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CONTEMPORARY ISSUES IN ECONOMICS, BUSINESS AND MANAGEMENT

Edited by
Verica Babić, Ph.D.

26011

FACULTY OF ECONOMICS
UNIVERSITY OF KRAGUJEVAC

Kragujevac, 2011

CONTEMPORARY ISSUES IN ECONOMICS, BUSINESS AND MANAGEMENT

Publisher

Faculty of Economics University of Kragujevac

For the Publisher

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Printed by Interprint, Kragujevac

ISBN: 978 - 86 - 6091 - 018 - 1

ACCOUNTING AND BUSINESS FINANCE

QUANTITATIVE METHODS AND MODELS IN ECONOMICS AND MANAGEMENT

INFORMATION BASIS OF VALUE-BASED MANAGEMENT

Predrag Stančić, PhD[1]

Abstract: *Value-based management is a managerial approach considering company's value maximization as a primary purpose of business activity. The objective of the firm, its systems, strategy, processes, analytical techniques, performance measurement and culture have as their guiding objective company's value maximization.*

Decision-making in capital raising and its use requires a broader information set, i.e. additional range of information to complete the data in financial reports. Such information need not be of quantitative and monetary nature, but related to both internal business qualities (organizational solutions, human resources, available investment opportunities) and the characteristics of environment, risk analysis, projected trends in the future, etc.

Key words: *Value, management, performance, information, strategy*

Introduction

Value-Based Management is a managerial approach considering value as the primary purpose of business activity. Business operations, systems, strategy, analytical techniques, performance measures, organization and other aspects are taken into consideration and evaluated through their contribution to company's value creation.

Contemporary financial theory agrees with such approach since it considers maximizing the value added, taken as the value of output minus the value of inputs in business operations, to be the objective of financial management. Accordingly, effectiveness of alternative investments is evaluated in comparison to the return that could be obtainable in the market by investing equal amounts of funds and followed by equivalent risk. From the (existing and prospective) investors' point of view, less than possible return is convincing evidence of unsound capital disposal and insufficient contribution to value creation.

How a business creates value

According to present opinion, financial management is primarily focused on creating, maintaining and measuring a business value. To increase a business value is significantly more complex than profit maximization since it takes into account both outcomes and resources invested. In Business Economics value refers to the amount of profit received in relation to the amount invested (the most important limiting factor for profit realization). Value, in the absolute sense, exists where business operations generate a greater value than the amount invested.

The consensus of value maximization as a financial management objective is not without certain dilemmas, since value can be related to both owners (shareholders) and company as a whole. There is no equality between the value of owners (shareholders) and company's value, because the value of owners refers to the residual value of company's assets after the coverage of liabilities. The concept of company's value is not ownership-oriented (valuable for capital owners), but requires value maximization for all the interest groups claiming to reap the fruits from business outcomes. Thus, company's value maximization is nothing else but maximization of investment profitability without previously anticipated distribution of business outcomes.

The dilemma on the extent to which business operations add value, i.e. contribute to increase the company's value, may be resolved differently (Stančić, 2006.). By general valuation method

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