

# **Value Based Management**

## **Subject: Operations & General Management**

### **Topic: Value Chain & Supply Chain Management**

(Prof) M K Nag

*GNVS Institute of Management GTB Nagar, Sion (E), Mumbai-400037*

#### **I. INTRODUCTION**

In the present era we are living in a global village. The corporate world is highly inter-connected, the economy is integrated and global business is inter-dependent. Economic crisis in USA affects manufacturing in China and business environment in India. Economic meltdown in EU minimizes demand in China and affects industries in India and rest of the world. Tapering in US economy sends warning to other economies of the world. Election in India and its outcome is the concern of the entire world. Hence we must understand that we are being watched, especially by the business world, as we are one of the biggest EMs (Emerging Markets) as well as one of the **fastest growing economies of the world**.

Our Policies, Procedures, Financial dealings, day to day Business operations/ Transaction should be transparent and ethical, conforming to global norms. Only then we would progress or else we would perish. There are very few business houses in India which are internationally acclaimed for good corporate Governance, TATA Group being one of them.

In recent years Satyam Computers, a very highly respected company of the world made India Inc suffer a lot in Global Market. It takes a lot of effort, time, ingenuity to gain International acclaim but it takes very little time to lose it, if the integrity is questionable.

Value based management is therefore the crux of all ethical practices and values, an organization must maintain, to make it a global brand. Gone are the days of 18th or 19th century when a petty business man used to cunningly follow petty business norms for personal gains and people ignored it. Today a customer is an educated, enlightened and well aware person who knows the market well, is Tech Savvy and extremely quality conscious, hence dislikes any wrong or unethical practice in any business dealing.

In **Value Chain Management** customer creates the value for the product. If he likes a product, the demand goes up and value increases automatically. The brand becomes a well accepted and reputed brand. The value graph moves from customer downwards to the Manufacturer.

In **Supply Chain Management** all players like supplier, manufacturer, distributors & retailers try to cut cost, minimize time and deliver goods to the customer in the quickest way and ensure customer satisfaction. The value graph moves upwards to the customer. The value based Management is therefore extremely important in not only supply chain management but also the entire business world.

#### **Value Based Management (VBM)**

Value is created only when companies invest capital at returns that exceeds the cost of that capital. VBM extends these concepts by following on how companies use them to make both major strategic and everyday operation decisions. Properly executed, it helps to align companies over all goal, analytical techniques, management processes to ultimately create value.

It does not depend on top down command and control structure, instead it advises managers to use value based performance metrics for making better decisions.

Values & ethics therefore are very important for all business decisions for long term good results.

#### **Basic Elements of VBM**

It is the ethical frame work for succeeding in business. It balances moral values with material values

VBM's three notion values are:

- a) It's the foundation of shared ethical values (starting with the belief in the intrinsic values of each person (each employee, customer & supplier)
- b) Success in market place is based on delivering maximum value to the customer.
- c) Reward based on the value, people contribute to the company as individuals, as a team, as workers, and as owners.

### **Benefit of VBM**

- a) Gives more time to management
- b) VBM culture establishes a well structured ethical working system
- c) Management can spend more time for long range, strategic needs.

### **Value Chain**

A **Value Chain** is the whole Series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up all throughout the company.

Michael Porter developed this concept in his book 'Competitive Advantage' in 1980.

Value Chain concept separates useful activities from the wasteful activities, focusing on the value creating activities.

It is like 'Lean Manufacturing' another concept to get rid of wasteful activities.

Value chain involves flow of goods to the customers. In value chain management it is important to create value in the customers mind. It is a very difficult, tricky and critical issue because of the stiff competition. In value chain Management, effect of value created by the customer flows down words i.e. through Retailers to Distributors to Manufacturers to Suppliers as the value chain.

The organizations are therefore split into various departments to ensure customer's satisfaction ultimately. Organizations may therefore be divided into the following branches for better performance:

- a) Production
- b) Operation
- c) Logistics
- d) Finance
- e) Purchase/ procurement
- f) Human Resources & Admin
- g) R & D
- h) Marketing
- i) Info Technology

The various departments create a value chain to determine what a customer wants or values and does the company's product satisfy customer's need.

The value chain is thus more complex and critical than supply chain management as it deals with intricacies of customer satisfaction as compared to the basic flow of actions taking place in Supply Chain Management.

Value chain management deals with strategic issues as it aims at sensitive issue of **customer delight** and the value given to a product by the customer, the crux of the success of any business.

