Conceptual Features of Value Management of Socio-Economic Systems

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ABSTRACT

The article highlights the need to establish and apply organizational and economic mechanisms that contribute to strengthening moral and ethical components in management. Emphasis is put on the issue of interactions within a company which lays a foundation for value management of socio-economic systems. It is shown that present-day business management is a system of managing the relations among various interested parties, i.e. a system of managing the creation of value. It is substantiated that value management is the embodiment of values within a company on the basis of common and consensual corporate values that are shared by all the employees. It is revealed that interactions cannot be evaluated only on the basis of economic outcomes; social aspects of interaction are no less important. The results show that in the process of its functioning a company must create value for all its participants, and this is what helps it develop and enhance its stability. The practical value of the research is that it justifies the creation of a system of management which takes into account the main characteristics of interaction among its participants. Furthermore, the study examines the transition to a new ideology of corporate strategic management.

KEYWORDS

Socio-economic systems, modern management concepts, value management, corporate strategic management, social aspects of business interaction

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Introduction

The functioning and development of modern enterprises on a competitive basis and under conditions of globalization of economic relations require constant improvement of the system of socio-economic relations for ensuring the growth of companies (Copeland, Koller & Murrin, 2000; Porter, 1980).

Moreover, raising the general dynamics of development processes, the emergence of new technologies, sophistication of connections between economic agents, the change of role of individual elements of companies lead to sophistication of processes of achieving the set goals (Ryan & Trahan, 2007; Katkalo, 2008). The socio-cultural reality of functioning socio-economic systems, which is characterized by variety, embraces all of its levels within the system of social connections and is embodied by ethics, philosophy and a system of values. According to this, development of economic space is associated with social change (Honnet, 1995; Surina, 1999).

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Thus, the complexity of the current economic period generates scientific discussions about various concepts of management and models of socio-economic development. In spite of the wealth of methodology for examining various processes and phenomena and solving important management problems, the problem of establishing management concepts reflecting the processes of globalization, intellectualization and informatization of the economy and its innovation drive remains unsolved. Socio-economic tendencies of the present day must underlie modern management concepts.

**Literature review**

An economic agent’s value is becoming an increasingly popular concept, which is explained by the spread of the notion of value-based management of a business. It was conceived in the US economy in the 1980s (Katkalo, 2008).

The notion of value and the characteristics of value-based approach to management are still a controversial issue. This is primarily explained by varying interpretations of value, which have led to the emergence of two research traditions. The first tradition interprets value as synonymous with the value of business. A number of researchers (Momot, 2007; Arnold & Davies, 2000) link the establishment and development of ‘value-based management’ to the work of A.T. Rappaport (1986) Creating Shareholder Value and refer to the term ‘value-based management’ proposed by J. McTaggart, P. Kontes & M. Mankins (1994). This concept, which was based on an ‘economic view’ of business, was subsequently abbreviated to VBM in (Slater & Olson, 1996; Young & O’Byrne, 2001; Copeland, Koller & Murrin, 2000) and was widely used in business practices in the late 1980s - early 1990s. Such scholars as A.T. Rappaport (1986), Copeland et al. (2000) and G.B. Stewart (1991), came to play important roles in its establishment. Their works were the first to systematically set forth the ideology of VBM. These authors are considered to be the founders of the concept of value-based management. In particular, it is reasonable to note the studies of A.T. Rappaport (1986) Creating Shareholder Value and G.B. Stewart (1991) The Quest for Value. The authors reconsidered the role of managers in the activities of an enterprise which consists in raising the shareholder value of an enterprise. Approval of this viewpoint leads to the necessity of changing long- and short-term goals and methods of evaluation of an enterprises’ activity.

The subsequent seminal publications (Arnold & Davies, 2000; Ryan & Trahan, 2007; Lan & Hearacleous, 2010) finished forming the foundation of the VBM concept. The said works became the theoretical foundation for the consulting activities of such companies as LEC/Alcar Consulting Group (Rappaport, 1986), McKinsey & Company (Copeland, Koller & Murrin, 2000), G.B. Stewart (1991). Subsequent researchers proved that the scope of managerial problems that are resolved with the help of VBM is very wide and cannot be limited to economic aspects only.

