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BALANCED SCORECARD FOR VALUE BASED MANAGEMENT

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ABSTRACT

Globalization has brought in several changes in the economy especially in the business world. The big competition induces companies to differentiate themselves amongst the peer group and create benefits to the stakeholders associated with the organization. The thrust to differentiate business entities have been striving to redefine its business practices which have evolved new perspectives wherein the focus is not to generate only the financial profits but emphasis is on value creation. The paper tries to evaluate the value creating activities of the organizations for which scores have been assigned based on the impact of the variable as value driver .A detailed review of the literature has facilitated in developing a base valuation model for all the stakeholders of the organization considering the value drivers, this suggestive model serve as a base platform which can be amended as per the requirements of business entity.

KEYWORDS: Value drivers, Intangibles, Value Creation, Stakeholders, Financial Profits, Business Entity.

INTRODUCTION

In CIMA's Official Terminology, Value Based Management (VBM) is defined as "a managerial process which effectively links strategy, measurement and operational processes to the end of creating shareholder value". It is generally understood to consist of three key elements:

- Creating value to the enterprise, i.e. generate maximum future value;
- Measuring value; and
- Managing value in terms of governance and organization culture.

Value creation is increasingly being recognized as a better management goal than strict financial measures of performance, many of which tend to place cost-cutting that produces short-term results ahead of investments that enhance long-term competitiveness and growth. The first step in achieving an organization-wide focus on value creation understands the sources and drivers of value creation within the industry, company, and marketplace. Although the intangible factors that drive value creation differ by industry, some of the major categories of intangible assets include technology, innovation, intellectual property, alliances, management capabilities, employee relations, customer relations, community relations, and brand value. VBM aligns the company's overall aspirations, analytical techniques and management processes with the key drivers of value creation.

Need:

The corporate aim lies in the maximization of shareholder value which is widely accepted as a principal aim. Review of this theory is vital wherein a company is expected to serve a range of interests wider than those of the shareholders only. Overall prosperity and welfare should be the definite intent of the business entity. Every company aims at generating higher value to its shareholders, but the definition of the term value for the company may deviate from the corporate mission statement while managing day to day business operations. Apart from dishonesty and integrity the race to capture higher market share, brand building and generation of more customer leads through illegitimate business practices may destroy the value of the firm in the long run.

The research evaluates the following dimensions of Value Based Management:

i) Various stakeholders to be considered for VBM
ii) Internal and external parameters to be considered for creating value to all the stakeholders
iii) To suggest a valuation model to assess the efficiency and effectiveness of VBM.

The paper discusses a view point of the author on the concept of VBM and based on the available literature a model has been perceived which would enable firms to appraise the value creation to the stakeholders associated with the enterprise.

In the literature word value is used to express relative worth, merit or importance of a person or commodity in terms of its usefulness. In the business, value is used to highlight monetary benefit derived from particular person, product, process or activity. Shareholders are the owners of company and they appoint directors to manage the company. Director's work as a team called Board of Directors and carry out various management functions to achieve the desired objective of the organization. Efficiency and effectiveness of the Board and entire management team working under supervision & control of the Board is judged by various stakeholders in the company in terms of value created for them.

The major stakeholders for any corporate enterprise comprise of:

(i) Shareholders:

Shareholders are the most important stakeholders as company is owned by them. Important decisions relating to fund raising, dividend distribution, expansion & growth are taken by them.

(ii) Employees:

Employees are interested in long term survival & profitability of the organization as it is necessary for job security & good compensation package

(iii) Customers:

Customers provide business to company. Existence of the company depends on their Support. Customers are interested in desired quality products at reasonable price. They also expect delivery at right time & service after sales

(iv) Suppliers:

Most important partners of the business are suppliers. Their interest is reasonable price for the raw materials, inputs & services supplied by them & receipt of their dues on promised dates. They expect long term business assurance from company. Suppliers also include contractors who provide various services & job works required to complete a specific task. They contribute to the progress of the company by giving quality jobs on long term basis

(v) Dealers:

Dealers are the link between company & customers. They take company's products and services to the market and to ultimate customers & play major role in marketing, sales, distribution and brand equity

(vi) Lenders:

Lenders include banks and financial institutions. They provide funds to business for short term and long term throughout the corporate life

(vii) Government:

Government is interested in proper tax payment by company. Earning of foreign exchange, contribution to GDP, following regulatory & contributing to loans raised by government are other interests of the government

(viii) Society:

Survival & success of the company depends on acceptance of its products, processes and people by the society. Company management has to ensure that society is benefitted on continuous basis from the operations of the business.

