

VALUE-BASED MANAGEMENT AS THE INNOVATING PARADIGM OF CONTEMPORARY GOVERNANCE – A THEORETICAL APPROACH

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Abstract: The magnitude and the dynamism of economic, political and social phenomena and the spectacular challenges of the 21st century have led to new approaches of the corporate performance management and to the development of new paradigms. Value-based management (VBM) has emerged as a viable alternative to the various management systems focused on increasing performance which have not recorded the aimed results subsequent to shortcomings of conceptualization, evaluation mechanisms or the concrete possibility of implementation. This article aims to present a theoretical approach of VBM as the complex management philosophy able to offer a holistic solution for achieving performance.

Keywords: VBM, performance, value creation

Introduction

Orienting corporate management towards maximizing shareholder value came forward within the context of economic transformations during the penultimate decade of the last century, with the unprecedented capital liberalization, with increasing competition and generalizing the system of equity-remuneration aimed at managers, yet also in the context of widely recognizing the imminent collapse of certain social security systems, particularly in Europe and Japan (Copeland et al., 2000).

Even if the objective of a company is ensuring time and space continuity and creating permanent shareholder value for, not all management systems succeeded in attaining this goal, taking into consideration that maximizing shareholder value is in conflict with the interests of other categories of stakeholders (Young and O'Byrne, 2001).

In contemporary society, companies which embark upon a holistic approach of performance and harmonize their relationships with shareholders, employees, customers, suppliers and the local community, with also focusing their concerns towards obtaining a positive social and environmental impact, do have increased opportunities for achieving sustainable performance (Caraianni et al. 2012).

Value-based management (VBM) has emerged as a viable alternative to the various management systems focused on increasing performance which have not recorded

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the aimed results subsequent to shortcomings of conceptualization, evaluation mechanisms or the concrete possibility of implementation. VBM offers a holistic solution for achieving performance by focusing on three fundamental components: the primary objective, which stands for *maximizing value* through applying sustainable strategies; the *value management*, which addresses the factors involved in achieving the primary objective, factors regarding governance, organizational culture, communication, relations with the external economic, social and natural environment; the system of evaluating performance by *indicators that reflect the value creation* (Ślusarczyk and Golnik, 2015; Kuchta and Sukpen, 2011).

Starting from these realities, this study aims to investigate the positive impact of widespread use of VBM on performance growth at company level. In terms of methodology and the research perspective, the scientific approach is addressing the VBM issues from a qualitative perspective; the theoretical approach aiming to emphasize the VBM's potential of creating long time performance.

Conceptual Approach of VBM

Having as a fundamental objective the ensuring of corporate continuity and long-term performance, VBM stands for an integrated control system which measures, stimulates and supports the creation of value (Ameels et al., 2002). It is focused on developing the company by orienting its strategies, organizational culture, mechanisms and outcome-analysis techniques towards maximizing the value created for shareholders (Arnold, 1998).

Although the primitive forms of VBM have emerged even since the late 18th century in the context of the economic expansion driven by the industrial revolution, it was in the 1980s that the concept was introduced in its contemporary significance and experienced a rapid academic recognition, as well as an expansion of its scope, becoming the nucleus around which there was build the paradigm of the modern financial management.

Rappaport captures the essence of VBM in his pioneering work on "*Creating Shareholder Value - the New Standard for Business Performance*" (1986) and steps up the extant research in this field, publishing in 1997 the expanded version of his theory. The theoretical approach is based on reviewing the fundamental determinants of shareholder value creation, including in their spectrum such elements as planning, performance evaluation, compensation measures, information provided by the capital market, the impact of mergers and acquisitions, the author emphasizing the conditioning of the value creation process on a wide and constantly expanding range of factors.

The theoretical approach is complemented by the practical approach to implementing VBM, Rappaport advocating for using of the marginal indicators, the growth rates and the cost of capital, analyzing a set of topics such as identifying the most relevant method of performance evaluation, setting the goal of the feasible performance level, the opportunity to connect the incentives granted with the achieved performance.