The salient features of value chain are:

- a) Innovation
- b) Research & Development
- c) Product testing and continuous improvement of products
- d) Judging customer's needs
- e) Social Trend Analysis
- f) Market & Market penetration
- g) Continuous research on economic scenario, study on economic viability to achieve price advantage
- h) Launch of new products to enhance the market share
- i) Establish a proper customer feedback procedure and introduce a prompt customer care service. **Steve Job's innovation of I Pods, I Pads and I Phone to make 'Apple' the No.1 Company of the world** is an ideal example of value chain management. It is the customers who appreciated the products, increased the value with high, global demand and endorsed "Apple" as the leading global brand leaving behind other **electronic giants of the world like Sony, Samsung, Phillips, etc.**

### **Value Based Management in Supply Chain Management**

The main players of supply chain management are:-

- a) Supplier
- b) Manufacturers
- c) Distributors

- d) Retailers
- e) Customers

SCM consists of five main elements:-

- a) Planning & designing a product to meet customers demand
- b) Sourcing the materials or components needed to produce the goods
- c) Manufacturing the product
- d) Delivering the product to buyer
- e) Accepting returns of the defective products

Ideally SCM should reduce cost of material and increase profit for the manufacturer.

It can contribute great values to the organization by

Proper selection, Pricing & Management of raw material, components, services

Strategic planning for production, delivery & special offers and seasonal demand, monitoring inventory & product flow to avoid supply shortages.

## **II. HOW TO IMPROVE VALUES & ETHICS IN SCM**

### **Ethical Practices Required for Supplier:**

A supplier must be reliable, dependable and ethical or else he/she can create many problems for the manufactures. It is very important that proper procedure is followed to select the supplier/ suppliers. Strict norms of selection would automatically select good, competent, qualified and reliable supplier. A well established and reputed supplier should follow ethics & values to maintain his reputation in the market and continue to have good relation with the manufacturer.

A supplier must select his suppliers properly. E.g. The supplier who supplies corrugated boxes to a Manufacturer is very important as he should ensure its thickness, weight, texture, colour, sturdiness capacity to withstand Temperature & Pressure and any other specification/parameters specified by the factory authorities.

If these corrugated boxes are to be supplied to the Manufactures for cosmetics, biscuits or tinned butter, the corrugated boxes should be able to do justice for the purpose for which these are required as these boxes filled with goods will be required to travel a long distance in various modes of transport. The Supplier must therefore ensure quality of goods Supplied.

The following aspects are important while selecting a supplier

- a) Market Reputation
- b) Reliability
- c) Financial Capacity
- d) Employee Management
- e) Quality Consciousness
- f) Ethical Practices & Value System followed in his dealings.

Few Ethical practices a supplier should follow are:

- a) No child labour to be employed
- b) Supply raw material/ materials according to the laid down specifications
- c) Supply in time so that production does not suffer.
- d) Encourage VMI (Vendor Managed Inventory)

## **III. ETHICAL PRACTICES FOR PROCUREMENT**

A manufacture must integrate ethical purchasing into existing procurement system. His demand of stores should conform to his EOQ. He should consider VMI, JIT concepts etc. with ideal combination of ABC & VED items. **Top management must establish a strict ethical code** to include:-

- a) Procurement of Raw Material and other items
- b) Selection of Suppliers
- c) Quality Control

The Organization should also develop a communication strategy for customer Feedback. It should also include ethical training in Training & Development of staff.

It will be also in the interest of the Manufacturer **to introduce Ethical Audits** for the selected suppliers. It can be **included in the Contract Deed**.

#### **IV. IDEAL ETHICAL PRACTICES FOR MANUFACTURING**

The following few points are important to establish ethical practices in a manufacturing unit:

- a) Must avoid any child labour
- b) Policies must be very clear about permanent labours and Casual Labours.
- c) In modern time, enough attention must be paid for casual labours in terms of following
  - (i) Working hours
  - (ii) Exact place of working
  - (iii) Schedule of mastering/ engagement
  - (iv) Salary in comparison with permanent labour.
  - (v) Length of period of employment
  - (vi) Break in engagement/ employment
  - (vii) Conversion of casual labours to permanent labours
  - (viii) Other perks & privileges as applicable.
- d) Policies regarding compensation, safety, security of all
- e) No discrimination
- f) Steps to minimize environmental effect and special perks offered if applicable (e.g. Petrochemical Industry) to the workers.
- g) Availability of good medical assistance
- h) Availability of good communication system
- i) Arrangements for labour/employee welfare activities
- j) A safe and conducive working atmosphere
- k) Proper SOP for plant shutdown and plant restarting schedule to avoid any accident
- l) Strict quality control to accept Raw material and check the quality of finished goods.
- m) Planned prevention maintenance of the plant to ensure smooth and proper production procedure
- n) Strict monitoring of production schedule.
- o) Strict security arrangement of the manufacturing plants and dispatch of finished goods.
- p) Strict adherence to TQM.

