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Interpretative Models of an Unavoidable  
Evolution

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# The Origin of Value Based Management: Five Interpretative Models of an Unavoidable Evolution

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*Abstract: This conceptual paper seeks to identify the factors external and internal to growing firms that make it necessary – in fact, inevitable – to change the traditional managerial perspective that aims at profit maximization – which is valid for small firms in the immediate start-up period and for family-run enterprises – in favor of the new approach that views the production of shareholder value as the primary objective of management. The basic thesis is that Value Based Management does not respond to tendencies in the capital market which reward companies with higher profits, but rather is the result of intrinsic needs in expanding organizations. As companies expand in size and complexity, and as the formation of diversified business portfolios becomes more frequent, it becomes natural and inevitable to introduce Value Based Management as a normal management approach. In order to take account of this assumption we have considered five sources of explanation: the stimulus of economic growth, the genesis of the managerial firm and the separation of ownership and control, and the models elaborated by Flamholtz, Greiner and Mella.*

Keywords: Value Based Management, Flamholtz Model, Greiner Model, Mella Model

## The Spread of Value based Management. How do we Interpret this?

**T**HE SPREAD OF Value Based Management is a relatively recent process. Only since the 1990s have many large firms turned to this managerial technique, whose objective is to direct management toward the primary goal of creating shareholder value.

Value Based Management does not represent a new management technique, a specific method, or a new system of control; rather it is a mental attitude toward the conscious, systematic, prevalent application of a set of traditional methods specifically directed, as a whole, to maximizing shareholder value.

Arnold's definition is significant: "*Value-based management is a managerial approach in which the primary purpose is long-term shareholder wealth maximization. The objective of a firm, its systems, strategy, processes, analytical techniques, performance measurements and culture have as their guiding objective shareholder wealth maximization.*" (Arnold, 2000: p. 9).

Copeland, Koller and Murrin's definition is more specific: "*VBM is very different from 1960s-style planning systems. It is not a staff-driven exercise.[...] Instead, it calls on managers to use value-based performance metrics for making better decisions. It entails managing the balance sheet as well as the income statement, and balancing long- and short-term perspectives*" (Copeland, Koller & Murrin, 2000: p. 87).

Morin and Jarrel clearly refer to the double interpretation of VBM: a "*mental attitude/selection of operational methods*". Value Based Management "*is both a philosophy and a methodology for managing companies. As a philosophy, it focuses on the overriding objective of creating as much value as possible for the shareholders. ... As a methodology, VBM provides an integrated framework for making strategic and operating decisions*" (Morin & Jarrel, 2001: p. 28).

Following the acceptance of the principle (M. Pellicelli, 2005) that management must aim toward the production of shareholder value, much has been



written about the advantages and operating policies for this approach<sup>1</sup>; however, there are no convincing interpretations on the general necessity for production organizations that have attained a certain size and a certain economic maturity to adopt this management technique.

In our opinion, the simplest and at the same time most convincing justification for adopting the VBM approach is still the Greiner model. Before arguing the case using this model, it is useful to start with other types of explanation: the first is based on exogenous causes of economic growth; the second on the concept of the separation of ownership and control; the third is inspired by Flamholtz's notion of the "great leap". These explanations provide a foundation for our concluding discussion on the logic of Greiner's model, which we complete with Mella's model in the last section.

### **An Initial Explanation: The Stimulus of Economic Growth**

An initial attempt to explain the spread of Value Based Management is empirical in nature: this managerial attitude arises and spreads under the stimulus of economic growth in a highly competitive environment and under pressure from consulting firms.

From the mid-eighties until 2000 the United States experienced a period of economic growth at rates higher than those of the other main industrial countries, in particular Germany and Japan, with the exception of China and India.

The supporters of value creation saw in U.S. growth the basic stimulus that made the application of Value Based Management inevitable, offering the latter approach as their interpretation.

