

Value-Based Management – It’s Still Around and Evolving Into A “Best Practice” 3-Dimensional Operational Tool

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Before Value-Based Management (VBM) became a viable tool, organizational performance targets were imprecise or not aligned with the ultimate goals of many organizations.

The basic thesis behind VBM is that, properly understood and implemented, it provides precise and plain metric value upon which the entire organization can be built.

The basic principles behind VBM is uncomplicated: The value of a company is determined by its discounted future cash flows since value is created only when a company invests capital at returns that exceed the cost of capital.

Simple... yes but easy, no! VBM disciplines can become side tracked and sometimes hurdled or worse yet “pigeon-holed” in staff functions. The basic essential to the success of VBM is the obvious, the C-suite must totally understand and support it.

Given the C-Suite buy-in, there are two fundamental sub-functions that are musts if VBM is to succeed in any organization:

- Focus
- Alignment

FOCUS: There must be a total focus on how a company uses capital to make everyday decisions and...

ALIGNMENT: Alignment of the company’s aspirations, diagnostic techniques, and management processes to focus on decision-making on key

drivers of value at all levels of the organization.

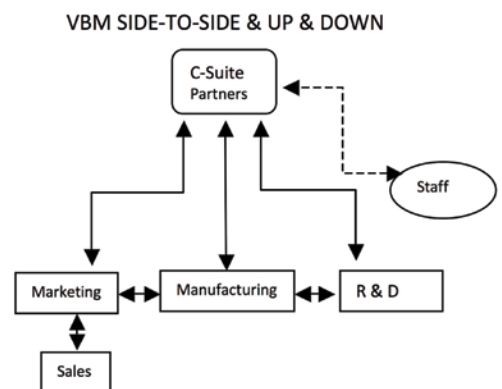
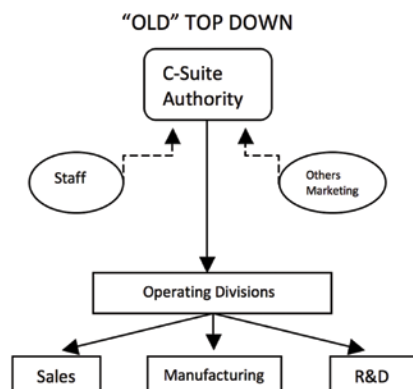
VBM provides decision-makers at all levels, with the correct information plus incentives to make value-creating decisions. Incentives are set by Senior management through specific financial targets via strategic review interplay between managers and superiors.

VBM is considered “working” when an organizations’ management processes provide decision-makers at all levels with accurate information and incentives to make value-creating decisions. Additionally, the manager’s own assessment would be based on long-term as well as short-term targets that measure progress toward the overall value creation set of goals and objectives.

The topic of VBM cannot be comprehensively examined within the confines of a column, however, we can list highlights of essential elements that should be examined further:

- Remember, VBM is implementation of value maximization as the final financial objective for your company. Financial goals are . . . set in terms of discounted cash flow value and translated to short-term financial performance objectives.
- Nonfinancial goals: customer satisfaction, innovation, employee satisfaction
- Objectives must be customized to different levels within your organization. Functional managers and Production manager’s objectives will be different.
- Find the value-drivers at all levels of your organization and translate them up and into the whole company. **CW**

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Old planning systems vs. VBM