

VALUE-BASED MANAGEMENT - MANAGEMENT SYSTEM OF MODERN ECONOMY

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Abstract: The dynamism of the current economic environment requires companies a new way of approaching business, especially given that the traditional management fails to provide a clear and accurate picture of actual performance achieved. It is necessary thus implementing a value-based management, oriented to maximize the shareholders wealth, the value of the company. This management system uses specific management techniques and specific performance measurement tools, elements of organizational culture, contributing to good internal and external communication of the company.

The value-based management principles must include all aspects of the company life, for it to adapt to changes in economic and financial environment.

The value-based management focuses on improving decision-making process at all levels of a company, asking managers to use performance measurement tools based on the value to make the best decisions.

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The economic environment has become more complex, competition has intensified, companies have developed and diversified their activities, which resulted in the use of better management tools and techniques that allow firms to overcome the numerous and expensive obstacles . Given that traditional management fails to provide clear and accurate picture of actual performance achieved, requires a new approach to business. Thus, it requires a change in the attitude of managers; they are paying more attention to maximizing the value created for shareholders than to maximize the revenue of the undertaking. As a solution to challenges facing the traditional management systems, was proposed to implement a value-based management.

Value-based management shows the orientation of management, to maximize the value of the company, the main objective of this philosophy being to maximize shareholder wealth. Value-based management seeks to avoid errors due to analysis of accounting data, using for this purpose management techniques, elements of organizational culture and performance measurement tools specific management.

Value-based management focuses on improving decision making at all levels in an organization. It is recognized that the types of management "top down" may not work well, especially in large corporations and, therefore, this new management system requires managers at all levels to use performance measurement tools, based on value, for making better decisions (Koller, 1994).

Value-based management is a management concept for which the main purpose of the company is to maximize shareholder wealth. Business objectives, strategy, its

mechanisms, techniques of financial analysis, performance indicators, culture, are in the service of the idea of maximizing the value created for shareholders (Arnold, 2008).

The European standard definition (EN 12973 Value Management) of value-based management is as follows: "Value management is a management style designed to mobilize individuals, to developing skills and promoting synergies and innovation, aiming to maximizing the overall performance of an organization. Value management brings a new way to use many existing management methods."

Passing a company from a revenue management based on a value-based management has significant effects on the life of the organization. Investment and disinvestment strategies may change in the sense that it will be guided by the principle of maximizing shareholder wealth. Capital structure and dividend policy is determined by how that creates value for shareholders and not aimed at increasing safety or revenue.

Measuring performance, setting targets and managers remuneration are closely linked to shareholder wealth change, rather than changing accounting income. Understanding the new management concept by the company requires solving educational and motivational challenges. A culture change is necessary to achieve the company's main goal: maximizing shareholder wealth. Rehabilitation and change staff reward system is necessary for better implementation of this new concept of value-based management, oriented to obtain long-term value.

There are five key determinants of value created in the company (Boulos et al, 2001 apud Ameels et al, 2002), namely:

- An explicit commitment of the managers for the purpose of creating value, which becomes evident when the company focuses its activity in the interest of its shareholders;
- Educating and improving a large number of managers and employees for the purposes of maximizing shareholder wealth;
- Developed the idea of common interest in the company helped by a policy of rewarding appropriate or management of all employees, depending on the economic benefits created by the company;
- Developing and supporting economic units creating shareholder value through better evaluation and implementation of projects to investors;
- Realization of a general restructuring. Most important rules to implement a value-based management are: avoid errors arising due to limitations of accounting data, identify the value created in the company to adopt new operational strategies aimed at investors, not least, information system development as a strategic component company activity.

A correct implementation of these five factors is essential to benefit from implementing a value-based management.

Value-based management aims to increase performance as well as other management strategies, but also aims, effective management of non-material resources. Therefore, through this type of management is made a permanent reference to the company's values, assess the degree to which they affect organizational culture and how they influence the tangible resources.

This management ensures convergence of goals and values of the organization provides a common basis for the mission, strategy, culture, organization and decision systems. Because shareholders, managers, employees and customers of a company have their own system of values, sometimes contradictory, value-based management objective is to bring together these systems and their integration into a set of principles that represents the starting point for defining organizational culture.

For value-based management, maximizing sales, market share, degree of satisfaction of employees, degree of customer satisfaction is not the actual objective of the company. All these are important and are satisfied only if that helps maximize shareholder wealth, which is the target objective of the company. It is important that the company's objectives and principles of strategic and operational decision making, to be clear. Objectives of promoting a vague balance of interests are not suitable for a commercial organization in a competitive environment. Order to maximize the present value of cash flows for shareholders bring simplicity and streamlining the decision making process. Companies are forced to change their performance monitoring systems, and streamline their activities to achieve the results expected by investors. Thus, each department is profitable or just disappears depending on target to achieve or not to create value for shareholders (Arnold, 2008).

The principles underlying the value-based management should be known and applied throughout the company; they must cover all aspects of organizational culture and business life.

Calculation and analysis of performance indicators based on the value and direction of company activity according to these results are not sufficient for successful implementation of value-based management program. Implementing a value-based management teaches managers to efficiently allocate resources to those activities that prove performance and create value for shareholders. All through the implementation of this management, minimizes the risk of conflicts of interest between owners and other interested groups in the company.

The most important advantages of this business management strategy are:

- A coherent process of initiation and shaping of values;
- Culture of shared values and a better understanding of the goals of the organization;

- Internal and external transparency of the company;
- facilitate communication with investors, analysts and shareholders;
- establishing clear benchmarks for compensation and benefits policy;
- Better management of complex and high risk situations;
- Better products and better service for customers.

Despite these strategic advantages, value-based management involves disadvantages¹, primarily in terms of cost and time:

- Because management by values is an approach that often involves a change in organizational culture, it requires considerable time and, of course, resources;

- Implementation, monitoring and diagnosis of internal values involves costs;
- Trainings and consultancy are often necessary, but requires, in turn, a substantial financial effort;

- Building organizational values is a complex endeavor, which, if not done by a specialist experienced may have results contrary to those intended.

Although the number of organizations which bases its exclusive management values is still small, this strategy should become as an important component of business administration. Values-based management is not just a concept promoted by consulting firms, but a concrete way to adapt the company to complex business reality, which seeks to support the organization on the path to development.

¹ <http://www.valuebasedmanagement.net>, accesat la 23.10.2011

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