

Value management

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Summary of pages

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Value Management

Management par la valeur

Value Management

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Foreword

This European Standard has been prepared by Technical Committee CEN/TC 279, Value management - Value analysis, functional analysis, the Secretariat of which is held by AFNOR.

This European Standard shall be given the status of a national standard, either by publication of an identical text or by endorsement, at the latest by October 2000, and conflicting national standards shall be withdrawn at the latest by October 2000.

According to the CEN/CENELEC Internal Regulations, the national standards organizations of the following countries are bound to implement this European Standard: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The aim of this standard is to present, define and explain Value Management (VM) and to introduce the basic concepts of the methods and tools most commonly used in its application.

Historical background:

Value Management is a style of management that has evolved out of previous methods based on the concept of value and functional approach. These were pioneered by Lawrence D. Miles in the 1940's and 50's who developed the technique of Value Analysis (VA) as a method to improve value in existing products. Initially Value Analysis was used principally to identify and eliminate unnecessary costs. However it is equally effective in increasing performance and addressing resources other than cost. As it evolved the applications of VA widened beyond products into services, projects and administrative procedures. At the same time other methods and management techniques based upon the concepts of value and function have evolved such as Design to Cost (DTC) and Functional Performance Specification (FPS).

The standard is primarily addressed to three groups of customers:

- senior executives seeking to enhance value for their organization and satisfaction for their customers by using the concepts of Value and Function as the basis for making decisions;
- all those involved in the formal application of Value Management methods within specific projects including generalists and specialists;
- all those involved in Value Management development or training.

It has been structured so that the introduction outlines why Value Management is relevant to management. Section 4 explains what Value Management is and Section 5 introduces how Value Management should be applied (see Figure 1).