Company also focuses on the non financial goals such as product and process innovations, customer satisfaction and employee satisfaction which are the indirect contributors towards value maximization. VBM is an holistic approach of the organization for creating, managing and delivering values to all the stakeholders associated with the business entity as stated in the table given below

Table: 1 Stakeholder and Value Drivers

Stakeholder	**Value Drivers**
1) Shareholders	i) Dividend Expectations ii) Increase in the Market Price of Share through consistent growth and brand equity. iii) Bonus Shares iv) Other benefits such as right shares, discount on company's products etc. v) Protecting and safeguarding their interest
2) Employees	i) Basic Compensation i.e. salary ii) Bonus and Incentives to match their performance iii) Perquisites in form of additional benefits iv) Welfare measures including social security and superannuation benefits. v) Job Security
3) Customers	i) Price to match their expectations ii) Adequate quantity to fulfill their demand iii) Desired quality iv) Delivery at time expected by them v) After sales service and spares
4) Suppliers	i) Reasonable price for materials, services & job works supplies ii) Receipt of payment for supplies on promised date iii) Long term business assurance by company iv) Technical support by company v) Financial support by company as and when required
5) Dealers	i) Volume of business ii) Commission on sales iii) Support for sales, service and spares (SSS) iv) Long term relationship and assured benefits v) Other benefits such as special incentives for additional sale, training and foreign tours etc.
6) Lenders	i) Repayment of Loan ii) Long Term Relationship iii) Corporate restructuring, revival of sick units and issue of shares etc. iv) Interest rate to match the risks. v) MIS as required by lender
7) Government	i) Payment of Taxes ii) Earning foreign exchange revenues iii) Contribution towards GDP iv) Subscribing to loans raised by government v) Fulfillment of regulatory norms
8) Society	i) Reasonable price of the products delivered ii) Good quality products iii) Improving the standard of living of the individuals iv) CSR Initiatives v) Employment Generation

The study attempts to arrive at a valuation model wherein each value parameter associated with the stakeholders can be assigned weight on the basis of the significance of the parameter. The Organization or its unit can be evaluated for value based management for the total score of 1000 points. The points assigned are on the basis of the relevance of the parameter to the organization, thus value creation to shareholders are assigned 300 points as they are the owners and the ultimate risk bearers of the enterprise whereas the other parameters have been assigned 100 points each as their magnitude were considered at par for the enterprise.

The model is theoretical in nature and is not treated as a standard or benchmark for evaluating the organization. An individual organization can select its own parameters and assign marks as per the significance of the factor. Scores assigned are hypothetical and can be changed as per requirement of specific situation of organization. Parameters considered above are illustrative and not exhaustive. Terms such as minimum, maximum, substantial, moderate etc needs to be defined considering internal & external environment of the organization. The below given table: 2 indicate the weightage for different variables creating value to the shareholders along with the respective scores

A) SHAREHOLDERS

Table: 2 Factor Scores for Shareholders

Parameters/ Factors	**Maximum Score**
Share Price	150
Dividend	50
Reserves	50
Bonus Shares	40
Other Benefits	10
Total	**300**

The total score assigned for shareholders as a value driver is 300 points of which 50% significant factor is the share price and remaining contributory parameters carry a weight of 50% which is indicative that share price is the major parameter that adds value to the shareholder in terms of wealth maximization in the long run. The allocated score are further categorized to arrive at a valuation model as depicted in Table 3

Table : 3 Valuation Model for Shareholders

A) SHAREHOLDERS						
Parameter	**Score**					
Dividend as % of face value of share	% age	0-10	10-15	15-20	20-25	> 25
	Score	5	15	25	35	50
Reserves as % of profits	% age	0-10	10-20	20-30	30-40	> 40
	Score	5	15	25	35	50
Bonus Shares	Ratio	NIL	1:5	1:4	1:2	1:1
	Score	0	10	20	30	40
Market Price of Share as compared to last year	Price	No change/↓	5-10%↑	10-15%↑	15-20%↑	>20%↑
	Score	0	50	80	110	150
Other benefits	Benefits	NIL	Price discounts on Co's products	Higher interest on FDR	Higher interest on Debenture	Rights issue
	Score	0	2	3	5	10

B) EMPLOYEES

Employees are one of the imperative internal stakeholders of the organisation adding to the productivity and efficiency of the enterprise. Value for employees means rewards and participation in the decision making process motivation and recognition will enable in enhancing their productivity and efficiency. Table: 4 shows the points assigned to each factor affecting employee's value creation.