#### **Ethical practices to be followed in Marketing**

Marketing is the only branch that **earns money** for an Industries/Organisation. All other branches **spend the money**. It is therefore very important to formulate ethical norms for the marketing branch to avoid unethical practices. Some of the ethical steps could be:-

- a) The clarity is pricing must be available
- b) Selling at a loss to increase market share and destroy competition should be avoided
- c) Counterfeit Good and Brand piracy must be avoided
- d) Selling products abroad which are banned at home must be avoided
- e) The irresponsible raising of credit limit to sell more should be avoided
- f) Omitting to provide information on side effects of unsafe products must be avoided
- g) Deception of size and contents like having 100gms potato chips in a artificially air filled big packet should be avoided
- h) No product should be sold without proper and complete testing & passing
- i) CSR should be included in Marketing practices
- j) Showing sells figure of First week of April in month of March for reaching target should be avoided.

#### **Ethical Practices to be followed by Retailers:**

Retailers are the ones who are in direct contact with the customers. The ethical Practices followed by Retailers go along way for customer satisfaction, customer loyalty and getting new customers. **E.g.** one young couple had purchased one pre-owned SANTRO car from a Dealer on 26<sup>th</sup> July 2005. It was their first car and they were only too happy to take the delivery of the car at the earliest and drive down to their home to show it to their friends and relatives. They had carried out all the tests and negotiations earlier. The insurance of the car had elapsed a day earlier and the customer was told to do the insurance before taking out the car from the Dealer's office. But the customer and his wife decided to take the car to their home which was approx 5 km. away only and do the insurance next day. It was raining outside and the volume of rain increased as they were on the way. All of a sudden the entire area was flooded as some water was released from a Reservoir nearby.

The car got stuck on the road with a lot of the other vehicles and remained submerged. The next day the car was towed back to the Dealer's office but without Insurance the Dealer did not want to accept the car. The young couple were very sad and helpless. As they approached the GM, the GM felt sorry for their plight for which they were really not responsible, it was a natural calamity which entire **Mumbai** faced on **26/07/2005**. The GM told them not to worry and they could give back the damaged car and entire amount would be refunded to them. The customer could not believe his cars. In due course Insurance Co. did help him and the matter was sorted out but this unique gesture and benign assurance of the GM, remained in the mind of the customer for a long time, and the Company earned a **huge goodwill** of the Customer's community and **many new customers** for this one act of good ethical practice and CSR combined, even at cost of Company's "loss". Retailer therefore can win over the customers.

Some unconcerned and in-experienced Retailers may at times sell 'Seconds', damaged products, goods with expired dates to Customers, which must be avoided. The other day I saw a sign board in a shop in Mumbai which read like this:-

<p><b>Sale of Stores</b></p> <p><b>No Return</b></p> <p><b>No Guarantee of Quality</b></p>
--

An ideal example of unethical practices which was probably prevalent in Ancient times, must be avoided in Modern times.

Abroad, many stores welcome return/exchange of items up to 3 months or even 6 months. This increases Customer's Confidence and Loyalty.

Since acceptance of goods by the Customer is the ultimate function of any business and since it happens at the retail store, the Retailer has a great responsibility to ensure Customer's satisfaction. An ethical practice by the Retailer is therefore very **important both for Value Chain which starts from the Customer and Supply Chain Management, which ends at Customer.**

#### **Ethical Practices to be followed by Customers**

Now -a-days "Customer is the God" as everywhere it is the buyer's market, but that bestows enormous responsibility upon a customer. Customer must follow ethics to insure his respect and that of others. Therefore we as good customers must understand that an inner garment, if soiled while trying out, cannot be or should not be returned, that a cell phone or watch if fallen from our hand and damaged, but cannot be seen in normal inspection, should not be returned without informing the shopkeeper. Same goes for apparels, groceries and all other items. Honesty must be followed everywhere at every moment or else we would lose our self respect and customers privileges.