Under such a stimulus to growth – according to Copeland, Koller and Murrin (1996), managing consultants for research undertaken by McKinsey – management is constantly searching for new capital to finance its new opportunities, and this leads to continuous pressure to come up with strategies that give value to the invested capital.

Since there is competition for capital and capital flows toward those investment projects that guarantee the highest return, the management of growing companies selects strategies and investment projects on the basis of the differential between return and cost of capital.

The above-mentioned research by McKinsey supports this thesis by comparing the trend in the simplest measure of the creation of shareholder value – market value added (market capitalization minus shareholder's equity or invested capital) – with the trend in employment in the U.S., Japan and Germany. This comparison, which concerns some of the most important sectors, reveals that where the creation of shareholder value is highest (U.S.) so, too, is job creation.

Consulting firms have played an important role in the spread of Value Based Management, and in translating into practice and introducing into the techniques of management the finance principles that have existed for some time now (Carter & Conway, 2000).

For proof of this we need only observe that in slow-growing economies, such as in Europe, which is not yet integrated into a true single market, management is still tied to the idea of profit as the measure of success of an enterprise.

Despite these three justifications, the empirical interpretation that sees the spread of Value Based Management as a necessary consequence of the stimulus of growth in a highly competitive environment is not completely satisfactory. In fact, this explanation looks at the firm from the outside; but we need an explanation that takes account of the internal point of view; that is, from the perspective of the managers.

### **A Second Explanation: The Managerial Firm and the Separation of Ownership and Control**

A recent model, which we will examine in the last section, represents capitalist firms as efficient permanent productive organizations (Mella, 2003; 2005a) which cover their fixed capital requirements mainly through paid-in, or equity, capital supplemented by finance, or debt capital.

Taking account of this indispensable dualism, the capitalist firm can be viewed as a financial transformer, in the sense that it transforms investments of monetary capital into returns, on the condition of maintaining the monetary, financial and actuarial integrity of the capital that is risked.

<sup>1</sup> Alfred Rappaport (2006) proposes to create shareholder value these ten principles: 1) do not manage earnings or provide earnings guidance; 2) make strategic decisions that maximize expected value, even at the expense of lowering near-term earnings; 3) make acquisitions that maximize expected value, even at the expense of lowering near-term earnings; 4) carry only assets that maximize value; 5) return cash to shareholders when there are no credible value-creating opportunities to invest in the business; 6) provide investors with value-relevant information; 7) Reward CEOs and other senior executives for delivering superior long-term returns; 8) Reward operating-unit executives for adding superior multiyear value; 9) Reward middle managers and frontline employees for delivering superior performance on the key value drivers that they influence directly; 10) Require senior executives to bear the risks of ownership just as shareholders do. So, the corporate strategy involves important company-wide elements, and includes the decisions to acquire new business units that can create value or to disinvest in those that, on the other hand, can destroy value (Copeland, Dolgoff, 2005; Hunt, 2007; Lee, Snyder, 2006; Wittmann, Reuter, 2008).

The first companies were thus typically family capitalist enterprises: the capitalist entrepreneur was the “owner” of the capital and all the factors purchased along with the capital for the production processes (assets), and he passed on this property to his descendants. Thus there arose the great industrial dynasties where the production and sale of goods and services was the means for earning the “maximum profit”.

The expansion of capitalist companies was made possible by the joint-stock companies in the form of corporations, which limited the risk to the capital invested; by the growth in the stock markets, with the possibility of selling off the stock investment; and by the development of financial intermediation and investment companies.

The growth in business investment through the concentration of savings capital in the form of shareholder equity was a result of the inevitable growth in the scale of the investments necessary to run larger and more diversified businesses for profit.

Thanks to this process of split capitalization the large modern company was quickly transformed from a family-run capitalist firm into a financial capitalist company.

