

1 Understanding Value and Value Creation

WEEK 1: Creating Value for Stakeholders

The Purpose of Business

Value is created through an organisation’s business model, taking inputs from capitals and transforming them through business activities to produce outputs and outcomes that over short and long term, create or destroy value for the organisation, its stakeholders, society and the environment. Before businesses can create value, they must ask the questions:

1. What kind of value? - ie. who are the **stakeholders** which benefit.
2. Value created for whom - the **purpose** of business?
3. How will value be created? - *COMM1180 explores value creation from marketing, information systems, finance and accounting perspectives.*

Financial Value could include financial returns of purchased shares or general growth in financial metrics. This value starts with **internal value creation**, ie. making investment decisions inside Apple where benefits exceed costs. This could include:

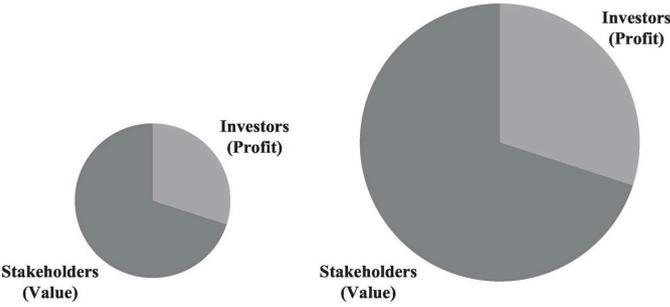
- Investing in technological innovation and savvy marketing.
- Creating a brand which can charge premium prices.

Non-financial Value includes other benefits created by doing business such as payment of employees, paying taxes, investing in sustainability and communities, etc.

Shareholder & Stakeholder Frameworks

Framework	Explanation
<p>1. Shareholder Primacy (SP)</p>	<p>Shareholders own the company and assume full risk of loss of capital. Management only works for them. Therefore, the goal for management is shareholder value maximisation (SVM).</p> <ul style="list-style-type: none"> - Multiplication in profits: does \$1 spent create >\$1 in future profits? <p>However, potential problems with shareholder primacy is:</p> <ul style="list-style-type: none"> - pie-splitting mentality or “us vs them” thinking: increasing one member’s value means splitting the pie differently by reducing the shares of others, meaning shareholders and other stakeholders become rivals. <div data-bbox="544 1518 1385 1818" style="text-align: center;"> </div> <ul style="list-style-type: none"> - short-termism due to only focusing on profits in the next financial period. Although a decision may lead to better value maximisation for shareholders in the short term, it could result in the business losing value in the long-term.
<p>2. Corporate Social Responsibility</p>	<p>CSR is a management concept whereby companies integrate social and environmental concerns in business operations and interactions with stakeholders. A criticism for CSR is that it is non-specific and its vagueness can be exploited.</p>

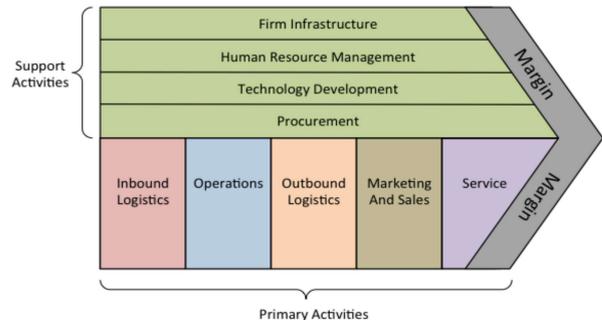
	<p>According to Porter and Kramer (HBR 2006), 4 reasons (intrinsic and extrinsic motivations) why companies should engage in CSR include:</p> <ul style="list-style-type: none"> - Moral obligation: doing the “right thing”, ethical. - Sustainability: meeting the needs of the present without compromising the ability of future generations to meet their own needs. - License to operate: corporations exist under government laws and regulations. Charters can be revoked. - Reputation: external perception affects business operations. <p>Corporate actions can be evaluated in the context of CSR through the 6 dimensions:</p> <ol style="list-style-type: none"> 1. Intent: superficial “greenwashing” vs genuine care 2. Motivation: extrinsic (risk management) vs intrinsic (want to do good) 3. Relevance: directly related vs unrelated to business (eg. volunteering/charity) 4. Reactive vs Proactive 5. Origin: top-down (management decision) vs from ground up (with engagement from employees and stakeholders) 6. Value-creating: redistributing value from shareholders to other stakeholders vs genuinely creating additional value.
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<p>3. “Grow the Pie” (GTP) / “Pieconomics”</p>	<p>Pieconomics is an approach to business that seeks to create profits <i>only</i> through creating value for society. Therefore, the ultimate goal for an enterprise is creating value for society and by doing so, profits will increase as a by-product. The pie-growing mentality means that the pie is expandable, so creating value for society benefits both shareholders and stakeholders alike.</p> <div style="text-align: center;">  </div> <p>Condition: a company must have a meaningful purpose - mission statement or vision statement which is embedded in company culture.</p> <p>Pieconomics looks at 3 dimensions, which ideally are all filled:</p> <ol style="list-style-type: none"> 1. Multiplication in social benefits: does \$1 spent by the firm create > \$1 in future social benefits. 2. Comparative advantage: does \$1 spent by this firm create more future social benefits than \$1 spent by someone else? 3. Materiality: does the activity benefit a material group of stakeholders?
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Porter’s Value Chain Analysis