The term ‘value-based management’ was first used by J. McTaggart, P. Kontes & M. Mankins (1994) in his work The Value Imperative, published in 1994. The author proved that monetary flows govern the value of an enterprise. VBM was defined as a formal and systemic approach to managing a company aimed at maximizing its value for shareholders in the long term by means of optimal use of the economic mechanisms of managing value. Some scholars also
defined VBM as an approach to management under which the general ambitions of a company, analytical techniques and management processes are aimed at helping it maximize its value by focusing decision-making on the key factors of creating value (worth) (Copeland, Koller & Murrin, 2000). Initially supporters of VBM identified the notion of ‘value’ with the notion of ‘worth’, putting emphasis on economic management.

The concept of VBM is based on the recognition that the goal of every business is the growth of its value for its owners (shareholders). Consequently, all the managerial decisions are aimed at achieving this goal (Steurer et al., 2005). It is necessary to note that, according to this approach, created value belongs primarily to the owners of a business that are recognized as the main suppliers of capital. Therefore, emphasis is placed mainly on the financial results and managing the factors (drivers) of value creation.

The second approach is a sum-total of relatively independent theories dedicated to the investigation of the role and mechanism of value creation in transactions. We can mention here the Values scale of M. Rokeach (Katkalo, 2008) and M. Porter’s (1980) concept of the value chain (Porter, 1980). Moreover, this school of thought also embraces the attempts, made over recent years, at explaining the mechanism of creating value in the system of achieving a ‘balance of interests’ of all the stakeholders of a company, which, besides the proprietors, include staff, trades-unions, resource suppliers, consumers, the state, local authorities, banks, insurance, finance, and research companies and others (Windsor, 2001). It is clear that value is a more complex, multi-level, and possibly contradictory category in terms of the balance of interests since it will absorb contradictory interests, for instance, the growth of revenue may conflict with the distribution of salaries and the sum of paid taxes (Larcker, Ormazabal & Taylor, 2011; Rapp et al., 2011).

In spite of a large number of theoretical studies of this issue, we may note the fragmented character and lack of wholesome description of VBM as an instrument of management. Some aspects of the concept’s practical implementation in a company’s activity remain without clarification. The terminology and methodology of the value-based approach also need to be expanded.

Aim of the study

This article is aimed at investigating and summarizing the provisions of value management of socio-economic systems as well as specification of several conceptual aspects of this issue.
Research questions

What are the main development stages of value management? What are the leading organizational and economic mechanisms that contribute to strengthening moral and ethical components in management? How can we make the transition to the new ideology of corporate strategic management?

Method

This study is based on theoretical research methods, namely the methods of economic analysis, economic synthesis and examining the existing concepts of value management.

Firstly, we ought to determine the main development stages of value management and mechanisms that strengthen moral and ethical components in management. We have assessed interactions not only on the basis of economic results, but also taking into account the social aspects.

Data, Analysis, and Results

The notion of value describes a business’ capacity to generate revenue for its owners in the future and can be defined as discounted value of future cash flows at a given specific moment of time. Moreover, the value of an enterprise takes into account the intellectual potential of its employees as well as intangible assets of the company. The efforts of a company’s managers must be aimed at maximizing its value, since it represents its long-term development. Therefore we suggest using the terms ‘value of an enterprise’ and ‘value-based management’ with regard to management of a company and the notion of value for describing a company as an asset or an object of purchase and sale (Momot, 2007).

When analyzing the key aspects of implementing VMB in the activities of an enterprise, we suggest specifying its main elements and emphasizing the following among them:

– strategic planning, which is the process of integrating VMB into the system of enterprise management, which embraces all the sides of its activity and demands extensive timeframes. Therefore it is necessary to establish principal aims with time specifications and distribution among company units;

– organization support. VMB demands maximal integration of all levels and units of the organization structure of an enterprise with a view to achieving an optimal distribution of the company’s principal aims;

– staff training and development. The realization of the idea of value management by a company’s employees is very important as well as their appreciation of the set tasks aimed at its implementation;

– investment activities. The growth of a company’s value is impossible without boosting its development. Investments can be made by means of the company’s own resources or borrowings and aimed at the improvement of quantitative or qualitative characteristics of a company’s activity;

– performance indicators. Establishment of the volume of a company’s created value is possible only when there are indicators of the degree of implementation of projected activities that help to determine levers of influence;
– feedback system aimed at correcting the tasks of strategic and operations planning based on the analytical data on the results obtained in the previous periods.