This has had certain inevitable consequences. The corporate enterprise is no longer headed by an individual capitalist entrepreneur but by a board of directors and a structure of functional managers. With this managerial direction firms thus become autonomous entities with respect to the suppliers of risk capital; the appearance of non-owner managers who administer the capital of investors who have no say in the running of the business has resulted in the well-known process of the separation of the ownership of capital from the control of the enterprise. Corporate governance takes on growing importance; control of the meetings is the source of the power to choose the board of directors. The board of directors is given authority to manage the firm as long as it can guarantee a satisfactory return on capital for shareholders. The objective of monetary profit gives way to that of the maximum return on shares, and thus to the maximization of shareholder value; as a result, the need inevitably arises for management to move toward a value based approach.

Value Based Management continually changes the composition of the businesses in the portfolio, abandoning the low profit ones for new ones with higher returns. The growth we have witnessed in the large conglomerate groups through amalgamations, mergers and break-ups confirms this trend.

This explanation of the birth of Value Based Management presents elements that complement the empirical one in the preceding sections; however, it also is based on factors external to the firm, even if

more emphasis is placed on the managerial approach, which is typically internal.

### **Third Explanation: The Flamholtz Model and the “Great Managerial Leap”**

The Flamholtz model is useful in explaining the birth of Value Based Management from an internal point of view. This model tries to identify the phases through which the start up family enterprise moves on its way to becoming a managerial enterprise and a mature corporation.

The moment this transition takes place is termed the “great leap” (Collins, 2001), which is conceived of as a cultural and managerial leap that each enterprise – originating as a small-size, family-run enterprise, run with a “personal-entrepreneurial” style around the charismatic figure of the founder/entrepreneur – must take in order to evolve into a more complex organization with a professionally qualified management motivated to collaborate with the entrepreneur to favour further business growth and not compromise the initial development due to a lack of managerial skills.

In Flamholtz’s model this process of entrepreneurial growth involves four phases, which are characterized by a certain amount of sales revenue and a different behaviour from top management (Figure 1).

#### ***Phase I – Start-up***

This is the start-up phase of a new business run by a single entrepreneur who wants to develop a business idea.

#### ***Phase II – Growth/Expansion***

During this phase the enterprise consolidates its operations. The enterprise undergoes substantial growth. New resources are acquired and procedures are refined to obtain adequate levels of efficiency in every organizational sector in order to meet the growing demand.

#### ***Phase III – Managerialization***

This is the phase where firms quickly gain new clients with new needs, to satisfy which new products are created that require new technologies and an increased labour force. Along with this increase in size (revenue and personnel) there is also an increase in managerial and administrative complexity. Intuitive capacity is no longer sufficient. Unless the managerial skills improve, the firms enter into a crisis period. To overcome this crisis they must proceed to the “great leap”. It is necessary to introduce a system of evolved management that can deal with the new

complexities and effectively manage demand, competition, technology and personnel.

### Phase IV – Consolidation

The “great leap”, in short, transforms the firm from a family-run operation into a managerial one, creating the corporate identity that made the organization into a cognitive system, by disassociating the image of the enterprise from the figure of the entrepreneur - and its environment of reference.

The great leap thus represents a separation, a revolution, that leads to a radical change in the way the enterprise is run (Figure 2).

The “great leap” model helps us to understand the need for an improvement in management but not the shift from an advanced (in the traditional sense) management approach to a value based one.

Nevertheless, we can improve Flamholtz’s model by introducing a fifth phase (last line in Figure 1) that is a natural evolution of the preceding ones. We can describe this phase as follows:

### Phase V – Depersonalization

If growth continues, then the capital requirement to finance new investments will be greater than the original capitalist entrepreneur’s financial means. The enterprise must be transformed from a family-run operation to a financial one by undergoing a depersonalization process that definitively separates

capital from management. We can define this process as the “second great leap”, since undoubtedly all the important firms – which were small at the outset and then gradually developed – are public corporations, independently of the presence of one or more shareholders of reference.

In fact, it is the necessary development of Phase V that justifies the need for a change in attitude by management, which should not only be focussed on the need for profit and cash flow but also set the production of shareholder value as the primary objective, also tying performance to a reward system based on measures of value production (stock options, bonus for profitability, etc.)<sup>2</sup>.