The Balanced Scorecard (BSC) proposed by Norton and Kaplan in 1992 is part of the new management philosophy, solving the shortage of specific performance management systems by building a model that aligns the activities of a company to its mission and strategy, contributing to improving external and internal communication, and monitoring the company performance by evaluating the objective achievement extent (Grigoroudis et al., 2012).

While Rappaport's model focuses on the theoretical approach to the shareholder value creation and provides some clues on the practical implementation of VBM, the system proposed by Norton and Kaplan enables the implementation of the company strategy with acting from four perspectives, linking the financial dimension to the customer satisfaction, the internal processes and the company's ability to provide its continuity through innovation and learning.

BSC allows the performance evaluation with using financial and non-financial indicators, grouped into action and result indicators, achieving the balance between them representing the main advantage of this strategic management system (Niven, 2003).

Quantifying tangible results and the profitability strategy (Horngren et al., 2006), the *financial perspective* operates with indicators such as economic value added, the operating income, the return on investment, the net profit rate, the cash flows, the cost of capital (Grigoroudis et al., 2012).

The identification of target market segments is subject to the *customer perspective*, BSC proposing the use of such indicators as the market share, the customer satisfaction, the number of new customers, customer loyalty and profitability (Wu et al., 2011; Bačík R. et al., 2014; Litavcová et al, 2015) to assess the company's performance in the competitive environment. The *prospect of internal processes* is aimed at coordinating activities and aligning them to the company mission, as well as monitoring the results of fundamental internal operations to ensuring the continuity of the value creation process (Niven, 2003).

The innovation process, which is aimed at creating new products, services and processes able to meet customer needs, is one of the subdivisions of the *prospect of internal processes*. The sub-process aiming at the existing product and service portfolio of the company, i.e. the production along with the delivery operations, stands for the *operational process* and the *after-sale process* is geared towards ensuring customer satisfaction by providing after delivery services (Sirkova, 2014; Horngren et al., 2006).

In line with the new management paradigm, BSC analyzes and capitalizes the numerous factors that contribute to creating value in a company and identifies, through the *learning and development perspective*, the key capabilities where the company must excel in order to achieve its objectives. In the BSC model, employee capacities assessed by their education and their skill level, the motivation of employees expressed by the extent of their satisfaction, the information system capabilities measured by the percentage of production processes with real-time

feedback (Horngren et al., 2006) stand for essential determinants of the value creation process.

By proposing BSC as a strategic management model, Norton and Kaplan (1992) have demonstrated the possibility of applying VBM with beneficial effects on the company's performance and the environment in which it operates. Using such tools as the BSC through a holistic approach to modern company performance, with ensuring its longevity in time and space in the context of preserving the economic, social and natural environment, reveals the existence of coherent methods for incorporating social and environmental objectives into the mix of already extant indicators (Caraiani et al., 2012) and the possibility of developing viable strategies aimed at achieving sustainable performance.

Rappaport's pioneering studies in the field of VBM and the practical model for the implementation of its principles through the strategic management system introduced by Norton and Kaplan oriented the researchers' preoccupations towards deepening and widening the scope of applying this concept.

Morin and Jarrell (2001) adopted an empirical approach of VBM, presenting a series of case studies, and concluded that the performance of a company is subject to its strategy orientation towards capitalizing all factors with the potential to creating value. The authors define corporate governance as that framework which controls and supervises the interests of the relevant market players (managers, employees, customers, suppliers) and provide, via case studies, a series of guidelines on building VBM models.

Researches undertaken in the VBM field have determined the perpetual transformation and clarification of the concept, generating on the one hand a set of definitions oriented towards the VBM purpose, and on the other hand a set of definitions based on the outcome of its implementation.