The values that prevail in the relations among participants in economic relations determine the efficiency of their activity as well as the level of development of society. Introduction of the moral and ethical vector in the management of economic activities demands an elaboration of new management mechanisms. There is a need for economic-organization mechanisms and methodological instruments that make it possible to achieve the set goals in the most efficient way. This accounts for the necessity of embracing the value paradigm which has undergone content changes since the time of its inception. It can be argued that value management has had the following stages of its development (Table 1, Fig.1).

Table 1. Characteristics of development stages of value management

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value-based management</th>
<th>Management by values</th>
<th>Management of value creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Approach to management</td>
<td>value</td>
<td>axiological</td>
<td>Attitudinal-behavioral-integrated</td>
</tr>
<tr>
<td>2. Type of management</td>
<td>economic</td>
<td>social</td>
<td>Social-economic</td>
</tr>
<tr>
<td>3. Object of management</td>
<td>Drivers of value</td>
<td>Value system of organization</td>
<td>Relations, i.e. social-value behavior</td>
</tr>
<tr>
<td>4. Goal of management</td>
<td>Satisfying shareholders’ needs</td>
<td>Raising value unity</td>
<td>Creating added value</td>
</tr>
<tr>
<td>5. Researchers</td>
<td>Copeland, Koller, Murin</td>
<td>Dolan, Garcia, Rokeach and others</td>
<td>Walter, Ritter, Gemunden, Ulaga, Eggert</td>
</tr>
</tbody>
</table>
It is pertinent to point out that the present-day development of economic space is associated with social change. Hence the exigency of considering culture as a foundation of socio-economic changes with preservation of a common cultural background. These changes are based on dominance of knowledge, information, high technology and human resources. It was impossible to attain this goal within the framework of former models of management.

By creating their “7s Framework”, Th.J. Peters and R.H. Waterman (1982) proved the importance of organization values as a resource for development of socio-economic systems, which led to the emergence of value management. VBM did not succeed in offering companies any competitive advantage only by means of changing their economic activities. The ‘7S’ are Structure, Strategy, Systems, Skills, Style, Staff and Shared values. The model is also sometimes called the ‘happy atom’. It was developed by the two researchers, who worked for McKinsey & Company in the 1980s. The Framework did not only systematize the then views on the structure, management, division of power, attitude to innovation, conflicts and other common organization issues (Honnet, 1995). It pointed to an interrelation between production processes and those who implement them.

It was necessary to have an instrument of management to unlock the market potential of a company taking into consideration the social aspect of its activities. Management by values, or MBV, was supposed to become such an instrument. It emphasized the growing need for efficient performance and client orientation, for flexible organization structure and managers who encouraged their employees’ successes. By giving a new dimension to the goals and actions of the staff, MBV built a culture that helped to direct the employees’ daily activities to the implementation of a company’s strategic vision.

Value management is a process that focuses a company’s activities on meeting common behavioral expectations. Value management is aimed, as a
rule, to changing the employees' values in accordance with the value organization code. Therefore, value management of a company is management on the basis of common, congruent corporate values that are shared by the employees of the company.

The 21st century made it necessary to consider businesses as complex structures. At present, construction of an effective system of managing socio-economic systems requires a convincing scientific substantiation of a company’s essence with an emphasis on building a system of interrelations of all the participants of market processes (Fig. 2).

A company is located in the center of a network of interactions with the actors of the external environment, each of whom contributes to the result of its activities and expects some benefit. The degree or level of such influence is an important indicator of the efficiency of a socio-economic system. Relationships between a socio-economic system and interested parties are increasingly becoming objects of management at present. Value management turns into the management of interactions for the creation of value. Therefore, attitudinal and behavioral approaches to management should be regarded as the basis for this kind of management.

At present interaction represents a creative activity focused on long-term relations between interacting subjects for ensuring an economically effective and socially responsible process of creation, the distribution and use of monetary and other values. The effectiveness of this activity directly depends on differentiation of levels of interaction of all subjects.

Any socio-economic system interacts with suppliers, consumers and other participants. They are not “external parties”, but partners, and relationships with them are built on the basis of mutual benefit. This implies that in case of development of mutually beneficial relations, the sides enhance each other’s values, making it a win-win situation.

The ever increasing number of links between the socio-economic systems is the main reason for researching their value character. On the one hand, values are a capacity for satisfying needs with a view to creating new values, which reflects the economic essence of this concept. On the other, values characterize the main principles of the behavior of systems in the process of interaction, which reflects the socio-behavioral essence of this concept. Therefore, the essence of value is seen through the prism of an integrated understanding, which arguably is based on the value activity-approach: formation of social values leads to the creation of new values which contribute to building economic capacity of socio-economic systems.