### Fourth Explanation: The Greiner Model of the Growth Phases

The Flamholtz model, with the additions we have proposed in order to take large-scale growth into account, can be placed within the framework of an even larger and more rational model proposed by Larry Greiner, whose assumptions and conclusions are still valid.

Greiner (1972) presents the well-known model (stylized in Figure 1) in which more or less extensive periods of “evolution” – during which the organizational rules are relatively stable – are interrupted by “revolutions”, periods of serious disorder in the functioning of the organization.

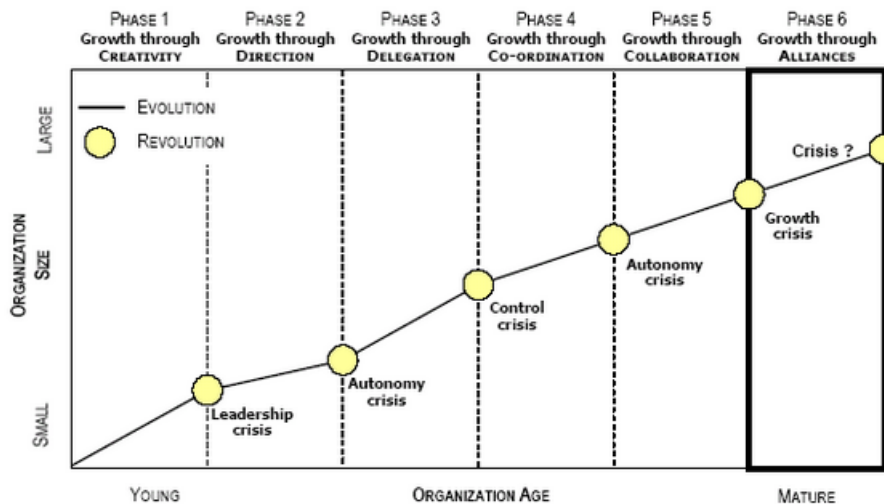


Figure 1: The Five Phases of Organizational Growth According to Greiner’s Model,

Source: Representation of Greiner’s model (1972)

Greiner identifies five phases – similar to Rostow’s (1960) “five-stage” historical-economic model describing the growth process for domestic economies

– each of which includes a period of growth and consequent crisis.

<sup>2</sup> “Most companies who have implemented VBM not only experience an almost immediate behavioural and cultural change as a result of linking compensation to value, but the stock price often rises following the announcement of adopting a VBM culture. The company is viewed favorably by the investment community, and VBM companies typically exceed market and peer group stockholder performance” (Morris, Jarrel, 2001, p. 382).

Assuming that the model is well known, we will only mention the phase it is composed of.

### ***Phase I – Growth Tied to Creativity and Crisis of Command***

This phase is typical of newly formed firms whose organizational structures are often informal and where management is individualistic and authoritarian but highly creative and innovative. Usually this phase is short-lived; a “crisis of command” takes over, due to the functional incompetence and the physical wear and tear of the initial business group.

### ***Phase II – Growth Linked to Authority and Crisis of Autonomy***

The crisis in command that arises during the creativity phase generally ends with the transference of power to a management fuelled by authority. This phase is similar to Flamholtz’s “great leap”, in which there is a division of the original entrepreneurial authority into defined functional areas. Technocracy represents the basic characteristic of this phase.

However, this type of growth creates a “crisis of autonomy” which gives rise to a period of revolution characterized by a growing demand for more decision-making and operational autonomy.

### ***Phase III – Growth Linked to the Delegation of authority and the Crisis of Control***

To emerge from this crisis the firm must adopt a more centralized delegation of authority regarding functions and power. The organizational structure becomes highly decentralized – often taking on a divisional arrangement – so as to motivate the intermediate-level personnel in order to shift decision-making power as close as possible to the centers of responsibility to which business activity is handed over.