Table 1. Conceptual approaches from the viewpoint of the VBM implementation purpose

Author	Year	VBM definition
Armitage and Fog	1996	Managerial philosophy based on company administration in compliance with the principles of the economic value creation.
Bannister and Jetushasan	1997	Concept based on the idea that the central objective of the companies traded on the capital market is to maximize shareholder value.
Marsh	1999	Framework for assessment and management of companies in order to create long-term value for shareholders.
Simms	2001	Management approach in which the guiding philosophy of companies is to maximize shareholder value by achieving incomes higher than the capital cost.

Characterizing VBM as the association between creating value as an objective and the processes as well as mechanisms necessary to its implementation, Koller (1994) identifies the VBM principles and advocates for the correlation of the performance goals with the company's long-term strategy, emphasizing the interdependence between the purpose and the implementation of the management system which ensures its achievement. The fundamental principle of VBM is represented by the involvement of decision makers from all company panels in using the evaluations oriented to creating value and aligning management objectives, techniques and processes towards increasing the company performance.

Table 2. Conceptual approaches from the viewpoint of the VBM implementation result

Author	Year	VBM definition
Mc Taggart et al.	1994	VBM is a combination of beliefs, principles and processes allowing the company to reach performance in the competitive environment in which it operates as well as internally, with forming the basis of a systematic approach to achieving the company's mission.
Arnold	1998	Management approach in which the primary objective is to maximize shareholder value. The company's objective, the systems, processes, strategy, analysis techniques, evaluation methods and organizational culture are geared towards this primary objective.
Martin and Petty	2000	VBM is more than a performance evaluation system. The VBM fundamental principle of rewarding performance is the connection to work towards creating shareholder value.
Leahy	2001	Management approach according to which the key to increasing shareholder value lies in the integration of strategic planning, performance evaluation and reward.

The Impact of VBM on the Management Paradigm

By joining the line of research regarding the opportunity of VBM using to ensure the performance of companies, Lueg and Schaffer (2010) noted the necessity to introduce a structural paradigm of this new management approach as well as the development of a conceptual framework and an evaluation system which allows the achievement of the established objectives. According to the two researchers, tendency of managers, experts and auditors to consider the financial-accounting reporting as the ultimate system for quantifying results and grounding the corporate strategy puts VBM current practices under the constant pressure of an alignment to this assessment framework, leading to a possible distortion of the integrated vision and to diminishing the capacity of preventing the negative management through neglecting important aspects related to corporate governance, the quality of accounting and auditing practices, the professional judgment and the investigative manner of economic, social and environmental phenomena.

In this respect, the wide implementation of VBM requires the reevaluation of the research methodology with which the management accounting operates (Ittner and Larcker, 2001) and the adopting of a progressive system of evaluation based both on descriptive methods, as well as financial parameters.

The essential pillar upon which it is grounded the capacity of a company to implement in real life its own mission and strategy is the performance evaluation system (Magretta and Stone, 2002; Melnyk et al., 2004). According to some experts, it must provide a limited number of breakpoints and indicators describing the key features of the developed operations in order to implement the strategy (Giffi et al., 1990; Kaplan and Norton, 2000; Evans, 2004) allowing the analysis of the evolution of the company by ensuring comparability with previous time periods, as well as the analysis of its market position by reference to the performance of its competitors. The recommendation of an evaluation system with a limited number of indicators allows a better focus on the decision making at all levels of management, eliminating the possibility of risk elements, of unrelated or contradictory solutions which can ultimately lead to a defective strategic execution (Kisel'áková, et al, 2015; Melnyk et al., 2004).

Choosing the optimum system of performance assessment that enables company strategy implementation and ensures the obtaining of the benefits expected is determined by the company mission itself and by the whole set of operational activities carried out in order to achieve it (Wheelwright, 1984; Neely et al., 1995; Khurana et al., 1998; Lohman et al., 2004; Ketokivi, 2006).

