DEVELOPMENT CONCEPT OF VALUE BASED MANAGEMENT

ALICJA K. KRZEPICKA

Abstract: *Dynamic changes in economy we have been dealing with over the last years cause a growing need for modern ways of management, better adjusted to contemporary world realities. Competition globalization causes bigger and bigger management staff's interest in company value. The increase of company value constitutes a key management element. Therefore, for the companies pursuing competitiveness the most important goals are becoming costs reduction, products quality improvement, higher innovativeness and bigger creativity in management processes, as well as the implementation of more modern management methods. One of them is value based management.*

Keywords: *value based management, customer value, company value*

JEL Classification**:** *D46, M30, O43*

1. CREATING VALUE

In general company value is a sum of company revenues being the function of an offered product's price and amount of sold goods [6, p. 193]. A growing interest in creating value and in its growth factors and ways is connected with fundamental issues concerning a company's sense of existence and its purposes. Competitiveness, and thus company value, is a complex notion; it is determined by multiple factors diagnosed on different grounds of a conducted activity. Company value is linked with its ability to generate profit and depends considerably on supply competitiveness, marketing policy efficiency, capital cost, time and time distribution risk. It links in a cohesive way factors used by a company board to create final value. A company that creates value is financially healthy, stable and has good development prospects. It is a strong company appreciated by customers and suppliers, searched by employees, environmentally friendly, bringing decent profits to the owners and paying due taxes to the state and local communes [8, p. 50]. A company creating value is obliged to provide its customers with higher added value for the same price. An important issue in the process of creating this value is an appropriate identification and used of competitive advantages which reveal themselves not only in the efficiency of company potential management but also of the use of chances and risks coming from the competitive and macroeconomic surroundings.

Creating value influences company attractiveness on financial markets, increases its ability to joint ventures, acquisitions and other cooperation forms. Companies creating bigger value and satisfying investors' expectations have considerably higher chances for development. Yet, searching for value creating sources by companies requires constant adaptation of company actions, volume and structure of its assets and acquired capital to changing conditions [4, p. 17].

What is an interesting approach to company management is concepts oriented towards its value growth. Through the last twenty years these concepts have had a particular influence on both strategic behaviours and operations management by forming often new business models. One of such concepts, which is worth paying attention to, is Value Based Management concept.

2. SOURCES OF VALUE BASED MANAGEMENT CONCEPT

Value Based Management is a contemporary dominant way of management applied in the best capital partnerships on all the continents. It contains rules, propositions and solutions in the scope of taking strategic and operating decisions whose purpose is to maximize company value for owners and other interest groups related to the company: customers, employees, suppliers, lenders, local community and society [8, p. 25]. Global world economy, stormy and unstable business-related environment affect the necessity to use strategic actions with the purpose of generating company value and maintaining a long-term competitive position. Management oriented towards building and permanently increasing company value for its owners known as Value Based Management concept is one of the newer currents in management theory of the recent year. VBM is a management concept postulating the focus of actions on company value maximization from its owners' point of view. It presupposes steering of company operating and developing activity so as to meet the basic goal that is value growth. The VBM scope should embrace all kinds and spheres of company activity and almost every echelon of its hierarchy [2, p. 118]. What is the genesis of the value management concept is a need to find such a way of measuring company results that would satisfy new needs of shareholders and managers. VBM can be also treated as a company management system in which all decisions taken by managers – on a financial, investment, organizational level etc. – are subordinated to meeting the target which is invested capital maximization. As a result of embracing the finances, strategy and management theory and practice in one concept VBM is a company management system integrating three basic areas of managerial and analytical tools [10, p. 645]:

- business valuation,
- gauges of periodic results assessment in the scope of creating value by a company,
- employee and manager incentive programs.

The instruments joining the above parts of VBM are most of all financial management tools which enable to build strategic and operating plans as well as conducting current value assessment constituting management results.

It is worth noticing that Value Based Management is not a definite solution possible to be implemented in every company, though, as it is not a precisely defined and described method with a manual. Still, it is a concept which ought to be appropriately processed and adapted to the needs of a particular company in the shape of a system enabling to acquire specific benefits and particularly to meet the ultimate goal.

In conclusion, what is possible to indicate as basic postulates of the value based management theory is the following:

- it is philosophy of a whole company's functioning and not a single action of a management staff,
- it is implemented and developed in the entire company,
- it emphasises in a significant way financial implications of all decisions taken in the company,
- it uses methods enabling the evaluation of decisions taken by the capital market and managers,
- it is connected with incentive and remuneration system,
- it is oriented towards using all chances to increase value,
- it focuses on long-term cash flows and not on short-term changes in book profits,
- it presupposes to accept only those development operations which ensure higher growth rate from capital cost.