Nevertheless, the increase in delegated authority widens the gap between the firm’s centralized top management and the peripheral operational centers, and the growing difficulty of top management to know, ascertain, evaluate and control the line operators leads to a “crisis of control”.

### ***Phase IV – Growth Linked to Coordination and Crisis of Bureaucracy***

In order to overcome this crisis of control a revolution is necessary to push the firm toward a new phase of evolution based on the “search for coordination”, which implies a revision of the organizational structure, the methods of work, and the ways authority is delegated in order to run the company “for procedures” rather than “for results”.

If the coordination operation is successful, the crisis is overcome and the firm is assured of a phase of stability and growth; however, this phase contains the conditions for a new period of crisis: this is indicated in the graph as a “crisis of bureaucracy”.

### ***Phase V – Growth Linked to Collaboration***

The period of revolution that follows the crisis of excessive bureaucratization is followed, in turn, by a phase in which the firm is engaged in a struggle for survival and further growth.

On the one hand, there is an attempt to lighten the bureaucratic burden by encouraging the various organizational bodies to collaborate and accept personal “responsibility” by means of an appropriate system of incentives to achieve more organizational flexibility.

On the other hand, management’s main role is to achieve organizational consensus by the stakeholders.

The growth phase linked to collaboration represents a turning point in the firm’s growth and evolution.

Collaboration produces new “ideas” and “innovations”. The informal structure prevails over the bureaucratic one. New power relationships, linked to the success and charisma of “ideas”, arise and take root. The organization is transformed into a learning organization (Senge, 1990) where creativity has the better of bureaucracy.

Greiner (1998) has recently added another phase to his growth model by phases

### ***Phase VI – Growth Linked to Extra-Organizational Recombinations***

The further growth of the firm requires recombinations with other organizations in order to form strategic agreements (Pellicelli A.C., 2004), complex, functional or conglomerate groups, and mergers and acquisitions that can lead to business networks and to virtual or holonic organizations (Mella, 2005b).

### **Value Based Management according to Greiner’s Model**

It is clear that Value Based Management is necessary in large firms that, having gone beyond Phase III of delegated authority after having experienced a crisis of control, enter the coordination phase characterized by a strongly felt need for formalized programmes in terms of strategic plans.

Medium-term planning is combined with short-term planning based on the objective of the profitability of capital, which is necessary to keep management free from shareholder intervention.

This implies a satisfactory growth in the value of shares in order to maintain existing capital or to at-

tract new capital in order to finance new investments with equity and debt, thereby exploiting the financial leverage effect spelled out by Modigliani & Miller (1958).

The production of shareholder value requires an adequate information system that is automatized and operates in real time. Internally- and externally-oriented lines of communication increase, and outside stakeholders begin to become involved in the organization; the firm can produce value by influencing the macro system and, in particular, controlling the life cycle of its product and processes.

This does not take away from the validity of Value Based Management; rather, it enhances it. Moreover, for supporters of the shareholder value theory shareholders are the sole stakeholders of the firm, which, in the attempt to maximize its own interests, maximizes those of the other stakeholders as well (Copeland, Koller & Murrin, 1996).

It is thus that in Phase IV we witness the “second great leap” derived from Flamholtz’s model; however, Greiner’s model leaves open the possibility of an additional “great leap” toward social expectations. The satisfaction of shareholders must accompany that of the stakeholders, thus ensuring the firm pays greater heed to its social interlocutors.

From systems for the production of wealth, firms also become reference systems for Corporate Social Responsibility (CSR), which shifts attention from respecting the expectations of the stakeholders to the responsible and ethical behaviour of firms that gain social citizenship (Keeley, 1988).

However, it is Phase VI that most exalts the fundamental role of Value Based Management. The recombined organizational structures that follow mergers, breakups, and the formation of groups and networks of firms must not only be interpreted as an attempt to increase economic efficiency but also, and in particular, as a means of maintaining and increasing the creation of value for shareholders.