In line with the new management paradigm, Hambrick and Fredrickson (2001) emphasize the importance of focusing the company towards satisfying all categories of stakeholders and define *strategy* as a concept that provides the visibility of corporate competitive capacities, the process of attaining targeted goals being carried out with maintaining transparency and providing all the information necessary for adopting decisions. The constant adopting of external orientation strategies enable companies to secure their continuity in time and space and achieve long-term performance (Vicker et al., 1994; Zhang, Vonderembse and Lim, 2003).

The performance of companies and the maximizing of external competitive capacities are based on the continuous improvement of corporate internal competences as well as the staff qualities, the production technologies, the organizational system, the innovation ability, the skills of communicating with stakeholders (Hesket et al., 1994; Kaplan and Norton, 2000; Koufteros et al., 2002).

Combining external strategic orientation with the concern for increasing company's internal powers, Treacy and Wiersema (1993) propose an evaluation system that engages all decision-making levels, leading to value creation by addressing performance through three perspectives: operational excellence, product management and customer expectation knowledge.

Operational excellence captures the extent to which it is able to build itself a viable system that duly satisfies stakeholder requirements while optimizing costs through operational efficiency and improving internal processes (Treacy and Wiersema, 1993; Slater et al., 1997; Kaplan and Norton, 2000).

The strategic perspective of the product management aims at the company potential to increase its competitiveness by developing innovative products and services with performances that are superior to existing ones, meeting consumer needs and capitalizing market opportunities (Treacy and Wiersema, 1993).

Ensuring the longevity and performance of a company cannot be achieved without knowing the preferences and expectations of consumers. Companies which strengthen their relations with consumers and which address market segments in different terms according to their specific requirements, combine consumer orientation with operational flexibility and are able to quickly respond to any change in the markets where they operate (Treacy and Wiersema, 1993).

Although modern companies are making efforts to develop and implement comprehensive strategies addressing performance through the three dimensions (Slater et al, 1997; Kathuria, 2000; Frohlich and Dixon, 2001), they most often excel at one of the perspectives, maintaining themselves at a certain threshold considered the standard for the other two (Kaplan and Norton, 2000).

Total Performance Evaluation

The researchers' concern to obtain long-term company performance has led to the development of excellence models that assesses both the tangible as well as the intangible aspects of this concept, integrating the values and activities from within the company into a complex functional system that aims at creating value (Viinamaki, 2009).

The excellence models of value-based total performance (EMVBTP) provide a holistic view on the evolution of the company and its impact on the environment in which it operates. Husain et al. (2001) identified eleven key dimensions whose analysis and evaluation allow the quantification of modern company performance, grouped into three major categories: the value-based organizational capacity (leadership, objectives and strategies, culture, management of market condition changes, the resource management, the best practices, the innovation), the value-based internal competences (productivity, staff, stakeholders) and the value-based performance (results obtained) (Abdullah et al., 2011).

The correct evaluation of performance involves the selection of key-dimensions that meet four essential qualitative attributes (Hultman and Gellerman, 2002): the *balance* i.e. using those dimensions that contribute to the achievement of performance in roughly equal proportions, the *viability* as an expression of key-dimensions' relevance within the company management scenario, the *compatibility* between individual values and strategic values as well as the *authenticity*, as an accurate and complete reflection of reality.

The EMVBTP allot each key-dimension a set of quantitative or qualitative indicators (Husain et al., 2001; Abdullah et al., 2012) which enable transposing information into statistical indicators (Hofstede, 2001) and lead to performance evaluation, ensuring the time and space comparability of company position and results.

The dynamics of contemporary markets determine the permanent company concern to develop ways to quickly adapt and effectively respond to new challenges. The success of this endeavor and in particular the achievement of operational excellence does most often depend on the qualities found in the company management staff (Malek and Kanji, 2000; Labarre, 2000; Joseph and Winston, 2005; Bartram Casimir, 2007; Dahlggaard et al., 2011).

