

VALUE-BASED MANAGEMENT IN THE PRACTICE OF RUSSIAN MANAGEMENT

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The indicator of value of business is used by managers when they are making strategic decisions and by proprietors when they are assessing the work of management. Maximization of company value is seen as the main objective. The basis of the concept of value-based management is the profit-oriented approach, which represents a special case of investment analysis. The components of the model of a fund flow act as objects of management.

Value-based management (hereinafter referred to as VBM) is the concept of management, aimed at the qualitative improvement of strategic and operative decisions at all levels of an organization due to the concentration of efforts of all decision-makers on the key factors of value, which appeared in the nineties of the 20th century. Within the framework of the given concept the main objective of business management is determined as the maximization of its value for proprietors.

The formation of the concept of value-based management was the natural consequence of the development of financial markets and active attraction of funds of a wide circle of investors. The increase of the significance of their interests has resulted in the essentially important from the methodological point of view change in the criterion of efficiency of business functioning. Earlier the basic parameter of efficiency of business activity was profit - the financial result, formed according to the rules of business accounting, which acts as an element of passives of a company (a legal person), i.e. one of the sources of its financial resources due to which the assets - profitable property - are formed. For proprietors the most significant financial result of business functioning is free (pure) cash flow. This financial result provides an increase in company assets - monetary funds, which can be immobilized and thus it is possible to provide the return of investments and their payback. From this point of view, the value of business consists in its ability to use company assets to generate cash flow, which exceeds the expenses on the formation of these assets due to various sources of financing during the unlimited period of time.

For proprietors the investment of funds in a company will be maximum profitable provided that managers estimate the value of business objectively and run it effectively. The concept of VBM presumes, that the index of value of business is used by managers when they are making strategic decisions, and by proprietors when they are assessing the work of management.

The basis of the concept of VBM is the profit-oriented approach. That is caused by its methodological foundation.

In order that the proprietors can receive their income, their funds should be transformed into the assets of business. It demands the consecutive realization of investments. At the first stage proprietors carry out financial investments, accruing the rights of participation in the legal person, which carries out entrepreneurial activity. At the second stage managers of this legal person make decisions about the realization of real investments, i.e. about the creation of assets, whose business interrelations generate funds flow and form added cost and profit. For the realization of real investments both the means of proprietors and the borrowed funds are used.

It is necessary to emphasize the fact, that value management should not be reduced to the methodology of cost estimation. In the concept of management, aimed at the creation of value, it is possible to single out two components: the value thinking of decision-makers, and the management processes, which transfer this thinking in action. The value thinking is aimed at the maximization of company value, which is seen as the key purpose. However, it is impossible to manage value directly. It is necessary to determine the exact objects of management

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- the factors of the creation of value, which can be manipulated. The components of the model of fund flow act as such objects.

For the proprietor functioning of a certain enterprise acts as a means of realization of his general strategic purposes. The integration of this enterprise with others can create additional value due to the corporate effect. The concept of the value-based management is the foundation of all processes of restructuring - directed both at the integration, and at the disintegration of business structures. All the prospected actions (mergers, company takeovers, sale or liquidation of divisions) should be anticipated from the point of view of increase in the total value of business and, accordingly, the wealth of its proprietors.

When making the decision about the expediency of development of business by means of mergers and company takeovers, it is necessary to compare the expected synergetic effect and the premium, which is paid by the initiator of the association. The premium represents the difference between the investment and the market value of business.

Proprietors of the attached business receive benefit at the moment of settlement of a transaction. It is necessary for proprietors and managers of the company - the initiator of association - to make efforts to achieve that synergetic effect, which is distributed in time and for the sake of which the transaction was settled.

If the value of the integrated business does not exceed the total value of the incorporated elements, proprietors will rather prefer such in-

tegrated business structure liquidated, and its divisions sold.

Generally, the concept of the value-based management in Russia has not become widespread yet. To a considerable degree it is caused by the specificity of Russian financial system, the basic characteristic of which is the interpenetration of managers and proprietors. As a result of the privatization it is the directorate of Soviet enterprises who has received significant shareholdings, that allow it to fill the positions, while the investors investing in start-ups prefer to be in charge of it personally, in order not to lose control of the use of capital. The aspiration of proprietors to maintain direct control over business is caused mainly by the low culture of entrepreneurial activity and the significant proprietors' distrust of hired managers. However, the steady growth of the quantity of public companies allows to predict the essential growth of interest in using this instrument of management. The introduction of this instrument into the practice of management of the Russian companies will allow to improve the quality of the accepted management decisions and to create the basis for the construction of the effective mechanisms of interaction between proprietors and hired managers.

1. Federal evaluation standard № 2 "The aim of evaluation and cost types". Approved by the Order of the Ministry of Economic Development of Russia from July the 20th, 2007. № 255. Par. 6.

2. Cit. op. Par. 8.

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