3. BALANCED SCORECARD (BLS) AND COMPANY VALUE

Balanced Scorecard was elaborated at the end of the nineties of the previous century by R. Kaplan and D. Norton. According to the authors is supposed to constitute an innovative management system enabling to embody an organization's strategy [5, p. 11-12]. Measures and indicators embraced in the scorecard ought to be presented in such a way so that the balance on the following four grounds is maintained:

1. Between external indicators referring to owner and customer satisfaction and internal indicators concerning organization business processes.
2. Between indicators referring to the main strategic goals and indicators describing key success factors (i.e. factors that condition meeting strategic goals).
3. Between financial indicators embracing economic effects and relations and non-financial indicators characterizing market and customer service, internal processes, company development.
4. Between indicators describing long-term goals and indicators referring to short-term goals. Companies of different branches being organizations willing to complete on the market formulate models of their businesses so that the latter constitute a fundament of strategic planning process.

BSC is a complex methodology that allows to describe strategies in a clear way, translating a general strategic vision into specific actions. Balanced Scorecard reports enable to [8, p. 147]:

- evaluate the degree of planned goals realisation,
- provide information (stimulus) for reaction in case the objective realization is at risk (when the level of a particular efficiency gauge or of budget position differs from the expected one),
- define the influence of appearing deviations on other business units' activity and on the whole company and define the possibility of undertaking coordinated coherent corrective actions,
- evaluate efficiency of actions for incentive system purposes.

In value management context Balanced Scorecard (BSC) is a very important instrumentation and its rules are more and more widely applicable in different economic sectors. BSC's characteristic is formulating goals in a measurable way and explicitly accentuating their practicability.

BSC allows to formulate the main targets of company value growth and to associate them with strategic goals subordinated to four perspectives of: finances, customer, processes as well as knowledge and development. Dependencies between the objectives are presented in the shape of a map of strategies enabling the analysis of dependencies between undertaken initiatives, purposes and company value growth. Strategic issues emphasised on the map of strategies should be adapted to the offer, value for customer, as well as to the value growth goal that has been set. The instrumentation, which Balanced Scorecard is, may be particularly helpful in coordination of strategic initiatives process improvement programs. All the process stages generate costs, but only some let added value increase. Therefore, an organization ought to concentrate all its efforts on improving strategic processes while providing the realization of fundamental processes on an appropriate competitive level. It should focus its efforts on the effectiveness of actions contributing to value creation as well as on ameliorating the others' efficiency. Seeking company value growth enables to build strong market position, organization financial strength and to create valuable relations with all stakeholders.

3.1 Company value and its competitive position

Company value is connected with its ability to generate revenues, thus, it largely depends on offer competitiveness, marketing policy efficiency, capital cost, time and time distribution risk [1, p. 67]. While building value a company uses its competitive potential and creates capacity to use it, that is competitive capacity. Companies' competitiveness may be understood as a process in which economic actors pursuing their interest realization try to set forth more profitable offers, prices, quality or other features influencing the decision to close a deal in order to strengthen and improve their market position [3, p. 35]. Competitiveness has always been a crucial condition for company success. It is impossible to separate value maximization ensuring company development from building competitive advantage. The aforesaid value driver, and more specifically a value growth or creation period is identical with a period of competitive advantage which can be defined as a set of company assets valued by the market. The use of these assets with the support of an appropriate instrumentation ensures to reach competitive advantage. Numerous cases indicate that the most effective strengthening of value maybe achieved by the companies which [7, p. 203-204]:

- have at their disposal brand advantage,
- chance competition rules within a branch,
- react faster to changes in the surroundings,
- are characterized by technological advantage,
- have conducted restructuration more effectively,
- have acquired a skill of making acquisitions and creating integrative relations with other companies.

Many companies strengthen their value by modifying competition rules within their activity sector introducing among others new ways of customer service or rules of cooperation with suppliers. Their ensures success due to fastening reactions to sudden changes in the surroundings resulting from global competition intensification and lowering barriers to enter a specific sector [9, p. 62]. Company value is a result category staying in relation with multiple factors, both internal and external. Value Based Management whose ultimate goal is to stimulate and create value growth processes is not a one-off action, as it has a permanent character. However, in order to ensure that value change process runs according to VBM concept assumptions as well as to owners and board's expectations, in other words, that it runs in a growth form in the long term, it ought to be permanently subjected to the activity of appropriate stimulants of company value change processes.

4. CUSTOMER IN CREATING COMPANY VALUE – RESEARCH RESULTS

Customer value for companies decides about the levels and time of invested capital return, the levels of the arranged surplus for shareholders, the employee remuneration and company development possibilities. In the contemporary economy customer loyalty is increasing, as an important factor of company competitiveness and as an intangible capital. For companies operating in both private and public sectors the most certain way to gain success is to do the best what is the most important from a customer's viewpoint. Then, retained customer percentage increases and customers are prone to pay more for a product or service which fulfil their expectations and suit their needs. Benefits brought by loyal customers should incite the companies to counteract a customer loss by maximizing their retention rate. Thus, gathering information about customers, its appropriate aggregation and storage may help in creating an effective and full basis of knowledge about customers which will enable efficient formation of their loyalty.