## A Summary of Mella’s Model

Finally, it is useful to explain the operating logic of Value Based Management in capitalistic firms – defined as business, profit-oriented organizations that finance their economic processes with external capital in the form of Equity (E) and Debt (D) – using Piero Mella’s model (1992, 2005a) of the firm as a cognitive system for efficient transformation.

Following Mella’s Model, we assume that the capitalist firm undergoes five types of transformation (Figure 2).

[1] *Technical or productive transformation (production)*. The productive transformation of productive factors into flows of finished goods is usually one of utility and is characterized by the productivity of the processes and the quality of the products.

In Figure 2 the efficiency of this transformation is characterized by the average productivity measure

$$\pi = \frac{QP}{QF_{MSL}} \text{ where } QF_{MSL} \text{ represents the input factors and } QP \text{ the output production.}$$

[2] *Economic or market transformation (marketing)*. The productive transformation, with the addition of the prices of the factors and of production, becomes the transformation of values. In Figure 2 the efficiency of this transformation is represented by the following quantities:

$$e = \frac{RP}{CP} = \frac{pP}{cP}$$

which represents the economic efficiency of the economic transformation;  $pP$  indicates the average

price vectors for output production and  $cP = \frac{CP}{QP}$  represents the average unit full cost of production;  $OI=EBIT=(RP-CP)$ , or operating income, expresses the value produced by the firm above and beyond the value of the factors consumed (CP).



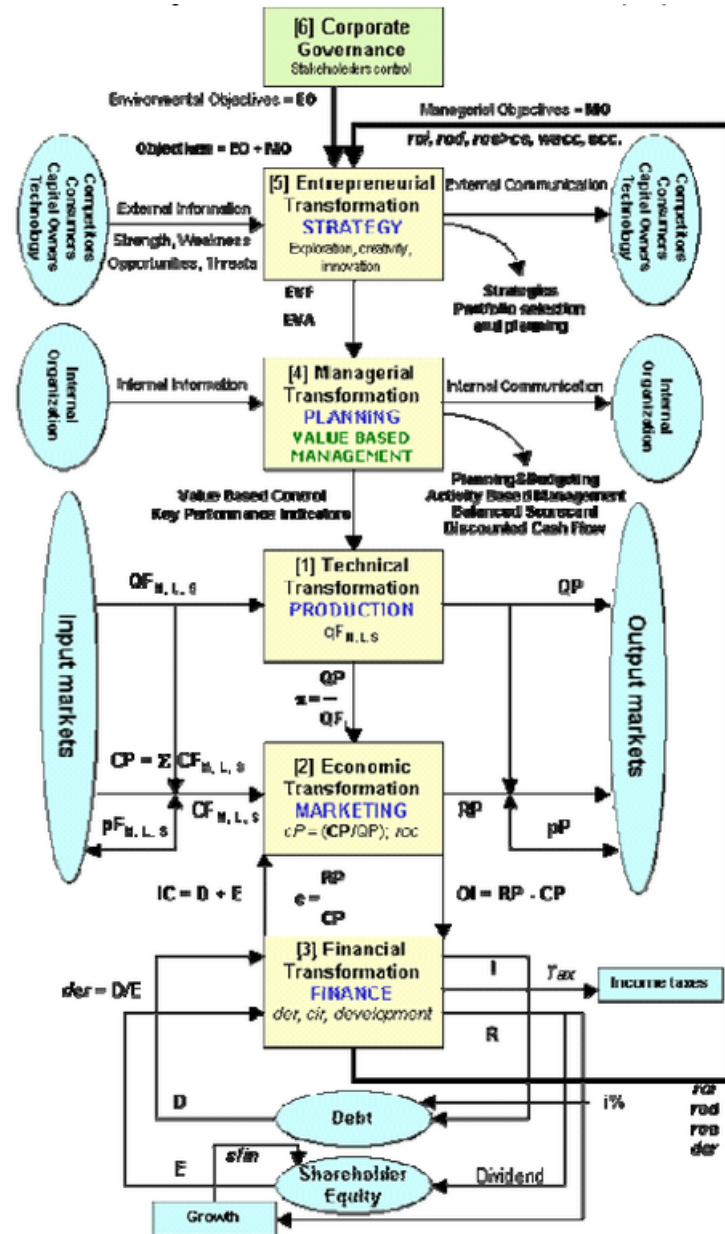


Figure 2: The Firm as a Cognitive System for Efficient Transformation, *Source: Mella's Model (2005a)*