Shoplifting in a store not connected with CCTV, behaving rudely with the sales girls /boys or creating avoidable scene is detrimental to good customer behavior or ethics.

Since the Customer has the power of bargaining, has the right to be fussy about the quality, is constantly encouraged to be demanding being buyer's market, he/she has a greater responsibility to be polite, understanding, respectful and dignified Customer which would, in turn help him/her to do justice to his/her Social Responsibility. The value and ethics followed by a Customer are not only appreciated but also constructs a **strong launch Pad for Value Based Management.**

#### **Role of 3PL & 4PL**

A lot of companies are now outsourcing the logistics activities to 3rd party and 4th party logistics organizations to basically cut down the cost in Supply Chain Management.

Companies thus are dependent on the values & ethics followed by 3PL & 4PL companies. The proper selection of 3PL & 4PL companies is therefore very important.

#### **Role of E-Procurement & E-Marketing**

The modern methods of E-Procurement and E-Marketing are economical, less time consuming and efficient. Since these business functions are globally operational, very strict ethical procedures and periodical

ethical audits are extremely important to minimize any human rationalization, ego or personal faults and ensure satisfaction of the **Global Business Partners** and the Global Customers.

#### **The importance of VBM in current corporate culture**

The present day world is highly materialistic, wealth oriented and comfort loving. Though most of the good corporate follow genuine ethics and values but periodical lapses/ unethical practices related to **bad quality, price fixing war, insider trading** etc. do take place.

Value based management **through strict ethical audit** and **prompt remedial measures** as well as **proper legal procedure** and **punishment can minimize unethical practices** to a great extent and **increase customer's delight**. As **Bill Gates** had once said "Your most unhappy customers are your greatest source of learning". VBM would ultimately improve the entire business activities.

#### **Contribution of VBM to add more value in the era of Global Knowledge Economy**

**Peter Drucker** had said "To day Knowledge has power. It controls access to opportunity and advancement".

Knowledge has thus become the main Driver of Modern Economy of the world. The global knowledge economy is the new dimension of economy supported by Information Technology, knowledge and skills. The entire service sector with large strength of knowledge workers, has given great boost to the world economy, apart from agriculture intensive or labour intensive economies.

The technological innovations like T.V's, computers, laptops, I-Pods, I-Pads, I-Phones have changed the world in last 50 years.

Global knowledge economy contributes through cost effective industries/services, have tremendous reach to reach out to the remote areas of the world, involve cheaper products and engages vast volume of world population.

The magnitude of global knowledge economy therefore makes it extremely important that proper values and ethical practices are followed to make this new dimension of world economy to succeed and continue to last longer as well as generate new opportunities.

Since global knowledge economy involves a huge percentage of world economy it is very important to ensure proper values and ethical practices.

### **V. CONCLUSION**

The value based management in Value Chain & Supply Chain Management would help all organization of suppliers, Manufactures, distributors, retailers including customers. It would establish a very strong confidence level, built on the ethics & values having all the players which would ultimately benefit the entire business world as well as the customers, the principal stakeholders.

**Mr. Shiv Singh**, one of top 50 marketers of the world has said "The purpose of business is to create a customer who create customers"

The value based management in Value Chain and supply chain Management aims at the following major aspects:-

- a) To improve efficiency of all departments of business/Industries/Corporate
- b) Instill a strict ethical, value based Procedure in all transactions/processes
- c) Remove wasteful procedures and expenditure
- d) Improve return on Investment
- e) Establish global norms/systems
- f) Cut cost and generate profit
- g) Ensure Customers delight and loyalty.

It is important to understand that when a particular product or products of a company fail in the market, the company loses the confidence of the Customers. New technologies and innovations bring new companies and more modern products in the market. Customers thus lost would never comeback.

Value Based Management is to business houses what 'Bone Marrow' is to human body. It is extremely vital and needs continuous attention especially in today's corporate culture and global knowledge economy, as the ultimate user, the customer is knowledgeable, enlightened, well aware of all products & pricing etc, are extremely quality conscious and believes in genuine and transparent business deals.

**Bibliography**

- [1]. Internet
- [2]. Supply Chain Management by
  - a. V V Sople
  - b. Janesh Shah
  - c. Sunil Chopra and Peter Meindi
- [3]. Harvard Business Review
- [4]. Economic Times
- [5]. [www.livemint.com](http://www.livemint.com)