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Deciding on Corporate Investments

1.1 FINANCIAL GOALS VS. CORPORATE STRATEGY

The primary objective of a business in today’s world is generating and maximizing wealth for its owners, shareholders, and stakeholders. These are the people who provide time, input, and funds to a business with the clear expectation of receiving the maximum possible increase in their wealth – given the level of risk they are facing by investing. Non-profit organizations, such as charities, museums, and schools, manage for maximum outcome and impact in order to make the most of their funding.

Several decades ago, being just a little more efficient than one’s local competitor might have been sufficient to reach this primary objective of wealth generation. But today, in order to survive, firms compete on a global basis, where the customer has access to reliable information via the Internet. This shift is critical for corporate investment decisions because it short-circuits the business focus on wealth generation; if businesses do not delight their customers with value-for-money products, service which exceeds customers’ expectations, and continuous innovation, customers will simply evaporate and the firms will ultimately die. Adding value to the customer and generating customer delight thus becomes a new strength that companies need to generate; it is the new corporate bottom line.¹
What does “deciding on investments” mean?

One would think that business leaders would give serious thought to their business and how they delight their customers by managing and deciding on corporate investments. But many well-known case studies used in business schools and MBA teaching recount stories about visionaries who thought that they saw the future, made bold decisions, and either got it miraculously right – or got it completely wrong.

Case 1.1 Investment in innovation at Apple

How Steve Jobs (1955–2011) led Apple to renewed success is probably today’s most over-cited example – and at the same time it was an extremely hard study because the subject never sat still for a case portrait, but kept creating and spinning out new innovations. Apple operates in a fast-cycle market in which its innovative capabilities are not shielded from imitation and where imitation can be very rapid and inexpensive; the company thus needs to be able to take the right decisions quickly. Constant innovation plays a dominant role if one is to succeed in such fast-cycle markets. Apple reported net revenues of $36.5 billion in 2009, $65.2 billion in 2010, $108.2 billion in 2011, and $156.5 billion in 2012.

Case 1.2 Investment in a product recall at Johnson & Johnson

Similarly, how Johnson & Johnson pulled all Tylenol capsules off the shelves in 1982 after the medicine had been deliberately contaminated with cyanide and introduced