[3] *Financial transformation (finance)*. To carry out the economic transformation the firm must raise capital – equity, E, or debt, D – in order to finance capital investments to form, maintain and renew the productive structure.

In order for the shareholders and investors to decide, despite the investment risk, to invest their capital in the firm, there must be a transformation of capital into adequate (fair, minimum) returns in the form of profit (R for equity) and interest (I for debt). The financial transformation is thus typically a transformation of risk through investments.

In Figure 2 the efficiency of the financial transformation is represented by:

$roi, roe$  and  $rod$ , which express the return on the invested capital (CI), on the equity (E), and on the debt (D), respectively;  
 $CI = D + E$  is the capital invested by the firm, which is equal to the capital invested in the firm;

$$der = \frac{D}{E}$$

represents the leverage of the financial structure;

$spread = roi - rod$  indicates the differential between the return on equity capital and that on invested capital.

[5] *Entrepreneurial transformation (strategy)*. This is typically a transformation of internal and external information into strategic decisions regarding

the portfolio of businesses to manage, the technology, the markets, the prices, and the financial structure in order to produce the maximum shareholder value, which is subordinate to a system of corporate governance that is an expression of the stakeholders operating in an external environment.

The highest level shareholder value indicators are:

$$EVF = \frac{\bar{R}^{\circ}(T)}{roe^*} = E(t_0) \frac{roe^{\circ}}{roe^*}$$

which corresponds to the shareholder value that derives from the capitalization of the future expected standard earnings,  $\bar{R}^{\circ}(T)$ , obtained at an expected  $roe^{\circ}$  on initial equity,  $E(t_0)$ , and discounted at expected fair return,  $roe^*$ , for the shareholders.

EVA can be viewed as the economic value added; that is, the residual economic result from IC when  $roi$  is greater than the weighted average capital cost,  $wacc$ , calculated as follows:

$$wacc = \frac{rod D + roe^* E}{IC}$$

In fact, if we write:

$$EVA = roi IC - (rod D + roe^* E)$$

We derive:

$$EVA = IC (roi - wacc)$$

[4] *Managerial transformation (planning and controlling)*. The core of the managerial transformation is the set of rational managerial decisions – regarding production, marketing and finance – on how to transform the strategic objectives of shareholder value into a coherent and achievable organizational system of decisions that functions according to ascertainable value drivers and key performance indicators (Serven, 1998).

## The Role of Value Drivers

Mella's model is appropriate for summarizing the logic of Value Based Management in capitalist enterprises "Once the company develops strategies, a number of operational drivers that are key to implementing the strategy have to be identified. By focusing on these operational drivers, the company's strategy is successfully implemented, which in turn improves the value drivers, creating aggregate value" (Morin & Jarrel, 2001: p. 343).

Following the model, Value Based Management: chooses those investments having a  $roi \geq \min roi^*$  – sufficient to achieve  $roe^*$  – for the entire firm; if there is more than one, it chooses the one having the max  $roi$  and the minimum payback period;

chooses the investments that, in any event, have  $roi \geq 0$ , as long as at least  $roi \geq rod$  and  $roi \geq wacc$  and, in any case, are sufficient to guarantee  $\min roe$ ;

chooses financing with  $\min wacc$  and  $\min rod$  (other conditions held constant);

if  $rod < roi$ , increases  $D$  and reduces  $E$ ; turn to rule (1);

substitutes, when possible, investment  $I$  with  $J$  if  $roi(J) > roi(I)$ ; in this way the average  $roi$  for the entire firm will increase;

substitutes, when possible, financing  $F$  with  $G$  if  $rod(G) < rod(F)$ , in order to reduce the average  $rod$  for the entire firm.

