Value Added Management

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Course

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Value Driven Management (VDM)

Published November 4, 1995 by Randolph A. Pohlman (23 Pages)

The following is a report of the Value Driven Management. I will use the information from the above article, written by Pohlman A. Randolph, explaining how firms can use value driven management to be more successful. Pohlman says that there exists no single reason, nor a single solution as to why so few large firms are consistently successful while so many of these experience difficulty. He rules out that the main contributing factor is that there never exists philosophical integrated approach to guide actions.

Pohlman further demonstrates this by research, assessing that, in the last dozen of years, firms laid off as much as hundreds of thousands of employees from all over the US. He further says that, of the Fortune 500 firms, more than 30% no longer exist in the form they did before . According to him, since their inception, humans have all along struggled, looking for ways to lead and manage successfully. The world has dramatically changed over the last century; and styles of management have evolved over that same period; either developed or implemented as nonintegrated or unidimensional approaches. Scientific Management was at its height as far back as from 1800's till the early 1900's. Then, theorists and practitioners focused on narrow aspects of management to solve only the problems of those times.

The article contains two main parts: the first half mainly focuses on introduction to the article, definition of VDM and the eleven assumptions of VDM. The second half mainly focuses on the eight facets that managers and employees need to consider in any decision-making process or take an action. The article defines Value Driven Management (VDM) as "an integrative philosophical framework within which to make decisions and take actions." (Pohlman, 1995 p 5).

Value Driven Management can use many of existing managements' tools. Some of the tools and theories that can be used well with the Value Driven Management model are Cost Benefit Analysis, Net Present Value, Consumer Behavior Theory and Competitive Analysis. Others include Reengineering, Option Pricing, Motivation Theory, Marketing research Decision, Information Theory, Mathematical Programming, Ethics, Statistics, Law . VDM leads to superior decision making that results in maximization of VOT for the organization that uses it properly. However, for VDM to work, it requires an enormous amount of dedication, hard work and discipline. VDM can be concluded as an approach whose basics are relatively easy to learn but difficult to apply, though it has enormous potential for maximizing personal and organizational value. The following are the assumptions of VDM.

First, Value Creation is good - this model's assumption is that increase in organization value is good; and if an organization does not make a profit, it should be disbanded. Honest value creation and economic profit that is a result of providing customers with what they value using the minimum resources . The reason employees are in the organization is to create and increase the value. The second assumption is: what one values drives action- meaning that values are what causes individuals and groups to take action. Thirdly, creation of knowledge and appropriate use will lead to value creation. In many firms knowledge wastes due to hierarchical structure and the condition people learn to act in the organizations' environment. Often, in organization settings, there is a duel of egos, meaning it discusses a vast deal, but only the most determined or the most eloquent speaker wins the day. Also, elsewhere people will not listen to each other and, as a result, they will not create knowledge. In an organization that uses VDM, knowledge creation and use in the creation of value is highly valued, rewarded and, as a result, it flourishes. Fourth assumption is that: value is subjective-what different individuals' value varies from one to another. The fifth assumption is that: there exists Value adders and Destroyers – there are employees in an organization who will destroy more value than they create. This could be a result of holding the wrong position and with the wrong types of abilities and skills or resulting from being in a poor or totally incompatible system in an organization.

The sixth assumption is: markets provide valuable information. In this society markets are a leading contributor to making US a great nation. They are responsible for distribution of resources. The seventh assumption is that: opportunity Costs affect the value. Opportunity cost means the cost of the opportunities we forego when we undertake one opportunity. For instance, the cost incurred if an employee is not being as productive as he/she can. It is not only the cost of the lost wage, but the cost of lost opportunities not created or acted upon. The eighth assumption is that order is Spontaneous. It is certain that we cannot predict the future, either short-term or long-term. Planning means committing oneself to only guessing about the future; if it turns out accurate, then the plans may achieve the planned purposes, but if a wrong guess, disastrous consequences could appear. The ninth assumption is that: values can compete or be Complimentary. At times, values will be congruent and other times will be in competition with one another. Organizations always face a dilemma: what their customers want conflict with what employees want and can conflict with what others want. The tenth assumption is that all employees are employees. It is the responsibility of all the members of the organization to maximize on value over time (VOT) for the organization. Everyone working for the organization is an employee, and it would be of significant help if people stopped talking of management and employees. They should work for a common goal.

The following part discusses the eight facets that should be considered while taking any action or making decisions. The first is Cultures external to the organization. This is the development based on a certain set values of a company. These set values differ from one organization to the other. The second is organizational culture. Every organization has its own unique culture; everyone in the organization makes decisions or takes action according to the understanding of the organizational context. The third is an employee value. Every employee comes with his own values to the organization. It is highly important that all employees' values are congruent with the organization values. The fourth is supplier values. Creating partnerships with reputable suppliers will lead to delivery of quality goods and greater value with time. The fifth is Customer values. Customer preferences are critical to the success of any business. It is beneficial to consider customer satisfaction. The sixth is Third party values. Third parties include the gorverment regulatory agencies, unions. Understanding what these parties value and want are extremely crucial in decision making. Unions want to protect their members, who are employees, and the organization has to treat the employees well so that they build a bond of trust between them and the union. Mistrust on the same could lead to much difficulties and understanding what the third party needs will help the organization maximize its VOT.

The seventh facet is Competitor Values. Competitors' values are also crucial and should not be overlooked. The organization needs to know the competitors' values that will significantly drive their tactics, strategy and actions. Effective organizational leaders have a strong knowledge about the values of their competitors. The last facet is Owner value. All employees are the assets of the owner. They must understand the values of the owners.

The article ends with a short summary stating that VDM model is multidimensional, integrative and looks at organizational issues totally. It helps change people way of thinking for the better. In conclusion, this is an excellent article as it explains all the points clearly and provides applicable examples in areas where necessary. It defines the model well, as well as all the points. This helps the reader understand easily. The article is also well-referenced with many references. However, it lacks admirable organization and lacks recommendations. In my opinion, it is a must-read for any organization that wants to succeed.

References

Pohlman A. (1995). VDM-Value Added Management.