In the course of examining the value of relations, it becomes necessary, on the one hand, to identify and measure the value of relations, which presupposes...
a quantitative assessment of relations, and to analyze the mechanism of value creation and the factors influencing the value of relations.

![Figure 2. Road map of developing value management](image)

The study of value of interrelations offers an opportunity to research interrelations as an object of management. The value of interrelations is an indicator that can be applied both to individual participants in an interaction and as the main composite indicator that assesses interaction as a whole. The study of the value of interrelations is a stage in the investigations of value and value management. It is not a company’s uniaxial orientation to creating added value that the value of interrelations presupposes, but its multipart orientation which takes into account the interests of all parties to interaction. The value of interrelations is based on the hypothesis that creation and strengthening of interrelations embodies a certain value for every participant in an interaction.

The attitudinal approach demands a broader interpretation of value; in order to create new value it is necessary to take into account the level of integration of values of the environment, values of interaction and the socio-economic system.

Taking into consideration the broadening of the term ‘object of management’ as well as the shift from the sum-total of interacting elements that constitute socio-economic systems through clusters of collectively acting persons to the networks of interested parties (which make up an extended enterprise), it is necessary to isolate groups of values that affect the participants in a network.

The values of the environment are external (background) values that characterize the value system formed in the external environment where participants function. This group of values reflects a system of values that are accepted in society, forms ethical norms, stimulates the goal-oriented activities of actors.

The values of interaction are the subject-object value system that arises in the process of operation of the participants in the network.
This group can be presented as two value flows of value substantiations that initiate an exchange of activities of socio-economic systems in interaction (Fig. 3).

Figure 3. Fragment of a contour of interrelations values

It is worth noting that the makeup of participants is not homogeneous. In order to achieve higher efficiency, socio-economic systems need not only to identify the value orientations of the participants but be able to establish priorities for each of them. The values of interaction are built on the “relation between the subject's view of what the assessed object must be like and the object itself. If the object meets the relevant criteria, it is considered positively valuable” (Ivin, 2004). Consequently all the conditions are created for continuing the interaction, the duration and positive character of which must lead to the formation of loyalty among the participants and trust, which is the basis of creating attitudinal capital.

The values of the socio-economic system are a system of value substantiations that a company and its employees are guided by when implementing their activities. S.L. Rubinstein (Parkhomenko, Ronzin & Stepanov, 1989) noted that only acknowledged value is capable of fulfilling the most important value function, i.e. the function of behavior orientation. The values of the system are a system embracing the values of an entire company and its employees' value orientations that are formed under the influence of values of the environment. Value orientations form the basis of a person's behavior and directly affect personality growth (Surina, 1999). A specific system of value orientations and their hierarchy is the regulator of personality growth. People's entire lifestyles change and this leads to changing value orientations, motivation and the entire process of a person's socialization.

Managing the unity of values within the framework of a company is a basis for raising the level of capitalization of interaction. Values inside the system are
interpreted from the socio-psychological perspective and are a social phenomenon, a product of the activity of the system and its elements. Therefore the management of socio-economic systems must be based on the acknowledgement of various groups of values, their interrelations and interpenetration.

Integrated management of the process of creating value is possible only after the mechanisms of managing the creation of external and internal values are adjusted. These mechanisms are called to ensure the formation of attitudinal capital as a motive force in implementing new combinations of resources, entrepreneurship, creativity and the interaction of external participants and human resources of a socio-economic system.

Key transformations are impossible without changing the value consciousness of people. This is especially important since it is the representatives of a totally new generation (homo economicus) that become involved in professional experience. Their values were formed during the establishment of a market economy. The model of homo economicus was developed by W.H. Mecking (1976) and K. Brunner (1987) and described as ‘REMM’ ('Resourceful, Evaluating, Maximizing Man').

**Discussion and Conclusion**

At present the object of management is a complex dynamic formation that includes a large number of interacting sides. Therefore it is necessary to acknowledge the impossibility of getting a full view of its activities based on the traditional system methodology.

A modern-day business is a special system of socio-economic and financial interactions and interrelations based on the mechanism of managing the processes of production and distribution of economic goods. Owing to this, it is necessary to separate the notions ‘value of a company’ (internal representation of its financial economic nature) and ‘worth of a company’ (external assessment of its characteristics as manifested on the market).