In EMVBTP terms, indicators analyzing the leadership capacity to meet the requirements on reaching operational excellence and achieving long-term performance assess the extent to which it does objectively interpret data and adopt correct decisions as well as assume their responsibility, the scope of completely implementing the decisions expressed, the degree to which decisions are geared towards fulfilling the company's mission, the determination and ability to provide guidelines and manage human capital and, not least, the leadership's professional skills (planning, management and control) in conditions of diversity (Idris et al., 2008; Arena and Azzone, 2010).

The dimension of objectives and strategies ranks a top place within EMVBTP (Cravens et al., 2003) and provide information about the correctness of the strategy, the policies, practices and decisions within a company, about their potential to ensure long-term performance and how they are formulated in accordance with the company's mission, about the capacity of operational processes to train all levels of the company, as well as about the establishment of sustainable strategies and objectives (Husain et al., 2001).

The cultural influence is manifested upon the financial performance of the company (Denison, 1984), on the strategic success (Bluedorn and Lundgren, 1993; Keeble, 2003) and the internal development (Cox et al., 1991; Barlev and Haddad, 2003) by lining up the human capital behavior and convictions with the vision and mission of the company. Cultural dimension indicators show the extent to which staff members are contributing -either individually or in group- via ideas, time and efforts, to achieving the objectives, to improving operational processes through a constant and consistent communication based on mutual trust and respect. EMVBTP highlights the importance of staff's professional competences and of ensuring continuous training programs that enhance the quality of human resources, with positive impact on growth performance (Abdullah et al., 2012).

In the context of the societal evolution and the increasing complexity of economic phenomena, the modern company must constantly adapt and find new solutions to achieve performance. A good management of the process of adaptation to the new challenges points out at a careful consideration of the context that requires such measures, at the evaluation of the capacity of changes which are to be implemented

to bring company benefits, at the performing of operations in terms of openness and transparency at all levels of decision and at the proper time (Idris et al., 2008). The efficient management of resources, by planning tangible and human resources after identifying consumer needs, through fittingly using these resources and optimizing consumption through applying the precautionary principle allows the company to maintain its long-term performance (Demski, 2002; Cormican and O'Sullivan, 2004; Abdullah et al., 2012).

Regarded as the most complex aspects of a company's activity (Rainey et al., 2008; Dahlgard-Park and Dahlgard, 2010; Isaksson et al., 2010), the dimensions of good practices and the innovation provide information on the corporate ability to achieve their objectives through the use of advanced technologies and through creating original technologies generating value added (Allio, 2003), with abiding by ethical principles and the international standardizing norms and leading to increasing competitiveness by capitalizing on the market.

Within the EMVBTP, internal competences are addressed inside the dimensions regarding productivity, human resources and stakeholders (Husain et al., 2001). Abdullah et al. (2012) proposes the productivity assessment by investigating the extent to which the available resources are able to ensure the achievement of objectives, extent to which the company distributes performance-generating activities at all levels of its organizational structure, in a non-exploitative manner, and with ensuring a balance between the efforts to increasing productivity and product quality and the costs involved.

Managing human capital as a performance factor involves creating an environment suitable to capitalizing professional skills, their recognition and the ensuring of continuous improvement conditions in order to increase competitiveness (Garcia et al., 2003). The indicators for the staff correctness, the communication and the mutual trust, the degree of motivation and the decision-making capacity do complete the information on the quality of human resources (Grundy and Brown, 2003), enabling the assessment of human capital contribution to value creation.

In the modern society, one of the main objectives of a company is considered to be the creating of value for the various categories of stakeholders with whom it is in interdependent relationships (Slater, 1997). Indicators of this dimension reflect the company's responsiveness and ability to understand and anticipate the needs of stakeholders, giving them indiscriminately that value estimated to be provided (Idris et al., 2008). The data regarding the integrated approach of performance by harmonizing relations with shareholders, employees, customers, suppliers, local community, as well as the information on the concerns of the company to increasing social responsibility and preserving the environment do contribute to assessing the company strengths in achieving sustainable performance (Caraiani et al. 2012).