Mella's model highlights how the production of value, in term of EVA, EVF, etc., is ingrained in the modus operandi of capitalist firms viewed as systems of efficient transformation (Mc Taggart, Kontes & Mankins, 1994).

In particular, the model demonstrates that all the fundamental variables representing value drivers are linked by two fundamental relations:

a) the financial relation among the financial value drivers (Modigliani & Miller, 1958),

$$roe = (roi + spread \times der)(1 - tax)$$

b) the economic relation (extension of DuPont's model) among the value drivers of the entire economic transformation,

$$roe = \left( \frac{IC}{E} \times \frac{CP}{IC} \times \frac{RP}{CP} \times \frac{OR}{RP} \times \frac{R}{OR} \right) (1 - tax).$$

Where:

$IC/E = 1 + der$  represents the Equity Multiplier and thus the value drivers linked to the financial structure;

$CP/IC$  indicates the turnover of invested capital; this value driver shows that the higher turnover is, the lower are the investment needs;

$$RP/CP = pP/cP = (1 + roc)$$

is the measure of the overall economic value driver, since it denotes the capacity of Value Based Management to contain costs and expand returns;

$OR/RP$  measures the return on sales and expresses the overall market value driver;

$R/OR$  represents the net/operating ratio and indirectly expresses the financial and tax value drivers.

Value Based Management does not only set objectives of profitability but also objectives for the firm's growth in terms of sales revenue and invested capital.

The growth of the firm must follow the previous rules (1) to (6) and requires not only that  $roe \geq roe^*$ , but also that  $(roe - roe^*)E(t_0) \geq sfin^*$ , where  $sfin^*$  is the net self-financing needed to achieve the desired levels of growth.

Obviously, "Planning, target setting, performance measurement, and incentive systems are working

*effectively when the communication that surrounds them is tightly linked to value creation”* (Koller, 1994: p. 89).

## Conclusions

This paper considers various models to identify the reasons for the spread of the VBM approach.

Flamholtz and Greiner, in describing the logic behind the growth of capitalist enterprises through a certain number of typical phases, never explicitly consider in these phases the shift from a traditional management approach to one based on the production of shareholder value.

Nevertheless, we have tried to show how those models allow us to identify a phase in which VBM is a necessity. In the Flamholtz model this occurs during the great managerial leap in phase V, while in Greiner’s model it coincides with the Growth linked to extra-organizational recombinations in phase VI.

Thus, this paper presents an immediate conclusion: VBM appears not so much as a discretionary approach for virtuous firms but rather as an “inevitable” requirement for all capitalist firms moving into the managerial phase, which leads to relative financial independence with respect to the traditional single owner model.

Along with this conclusion, which is directly derived from the models we have considered, the paper also allows us to understand the reasons for the relatively limited spread of the VBM approach today. In fact, precisely because it requires a large organization, a managerial control structure and relative financial independence, the spread of this technique is still hampered by the absence of such conditions, in particular on the European continent.

We can add to this the persistent crisis in financial markets – which has led to numerous scandals that, according to current opinion, are due to a detached managerial style – that certainly does not help firms reach the phases necessary for the introduction of VBM as illustrated in the models we have examined.

Finally, Mella’s model – which highlights the inseparable connection between profitability and the production of organizational value – shows that the production of value does not depend on the management method adopted but is rather a phenomenon that is deeply rooted in the structure of the capitalist firm.

Thus, Mella’s model tries to demonstrate not so much the need to adopt VBM as the usefulness for management of gaining awareness of the physiological process of value production and of the need to change its management style by introducing value metrics and value drivers to make explicit and to control the intrinsic process of value production.

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