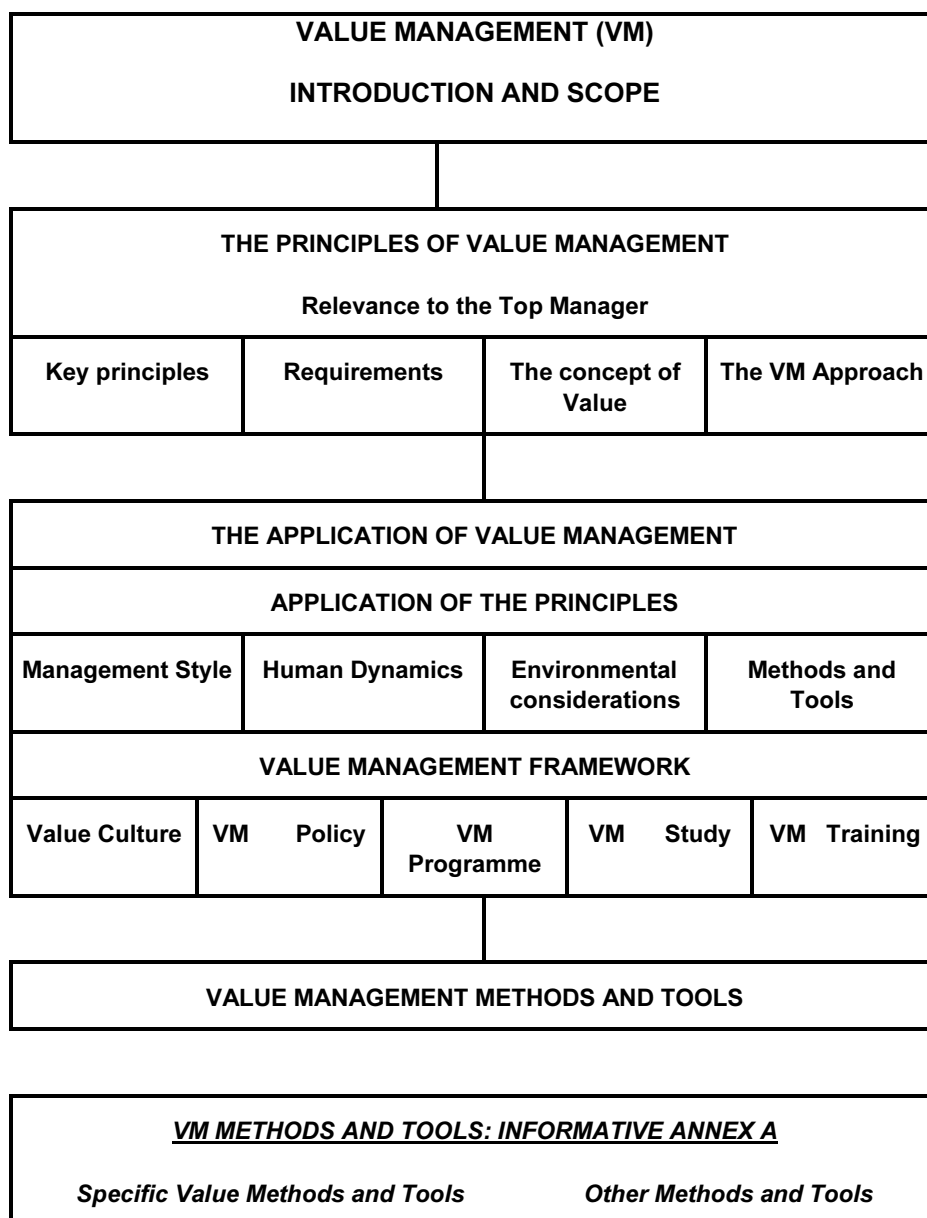


Figure 1 — Structure of this document

The European Standard on Value Management has been developed to promote unified concepts, common practice and the highest levels of expertise and efficacy throughout Europe.

This standard represents a development from previous Value Analysis standards.

It integrates the pre-standardization work, sponsored by the European Commission, with the standardization work of CEN/TC 279 and refers in particular to the standard EN 1325 "Value Management, Value Analysis, Functional Analysis vocabulary", of which Part 1 "Value Analysis and Functional Analysis" has been published.

Introduction

The concept of Value relies on the relationship between the satisfaction of many differing needs and the resources used in doing so. The fewer resources used or the greater the satisfaction of needs, the greater the value. Stakeholders, internal and external customers may all hold differing views of what represents value. The aim of Value Management is to reconcile these differences and enable an organization to achieve the greatest progress towards its stated goals with the use of minimum resources.

Value Management is a style of management, particularly dedicated to motivate people, develop skills and promote synergies and innovation, with the aim of maximizing the overall performance of an organization. VM provides a new way to use many existing management methods. It is consistent with Quality Management. Value Management has been proven effective in a wide range of activities.

Applied at the Corporate level, Value Management relies on a value-based organizational culture taking into account Value for stakeholders and customers. At the operational level (project oriented activities), it implies in addition the use of appropriate methods and tools.

For a top manager to take a decision, whether this be in the definition of commercial strategy, the development of a new product or the conclusion of a financial agreement, requires a consistent approach toward addressing these issues. Value Management simultaneously addresses management goals, encourages positive human dynamics, respects internal and external environmental conditions and positively provides the methods and tools for achieving results.

The most visible benefits arising out of the application of VM will include:

- better business decisions by providing decision makers a sound basis for their choice;
- increased effectiveness by using limited time and resources to best effect;
- improved products and services to external customers by clearly understanding, and giving due priority to, their real needs;
- enhanced competitiveness by facilitating technical and organizational innovation;
- a common value culture, thus enhancing every member's understanding of the organization's goals;
- improved internal communication and common knowledge of the main success factors for the organization;
- simultaneously enhancing communication and efficiency by developing multidisciplinary and multitask teamwork;
- decisions which can be supported by all stakeholders.

The benefits are available to providers and consumers in all sectors of society:

- the industrial sector including manufacturing, construction and processing;
- the services sector, both public and private;
- the government, health, education and other public activities.

The Value Management approach involves three root principles:

- a continuous awareness of value for the organization, establishing measures or estimates of value, monitoring and controlling them;
- a focus on the objectives and targets before seeking solutions;
- a focus on function, providing the key to maximize innovative and practical outcomes.