Table: 4 Factor Scores for Employees

Parameters/ Factor	**Maximum Score**
Salary	30
Bonus/incentives	20
Perquisites	10
Welfare	10
Job security	30
TOTAL	**100**

The total points allocated for the employee is 100 of which the major contributory factors are the Salary and Job Security component carrying of weightage of 30% of the total score followed by other attributes. Each factor is subdivided based on certain criteria which are depicted in Table: 5

Table: 5 Valuation Model for Employees:

C) EMPLOYEES					
Factor/ Score	Below industry avg.		= to industry avg.		> industry avg.
1)Salary	0		15		30
2)Bonus/incentive	0		10		20
3) Perquisites	0		5		10
4) Welfare expenses	0		5		10
5) Job Tenure	< 1 Years	1-3 Yrs.	3-5 Yrs.	5-10 Yrs.	Up to superannuation
Score	0	5	10	20	30

D) CUSTOMERS

The value creation from the non financial customer perspective may include the following dimensions customer survey, repeat customers, number of complaints, on time delivery and service delivery time indirectly contributing towards customer profitability. VBM customer dimension states that value delivered to the customer increases as Quality of the goods and services.

Table: 6 Factor Scores for Customers

Parameters/ Factors	**Maximum Score**
Price	50
Quantity	10
Quality	20
Delivery	10
After sales service	10
TOTAL	**100**

From the customers viewpoint value means making products and providing services that customers find consistently useful. Value creation for customer is based on product and process innovations and on understanding the customer needs with precision and promptness. The table 7 given below depicts the factor that enable in customer value creation.

Table: 7 Valuation Model for Customers:

E) CUSTOMERS				
1) Price	> Market Price		= Market Price	< Market Price
Score	0		30	50
2) Quantity Supply	< Demand		= Demand sometimes	= Demand always
Score	0		5	10
3) Quality	Poor		Average	World class
Score	0		10	20
4) Delivery Period	Always delayed		Sometimes delayed	Never delayed
Score	0		5	10
5) After Sales Service Quality	Poor	Good	V. Good	Excellent
Score	0	5	8	10

Price and Quality of Products and Services have the highest weightage points as against the other parameters, as these factors enhances the sales of the organisations whereby adding revenue to the margins of the firm, quality helps in building customer loyalty which in turn leads to customer retention. Real value creation and long-term growth and profitability occurs when companies develop a continuous stream of products and services that offer unique range and provide benefits to the set of customers which means the companies have to maintain industry leadership and also must establish a sustainable internal and external process of value creation .

D) SUPPLIERS

Table: 8 Factor Scores for Suppliers

Parameters	**Maximum Score**
Price	50
Payment	10
Volume of business	20
Technical Support	10
Financial Support	10
TOTAL	**100**

The total points assigned to suppliers are 100 of which 50% pertains to the Pricing strategy that has a major stake as a value driver. The volume of business can be ranked second after the price which is another factor contributing towards the business which can be achieved through sustainable relationships. Table 9 gives factors for value creation

Table: 9 Valuation Model for Suppliers:

<table>
<tr><td colspan="11">F) SUPPLIERS</td></tr>
<tr><td colspan="2">1) Price</td><td colspan="2">< Market Price</td><td colspan="3">= Market Price</td><td colspan="4">> Market Price</td></tr>
<tr><td colspan="2">Score</td><td colspan="2">0</td><td colspan="3">20</td><td colspan="4">50</td></tr>
<tr><td>2) Payment Credit period(days)</td><td>>90</td><td>>60</td><td>>45</td><td colspan="2">>30</td><td colspan="3">>15</td><td>>10</td><td>NIL</td></tr>
<tr><td>Score</td><td>0</td><td>1</td><td>2</td><td colspan="2">4</td><td colspan="3">6</td><td>8</td><td>10</td></tr>
<tr><td colspan="2">3) Business (as % of total raw material requirement)</td><td><5</td><td>5-10</td><td colspan="4">10-15</td><td colspan="2">15-20</td><td>>20</td></tr>
<tr><td colspan="2">Score</td><td>0</td><td>5</td><td colspan="4">10</td><td colspan="2">15</td><td>20</td></tr>
<tr><td colspan="3"></td><td colspan="2">Minimum</td><td colspan="3">Moderate</td><td colspan="3">Maximum</td></tr>
<tr><td colspan="3">4) Technical Support</td><td colspan="2">0</td><td colspan="3">5</td><td colspan="3">10</td></tr>
<tr><td colspan="3">5) Financial Support</td><td colspan="2">0</td><td colspan="3">5</td><td colspan="3">10</td></tr>
</table>

The organization needs to understand which suppliers are the most strategic to the business which will enable the firm in developing new services and products that can drive competitive advantage and would also facilitate in creating a reliable and long-term source of supply. It will also enable firm in providing access to new ideas and opportunities for improvements. The future benefits to the firm can be reaped through joint investment in new avenues, sharing of intellectual capital and in system and process integration through collaborative arrangements.

E) DEALERS

Table: 10 Factor Scores for Dealers

Parameters	**Maximum Score**
Business as % of Total Sales	40
Commission as % of Sales	30
SSS Support	10
Relationship in years	10
Other benefits	10
TOTAL	**100**

The total business and the commission as percentage of sales holds vital from the dealer's perspective which can be evidenced through the weight assigned to these factors.

Table : 11 Valuation Model for Dealers:

G) DEALERS					
1 Business (as % of total sales)					
Percentage	NIL	0-10	10-20	20-30	>30
Score	0	10	20	30	40
2 Commission (as % of sales)					
Percentage	< 1	1-5	5-10	10-15	>15
Score	5	10	15	20	30
3 SSS Support					
Support	Minimum		Moderate		Maximum
Score	0		5		10
4 Relationship in years					
No of years	< 1	1-3		3-5	>5
Score	0	3		5	10
5 Other benefits					
Benefits	Minimum		Moderate		Maximum
Score	0		5		10

The value driver for the dealer as a stakeholder encompasses the business generated and the percentage of commission earned on the total sales made by him. The contribution in terms of increased sales will lead to increase in the income margin for the enterprise which will enable in higher profits and building a long lasting relationship leveraging on the collaborations.

F) LENDERS

Lenders are financial institutions and a crucial stakeholder in the business gamut. The total points allocated are 100 of which the higher weightage is given to the interest rate factor (60%) as against the other value driving parameters.

Table: 12 Factor Scores for Lenders

Parameters	Maximum Score
Interest Rate	60
Repayment of loan	10
Long term relationship	10
Additional assignments	10
MIS	10
TOTAL	**100**

Table: 13 Valuation Model for Lenders:

F)LENDERS			
1. Interest Rate			
Rate	**< PLR**	**= PLR**	**> PLR**
Score	0	30	60
2. Repayment of loan			
Repayment	Defaulted	sometimes delayed	Never delayed
Score	0	5	10
3. Long term relationship			
Relationship	Disturbed & Short Term	Disturbed but Long Term	Excellent for Long Term
Score	0	5	10
4. Additional assignments			
Assignment	Never given	Sometimes given	Always given
Score	0	5	10
5. MIS (as required by lender)			
Honesty	Dishonest	Ambiguous	Honest
Score	0	5	10

***PLR = Prime Lending Rate which is minimum rate charged by bank for blue chip companies

The above table indicates that higher the prime lending rate offered by the bank the more beneficial it is for the firm. Higher score has been assigned for timely repayment of loan without delay which indicates that the firm is able to meet the financial commitments on time without default.

H) GOVERNMENT

Government is one of the important external stakeholders which have an influence of the business enterprise. The weightage for the factor is 100 of which the highest score of 60% has been assigned to timely payment of taxes by the business enterprise. The given table indicates the breakup of value drivers relating to the government.

