



VALUE BASED MANAGEMENT & SHAREHOLDER VALUE ADDED (SVA)

Introduction

Value-based Management, or VBM for short, is not a single idea. VBM is more a single framework for making consistent value-enhancing decisions. VBM artfully combines financial and strategic management techniques to manage the organisation's resources with the ultimate objective of maximising Value. Understanding the relationship between Strategy, financing, corporate governance and the creation of value is the key to making consistent value-enhancing decisions through the proper allocation of resources, people, land, equipment & buildings, and the financial assets in the organisation that will derive the most value.

Maximising Shareholder Value

VBM is a comprehensive approach to management based on the principle that managers (shareholders' agent) at all levels of the organization must manage their firm's resources with the ultimate objective of maximizing shareholder value.

VBM combines financial and strategic management techniques to create sustainable competitive advantage at all levels of the firm. By aligning internal business processes, strategies, and corporate governance and investor communications, VBM provide a common discipline, a consistent culture, and a singular focus on value for all business activities.

VBM addresses the most fundamental questions in business:

- How much is your company worth?
- How much would its value be affected by each of several operating, investment, and financial policies?
- Will the corporate plan create value? Which SBUs are creating value?
- How would alternate strategies affect shareholder value?
- Which compensation plan and other corporate governance initiatives motivate the greatest corporate value? Which metrics should be used in performance targets and evaluation?
- How should the business communicate with the investment community and other key stakeholders?



Maximizing Public Value

VBM is a comprehensive approach to management based on the principle that Public Sector Agencies (Public's Agents) must do it best with resources in their hands to derive the most public value in the service of its citizens, that is from the people, the land, equipment and buildings, and the financial assets in the respective agencies.

VBM is a resource management tool. Public Service Agencies consume public funds and resources in delivering products and services to the public. Some public service agencies collect payments from consumers in licenses, fees or charges, while others do not. Public Service Agencies vary from those who collect fees and do not receive any direct government subventions, to those who rely completely on government subventions. In every case, getting maximum value out of the resources in their hands should be the aim, as this would offer the best return for the overall public good.

What values are offered to the public, whether directly or indirectly many services are tangible, and can both be measured and priced. On the other hand, many other services are intangible and are social goods, which can neither be measured nor directly priced. But, even so, we must make deliberate effort to define what are the outcomes we are targeting for and what value we are delivering to the public.

SVA AND VALUE BASED MANAGEMENT

To maximize shareholder value, management (shareholder's agent) must generate, evaluate, and select business strategies that will increase the value of the company.

Value of any company is a function of the future cash flows it is expected to generate for its owners, discounted for the risk associated with those cash flows.

Value is created only when the return on capital exceeds the cost of capital. Value creation is virtually guaranteed when a company's return on capital exceeds its cost of capital. In sharp contrast, accounting profitability does not necessarily lead to value creation. In fact, in many cases, profitable projects actually destroy the value of the company.

What Is Value-Based Management?

From Coca-cola's "A Guide to Implementing Value-Based Management, 1997," VBM is defined as the following:

A way of thinking. VBM is a set of principles that allows us to manage value at all levels of our business. Value creation becomes not just our company's mission, it becomes the philosophy we work with daily. It becomes the framework for everything we do.



A process for Planning and execution. VBM is a method of developing strategies and evaluating decisions by using value-creation principles. The method works on broad business strategies and on each associate's daily work processes.

A set of Tools. VBM is a set of tools for understanding what creates value. And what destroys it.

Because value is in the eye of the investor, the only correct way to measure value is from the investor's perspective. VBM explicitly introduces the perspective of current and prospective shareholders into all aspects of the management process, including strategy formulation, capital allocation, financial policy, performance measurement, investor-employee communication, and incentive compensation. Thus, business decisions are analyzed for their effects on the company's "economic value".

VBM emphasizes long-term cash flows analysis and risk analysis in all aspects of managerial decision making, such as evaluating individual projects and determining the economic value of the overall strategy of the business.

The VBM approach is ultimately aimed at the goal of structuring and managing a company in a way that will create more value for its owners.

VBM is both a philosophy and a methodology for managing companies. As a philosophy, it focuses on the overriding objective of creating as much value as possible for the shareholders. The value mindset is clearly focused on long-term cash flow and risk considerations, consistent with investor thinking and the empirical evidence from capital markets. As a methodology, VBM provides an integrated framework for making strategic and operating decisions.

Shareholder Value Added (SVA)

The Shareholder Value Added (SVA) approach was introduced by Alfred Rappaport. Shareholder value is defined as corporate value less the value of debt. Corporate value is equal to the DCF value of the company plus value of the non operating assets and marketable securities.

SVA focuses on the change in value. It is simple to calculate SVA in each period once we have the market values of debt & equity in each period. However, in order to be useful in decision making, we need a measure that can be forecasted over a longer planning horizon.

The internal SVA of a company can be estimated over the forecast period using a process similar to that of NPV calculation. As in the case of NPV, the SVA analysis begins by forecasting the cash flows over the planning period. The steps involved in calculating SVA are discussed in the workshop.

SVA is an attractive measure of value in many respects. It accounts for the amount, timing, and risk of cash flows. It allows for a period-by-period evaluation of value creation by providing a complete snapshot of the value created in each year of the planning period. Finally, by breaking value down into its two components – NOPAT and incremental investment – SVA allows managers to see more clearly the impact of operational and capital allocation decision on value.



Despite some drawbacks, SVA is the best metric for the divisional and business unit level because it links business unit performance to shareholder value creation at the corporate level. SVA can also be easily made operational by following the value driver approach.

SVA & VBM WORKSHOP (2 DAYS)

This course is designed for senior managers and board of directors who want to find out more about the VBM concept techniques of measurement and how to maximize shareholder values.

Objectives

Course outline

Introduction

Valuation

- The Value-Based Management Framework: An Overview
- Why Value?
- Value and Capital Markets
- The Value Manager
- DCF Valuation: Spreadsheet Approaches
- DCF Valuation: Framework Approaches
- Comparables Approach to Valuation
- Real Options Valuation

Strategy

- Business Strategy
- Corporate Strategy

Finance

- Estimating Discount Rates

Corporate Governance

- Shareholder Value Added (SVA)
 - Forecast Cash flow from the value drivers
 - Calculate the residual value at the end of each year by capitalizing the cash flow before new investment
 - Discount the cash flows and the residual value back to present using the cost of capital
- Corporate Governance and Executive Compensation
- Becoming a VBM company



Who should attend

This course is designed for Chairman and board of directors; Chief Executive Officer, Chief Operating Manager, Chief Financial Officer, Head of Finance, and other senior managers responsible for implementing VBM in their own organisation.

Course Fee

S\$1,900 per participants
In-house training package is available.
Please contact us at Tel: 8429895
or email: os@strategicinnovation.com.sg

Course Award

Certificate of Successful Completion: given to participants who attended the full duration of the course.