The approach allows the accomplished manager to apply the principles intuitively, particularly in addressing high level issues such as commercial strategy. Equally, all levels of management may apply the methods formally, in a team environment, to solve specific problems. Value Management embraces specific management tools which may be applied in a rigorous and systematic manner to address all manner of issues ranging from strategic goals to the design of one single component.

In larger organizations, it is normal to introduce a structured framework to assist managers in applying Value Management consistently across the organization. In such organizations, individuals may have specific and well defined role functions within the process. In smaller organizations (such as Small and Medium size Enterprises), such roles may be less well defined and an individual may effectively perform several of them as part of his duties.

To achieve the universal and flexible application of Value Management throughout an organization, without losing effectiveness of the approach, requires that every member be aware of the fundamentals which drive value for that organization, and take decisions on a consistent basis.

The building of a Value Management culture within the organization is fundamental. It requires training and awareness campaigns appropriate to the activities, responsibilities and accountability of the individuals.

The existence of a mature value culture will change attitudes and working practices, encouraging groups to work together and reduce confrontation. The results will be reflected in a reduction of wasted and unnecessary effort and encourage the focus of limited resources on those areas which will give the greatest value.

1 Scope

The purposes of this standard are:

- to establish a common basis for management to implement and practise Value Management;
- to help team leaders and team members to practise the methods;
- to establish a basis for developing training and certifying procedures for individual competencies in Value Management;
- to establish a basis for Value Management contractors to provide services;
- to establish a basis for certifying companies and organizations;
- to improve the quality of Value Management and stimulate innovation in its use;
- to improve communication through the use of common terminology.

This standard provides a guide to all managers to practise Value Management and to introduce this discipline within their organization, and for all other members to understand and participate effectively in Value Management.

2 Normative references

This European Standard incorporates by dated or undated reference, provisions from other publications. These normative references are cited at the appropriate places in the text and the publications are listed hereafter. For dated references, subsequent amendments to or revisions of any of these publications apply to this European Standard only when incorporated in it by amendment or revision. For undated references the latest edition of the publication referred to applies.

EN 1325-1, *Value Management, Value Analysis, Functional Analysis vocabulary - Part 1 : Value Analysis and Functional Analysis.*

3 Terms and definitions

The term “Value” has been defined in EN 1325-1. It has the same meaning in this European Standard.

For the purposes of this European Standard, the following specific terms and definitions apply:

3.1

Value Management (VM)

Value Management is a style of management, particularly dedicated to motivating people, developing skills and promoting synergies and innovation, with the aim of maximizing the overall performance of an organization

Applied at the Corporate level, Value Management relies on a value-based organizational culture taking into account Value for both stakeholders and customers. At the operational level (project oriented activities), it implies, in addition, the use of appropriate methods and tools.

3.2

Value Culture

Value Culture is an attitude, awareness and sufficient knowledge of what the concept of value represents for an organization and its stakeholders and of the factors that may affect this value

It includes an appropriate knowledge of available methods and tools and an awareness of managerial and environmental conditions which enable Value Management to flourish.

3.3

Value Management Programme

a Value Management Programme is a planned and structured array of activities which enables the development, implementation and maintenance of a Value Management Policy in a sustainable manner

3.4

Value Management Study

a Value Management study is the application of Value Management to a specific subject identified within a Value Management programme and may involve the use of one or more methods

NOTE: A Value Management study is a specific approach to a clearly identified subject. Value Management provides a set of methods that complement the Project Management methodology.

One or several specific Value Management studies may be carried out within a wider project.

3.5

Value Manager

a Value Manager is a person who is responsible for designing, developing and implementing a Value Management programme

4 The principles of Value Management

Relevance to the Top Manager

VM can then be defined as a transverse approach, a common way of devising the different management of specific areas of the enterprise (human relations, technologies, costs, ...). It focuses on the Value concept in order to validate operational objectives and to define specific strategies.

The top manager strives to obtain better outputs from the whole of the organization's assets, financial, material and human, to satisfy the expectations of shareholders and customers.