Table: 14 Factor Score for Government

Parameters/ Factor	**Maximum Score**
Tax Payments	60
Foreign exchange earned	10
Contribution to GDP	10
Subscription to loans	10
Compliance of regulatory norms	10
TOTAL	**100**

Table: 15 Valuation Model for Government:

G) GOVERNMENT			
1. **Tax Payments**			
Default	Evasion	Delayed/less paid	No default
Score	0	20	60
2. **Foreign exchange earned**			
Foreign Exchange	Not earned	Moderate earning	Sizeable earning
Score	0	5	10
3. Contribution to GDP			
Contribution	Minimum	Moderate	Substantial
Score	2	5	10
4. **Subscription to loans**			
Subscription	Never	Sometimes	Always
Score	0	5	10
5. Compliance of regulatory norms			
Default	Continuous	Sometimes	Never
Score	0	5	10

Table 15 indicates higher the foreign exchange earnings higher the revenue generation to the economy thus accounts for highest score, compliance to the regulatory norms and contribution towards gross domestic product also account together for 20% of the points. Greater points are assigned for timely payment of taxes by the business enterprise as these are the indirect benefits derived by the government for catering the social and development needs of the economy.

I) SOCIETY

Every business entity has to give back to the society the benefits which it have been reaped from the resources of the society. The total score for this parameter is 100. The price at which the products and services are offered to the individuals is the vital value driver thus 50% of the weight has been assigned for product pricing.

Table: 16 Factor Scores for Society

Parameters/ Factor	**Maximum Score**
Pricing of Product	50
Quality of Product	20
Standard of Living	10
CSR Practices	10
Employment Generation	10
TOTAL	**100**

Table: 17 Valuation Model for Society

1) **Pricing of Products**	Price	Exorbitant	Affordable	Discounted
	Score	0	35	50
2) **Quality of Products**	Quality	Poor	Average	World class
	Score	0	10	20
3) **Standard of living**	Contribution	Minimum	Moderate	Substantial
	Score	2	6	10
4) **CSR practices**	Budget	Minimum	Moderate	Substantial
	Score	0	5	10
5) **Employment Generation**	Budget	Minimum	Moderate	Substantial
	Score	0	5	10

The application of value principle may help the business organizations to avoid wastage of resources that are very scarce, with activities which do not aggregate value to the community. The company may show its efficacy by attracting projects that are capable of fulfilling the social responsibility. Damodaran (www.damodaran.com) says that "every organization needs a goal and in case of non-for-profit organizations, it must be declared in terms of services or benefits to be performed and such objectives will be the basis for making decisions concerned to resources allocation and choice among alternatives"

VBM is a new performance indicator which is gaining momentum in the current business scenario. Valuing the stakeholders as assets will be of paramount importance in the competitive business environment. The literature based study enables to foresee the variables that act as value driver to the organization, based on which the rating model covering varied parameters could be developed. The model is a suggestive one and may vary depending upon the nature and type of business entity. The recommended model will enable the organization in calculating & analyzing the marks secured (out of 1000) on the basis of various value driver parameters for the stakeholders. External and internal factors are to be considered in developing the varied parameters that affect the value creation activity of the organization.

Conclusion:

To sum up every organization has a mission to achieve the objectives in an honest and fair environment fulfilling the expectations of its stakeholders at large. Business with value sustains for years ahead in pursuit for attaining the vision & develops good brand as organization
Some of the themes that make successful value creation strategies can be:

- Continuous product and process innovations
- Understanding the changing needs of the customers

- Leveraging on the information technology
- Realigning the value chain of the company with the changing business trends
- Developing, building & maintaining sustainable relationship & balance between the various stakeholders of the organization.

VBM is the process of maximizing the value of a company on a continuing basis. It is an integrative process designed to improve strategic and operational decision making by focusing on key drivers of corporate value. Value-based management is about more than the headline performance measures, it deals with the holistic management approach that encompasses re-defined corporate goals, well enforced HR practices, redesigned organizational structure and systems, revived strategic and operational processes. Value based management must consider interests of all the stakeholders by giving appropriate weightage to each one of them. Too much stress on financial aspects may prove to be costly over long run. Firm should lay the foundation of long term success and sustainability by creating well balanced value based management process on continuous basis

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