M. Rapp et al. (2011) argue that one of the main stages of building a system of company management is establishing the key quantitative parameters of activity that are the main factors of value. These parameters are the results of interaction of all the participants in a company’s functioning. The system of their interrelations comes to the forefront in the system of managing a company. This circumstance gives grounds to conclude that modern-day management of companies is a system of managing the interrelations among interested parties, i.e. the system of managing the creation of value.

It is necessary to admit that businesses in economically-developed countries will soon see a change of generations from the economically-, socially-, and value-oriented one, which has understandable and scientifically-grounded models of behavior to a new generation focused on the value of information society and frequently not having skills of social adaptation and efficient communication (Momot, 2007). This process of transition will be very painful. Directors will be forced to give up conventional methods and techniques of management, and a robust restructuring of the value basis of interaction both within companies and in society will take place. These factors support our hypothesis of developing value management through the behavioral approach. Values are the mainstay of society and the degree of their establishment in the
consciousness of people predetermines the vector of development of companies and society as a whole. The moralities of individual employees make up the collective morality of a company unit, the whole company and society which should result in the synergy effect of their interaction.

To sum up, value management is the realization within a company of the common, consensual corporate values that are shared by the company’s employees.

In order to develop value management let us proceed from the following:

– value as significance of an object;
– values as benefits that socio-economic systems need for the creation of a new value;
– values as principles modeling the behavior and serving as conditions of interaction.

It is sensible to conclude that interactions cannot be assessed only on the basis of economic results. Social aspects of interaction are no less important. In the process of its operation a company should create value for all of its participants. That is what allows it to develop and enhance its stability. An integrated index that makes it possible to measure the success of interrelations is their value. Business interrelations create value in the sense that they contribute to raising the competitiveness of interacting sides.

The key values create the basis for involving staff in the perception of the generally accepted ideology of the business’ development in terms of insuring the observance of norms of social responsibility. According to research, declared company values and principles rarely coincide with real motives of the participants in the business environment in Ukraine. Nevertheless, staff should adhere to company values. Company values must be incorporated as strategic benchmarks of the enterprise’s development. Its strategic aims, in turn, must have a value-based structure. In view of the above-said, harmonization of a company’s values with the interests of society is an important pre-requisite for efficient activity of modern enterprises.

Value congruence among all the participants in the interaction is an indispensable condition of the success of their activity. Therefore it is necessary to acknowledge that the best result in the process of value creation can be obtained when taking an integrated approach based on the value transformation of external and internal value orientations.

It can be argued that VBM is aimed at achieving maximization in the long term of the most probable value of an enterprise for all the components of the socio-economic system based on strategic decisions proceeding from key determiners of value. Provision of a modern innovative configuration of this concept requires an establishment of objective connections and systematization
of key values that condition the formation and application of VBM. Key values eventually affect the dynamics of the indexes of an enterprise’s activity, the content and character of which are clearly defined. They are an important component in determining the value of an enterprise as a socio-economic system.

The transformation of the object of management from the socio-economic system into a system complex and then into a cluster of interacting participants confirmed the transition to the next stage of value management, which is based on the attitudinal approach. The character, duration and quality of interrelations are motive forces of the development of socio-economic systems. It will not be possible to decrease the number of interconnections without prejudice to any participant. In contrast to other forms of management, business management must take into account the values of other participants as well as the capacity for creating added value by means of integrated actions. In order to remain successful, socio-economic systems must constantly keep track of the character and value of their relations. Creation of a system of management that takes into account the main characteristics of interaction among its participants is an important factor of building competitive advantage and increasing core competencies of companies.

A transition to a new ideology of corporate strategic management is reasonably required. It is a complex direct system of management based on the value approach. This approach foresees submission of all the sub-processes of functional and line management to creating marginal utility, defining potential interests and creating needs of customers, as well as the development of business aimed at creating future market outlets.

Implications and Recommendations

The study of the present-day circumstances of socio-economic systems’ functioning revealed the importance of establishing the main factors of their stability and vitality. The variety of participants of production relations and the growing sophistication of the connections among them call for further research of the specifics of socio-economic systems.

The practical value of the research is that it justifies the creation of a system of management which takes into account the main characteristics of interaction among its participants. Furthermore, the study examines the transition to a new ideology of corporate strategic management.

Disclosure statement

No potential conflict of interest was reported by the authors.

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