Value Management integrates the operational managers' efforts with those of higher management to provide a seamless focus on value throughout the organization. It provides this by concentrating objectively on outcomes which are in line with overall corporate objectives, in preference to local or short-term priorities.

Every manager will develop his own style of conducting his responsibilities within an overall, consistent VM culture, which embraces and encourages team work, communication and emphasis on the customer (internal or external) rather than the provider.

The resulting atmosphere encourages innovation, draws on the synergy of people working together and results in better utilization of resources to fulfil the organization's aims.

4.1 Key principles

Value Management is distinct from other management approaches in that it simultaneously includes attributes which are not normally found together. It brings together within a single management system:

- management style;
- positive human dynamics;
- consideration of external and internal environment;
- effective use of methods and tools.

Management Style

The distinctive Value Management style combines several essential qualities to ensure the application of the concepts of value and function. These qualities and concepts include an emphasis on teamwork and communication; a focus on what things do rather than what they are (functional approach); an atmosphere that encourages creativity and innovation; a focus on customers' requirements and a requirement to evaluate options quantitatively to enable robust comparison of options.

Human Dynamics

- Teamwork:
 - encouraging people to work together towards common solutions and avoiding confrontation;
- Satisfaction:
 - recognizing and giving credit for individual contributions and team results;
- Communication:
 - bringing people together by improving communication between them, fostering better common understanding and providing better group decision support;
- Encouraging change:
 - challenging the status quo to bring about beneficial change;
- Ownership:
 - the assumption of ownership of the outcomes of Value Management activities by those responsible for implementing them.

Environmental Considerations

- external conditions:
 - taking account of pre-existing conditions external to the organization over which managers may have little or no influence. These conditions may represent opportunities or constraints;
- internal conditions:
 - within an organization there will be existing conditions which managers may or may not be able to influence. Sometimes top managers can change internal conditions by changes in their organization's strategy;

- degrees of freedom:
 - the external and internal conditions will dictate the limits of potential outcomes and should be quantified.

Effective use of methods and tools

- means of achieving outcomes.

Value Management provides the framework within which established and proven management methods can be applied in a structured and logical manner. Value Management brings these methods and others together thus ensuring each is applied, not in isolation, but in a holistic approach consistent with an organization's goals.

The methods enable issues at any management level to be tackled effectively.

4.2 Value objectives in Value Management dynamics

Setting objectives and monitoring their achievement are the responsibilities of the management of an organization or of a project. The ability of Value Management to deliver significant improvements depends largely on proper management of objectives.

At strategic levels, objectives shall be specified in terms of Value and be clearly established as baselines. This will enable the formulation of detailed objectives at all levels of responsibility.

At tactical levels, a detailed objective may represent a level of satisfaction of needs, a consumption of resources or a combination of both. In any case, the links with the Value objectives that have been defined at strategic levels shall be clear and logical. At each level, agreed measures shall be identified that will make it possible to monitor the evolution of Value objectives.

To achieve maximum effectiveness, it is important that the objectives decided upon be ambitious and show a clear will towards significant improvements in terms of Value. As such, they will be recognized by responsible managers as realistic and achievable. Achieving consensus of the Value Management objectives is an essential component for efficient teamwork.

4.3 Requirements

Putting the principles of Value Management into practice is made easier by implementing a framework which includes all levels within an organization. The framework promotes an attitude of mind and regulates the use of effective concepts, methods and tools.

4.3.1 Framework

The above principles of Value Management, Management Style, Human Dynamics, Environmental Considerations and Methods are brought together in a management framework comprising:

- a Policy;
- a Programme;
- training; and
- specific studies;

all of which help to establish a Value Culture within the organization.

4.3.2 Attitudes of mind and knowledge

The successful introduction of Value Management requires that every member in the organization becomes personally involved and committed to the principles.

This may require a significant change of attitude in which all members, especially top management:

- accept that there is always scope for improvement in every aspect of the organization;
- provide active support to the introduction of Value Management in their organization;
- accept the constraints due to the approach and apply the principles rigorously;
- actively apply the concepts and approach to their specific management responsibilities and tasks.