The **Value Chain Framework** views the organisation as a sequential process of value-creating activities. This helps organisations understand:

- How a product moves from raw materials to the end customer
- Total costs involved in creating products and services
- Which activities create value and which do not



Primary activities are activities involved in the creation and delivery of products or services to customers, including any after sales support. **Support Activities** provide support necessary for primary activities to take place and support other support activities, and are not directly involved in producing goods and services for customers.

Primary Activity	Purpose	Evaluation of value creating potential
Inbound Logistics	Associated with receiving, storing and distributing raw materials or inputs of the product (eg. distribution of iphone from warehouses to Apple stores).	<ul style="list-style-type: none"> - How efficient are inbound logistics activities? - Proximity of distribution facilities to minimise shipping times? - Warehouse layout to ensure distribution efficiency
Operations	Associated with transforming inputs into the final product form (eg. provide one-stop shop for all Apple products and access to specialist assistance).	<ul style="list-style-type: none"> - Efficiency of operations to minimise costs - Do operations activities increase the quality of products/services?
Outbound Logistics	Associated with collecting, storing and distribution the product or service to customers (eg. shipping iPhones to customers)	<ul style="list-style-type: none"> - Efficiency of shipping processes to minimise transportation costs - Effectiveness of delivery processes to customers
Marketing and Sales	Associated with promoting sales of products and services to customers and inducing them to make purchases (eg. designing iphone adverts).	<ul style="list-style-type: none"> - Innovative approaches to promotion - Selection of most appropriate distribution channels - Proper identification of customer segments and needs
(After-sales) Service	Associated with providing after sales services to enhance or maintain value for products and services sold to customers (eg. AppleCare - technical support, hardware service and software support)	<ul style="list-style-type: none"> - Efficiency of response to customer help requests - Effective management of parts and equipment inventory.

Support Activity	Purpose	Evaluation of value creating potential
Procurement	Purchasing inputs used by the organisation to create value (eg. managing iPhone manufacturing outsourcing partners). NOTE: Procurement is relating to purchasing of input material whereas Inbound logistics is <i>AFTER</i> the input material is purchased.	<ul style="list-style-type: none"> - Selecting appropriate suppliers - Procurement of quality input material - Development of collaborative relationships with suppliers
Technology Development	Development of new knowledge that enables product and <i>process</i> innovation (eg. R&D of wireless Bluetooth chip for AirPods)	<ul style="list-style-type: none"> - Effective R&D activities for product and process innovation initiatives - Ensuring positive collaborative relationships between R&D and other departments.
Human Resources Management	Recruitment, hiring, training, development and compensation of all types of personnel (eg. recruitment of bluetooth technology developers)	<ul style="list-style-type: none"> - Effective recruiting, development and retention of employees - Quality work environment to maximise overall employee performance and minimise absenteeism - Rewards and incentives to motivate employees
Firm Infrastructure	Activities which support the coordination of the entire value chain and not individual activities (e.g. planning and managing a multi-channel platform which integrates software and hardware.	<ul style="list-style-type: none"> - Effective planning systems to attain overall goals and objectives - Manage relationships with diverse stakeholders.