



Value Based Management in Indian Organizations

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ABSTRACT

In recent years, many new management approaches have been seen for improving organizational performance like total quality management, flat organizations, continuous improvement, reengineering, kaizen, team building etc. many of such approaches have been successful in its approach but few have failed to achieve targets. In such organizations, performance targets were not properly aligned with aim of value creation. Value based management philosophy is the management philosophy that helps in this direction. VBM can either support or hinder organizational ability towards being responsible business. It came into prominence only in second half of the twentieth century. Now-a-days, it's common in large companies. Mostly organizations work towards creating long term value for their stakeholders. Decisions made in organizations should not only be short term profit but also long term effects the decisions will have on organizational sustainability and profitability.

Keywords: value based management, philosophy, organizations.

Introduction

“Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted” -Albert Einstein

India has contributed immensely to the management thought. Indian management philosophy is based on holistic approach which is different from the western management philosophy. There is paradigm shift in management approach from earning profit to creating value, which led the evolution of integrated approach called as Value based management (VBM). The increased competition due to adoption of liberalization, privatization and globalization in India has forced business to restructure their portfolios to create greater value for stakeholders.

Objective- The main objective of this study is to understand the meaning of value based management. Author also discusses the benefits and challenges in implementing the approach.

Methodology- The information collected is from secondary sources like various websites, journals, and articles. The descriptive analysis is being done

Concept of Value Based Management (VBM)

It can be taken as perfect blend between value creation philosophy and the management processes required to translate philosophy into action. It allows in any organization the decision makers with the right information and incentives to make value based decisions. VBM is dependent on the corporate purpose and corporate value. It aims to provide consistency of

- Business philosophy
- Business strategy
- Corporate governance
- Corporate culture
- Corporate communication
- Decision making processes
- Performance management systems
- Incentive processes and systems

Creation of value help in the organizations in effective planning, target fixing, performance assessment and incentives. The four essential management processes that are required for adoption of VBM are-

1. **Strategy development-** it must be based on maximizing value. It varies at different level of organization like corporate level or business unit level.

2. **Performance target setting-** fixing targets are very crucial as it gives direction to organizations. Targets must be value driven. Within the organizations also, targets are fixed at different levels or departments. Short term targets are part and parcel of long term goals.
3. **Action plans and budgets-** to achieve the targets, action plans are very essential
4. **Performance measurement and incentive systems-** many organizations use generic measurement. They link financial performance to measure performance. Usually, performance measurements are linked to short term and long term targets. Certain indices also act as early warning indicator of performance in long run.

Valuation drivers

Valuation drivers refer to factors that increase the value of a business .organizations need to consider essential factors to increase cash flows and reduce risk, thus increase the overall value of the company. It is essential for organizers to recognize and appreciate the valuation drivers that can improve cash flows and reduced the risks related to the business. Listed below are few examples of valuation drivers

- Economies of scale
- Technology or technical expertise
- Product offering
- Access to capital
- Financial performance
- Skilled employees
- Strong customer base
- Market environment
- Marketing strategy and brand image
- Strategic vision



The key elements of value based management

1. **Creating value-**how the organizations can increase maximum future value. Organizations should make strategy to focus on value creation. The decisions making process should aim at creation of long-term value. The focus of the organizations should be made to maximize value returned on capital.
2. **Value management-** the organization should enable governance, change management organizational culture, communication, leadership to focus on value creation.
3. **Measurement of value-**leaders should define corporate values and purpose. There should be effective strategy to measure the value.

VBM in Indian business

Following are few examples of VBM practices in Indian business organizations

1. TATA group, founded by J.R.D. Tata-

They adopt TATA ethos-ideals-traditions, sound and straightforward business principles, commitment towards shareholders' interest, welfare of the employees

2. Reliance group, founded by Dhirubhai Amabni-

Think big, think fast, think ahead; huge production and best quality of output wit cheapest price, introduced equity principle for ordinary people

4. AMUL, founded by Verghese Kurien-

Professionalization of farming with innovative practices, use of qualitative processes, constructive social change in rural areas, empowering the rural masses, information and infrastructure

5. Birla group, founded by G.D.Birla-

Commitment to untested values, takng risks, tolerance for the weaknesses of others.

6. ZEE TV, founded by subhash Chandra-

Fully committed o shareholder value and value based management principles like outsourcing, employee stock options etc, quality products at competitive prices, challenged government vision of what people expected from electronic entertainment

7. Bombay spinning mill, founded by Cawasji Nanabhoy Davar- Factory system with factory labour, led the way for other entrepreneurs to enter industry

8. Mittal steel, founded by L.N.Mittal-

It is unique mix of cultures in the management team by selecting best from each country, conducting open discussions by asking everyone

to tell the top management about their problems and suggest solution and instill discipline.

9. Infosys, founded by N.R.Narayan Murthy- Adopts Ethical business practices and transparency
10. World Tel, founded by Sam Gangaram Pitroda- It provides Access to telephone lines for ordinary people.

Factors responsible for effective implementation of VBM

- Explicit support of top management
- Focus on better operating performance
- Integration of VBM approach with effective planning
- Focus on practical applications
- Use strategic based approach
- Availability of crucial data
- Easy to use valuation template to facilitate management reports
- Provides incentives to value creation

Benefits of value based management

- Consistent value creation
- Corporate transparency
- Helps organizations to deal with globalised capital markets
- Alignment of interest of top management with that of stakeholders
- Facilitate communication with all stakeholders
- Helps in establishment of management priorities
- Improvement in decision making process
- Improves allocation of resources
- Prevention of takeovers
- Better management of risk

Limitations of value based management

The process of value creation involves long term view. It enables managers to consider **all** competing claims for processes, customers, suppliers, employees, shareholders etc.

- VBM requires cultural change which itself is challenging
- Implementation requires considerable time and many resources which is not feasible for all
- Requires top management support in principle
- Necessary comprehensive training
- Does not allow collaborative relationship with other organizations.

Conclusion

Value based management provides a common goal and framework for organization. It requires a total process perspective. It ensures people and department must have compatible goals and cooperation and teamwork are the key elements. People need to understand meaning of value and how it is created. Managers must develop common understanding of value creation and should be committed to implement

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