All members of an organization, whether directly involved in the formal practice of Value Management or not, need to be aware of the concepts of Value most appropriate for their particular responsibilities and tasks:

- top managers should be aware of the notions and concepts behind Value Management and of the benefits it can bring, so that they can define a Value Policy and promote the appropriate style of management;
- some trained and experienced middle managers should understand how to set up and participate in Value Management programmes within their organizations in a way which is consistent with the Value Policy;
- all other members of the organization need to understand the methods in which they are likely to be involved and have a general awareness and understanding of what represents value in their organization;
- specialists (who may be members of the organization or external consultants) should have sufficient knowledge and experience in the use of appropriate methods and tools, and should be able to develop and train others in their use.

To create the conditions in which Value Management will flourish requires the introduction of a Value Management policy consistent with the organization's goals, the introduction and development of a value culture involving all categories of staff and the identification of a programme of activities to achieve results.

This may be achieved by setting up a framework which defines how and by whom the Value Management policy will be implemented, including training personnel in the appropriate knowledge and skills.

4.4 The Concept of Value

4.4.1 Value

According to the definition of Value given by EN 1325-1, Value may be described, in the context of VM, as the relationship between the satisfaction of need and the resources used in achieving that satisfaction (See Figure 2).



Figure 2 — The concept of value

NOTE: The symbol α signifies that the relationship between the satisfaction of need and the resources is only a representation. They are traded off one against the other in order to obtain the most beneficial balance.

Value is not absolute, but relative, and may be viewed differently by different parties in differing situations. Generally achieving good value requires balancing a series of conflicting parameters to arrive at an optimum position. For example, for external customers it represents the extent to which what is provided meets their expectations and the amount they have to pay to acquire and use the product or service. For the supplier, the fewer resources needed to satisfy the external customer, the better the value.

Within an organization, improved value may be represented by changing the way in which processes are carried out so that the same outcome is achieved within a shorter timescale or by using fewer resources.

To succeed in making real and objective improvements in value, it is necessary to have some basis by which Value is determined and to quantify, in some way, the top and bottom of the above relationship shown in Figure 2.

The optimization of Value is achieved by balancing the amount to which needs are satisfied against the resources utilized in so doing. It is important to realize that Value may be improved by increasing the satisfaction of need even if the resources used in doing so increase, provided that the satisfaction of need increases more than the increase in the use of resources (see Figure 3).

