

VA/VE METHODOLOGY TO THE RESCUE OF BUSINESS EXECUTIVES

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Abstract

This paper highlights the relation between Strategic planning and Value Analysis. Through the review of major steps and principles of implementation of Value Management, it defines measurement criteria of value produced, i.e. Desirability, Accessibility and Availability and suggests a three-step intervention plan intended to help managers with their repositioning and reorientation in a radically changing environment.

At the dawn of the next millennium, organizations are faced with continuous and drastic changes. Are there ways to cope with these changes?

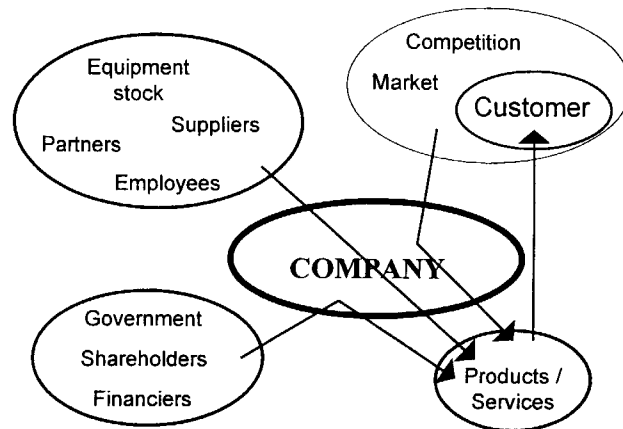
First, let's consider where the changes come from :

- Globalization
- Technological advancement
- Accessibility to information, etc...

These observations imply that our organization's environment and components will influence the organization's dynamics. Therefore, the first thing a manager must do is to determine the environmental structure or content since the organization must interact with its environment in order to produce the best value.

Based on the state of the various interactors, the organization adapts its production to ensure the best value. Furthermore, it has to manage its own management style to harness the potential of globalization.

At least three groups exert a major influence over a company.



A COMPANY IN ITS ENVIRONMENT

Fig. 1

MARKET

- provides the organization with data on customer needs, a good knowledge of the customers and their characteristics and a position *vis-à-vis* its competition.

HUMAN AND MATERIAL RESSOURCES

- the employees, suppliers and partners as well as the equipment and material required to produce an output, a service or a product.

FINANCIAL RESOURCES

- the financiers and shareholders, subject to government rules and regulations

Collectively, these three groups influence the organization's motivation and capacity to produce value.

Given these preoccupations, how can we define the production of value for an organization?

Based on its knowledge and means, the organization tries to satisfy various needs by offering customers its products and services; a quality known as **DESIRABILITY**.

The organization offers goods and services at an acceptable cost to its customers, taking into account its market position : **ACCESSIBILITY**.

The organization ensures availability of its goods and services within acceptable time limits : **AVAILABILITY**.

The criteria used to measure the value produced by a company are therefore:

- ♦ **DESIRABILITY**
- ♦ **ACCESSIBILITY**
- ♦ **AVAILABILITY**

In accordance with our traditional definition of value, these criteria are associated with the following objectives :

- DESIRABILITY** Satisfy needs at the right place
- ACCESSIBILITY** At the lowest cost
- AVAILABILITY** At the right time

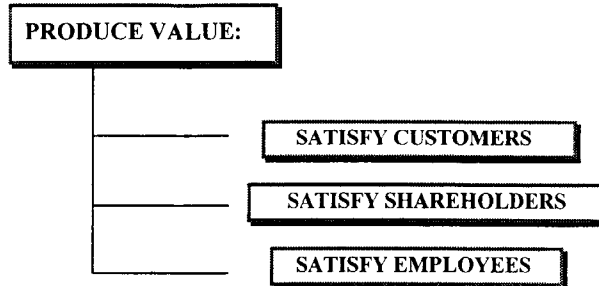
In their efforts to meet these criteria, managers are influenced by the expectations of the three groups described above. Managers' responsibilities are therefore:

- satisfying customers
- satisfying shareholders
- satisfying employees

To help managers, value analysis suggests an intervention plan that can be summarized in three major steps:

1. Establish an environmental profile
2. Diagnose the organization
3. Take corrective actions

To establish the environmental profile, functional analysis and information research are used to create a model of the organization. This model helps identify the following functional groups:



The diagnosis involves comparing the current status of the organization with a model based on efficiency criteria and function hierarchy; the result is function valorization. The work team, in this case, senior management, generally challenges the organization capacity to satisfy functions according to their importance and their allocated resources.

MEASUREMENT OF SATISFACTION LEVEL

- ♦ efficiency criteria
- ♦ function hierarchy

EXAMPLE - CONSULTING FIRM

<u>FUNCTION</u>	<u>EFFICIENCY CRITERIA</u>	Performance	Consumed resources
Satisfy customers	♦ Number of recurring mandates	Average	60%
	♦ Business growth by customer		
	♦ Profit margin growth by customer		

Fig. 2

The example shown in Fig. 2 can be supplemented by two more value criteria such as the importance of the function and the urgency to take action. Therefore if the function is of prime importance and if the team believes that the performance of the organization to satisfy that function is average, it could be urgent to take action. Consequently, the team will ask themselves if the 60% consumed resources is sufficient and how it could be more

efficiently used to satisfy the customer. A more detailed analysis will then be done on that particular function.

This diagnosis leads the team to propose the actions aimed at redirecting the organization and the team also agrees on the required strategies to reach its goals.

People are identified to take charge of the **action plan** and to follow-up on its implementation, taking into account the set objectives, the available resources, the estimated costs, the foreseen benefits and the efficiency criteria to be satisfied for the function.

(1) This intervention mode takes us to a management style called Value Management whereby fundamental principles are:

- Management by finalities (function notion)
- Search for optimal solutions
- Rationalization of choices through indicators
- Competence pooling through teamwork
- Cross-functional communication
- People and group valorization, or collective success

Two stages are necessary for the implementation of VM (Value Management):

- The initial elaboration phase
- The implementation and daily operation phase

The strategic planning process is an opportune time to undertake the initial elaboration of its management model and action plan ; which will be put in place during the implementation phase.

Several interventions are possible in organizations using Value Management principles, for example designing a new organization, optimizing an existing organization or improving organization segments.

Moreover several applications have already been realized:

Designing a new organization. In a public utility, in less than (4) months, design and evaluation of four administrative units. Implementation under way.

Optimizing a public work department for a major city. Process review and 25% reduction of the budget allocated to that department and a better use of manpower.

Positioning on an outsourcing potential. In a public utility, review of the processes and long term view of the task, at lower cost.

Strategic planning. In a consulting firm, repositioning and reorientation in a context of major environment changes.

References:

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(1) Guy Brun – France Telecom. Author of *Association française d'analyse de la valeur (AFAV)*. Publication: *Projet de normes européennes sur le Value Management*.