Below there are results of the research conducted on 150 companies operating in Poland in order to identify managers' understanding of customer value for companies and use of possibilities of their value management in creating customer capital.

The research embraced production, service and trade companies, with Polish, mixed and foreign capital, small, medium and big enterprises

The companies participating in the research notice benefits from having loyal customers, most of all, in:

- a bigger profit for a company – 78.7% of companies,
- a company competitiveness increase – 57.3% of companies,
- lower service costs – 56.7% of companies,
- assistance in product/service improvement – 56% of companies.

Moreover, what the studied companies perceive as important benefits is also time saving in a new product implementation (48.7%) and a market share increase (44.7%).

By analysing the acquired results in more detail it is possible to state that the biggest benefits from having loyal customers are noticed by companies of turnovers within 100-500 million. According to the company representatives, the benefits from having loyal customers are most of all higher profit – 34.9% and lower service costs – 31.3% as well as assistance in product/service improvement – 28.7%, time saving in a new product – 25.4%, competitiveness growth – 24.6%. Slightly smaller benefits, below 20%, are perceived by the companies in a market share increase – 18.7% firm. For the companies of turnovers not exceeding 100 million the benefits from having loyal customers are: firs, higher profit – 30.1%, then, lower service costs and competitiveness growth – each 20.7%. 0.7% of the representatives of the companies with turnovers up to 100 million do not know what benefits may loyal customers bring.

The most benefits from having loyal customers are noticed by companies employing from 201 to 500 workers; for these companies it is mainly higher profit (51.4%). What is also significant is the benefits in the form of lower service costs (33.3%) as well as the growth of competitiveness (32.7%) and of assistance in product/service improvement (30%). Benefits in the form of time saving in a new product/service implementation and in a market share increase are perceived in the same degree and amount to respectively (27.3% and 26%). In the companies employing from 501 to 1000 workers the benefits from having loyal customers are mainly higher profit (14%) and assistance in product/service improvement (12.6%).

However, for the companies, where the number of employees fluctuates from around 1001 to 5000 workers, benefits from having loyal customers lower service costs (14%), higher profit and time saving in a new product implementation (respectively 12%) as well as competitiveness growth (11.3%) and assistance in product/service improvement (10.7%). A market share increase is significant only for 9.3% of these companies.

The companies employing over 5000 workers perceive benefits from having loyal customers to a lesser extent; if anything, only 2.7% of companies see benefits in the form of assistance in product/service improvement, and to even much lesser extent, respectively 1.3% - in higher profit for a company and a company competitiveness increase.

The benefits from having loyal customers among the representatives of the companies participating in the research deriving from different sectors are perceived similarly in the trade and service sectors, and slightly differently in the production sector, according to the obtained results. Both in trade and services, the perceived benefits are mainly in higher profit (trade – 33.3%, services – 30.7%) and similarly perceived in assistance in product/service improvement – respectively 22.7%, lower service costs – 22% each.

If we take into consideration a capital, then the benefits perceived by Polish capital companies will mainly be in higher profit for a company (51.4%), assistance in product/service improvement (38.6%), a company competitiveness increase (36.7%), lower service costs (34.7%). 0.7% of Polish capital company representatives do not know what benefits from having loyal customers there may be. Foreign capital companies see the benefits from having loyal customers decidedly in higher profit (51.4%). 1.3% of foreign capital companies representatives have not answered the question about the benefits from having loyal customers. According to mixed capital company representatives, the benefits from having loyal customers, as in case of the previous companies, are first and most of all in higher profit (14%).

Purchasers create a company customer capital by kinds of streams they generate to companies. Therefore, it is very important for company managers to notice in strategic management the kinds and value of these streams which form a customer capital and to use management methods to increase their value.

5. CONCLUSION

A value management concept embraces elements of strategic management, financial management, human resources management and marketing management. VBM concept allows to organize actions forming organization value and to design and implement mechanisms of influencing its growth. Company value growth is connected with the possibility of maintaining and strengthening a long-term competitive position which is difficult to copy. Creating value influences company attractiveness on financial markets, increases its ability for joint ventures, acquisitions and other cooperation forms. Effectively functioning companies increase their value, which makes them attractive for the surroundings and employees. A basic, classic and very useful approach to company value management is Value Based Management (VBM) method described in the article. Its main idea is to focus activities on maximizing company value from the owners' point of view. What may appear useful in this scope is the use of an instrumentation which is the Balanced Scorecard (BSC), which for a company means to orient its management strategy and system towards the improvement of efficiency and innovativeness, which translates into value growth.

Appropriate value management assumes that a company should concentrate on developing its main activity areas where it has or may acquire real competitive advantage on the market.

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Alicja K. KRZEPICKA, PhD.
Military University of Technology, Department of Cybernetics
St. Gen. Sylvester Kaliskiego 2, 00-908 Warsaw, Poland
e-mail: alicja_krzepicka@o2.pl