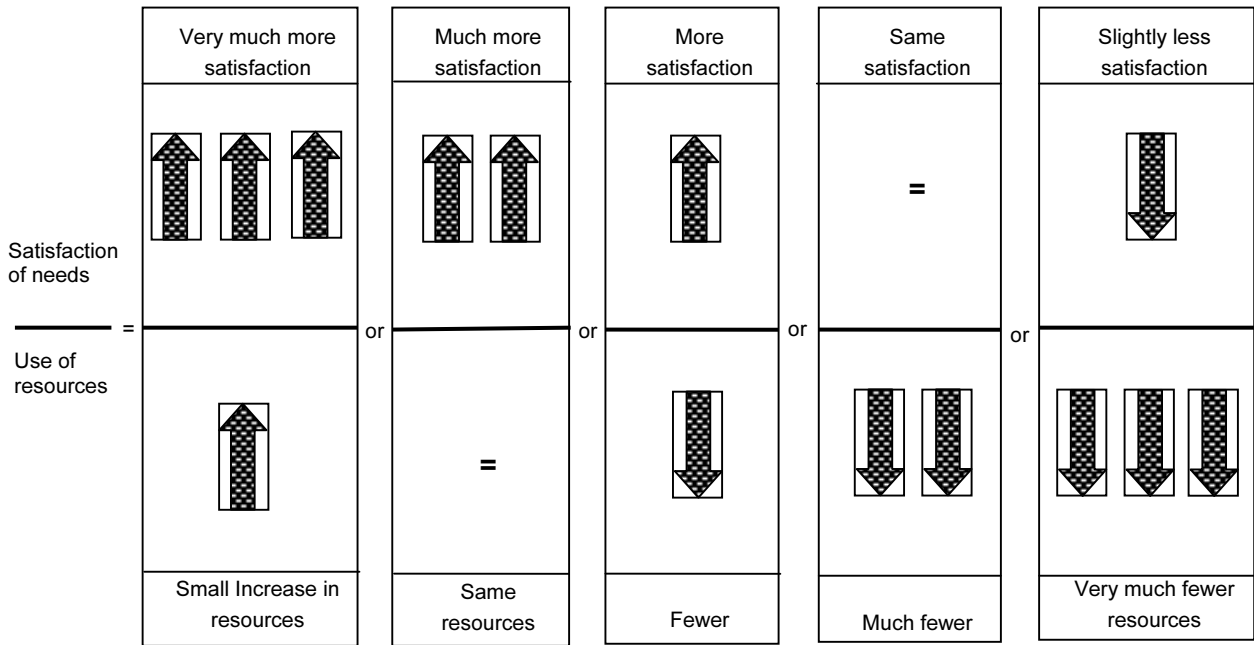


Figure 3 — Different ways of achieving equal value increases

For example a manager who wants to increase the output from his factory may add more plant or increase automation. Need is satisfied in both cases, but the overall resources used (initial cost plus operation costs plus other considerations such as influence on environment) may be less in the first or in the second solution, and consequently the value may be higher.

4.4.2 Need

As defined by EN 1325-1, need is what is necessary for or desired by the user. Management needs will differ for specific situations.

The total need generally comprises many different components. For example, use needs and esteem needs can be distinguished.

Use needs are the parts of the total need which refer to tangible measurable activities. For example, for a person who wants to eat a piece of meat, a knife should be able to make slices, and for the manager a factory should generate outputs. Similarly for the production manager, the purchasing department should have processes in place which allow the organization to buy raw materials and other items at the best price.

Esteem needs are the parts of the total need which are subjective, attractive or moral. Using the same examples as above, a knife may also need to be decorative or a factory provide the platform to impress customers and generate sales. The purchasing department should have attributes which encourage people to do business with them and retain the loyalty of staff.

The degree to which some of these needs are satisfied is easily measurable but others are less so. For instance, the units of measure of marketed goods and services is generally straightforward. However, for items which are not marketed, such as patient care in a hospital, other observations relating to the satisfaction of the need, such as the number of complaints, might need to be used as a measure. In these cases management methods such as cost-benefit analysis can be used to quantify non marketed needs.

Where satisfaction of a need cannot be quantified in monetary terms, it should be evaluated by the study team against an index using methods based on the opinion of a representative panel.

A need may arise, subsist, develop, and disappear due to reasons related with the person or entity, or to changes in the environment, the culture, or the technology available.

The need may be stated, implied or latent and the development of new products or services might trigger needs that have not yet been expressed.

Value Management should take into account all aspects of the needs for the organization, its customers and its owners.

Each of these needs is satisfied, in whole or in part, by the functions performed by the subject product or service.

4.4.3 Functions

According to the EN 1325-1 definition, a function is an effect of a product or of one of its constituents.

A need can be objectively described by certain functional requirements. The extent to which each of these functions is performed is assessed by the application of levels of evaluation criteria, preferably complemented by flexibility indications.

Those functional requirements concern what are called “user related functions” or URFs, and those attributes expected of a product, or performed by it, in order to meet a part of the need of a defined user.

URFs are enabled by functions internal to the product. Those internal functions are called “product related functions” or PRFs.

It is normal to express functions by use of an active verb and a measurable noun.