The main objective of applying EMVBTP within a company is to ensure continuity and longevity of the company by creating value and achieving long term performance (Cravens and Oliver, 2006; Talwar, 2009). Abdullah et al. (2012)

summarizes a number of qualitative indicators of non-financial nature able to reflect the degree of achievement of performance objectives: *profitability* representing the extent to which the results of research conducted within the company are capitalized as additional value added aggregating growth effects of all the key dimensions of the performance model, the *intellectual capital* defined as the company's potential to generate high competences able to boost competitiveness in terms of productivity and innovation, *stakeholder satisfaction* by providing those values that they expect to obtain and the *company's reputation* which ensure the continuance of the activity by maintaining, broadening and diversifying the portfolio of partners.

With the aim of ensuring sustainable performance, EMVBTP integrate value-based indicators assessing operational excellence within companies, synthesizing strategic determinants of performance, and address both the tangible and the intangible components of this concept.

The qualitative indicators with which the EMVBTP operate and which allow the holistic approach of performance do add to the information provided by financial indicators, which are fundamental benchmarks of these management models, having a high degree of precision and predictability.

Conclusions

The magnitude and the dynamism of economic, political and social phenomena and the spectacular challenges of the 21st century have led to new approaches of the corporate performance management and to the development of new paradigms. Economic, social and environmental aspects are also present in the corporate mission, strategies and policies, within companies which show an increasing concern to reduce the negative impact of their actions on future generations (Marinescu et al., 2012).

The globalization and the evolving complexity of the competitive economy, as well as the wide liberalization of markets and the availability of means of rapid dissemination and application of the scientific research results catalyzed the change of contemporary management philosophy, the modern business environment being itself a benefactor of the widespread use of VBM, whose application has been rapidly increasing in the recent years in all the regions of the world.

Being a relatively young and growing concept, VBM incites the researchers' interest for constant broadening the instruments with which the VBM is operating and for developing complex systems of indicators such as the excellence models of value-based total performance to evaluate the economic, social and environmental impact of the companies at the individual, sector and global levels.

The indicator systems developed under VBM will be diversified along with the VBM's evolution, and will become irreplaceable sources of information to ensuring long term performances.

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ZARZĄDZANIE PRZEZ WARTOŚĆ JAKO INNOWACYJNY PARADYGMAT WSPÓLCZESNEGO ZARZĄDZANIA – PODEJŚCIE TEORETYCZNE

Streszczenie: Wielkość i dynamika zjawisk ekonomicznych, politycznych i społecznych oraz spektakularne wyzwania 21 wieku doprowadziły do nowych podejść w zarządzaniu wydajnością przedsiębiorstwa i rozwoju nowych paradygmatów. Zarządzanie przez wartość (VBM) wyłoniło się jako realna alternatywa dla różnych systemów zarządzania ukierunkowanych na zwiększenie wydajności, które nie odnotowały zamierzonych wyników w następstwie braków konceptualizacji, mechanizmów oceny lub konkretnej możliwości realizacji. Artykuł ma na celu przedstawienie teoretycznego podejścia do zarządzania przez wartość VBM jako złożonej filozofii zarządzania będącej w stanie zaoferować całościowe rozwiązanie dla osiągnięcia wydajności.

Słowa kluczowe: VBM, wydajność, tworzenie wartości

价值管理是现代管理的创新范式 - 一个理论探讨

摘要: 规模和经济，政治和社会现象的活力和21世纪的壮观的挑战导致了企业绩效管理的新方法和新范式的发展。基于价值的管理（VBM）已成为一个可行的替代各项管理制度侧重于提高已没有记录的目标结果随后概念化，评价机制或执行的具体可能性的缺点表现。本文旨在提出VBM的理论方法为复杂的管理理念，能够提供实现性能全面的解决方案。

关键词: VBM, 性能, 价值创造