan and D. Norton's book, the « *Balanced Scorecard* »²² are most useful in this respect. Through an "involvement" process, such methods create a consensus among the operators around the strategic objectives and the main action plans, and this on several essential dimensions of value creation : financial policy, clients, processes, and people.

²² HBS Press, 1996

Aligning the company based on value creation would not be complete if remuneration was not affected. As the objective of VBM is to encourage managers to behave like shareholders, it is logical that a greater part of their salary is subject to value creation. At highest level in the company, it is conceivable to establish a link between shareholder value and the remuneration (e.g. Compagnie Générale des Eaux). As we further descend in the pyramid of responsibilities, the closer the link must be between the appreciation criteria and elements which the operational people truly control.

In order to ensure a link between all this value creation, reference only needs to be made to non-financial indicators which have been identified in the value scorecard. After having inspected all aspects of the situation, and set-up the analysis tools and incentives, the company is in a better position to make value creating decisions. Two different levels must be considered : that of the group and that of the strategic units.

For too long, we had imagined that general management departments were not able to create value (this the concept of holding discounting value). In fact, as demonstrated by the GE example, certain conglomerates create a considerable value.²³ Group responsibility in this respect is multiple. It consists, in the first place, in using the analysis elements and the strategic hypothesis of the first stage in order to lead to strategic reflection on the activity portfolio. Execution of strategic decisions which will flow therefrom is particularly tricky. It is in fact in the course of external growth process that greatest value destruction occurs. The use of analysis and simulation tools validates the opportunity for acquisition, its relevant integration in the group and helps to rationalise the decision and to limit the risks. Last but not least, one of the main functions of a group is to ensure the relationship between the investors and to build a security marketing strategy.

In this respect, it is not so much a matter of ensuring communication consistent with the investors expectations and the company's ability to honour its promises, but rather a matter of sending tangible signs to the market as to the entire organisation's willingness to create and sustain real competitive advantages on a long term basis. Such signs are operational (investment policy, new products, general development policy, principles of corporate governance ...) and financial (dividends policy, purchasing of equities, demerger, financial structure ...). Their processing is tricky

²³ Please refer to « Corporate Level Strategy », M.Goold, A. Campbell, M. Alexander, Wiley, 1994

and requires perfect understanding of financial market processes in general and that of its shareholder behaviour.

At the strategic business units' level, value creation consists in creating competitive advantages which are real and durable. The action plans are determined upon annual planning periods and the relevant objectives are transcribed into the values score card. The operators extensively use the simulation tools available for them to analyse value sensitivity to improvement of the various operating parameters, and to take their investment or divestment decisions.

One of the success keys to VBM "implementation" lies on how the managers see such tools : they must be seen as new tools to help decision making but not as new means to control financial management.

6. Critical success factors

Each company must determine the characteristics of the shareholder value discipline which it wishes to establish . There is no universal model.

Very few companies can boast having set-up a complete and efficient value management system. There is lot to be learnt from past and present experience, even if some of them remain partial. Some conditions must be present together in order to ensure a successful implementation which is above all, dependent upon the staff's support (this does not necessarily mean that it is inefficient without staff's support)

Awareness of the extent of the project and of its kind of culture is a must. A VBM system cannot be efficient if partially established, for instance, at general management level only. The best strategy must necessarily be applied in details right down to workshop. A fine communication policy must integrate this holistic and cultural dimension. The value discipline constitutes a real cultural approach for the company that decides to adopt it.

The operators must adapt this philosophy. In order to do this, it is suitable to keep it simple with regard to the approach and the tools and stress that the objective is to help managers to make better decisions. Dogmatic solutions must be rejected. Solutions appropriate to the company must be favoured to the detriment of fashionable methods.

"No matter what beverage, as long as we may have drunkenness ..." what matters is to set-up a measuring system which is educational, but which will not stop operators from taking decisions. They must be helped and not constrained. All financial techniques available must be used according to the subject matters to be processed. An industrial businessman will need a simplified model of cash flow whereas a R&D C.E.O. will use powerful simulation tools. The tools introduced, available to the operators, should in fact be introduced as means to liven, that of « *coaching* ».

Remuneration tied to value creation is not yet widespread in Europe. It nevertheless constitutes a prerequisite to any in depth modification of behaviour. It must be established in consideration of financial and non-financial objectives, but not on the basis of a purely financial scale, from which the manager may inevitably feel distant.

This is a project to be conducted in terms of durability. It must be lead, as for any project, methodically with professionalism in order not to sink. Project management is an important skill which role must not be underestimated upon implementing this new discipline.

This philosophy of value creation has nevertheless one disadvantage : that which constrains the company to honour its promises and to be ever creating further value. In fact, the market anticipates the results of a strategy. Should it be successful, then the stock rate will not move as the positive effects have already been integrated. On the contrary, the investors' demand for profitability will be based on the new market value, and will consequently, further increase the size of the impediment which managers will have to overcome in the future. This is a considerable disadvantage...for the management. However, can a quoted company afford to neglect this discipline when more and more of its competitors are adopting it ? Its implementation offers the companies which have adopted it, knowingly or unknowingly, considerable strategic superiority.