For good value regardless of the level of resource, the functions performed by the product should exactly match those required to satisfy the need as illustrated in Figure 4:

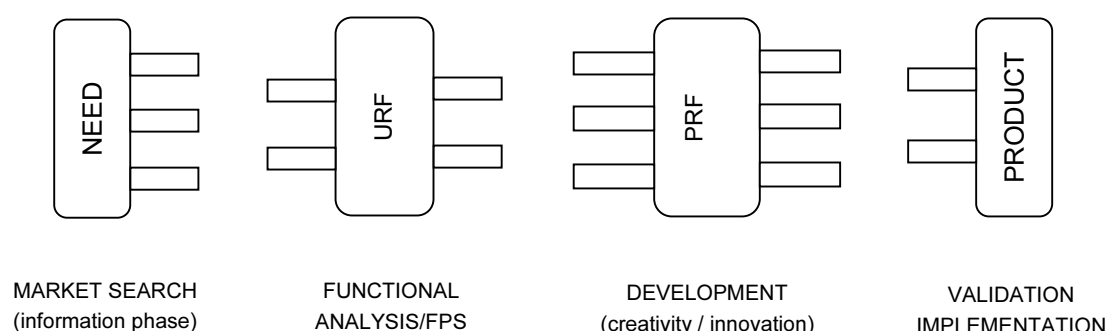


Figure 4 — Product performs functions to match the need

The abstract expression of functions (as distinct from the needs or solutions to satisfy those needs) is necessary to promote creativity and thus provide greater freedom for exploring innovative solutions.

Enhancements in value will be achieved by consideration of alternative ways to meet the required functionality.

4.4.4 Resources

Resources comprise everything that is required to satisfy the needs.

Resources will include not just cost (both long and short term) but also time, materials and other inputs, whether physical such as materials or abstract such as intellectual property.

The availability of resources is usually limited, with some resources being more critical than others. The availability of a resource may be of greater importance than its monetary cost. Generally all resources can be related to a cost.

In the development of a new product or service all resources likely to be needed for its development and production should be estimated. For an existing product, service or activity (such as management) the current use of resources can be measured and should form the basis from which improvements can be measured.

Recently the importance of time has increased because, for example, being first in the market place in itself often provides advantages.

4.4.5 Value comparison

Once the satisfaction of needs and the use of resources have been quantified (either in absolute or comparative terms), their ratio provides a measure of value which can be used for comparing one solution with another (See Figure 5).

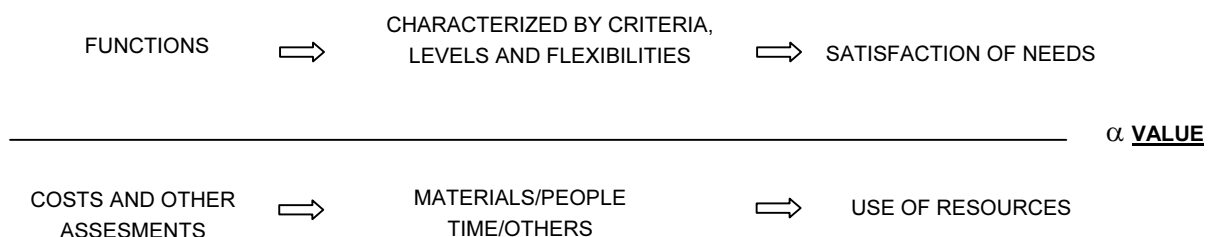


Figure 5 — The relationship between needs, functions and criteria, and resources

4.5 The Value Management Approach

The practice of Value Management requires that all levels of management adopt attitudes based on Value, which are appropriate to the organization to which they belong.

Value management is not simply the management of specific activities but a structured approach that requires that the following conditions be satisfied:

- commitment by the highest level of management to the concepts of value and function consistent with their goals (see key principles, 4.1);
- existence of a Value Policy consistent with the organization's goals;

- definition of objectives in terms of value;
- setting up of a Framework defining how and by whom the VM policy will be implemented;
- introduction and development of a Value Culture, involving all members of the organization, including training activities;
- recognition that management's responsibilities include two areas:
 - day-to-day management tasks in which they will apply the principles of Value Management intuitively;
 - specific management projects in which they will apply the methods of VM formally;
- determination of a programme of studies to which the methods will be applied to enhance value;
- feed back of results for continuous improvement.

5 The application of Value Management

Introduction

The previous clause described how the key principles of Value Management combine Management Style, Human Dynamics, Environmental Consideration and Methods and Tools. For these to be effectively and consistently applied, it is necessary to provide a management framework. This is described in the following clause and provides the essential link between the key principles and practical application and is illustrated diagrammatically in Figure 6.

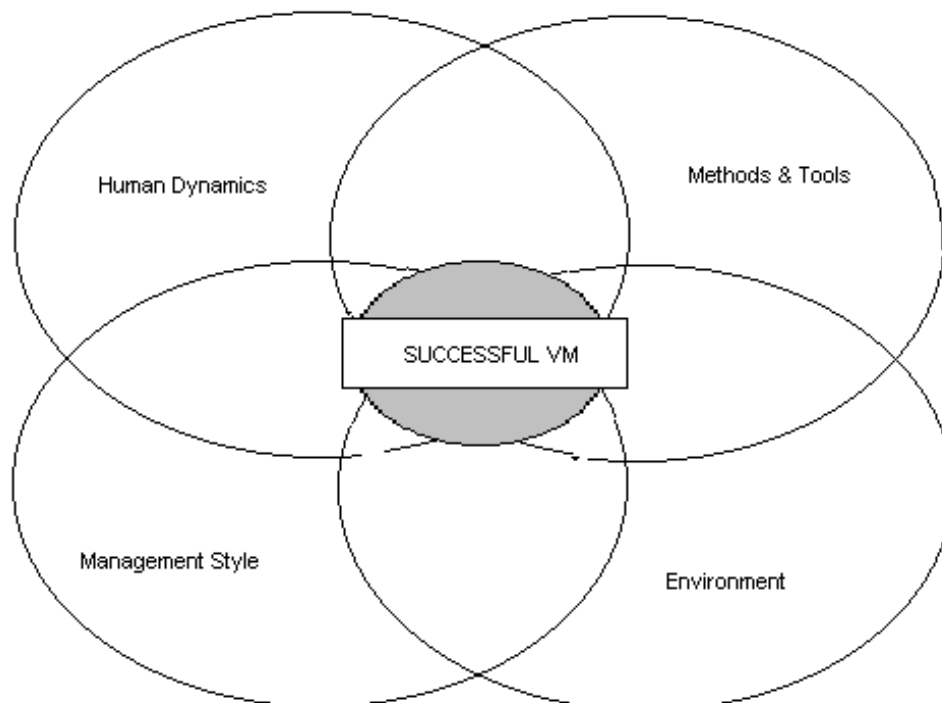


Figure 6 — Successful Value Management is provided by a framework which integrates Management Style, Environmental Considerations, Human Dynamics and Methods & Tools

5.1 Application of the principles

Management Style

- Application of the concept of Value.

The value of an outcome is measured by the relationship between its effectiveness in achieving the objectives (or satisfaction of need) and targets, and the resources consumed.

Management's aim is to achieve the greatest value for the different activities within their organization compatible with the satisfaction of the customers.

- Application of the concept of Function.

Defining the desired outcome in a measurable manner or so that it can be assessed and setting targets before seeking the means of achieving it.

Describing the outcome and the means of achieving it by the functions to be performed by the product or system, or by its subsystems, rather than by their physical characteristics.

- Creativity.

Expressing the functions abstractly to enable creativity and innovative solutions.

Encouraging creativity through positive human dynamics and the use of creative methods.

- Customer Focus.

The focus of attention is on identifying and satisfying the real needs of the customer, both internal and external to the organization.

The needs of all stakeholders should also be addressed.

- Quantitative Evaluation.

Defining means of measurement or evaluation and setting quantified targets, in absolute or relative terms.

Measuring outcomes and comparing with the targets as a means of objective evaluation.

Human Dynamics

In any organization its people are likely to be its most valuable resource. Making the best use of this resource is therefore vital. The people have the technical and managerial skills and the ability to communicate, but unless each of these is properly managed, people will not perform at their best.

In Value Management, the relationships and communications between people and emphasis on teamwork is paramount to achieve success.

Good communication is essential. Those involved in Value Management should be aware of and if necessary, trained in good communication. One of the greatest benefits of Value Management is the enhancement of communication between individuals in different parts of the organization or disciplines. This is achieved partly by encouraging good communication in the manner described above and partly by promoting good teamwork.